US$1,000,000,000

4.630 Per cent. Loan Participation Notes due September 2022

Issued by

PKO FINANCE AB (PUBL)

(incorporated with limited liability under the laws of the Kingdom of Sweden)

on a limited recourse basis for the sole purpose of financing a US$1,000,000,000 Senior Loan to

POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA

(incorporated as a joint stock company in the Republic of Poland)

Issue Price: 100.0 per cent.

PKO Finance AB (publ) (the "**Issuer**") is issuing an aggregate principal amount of US$1,000,000,000 4.630 per cent. Loan Participation Notes due September 2022 (the "**Notes**") for the sole purpose of financing a US$1,000,000,000 senior loan (the "**Senior Loan**") to Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Borrower**" or the "**Bank**", and in conjunction with its subsidiaries the "**Group**") pursuant to a senior loan agreement dated on or about 20 September 2012 (the "**Senior Loan Agreement**") between the Issuer (as lender) and the Borrower. The Issuer will charge to Citicorp Trustee Company Limited, as trustee (the "**Trustee**") by way of security for its payment obligations under the Notes, its rights, title and benefits in and to principal, interest, and other amounts payable by the Borrower under the Senior Loan Agreement, and will transfer to the Trustee certain of its administrative rights under the Senior Loan Agreement (in each case other than certain reserved rights) upon the closing of the offering of the Notes for the benefit of the holders of the Notes (the "**Noteholders**"). The Senior Loan will rank equal in right of payment with other outstanding and unsecured indebtedness of the Borrower to the extent permitted by applicable laws relating to creditors' rights in the event of insolvency.

The Notes are limited recourse obligations of the Issuer. Where amounts of principal, interest, or other amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest or other amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest or other amounts (if any) actually received by or for the account of the Issuer pursuant to the Senior Loan Agreement, excluding any amounts received by or for the account of the Issuer in respect of certain reserved rights. The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to the Noteholders.

By purchasing the Notes the Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Borrower for repayment.

Other than as described in this Prospectus and in a trust deed to be entered into between the Issuer and the Trustee on or about 20 September 2012 (the "**Trust Deed**"), the Noteholders have no proprietary or other direct interest in the Issuer's rights under or in respect of the Senior Loan Agreement or the Senior Loan. Subject to the terms of the Trust Deed, no Noteholder will have any rights to enforce any of the provisions in the Senior Loan Agreement or have direct recourse to the Borrower except through action by the Trustee. No Noteholder will have any action against the Issuer or any recourse, direct or indirect, to any assets whatsoever (other than principal, interest and additional amounts (if any) received by the Borrower under the Senior Loan Agreement) of the Issuer).

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 26 September 2022. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Kingdom of Sweden or the Republic of Poland. See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will bear interest from 26 September 2012 at the rate of 4.630 per cent. per annum payable semi-annually in arrears on 26 March and 26 September each year commencing on 26 March 2013. Payments on the Notes will be made in US dollars without deduction for or on account of taxes imposed or levied by the Kingdom of Sweden or the Republic of Poland to the extent described under "*Terms and Conditions of the Notes—Taxation*". The Senior Loan may be prepaid in limited circumstances, together with accrued interest, and thereupon (subject to the receipt of the relevant funds from the Borrower, as the case may be) the principal amount of the outstanding Notes corresponding with such prepayment of the Senior Loan will be prepaid by the Issuer together with accrued interest. See "*Terms and Conditions of the Notes - Redemption and Purchase*".

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 as amended relating to prospectuses for securities in Luxembourg (the "**Prospectus Act 2005**"), for the approval of this prospectus (the "**Prospectus**") for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and the Prospectus Act 2005. The Prospectus constitutes a prospectus for the purposes of the Prospectus Directive. In accordance with Article 7.7 of the Luxembourg Law on Prospectuses, by approving this Prospectus the CSSF gives no undertaking as to the economic or financial opportunities of the issuance of the Notes or the quality and solvency of the Issuer. Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to the official list of the Luxembourg Stock Exchange (the "**Official List**") and to be admitted to trading on the Luxembourg Stock Exchange's regulated market. References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Any investment in the Notes may involve a high degree of risk. See "Risk Factors" for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes and the Senior Loan have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). The Notes may be offered and sold (i) within the United States to qualified institutional buyers ("**QIBs**"), as defined in Rule 144A under the Securities Act ("**Rule 144A**") that are also qualified purchasers ("**QPs**") as defined in Section 2(a)(51)(A) of the United States Investment Company Act of 1940, as amended (the "**Investment Company Ac**t"), in each case acting for their own account of one or more QIBs who are also QPs in reliance on the exemption from registration provided by Rule 144A (the "**Rule 144A Notes**") and (ii) to non-US persons in offshore transactions in reliance on Regulation S (the "**Regulation S Notes**"). Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions see, "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes will be issued in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. The Regulation S Notes will initially be represented by interests in a global unrestricted Note in registered form (the "**Regulation S Global Note Certificates**") without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on 26 September 2012 (the "**Issue Date**"). Beneficial interests in the Regulation S Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The Rule 144A Notes sold to QIBs that are also QPs as referred to in, and subject to the transfer restrictions described in, "*Subscription and Sale*" and "*Transfer Restrictions*" will initially be represented by a global restricted Note in registered form (the "**Rule 144A Global Note Certificates**") without interest coupons, which will be deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, The Depository Trust Company ("**DTC**") on the Issue Date. Beneficial interests in the Rule 144A Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. The Regulation S Global Note Certificates and the Rule 144A Global Note Certificates are together referred to as the "**Global Note Certificates**". See "*Summary of the Provisions Relating to the Notes in Global Form*". Individual definitive Notes in registered form ("**Individual Note Certificates**") will only be available in certain limited circumstances as described herein.

Joint Lead Managers

GOLDMAN SACHS INTERNATIONAL | **J.P. MORGAN**

Manager

PKO BANK POLSKI

The date of this Prospectus is 20 September 2012

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IMPORTANT NOTICES

This Prospectus constitutes a prospectus for the purpose of Article 5 of the Prospectus Directive and Article 8 of the Prospectus Act 2005 and for the purpose of giving information with regard to the Issuer, the Borrower and the Notes which, according to the particular nature of the Issuer, the Borrower and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Borrower and of the rights attaching to the Notes.

The Issuer and the Borrower (together, the "**Responsible Persons**") accept responsibility for the information contained in this Prospectus and declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Each of the Responsible Persons has confirmed to the Managers named under "*Subscription and Sale*" below (the "**Managers**") that this Prospectus contains all information regarding the Issuer, the Borrower and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or (as the case may be) the Borrower are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Neither the Issuer nor the Borrower has authorized the making or provision of any representation or information regarding the Issuer, the Borrower or the issue or offering of the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Borrower. Any such representation or information should not be relied upon as having been authorized by the Issuer, the Borrower or the Managers.

None of the Trustee, the Managers nor any of their respective affiliates have authorized the whole or any part of this Prospectus and none of them makes any representation or warranty, express or implied, or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Borrower since the date of this Prospectus.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the Borrower since the date thereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented, or that any other information supplied in connection with the Senior Loan is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

NONE OF THE MANAGERS, THE TRUSTEE AND NO PERSON OTHER THAN THE ISSUER AND THE BORROWER ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY SERIES OF NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE BORROWER'S CREDITWORTHINESS AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes. This Prospectus is intended only to provide information to assist potential investors in deciding whether or not to subscribe for or purchase Notes in accordance with the terms and conditions specified by the Managers. The Notes may not be offered or sold, directly or indirectly, and this Prospectus may not be circulated, in any jurisdiction except in accordance with the legal requirements applicable to such jurisdiction.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Borrower and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

No action has been or will be taken to permit a public offering of the Notes in any jurisdiction where any act would be required for that purpose.

The Notes and the Senior Loan have not been and will not be registered under the Securities Act and, subject to certain exemptions, may not be offered or sold within the United States or to, or for the account or benefit of, US persons (*as defined in Regulation S*). The Rule 144A Notes are being offered and sold within the United States to QIBs that are also QPs in reliance on the exemption from registration under the Securities Act provided by Rule 144A and the Regulation S Notes are being offered and sold outside the United States to non-US persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and the distribution of this Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE NOTES.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS, ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "Stabilizing Manager") (or persons acting on behalf of the Stabilizing Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) in accordance with all applicable laws and rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955 ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE OR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ADDITIONAL INFORMATION

Each of the Issuer and the Borrower has agreed in a subscription agreement dated 20 September 2012 that, for so long as any Notes are "*restricted securities*" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to and in compliance with Sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish upon request to any holder or beneficial owner of Notes, or any prospective purchaser designated by any such holder or beneficial owner the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Bank is an entity established and operating in accordance with Polish law and the vast majority of the Group's assets are located in the territory of Poland. Poland is a member of the EU. Therefore any judgment issued by a court in a EU Member State in civil or commercial matter shall be recognized and enforced in Poland under Council Regulation No 44/2001 of 22 December 2000 on the jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. The only Member State of the EU where Council Regulation No 44/2001 does not apply is Denmark. Investors who will attempt to enforce a judgment issued by a court outside the EU, including U.S. federal or state courts, may face difficulties. In general, foreign court judgments issued in civil matters may be enforced in Poland pursuant to the general provisions of the Polish Civil Procedure Code. Foreign judgments may be enforced in Poland provided that, inter alia, they are final and conclusive and do not infringe the basic principles of the Polish legal system (public policy). The Bank cannot provide assurance that all conditions precedent required for enforcement of foreign judgments in Poland will be satisfied, or that a particular judgment will be enforced in Poland.

FORWARD-LOOKING STATEMENTS

This Prospectus contains various forward-looking statements that relate to, *inter alia*, events and trends that are subject to risks and uncertainties that could cause the actual business activities, results and financial position of the Issuer or the Borrower to differ materially from the information presented herein. When used in this Prospectus, the words "**estimate**", "**project**", "**intend**", "**anticipate**", "**believe**", "**expect**", "**should**" and similar expressions, as they relate to the Issuer and the Borrower and their management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Neither the Issuer nor the Borrower undertakes any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

These forward-looking statements are contained in "*Description of the Group*", "*Risk Factors*", "*Operating and Financial Review*" and other sections of this document. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These assumptions reflect the best judgment of management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in the Group's forward-looking statements and from past results, performance or achievements. Although the Issuer and the Borrower believe that the estimates and the projections reflected in their respective forward-looking statements are reasonable, if one or more of the risks or uncertainties materialize or occur, including those which the Issuer and the Borrower has identified in this Prospectus, or if any of the Issuer's and the Borrower's underlying assumptions prove to be incomplete or incorrect, the Group's actual results of operations may vary from those expected, estimated or projected.

These risks and uncertainties referred to above include:

- Risks relating to macroeconomic conditions, including global economic conditions and Poland's economic, political and social conditions;

- Risks relating to the Group's business, including, but not limited to, competition in the financial institutions sector in Poland, increased regulation of the financial services and banking industry in Poland and internationally, failure in implementing the Group's development and business expansion strategy, the expansion of the Group's product portfolio and customer base, deterioration of the Group's loan portfolio quality, increase in the Group's impairment allowances, development of the foreign currencies loan portfolio, interest rate movements, decrease in value of Polish treasury securities, liquidity risks, decrease in the Bank's ratings, the Group's ability to maintain its current deposit and loan margins, ability to maintain minimum capital adequacy ratios and other regulatory ratios, ineffectiveness of risk management methods applied by the Group, the Group's operations in Ukraine, operational risk, the Group's ability to hire and train or retain a sufficient number of qualified staff, IT systems failure, changes in the composition of the Management Board and corporate control over the Bank being held by the State Treasury.

These forward looking statements speak only as of the date of this Prospectus. Except to the extent required by law, each of the Issuer and the Borrower expressly disclaims any obligation or undertaking to disseminate after the date of the Prospectus any updates or revisions to any forward looking statements made in this Prospectus, whether as a result of new information, future events or otherwise. All subsequent written or oral forward looking statements attributable to the Issuer and the Borrower or persons acting on their behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward looking statements.

Moreover, no assurance can be given that any of the historical information, data, trends or practices mentioned and described in this Prospectus are indicative of future results or events.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Consolidated Financial Statements

General Information

The unaudited condensed interim consolidated financial statements of the Group for the six months ended 30 June 2012 (the "**Consolidated Interim Financial Statements**"), the audited consolidated financial statements of the Group for the year ended 31 December 2011 (the "**2011 Consolidated Financial Statements**") and the audited consolidated financial statements of the Group for the year ended 31 December 2010 (the "**2010 Consolidated Financial Statements**" and, together with the Consolidated Interim Financial Statements and the 2011 Consolidated Financial Statements, the "**Consolidated Financial Statements**") are set out on pages F1 to F-393 in this Prospectus.

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU ("**IFRS**"), which differ to some extent from the IFRS issued by the IASB. Presentation of financial information in accordance with IFRS requires the management to make various estimates and assumptions which may impact the values shown in the financial statements and notes thereto. The actual values may differ from such assumptions.

The 2011 and 2010 Consolidated Financial Statements were audited by PricewaterhouseCoopers Sp. z o.o., with its registered office in Warsaw, Poland (see "*General Information – Independent Certified Auditors*").

The Consolidated Financial Statements are presented in PLN, the functional currency of the Bank and the presentation currency of the Group. Furthermore, unless otherwise indicated, financial and statistical data included in this Prospectus is expressed in PLN thousand.

Certain figures included in this Prospectus have been subject to rounding adjustments and presented in PLN million or PLN billion (not in PLN thousand as in the Consolidated Financial Statements). Accordingly, in certain instances the sum of numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in the tables in this Prospectus have also been rounded, and accordingly the totals in these tables may not exactly add up to 100 per cent. Percentage changes during the compared periods were computed on the basis of the original (not rounded) amounts.

Unless otherwise indicated, all references in this Prospectus to "**PLN**", "**Polish Zloty**" and "**zloty**" are to the lawful currency of Poland. References to "**EUR**", "**Euro**", "**euro**" or "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended. References to "**USD**" are to the lawful currency of the United States. References to "**GBP**"are to the lawful currency of the United Kingdom. References to "**CHF**" are to the lawful currency of Switzerland, and references to "**UAH**" are to the lawful currency of Ukraine.

All financial data included in the "*Description of the Group*" in this Prospectus has been prepared on a consolidated basis, unless indicated otherwise.

Average Balance Sheet and Interest Rate Data

This Prospectus includes average balances (the "**Average Balances**") of assets, liabilities and equity for the Borrower for the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, all of which are calculated on a quarterly basis, except where otherwise noted, based on financial information extracted from the Consolidated Financial Statements and the unaudited condensed interim consolidated financial statements of the Group.

The results of the analysis for the Borrower would likely be different if alternative or more frequent averaging methods were used and such differences could be material. Prospective investors are cautioned that the average balances and related data presented in this Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions in connection with similar offers of securities.

EXCHANGE RATES

This Prospectus contains conversions of certain amounts in relation to the financial results of the Bank and the Group set out elsewhere in this Prospectus. These conversions were effected at the relevant foreign currency to euro exchange in effect as set out below, unless otherwise stated. The conversion of statement of financial position items from PLN and UAH to Euro was made by reference to the exchange rate at the end of a given year set by the National Bank of Poland (the "**NBP**") or the National Bank of Ukraine (the "**NBU**"), as applicable. Figures provided in relation to income and expense were calculated by reference to the arithmetic mean of the average rates set by the NBP or the NBU, as applicable, on the final day of each month. The following table sets out, for the periods indicated, the exchange rates used in this Prospectus:

	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	Average exchange rate first half of 2012	Average exchange rate 2011	Average exchange rate 2010	Average exchange rate 2009
PLN/EUR..........	4.2613	4.4168	3.9603	4.1082	4.2246	4.1401	4.0044	4.3406
PLN/UAH	0.4221	0.4255	0.3722	0.3558	0.4044	0.3716	0.3830	0.3897
PLN/CHF..........	3.5477	3.6333	3.1639	2.7661	3.5111	3.3660	2.9317	2.8787

Source: www.nbp.pl

Solely for the convenience of the reader, and except otherwise stated, set out in the table below are some additional foreign currency to PLN exchange rates:

	FX rates as at 30 June 2012	FX rates as at 31 December 2011	FX rates as at 31 December 2010	FX rates as at 31 December 2009
HUF (100 HUF)	1.4784	1.4196	1.4206	1.5168
CZK	0.1664	0.1711	0.1580	0.1554
LTL	1.2341	1.2792	1.1469	1.1898
AUD..	3.4464	3.4670	3.0177	2.5642
JPY (100 JPY)	4.2613	4.4082	3.6440	3.0890
USD	3.3885	3.4174	2.9641	2.8503
CAD	3.3051	3.3440	2.9691	2.7163
GBP	5.2896	5.2691	4.5938	4.5986
DKK	0.5733	0.5941	0.5313	0.5520
NOK..	0.5655	0.5676	0.5071	0.4946

Source: www.nbp.pl

Some numerical and percentage amounts included in this Prospectus have been subject to rounding adjustments; accordingly, numerical and percentage amounts shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

MARKET, ECONOMIC AND INDUSTRY DATA

Certain macroeconomic and statistical data included in this Prospectus has been derived from publicly available sources, the reliability of which may vary. Macroeconomic and statistical data concerning Poland is mostly based on information published by the Polish Central Statistical Office (*Główny Urząd Statystyczny*, "**GUS**") and the NBP. In any case, macroeconomic and statistical data, as well as the source data on which it is based, may not have been extracted or derived from a source in a manner analogous to that used in other countries. There is no guarantee that a third party using different methods of gathering, analyzing and processing information would obtain the same results.

Market data and certain industry data and forecasts used, as well as statements made herein regarding the Bank's and the Group's position in the industry, were estimated or derived based upon assumptions the Bank deems reasonable and from the Group's own research, surveys or studies conducted at its request by third parties, or derived from publicly available sources (Eurostat, Bloomberg), industry or general publications such as reports issued by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*, the "**PFSA**") or the NBP, and Polish newspapers. The source of any external information is provided each time such information is used in this Prospectus. When searching for, processing and preparing macroeconomic, market, industry and other data from sources other than the Group, such as governmental publications, third party publications, industry publications and general interest publications, the Bank has not verified such data. The Bank has accurately extracted information from this third-party data from published sources and, as far as the Bank is aware and to the extent the Bank can ascertain from the information published by these sources, there are no omissions that would render such information in this Prospectus materially misleading.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. However, in the preparation of this Prospectus, this third-party information has not been independently verified nor has there been any investigation of the validity of the methodology or the basis used by the third parties in producing such data or making estimates and forecasts. The Bank can give no assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

The Bank does not intend, nor is it obligated, to update the data presented herein, save for obligations arising under provisions of law.

RATINGS

References in this Prospectus to ratings issued by "**Fitch**" are to credit ratings issued by Fitch Ratings Ltd. references to ratings issued by "**Moody's**" are to credit ratings issued by Moody's Investor Services, references to ratings issued by "**Standard & Poor's**" are to credit ratings issued by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and references to ratings issued by "**Capital Intelligence**" are to credit ratings issued by Capital Intelligence (Cyprus) Ltd., all of which are established in the European Union and which have been registered as credit rating agencies under Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**").

The list of credit rating agencies registered under the CRA Regulation is published by European Securities and Markets Authority (the "**ESMA**") in accordance with Article 18(3) of the CRA Regulation and is updated within five working days of the adoption of a registration or certification decision. The European Commission republishes the list in the Official Journal of the European Union within 30 days of any update thereof. There may therefore be differences between the list published by ESMA and the list available in the Official Journal during that period. The up-to-date list of credit rating agencies registered under the CRA Regulation is available at the websites of the ESMA at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EU and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EU before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, (2) the rating is provided by a credit rating agency not established in the EU but is endorsed by a credit rating agency established in the EU and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EU, but which is certified under the CRA Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

OVERVIEW OF THE OFFERING

The following overview does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus and related documents referred to herein. Capitalized terms not specifically defined in this overview have the meaning set out in the "Terms and Conditions of the Notes".

The Notes

The Offering:	US$1,000,000,000 4.630 per cent. Loan Participation Notes due September 2022
Issuer:	PKO Finance AB (publ), incorporated with limited liability under the laws of the Kingdom of Sweden
Borrower:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, incorporated as a joint stock company in the Republic of Poland
Joint Lead Managers:	Goldman Sachs International J.P. Morgan Securities plc
Manager:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Issue Amount:	US$1,000,000,000
Issue Price:	100.0 per cent.
Issue Date:	26 September 2012
Maturity Date:	26 September 2022
Trustee:	Citicorp Trustee Company Limited
Principal Paying Agent, Account Bank and Transfer Agent:	Citibank N.A., London Branch
Registrar:	Citigroup Global Markets Deutschland AG
Interest:	The Notes will bear interest from and including 26 September 2012 at a rate of 4.630 per cent. per annum payable semi-annually in arrears on 26 March and 26 September in each year commencing on 26 March 2013.
Use of Proceeds:	The gross proceeds from the offering of the Notes will be used by the Issuer for the sole purpose of funding the Senior Loan to the Borrower. The Borrower will receive gross proceeds of the Senior Loan and will pay separately commissions and fees in connection with the offering and certain expenses incurred in connection with the offering. The Borrower intends to use the proceeds of the Senior Loan to refinance its existing financial indebtedness as well as for general corporate purposes.
Status of the Notes and Limited Recourse:	The Notes constitute secured and limited recourse obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves, as more fully described in "*Terms and Conditions of the Notes*".

	The Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for the purpose of financing the Senior Loan to the Borrower pursuant to the terms of the Senior Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received and retained from the Borrower under the Senior Loan Agreement or held on deposit in the Account less amounts in respect of the Reserved Rights (as defined in the Conditions), all as more fully described in "*Terms and Conditions of the Notes*".
Form:	The Notes will be issued in registered form. The Notes will be in denominations of US$200,000 each and integral multiples of US$1,000 in excess thereof and will be represented by a Global Note Certificate (as defined below) which will be exchangeable for Individual Note Certificates (as defined below) in the limited circumstances specified in the Global Note Certificates.
Clearing Systems:	Euroclear, Clearstream, Luxembourg and DTC.
Security:	As provided by the Trust Deed, the Notes will be secured by a first fixed charge over: (a) the rights to all principal, interest and other amounts paid and payable by the Borrower to the Issuer under the Senior Loan Agreement; (b) the right to receive all sums which may be or become payable by the Borrower under or in respect of any claim, award or judgment relating to the Senior Loan Agreement; and (c) all the rights, title and interest in and to all sums of money now or in the future held on deposit in the Account and the debts represented thereby, including interest from time to time earned on the Account.
Issuer's Covenant:	As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or a Written Resolution (as defined in the Trust Deed), agree to any amendments to or any modification of or waiver of, or authorize any breach or proposed breach of, the terms of the Senior Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Senior Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Senior Loan Agreement.
Negative Pledge:	The Senior Loan Agreement contains a negative pledge in relation to the creation of Security Interests (other than Permitted Security Interests) by the Borrower (each as defined in the Senior Loan Agreement) as set out in the Senior Loan Agreement.
Mandatory Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving notice to the Noteholders and the Trustee, at the principal amount thereof

	together with accrued and unpaid interest to (but excluding) the date of redemption and any additional amounts in respect thereof, upon receiving notice that the Borrower wishes to prepay the Senior Loan for tax reasons or in the event that it becomes unlawful for the Issuer to fund the advance or allow the Senior Loan to remain outstanding under the Senior Loan Agreement as more fully described in the Senior Loan Agreement. See also Condition 5 (*Redemption and Purchase*) in "*Terms and Conditions of the Notes*".
Events of Default / Relevant Events:	In the case of the occurrence and continuance of an Event of Default (as defined in the Senior Loan Agreement) or a Relevant Event (as defined in the Trust Deed), the Trustee may, subject as provided in the Trust Deed: (1) require the Issuer to declare all amounts payable under the Senior Loan Agreement by the Borrower to be immediately due and payable; or (2) exercise any rights under the Security created in the Trust Deed in favor of the Trustee (in the case of a Relevant Event). Upon repayment of the Senior Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and any additional amounts due in respect thereof, and thereupon shall cease to be outstanding.
Rating:	The Notes are expected to be rated A- by Standard & Poor's and A2 by Moody's and the Borrower has been rated A- by Standard & Poor's and A2 by Moody's. On 17 September 2012, Moody's changed its outlook on the Borrower's long-term debt and deposit ratings from stable to negative. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment for prospective investors. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EU and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EU before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, (2) the rating is provided by a credit rating agency not established in the EU but is endorsed by a credit rating agency established in the EU and registered under the

	CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EU, but which is certified under the CRA Regulation.
	A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Withholding Tax:	All payments of principal, interest and any additional amounts to be made by the Issuer in respect of the Notes and by the Borrower under the Senior Loan Agreement will be made free and clear of all taxes, duties, assessments or governmental charges of the Kingdom of Sweden or the Republic of Poland save as required by law. If any taxes, duties, assessments or governmental charges are payable in either or both of the above jurisdictions, the sum that would be payable by the Issuer to the Noteholders will (subject to certain exceptions) be increased to the extent necessary to ensure that the Noteholders receive a net sum which they would have received had no such deduction or withholding been made. The respective sum payable by the Borrower under the Senior Loan Agreement will be increased to the extent necessary to ensure that the Issuer receives and retains a net sum equivalent to such increased amounts. The obligation of the Issuer to make payments to the Noteholders in this respect will be limited to paying an amount equivalent to the sums actually received by or for the account of the Issuer from the Borrower. See Condition 7 (*Taxation*) in "*Terms and Conditions of the Notes*".
Limited Recourse:	The Notes are limited recourse obligations of the Issuer and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for an amount equivalent to sums of principal, interest, any Additional Amounts and any Taxation Indemnity Amounts (each as defined in the Senior Loan Agreement) actually received by or for the account of the Issuer pursuant to the Senior Loan Agreement excluding any amounts in respect of the Reserved Rights which the Issuer is entitled to retain from any amounts actually received. The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to the Noteholders.
Security:	As provided by the Trust Deed, the Notes will be secured by a first fixed charge over: (a) all the Issuer's rights, interests, title and benefits in and to principal, interest and other amounts paid and payable under the Senior Loan Agreement and its right to receive amounts paid and payable to the Issuer under or in respect of any claim, award or judgment relating to the Senior Loan Agreement (other than its right to amounts in respect of certain Reserved Rights); and (b) all the Issuer's rights, title, benefits and interest in and to all sums of money held on deposit from time to time in an account in London in the name of the Issuer as specified in the Senior Loan Agreement, together with

the debt represented thereby, including interest from time to time earned thereon, other than the Reserved Rights and its right to any amounts in respect of such Reserved Rights (this sub-clause (b), together with sub-clause (a) other than the Reserved Rights, the "**Charged Property**"); and

(c) all the Issuer's rights, title, interests and benefits, present and future, under or arising out of or evidenced by the Senior Loan Agreement other than the Charged Property and the Reserved Rights.

Listing and Admission to Trading:	Application has been made for the Notes to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg stock exchange's regulated market.	
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and subject to certain exceptions may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers are hereby advised that the sellers of Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes may be sold in other jurisdictions only in compliance with applicable laws and regulations. See "*Subscription and Sale*".	
Governing Law:	The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with them will be governed by English law.	
Risk Factors:	For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "*Risk Factors*".	
Regulation S Security Codes:	ISIN:	XS0783934085
	Common Code:	078393408
Rule 144A Security Codes:	ISIN:	US69342NAA90
	Common Code:	061917179
	CUSIP Code:	69342NAA9

The Senior Loan

Lender:	PKO Finance AB (publ)
Borrower:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Principal Amount of the Senior Loan:	US$1,000,000,000
Interest on the Senior Loan:	4.630 per cent.

Ranking of the Senior Loan:	The Senior Loan will constitute the direct, unconditional and unsecured obligation of the Borrower, ranking equal in right of payment with all of the Borrower's other unsecured and unsubordinated obligations to the extent permitted by applicable laws relating to creditors' rights in the event of insolvency.
Mandatory Repayments:	As described above under "*The Notes*".
Negative Pledge:	So long as any amount remains outstanding under the Senior Loan Agreement, the Borrower will not, and they will procure that no Subsidiary (as defined in the Senior Loan Agreement) will, create or permit to exist any Security Interest, (as defined in the Senior Loan Agreement), on the whole or any portion of its assets securing any other Relevant Indebtedness (as defined in the Senior Loan Agreement).
Events of Default:	If an Event of Default (as defined in the Senior Loan Agreement) has occurred and is continuing, the Trustee may, subject as provided in the Trust Deed and the Senior Loan Agreement, declare all amounts payable under the Senior Loan Agreement by the Borrower to be due and payable.
Governing Law:	The Senior Loan Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.
Use of Proceeds:	The Borrower intends to use the proceeds of the Senior Loan to refinance its existing financial indebtedness as well as for general corporate purposes.

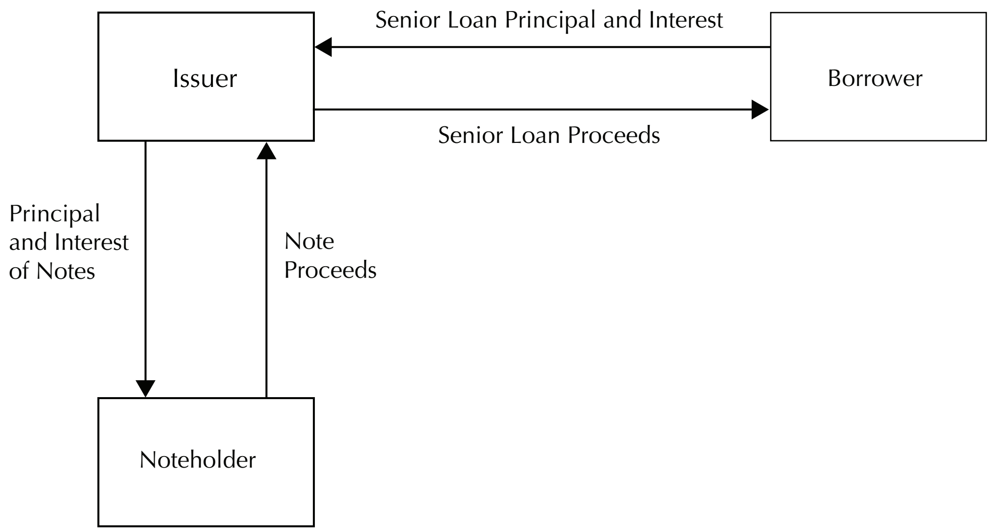
DESCRIPTION OF THE TRANSACTION

The following summary contains basic information about the Notes and the Senior Loan and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "The Senior Loan Agreement" appearing elsewhere in this Prospectus.

The transaction will be structured as a loan to the Borrower by the Issuer. The Senior Loan will be made on the terms of the Senior Loan Agreement and will have characteristics that produce funds to service any payments due and payable on the Notes. Interest and principal payable by the Borrower on the Senior Loan from the Issue Date will be used to service payments of interest and principal to be made under the Notes. The Senior Loan will be made to the Borrower by the Issuer on the Issue Date.

The funds borrowed by the Borrower under the Senior Loan will be equal to the aggregate principal amount of the Notes. The Senior Loan and the Notes bear interest at the same rate. Due dates for the payment of principal and interest in respect of the Notes are matched with the due dates for payment of principal and interest in respect of the Senior Loan.

Set out below is a diagrammatic representation of the structure:



The Notes are limited recourse loan participation notes to be issued by the Issuer for the sole purpose of funding the Senior Loan to the Borrower. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will charge in favor of the Trustee for the benefit of the Trustee and the Noteholders by way of first fixed charge: (a) the rights to all principal, interest and other amounts paid and payable by the Borrower to the Issuer under the Senior Loan Agreement; (b) the right to receive all sums which may be or become payable by the Borrower under or in respect of any claim, award or judgment relating to the Senior Loan Agreement; and (c) all the rights, title and interest in and to all sums of money now or in the future held on deposit in an account with the Account Bank in the name of the Issuer (the "**Account**") together with the debt represented thereby (including interest from time to time earned thereon) in each case, other than certain Reserved Rights (as defined in "*Terms and Conditions of the Notes*").

The Issuer will also assign certain administrative rights under the Senior Loan Agreement to the Trustee. The Borrower will be obliged to make payments under the Senior Loan to the Issuer in accordance with the terms of the Senior Loan Agreement to the Account or as otherwise instructed by the Trustee following a Relevant Event (as defined in the trust Deed). The Issuer will agree in the Trust Deed not to make any amendment or any modification or waiver of or authorize any breach of or proposed breach of, the terms of the Senior Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed or the Senior Loan

Agreement. The Issuer will further agree to act at all times in accordance with any instruction of the Trustee from time to time with respect to the Senior Loan Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorizations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to the Borrower and the Trustee who will each be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it following the occurrence of a Relevant Event, the Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.

The Notes are limited recourse obligations of the Issuer and the Issuer shall apply the proceeds from the issue of the Notes solely for financing the Senior Loan Agreement and to account to the Noteholders for an amount equivalent to sums of principal, interest and any Additional Amounts and any Taxation Indemnity Amounts (each as defined in the Senior Loan Agreement) actually received by it or for the account of the Issuer pursuant to the Senior Loan Agreement less any amount in respect of the Reserved Rights (as defined in the Trust Deed) which the Issuer is entitled to retain from any amounts actually received. The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer whatsoever and no right of action against the Issuer will be available to the Noteholders.

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of the Kingdom of Sweden or the Republic of Poland except as required by law. See Condition 7 (*Taxation*) in "*Terms and Conditions of the Notes*". In the event that any deduction or withholding is imposed in respect of such payments, the Issuer will only be required to pay any additional amounts to the extent it receives corresponding amounts from the Borrower under the Senior Loan Agreement. The Senior Loan Agreement provides for the Borrower to pay such corresponding amounts in these circumstances. In addition, payments under the Senior Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes imposed by any Taxing Authority (as defined in the Senior Loan Agreement), except as required by law. In the event of any such deduction of withholding the Borrower will be obliged to increase the amounts payable under the Senior Loan Agreement. See "*Risk Factors – Risk Relating to the Notes*".

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Certain of the risks highlighted below could have a material adverse effect on the Bank's business, operations and financial condition which, in turn, could have a material adverse effect on its ability to fulfill its obligations under the Facility Agreements and, as a result, the ability of the Issuer to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Bank faces. The Bank has described only those risks relating to its operations that it considers material. In addition, the Bank has described certain general risks applicable to an investment in the Republic of Poland and to the Polish banking industry which are associated with an investment in the Notes. There may be additional risks that the Bank currently considers not to be material or of which the Bank is not currently aware, and any of these risks could have the effects set forth above.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings as given to them in this section.

Risks Relating to Macroeconomic Conditions

Global Economic Conditions Have Had, and Will Continue to Have, an Effect on the Group's Business, Financial Condition and Results of Operations

The global economy, the condition of financial markets and macroeconomic developments in Europe all significantly influence the Group's results of operations. The world financial system has experienced unprecedented levels of volatility since 2007 due to adverse credit and liquidity conditions in the international financial markets and disruptions in the global capital markets. These economic conditions have led to widening credit spreads, reduced availability and increased cost of funding, fluctuations in capital markets, and have contributed to declining asset values, and tighter lending terms and conditions in the international banking system, including in Poland.

The financial turbulence since 2007 and its after-effects on the wider economy have led to generally more difficult earnings conditions for the financial sector and have placed significant pressure on financial institutions, several of which have either failed, merged or sought aid from governments, national central banks or the International Monetary Fund, which intervened by injecting liquidity and capital into the financial system, including by participating in the recapitalization of several financial institutions. If further defaults, nationalizations or similar adverse conditions occur, requisite liquidity levels could become more difficult and costly to procure by financial institutions, which could have a material adverse effect on the business, financial condition or results of operations of the Group.

While there was some recovery in many countries during 2010 and 2011, there have been significant differences in the strength of the recovery in the various national economies. A number of countries in Europe, for instance, are still struggling with large budget deficits. Certain measures have been adopted to provide support to countries with distressed sovereign debt as a result of the financial crisis, including Greece, Ireland and Portugal.

Further, adverse macroeconomic developments can lead to rising unemployment rates and declining levels of consumer confidence including in financial institutions and, thus, to a reduction in demand for financial services. These conditions may lead to a reduction in growth and, in some cases, contraction of financial institutions' ordinary business, an increase in the cost of credit, declines in share prices and asset values, accelerated loan impairment losses, and decreased profitability.

A slow recovery of the world's economies or a downturn in the global economy could impact growth in Poland and, therefore, adversely affect the business, financial condition and results of operations of the Group.

Poland's Economic, Political and Social Conditions Have Affected and Will Continue to Have an Effect on the Group's Business, Financial Condition and Results of Operations

The Group conducts its operations almost entirely in Poland, where the overwhelming majority of its clients and assets are located. Therefore, macroeconomic factors relating to Poland, such as GDP, inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on customer demand, loan impairment allowances and margins for the Group's products and services, which materially affects the Group's business, financial condition and results of operations.

The Polish economy remains vulnerable to market downturns and economic slowdowns in the global markets. GDP growth in Poland slowed during 2009 due to the global economic crisis, which led to deterioration in the employment market and an increase in the unemployment rate in Poland from 9.5 per cent. at the end of December 2008 to 12.5 per cent. at the end of December 2011 (according to GUS). Increased unemployment and slower economic growth contributed to a decrease in the growth rate of both loans and deposits for the Polish banking sector.

The Polish banking sector began to experience a shortage of liquidity in 2008, which continued into 2009, increasing competition for retail deposits. The economic slowdown in Poland reduced the growth rate of the Group's portfolio of mortgage loans, corporate loans and consumer loans, in turn affecting the Group's net interest income, and net fee and commission income. Moreover, financing costs increased due to both the limited availability of funding on the inter-bank market, mainly driven by credit risk aversion, and banks' increasing interest rates on deposits resulting largely from tightening competition on the deposit market, which also had a negative impact on the net interest income earned by the Group. In addition, the quality of the Group's loan portfolio deteriorated to a certain degree as a result of the economic slowdown in Poland.

Furthermore, market turmoil and economic deterioration could adversely affect the liquidity, businesses and/or financial conditions of the Group's borrowers, which could in turn, increase the Group's impaired loan ratios, impair its loan and other financial assets and result in decreased demand for the Group's products. In such an environment, consumer spending may decline and the value of assets used as collateral for the Group's secured loans, including real estate, could also decrease significantly. Any of these conditions could have an adverse effect on the Group's business, financial condition and results of operations.

Moreover, the Management Board believes that certain investors perceive the economic or financial conditions of Central and Eastern European countries (the "**CEE countries**") to influence the economic or financial conditions of Poland, and that financial assets of CEE countries may be treated as the same "asset class" by certain foreign investors. As a result, these investors may reduce their investments in Polish financial assets due to the worsening economic or financial conditions in other CEE countries. Specifically, the devaluation or depreciation of any of the currencies in CEE could impair the strength of the PLN. A depreciation of the PLN against foreign currencies may make it more difficult for the Group's customers to repay their loans denominated in foreign currencies, which would have a negative impact on the Group's business, financial condition and results of operations. In addition, depreciation of the PLN against foreign currencies would affect the value of the foreign exchange derivatives held by many of the Group's customers. As a result, these customers could become unable to repay amounts due under these foreign exchange derivatives, which could also have an adverse effect on the Group's business, financial condition and results of operations.

Risks Relating to the Group's Business

The Group Faces Competition in the Financial Institutions Sector

In recent years the Polish banking sector has become increasingly competitive, in large part due to investments in this sector by international financial institutions as regulatory restrictions on the ability of foreign financial institutions to operate in Poland have been significantly reduced. According to the PFSA, as of 30 June 2012 there were 46 commercial banks operating in Poland, and the market share of the five largest banks in the Polish banking sector by assets, value of client deposits and amounts due from non-financial sector entities were 44.8 per cent., 45.3 per cent. and 39.1 per cent., respectively, as of 30 June 2012.

The Group faces competition primarily in its universal banking activities, where its competitors include large international financial institutions operating in the Polish retail and corporate banking markets.

Increased competition from financial institutions already operating in Poland, as well as the entry of new international financial institutions to the Polish market, may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources, access to lower-cost funding and a broader offering of products than the Group. In addition, increasing competition could lead to significant pressure on the Group's market shares. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on the Group's products and services, which could have an adverse effect on the business, financial condition and results of operations of the Group.

The Rate of Growth of the Polish Banking Sector May Be Significantly Reduced

In recent years, the Polish banking sector has experienced high levels of growth, supported by the increasing earning power and wealth of the Polish population and the overall growth of the Polish economy. However, starting in 2008 the growth rate of the Polish banking sector began to slow and as of the date of the Prospectus, it remains relatively weaker than before the 2008 slowdown. There can be no assurance that the growth rate of the Polish banking sector will return to previous levels or that it will not continue to slow in the future, which could have a material adverse effect on the Group's business, financial condition or results of operations.

Increased Regulation of the Financial Services and Banking Industry in Poland and Internationally Could Adversely Affect the Group's Business, Financial Condition and Results of Operations

Given current market conditions in which public opinion and governments in a number of countries are appealing for tighter regulation of the financial services and banking industry, it is likely that international as well as Polish laws and regulations on financial services and banking activities will become more restrictive.

For instance, in December 2010, leaders of the Group of Twenty ("**G-20**") endorsed the agreement reached by the Basel Committee on the new bank capital adequacy and liquidity framework. The agreement is intended to increase the resilience of the global banking system.

On 16 December 2010, the Basel Committee on Banking Supervision published two documents proposing fundamental reforms to the regulatory capital framework. As of the date of the Prospectus, it is not entirely clear how the reforms introduced by Basel III and CRD 4 will affect the business, financial condition and results of operations of the Group. See "*Banking Regulations in Poland – Capital Adequacy and Risk Management Requirements – European Law Requirements*" (together, "**Basel III**"). The implementation of the Basel III reforms will begin on 1 January 2013. However, the requirements will be phased in over a period of time, so as to be fully effective by 2019.

In February 2010, the European Commission launched a public consultation with regard to further possible changes to the capital requirements directives aimed at strengthening the resilience of the banking sector and the financial system as a whole – "**CRD 4**". The draft of CRD 4 was presented by the European Commission on 20 July 2011.

The changes proposed under Basel III and CRD 4 include, *inter alia*: (i) the strengthening of capital requirements for credit risk exposures arising from derivatives, repos and securities financing activities; (ii) the introduction of a minimum liquidity standard for banks that are active internationally; (iii) the promotion of more forward-looking provisioning based on expected losses; and (iv) reducing procyclicality and promoting countercyclical buffers.

Furthermore, in 2008, the PFSA published Recommendation S (II), which was subsequently amended in 2011. Recommendation S (II) imposed restrictions on the foreign currency lending activity of Polish banks, which limited the Group's ability to grant loans in foreign currencies.

In February 2010, the PFSA published Recommendation T, which is intended to improve risk management in banks, including limiting excessive credit exposure on the part of retail borrowers. The PFSA stipulated that lending must be limited to no more than that which can be serviced by 50 per cent. of the average net monthly income for retail borrowers with a monthly net income at or below the level of the national average net monthly income and 65 per cent. of the average net monthly income for all other borrowers. These limitations may reduce the Group's pool of potential clients for mortgage loans and consumer loans in particular. The Group complied with Recommendation T within the August and December 2010 deadlines set by the PFSA.

In 2011, the Ministry of Finance was working on legislation imposing an obligation on financial institutions (including banks) operating in Poland to make contributions to a dedicated fund which could be used to prevent or limit the effects of any potential future crisis on the financial markets in Poland (in effect, a banking tax). As of the date of the Prospectus, no details of the proposed legislation have been published. However, it is anticipated that as with similar legislation in effect in other Member States, the contribution made by each financial institution under any proposed legislation would depend on the value of its equity or its balance sheet total. In March 2012, the Polish Minister of Finance announced that it is his intention to introduce such banking tax sometime in 2012.

In addition, as of the date of this Prospectus certain groups of Polish Parliament members have proposed draft laws imposing tax on certain financial institutions, including banks. Simultaneously, the European Commission has been working on pan-European legislation imposing financial transaction tax, a portion of the proceeds of which would be contributed directly to the EU budget.

On 18 December 2011, the Polish Act on Consumer Credit dated 12 May 2011 (the "**New Consumer Credit Act**") increasing the disclosure obligations of lenders entered into force. The New Consumer Credit Act requires lenders to inform their clients of the aggregate amount of interest, commissions and fees charged in connection with consumer loans, which enables consumers to more easily compare the consumer loan products available on the market, and may cause a decline in interest in the Group's consumer loans. See "*Banking Regulations in Poland – Consumer Protection*". In addition, on 31 August 2011, a law amending the terms of a government-sponsored housing loans program called "*Rodzina na swoim*" entered into force. The new law limits the metric area of apartments eligible to participate in the program and modifies the definition of eligible beneficiaries. The new law represents a step towards a gradual termination of the program. See "*Banking Regulations in Poland – Changes in the "Rodzina na swoim" Program*".

Furthermore, on 30 March 2012 the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards. It has been recommended that multilateral arrangements be concluded between banks and the payment card organizations, with the aim to reduce the levels of interchange fees.

Each of the above-mentioned changes could decrease the Group's return on investments, assets or capital. It is possible that the Group will incur increased costs as a result of tighter regulation and its growth potential could be significantly limited. Any of these factors could materially adversely affect the Group's business, financial condition or results of operations.

The Group May Fail in Implementing its Development and Business Expansion Strategy

The Group's strategic vision is to achieve long-term sustainable growth and profitability through a secure and modern universal banking model, as well as to maintain and enhance its leadership position in the Polish financial market. The Group aims to diversify its business through a universal business model.

The Group may fail to achieve its major strategic objectives in the upcoming years due to factors such as difficult economic or market conditions, increasingly strict regulatory requirements imposed on the banking and financial services sector in Poland and, globally, increased competition in the Polish banking market, changes in client behavior or the failure of the newly-implemented IT systems (including the CRM system) to achieve the expected parameters and objectives. These developments, compounded with multiple other factors remaining beyond the Group's control, could affect the business, financial condition and results of operations of the Group.

The Expansion of the Group's Product Portfolio and Customer Base May Involve Increased Risk

As part of the implementation of its development strategy, the Group has undertaken steps to diversify its business by providing a wider range of products to its retail customers as well as attracting corporate and local government clients. These newer products, which include consumer loans and several corporate banking products, generally, offer a higher margin to the Group but may also carry a higher level of risk. The Group cannot provide assurance that its historical performance with respect to these products will be indicative of their future performance. Furthermore, the Group's transactions with new customers present an increased business risk resulting from the lack of historical information about the customers' creditworthiness, reputation and risk profile. Any of the above factors may adversely impact the business, financial condition and results of operations of the Group.

The Group May Not Be Able to Maintain the Quality of Its Loan Portfolio

The quality of the assets in the Group's loan portfolio is affected by changes in the creditworthiness of its customers, their ability to repay their loans on time, the Group's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans.

In addition, the quality of the Group's loan portfolio may deteriorate due to various other reasons, including internal factors (such as failure of risk management procedures) and factors beyond the Group's control (such as any negative developments of Poland's economy resulting in the financial distress or bankruptcy of the Group's customers – see for example "*Operating and Financial Review – Results of Operations – The Six Months Ended 30 June 2012 Compared to the Six Months Ended 30 June 2011 – Net Impairment Allowance and Write-downs*", or restriction of credit information concerning certain customers).

The Group's impaired loan ratio increased from 7.6 per cent. as of 31 December 2009 to 8.0 per cent. as of 31 December 2010, remained stable at the level of 8.0 per cent. as of 31 December 2011 and increased to 8.7 per cent. as of 30 June 2012.

The Group's loan portfolio has increased significantly in size in recent years, following a key strategic decision to increase the loan portfolio of the Group several years ago. As a result of this recent growth in the Group's loan portfolio, and especially the mortgage loan portfolio, a significant portion of the loan portfolio has not yet reached the period when default is most likely and the Group's default rate may increase as these loans season. If the default rate significantly exceeds the default rate that was assumed in setting interest rates for these loans, the Group's business, financial condition and results of operations could be adversely affected. In addition, the Group cannot give any assurance that it will be able to maintain, in the future, the growth rate of its loan portfolio comparable to the recent past. Therefore, historical growth may not be indicative of foreseen future growth.

Any deterioration in the Group's loan portfolio quality could have a material adverse effect on the Group's lending activity, financial condition or results of operations.

The Group's Impairment Allowance May Not Be Adequate to Cover Actual Losses from the Group's Loan Portfolio

The Group's impairment allowances for loans and advances to customers are determined based on models approved by the Management Board which take into account an assessment of future cash flows for individually significant loans; prior loss experiences, and results of grading and scoring; the volume and type of lending being conducted; collateral type; the volume of past due loans; economic conditions; and other factors related to the collectability of the Group's loan portfolio.

As of 30 June 2012, the Group's coverage of impaired loans ratio stood at 47.0 per cent. (compared to 48.0 per cent. as of 31 December 2011).

The determination of the impairment allowance for loans and advances to customers is subject to the evaluation of credit risk and may be affected by numerous factors, including uncertainties relating to the current macroeconomic environment. The Group could be required to increase or decrease its impairment allowance for loans and advances to customers in the future as a result of increases or decreases in impaired assets or changes in the value of parameters used to determine impairment allowances (the recovery rate and the probability of default).

The housing loan portfolio (excluding accrued interest) represented 48.1 per cent. of the Group's gross lending portfolio as of 30 June 2012. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's customers operate, may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans. A decline in the value of collateral securing the Group's loans or the inability to obtain additional collateral may, in certain cases, require the Group to reclassify the relevant loans, impair loans or increase its impairment allowance.

Any increase in the impairment allowance for loans and advances to customers, any loan losses in excess of the previously determined impairment allowance for loans and advances to customers with respect thereto, or any changes in the estimate of the risk of loss inherent in the Group's loan portfolio could have an adverse effect on the Group's business, financial condition and results of operations.

The Group's Risk Management Methods May Prove Ineffective at Mitigating Credit Risk

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods used by the Group to mitigate credit risk and to protect against credit losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behavior. These tools and metrics may fail to predict future risk exposures, especially in the current market environment of increased volatility and falling valuations. The risk management systems employed by the Group may prove insufficient in measuring and managing risks, especially in consumer finance and corporate banking, given the Group's limited experience in such segments. As a result, the Group's business, financial condition and results of operations may be adversely affected.

The Group Is Exposed to Risk Resulting from the Granting, Financing and Securing of Foreign Exchange Denominated Loans

The vast majority of retail customers who have mortgage loans denominated in foreign currencies earn their income in PLN. Those customers are usually not protected against the fluctuations of the exchange rates of the PLN against the currency of the loan. Consequently, any depreciation of the PLN against the currency in which a loan is denominated results in an increase in the monthly installment after its conversion into PLN. Such increases may result in difficulties related to the repayment of the assumed loans, which in turn may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans and advances extended to the Group's customers, which may adversely affect the business, financial condition and results of operations of the Group.

Moreover, as of 30 June 2012, 11.9 per cent. of the Bank's liabilities were denominated in foreign currencies. The value of the Group's loan portfolio denominated in foreign currencies is substantially larger than the value of the Group's liabilities denominated in foreign currencies. Thus the Group partly reduces its foreign exchange risk exposure through derivative transactions. The typical maturities of these derivative contracts are shorter than the maturities of the underlying loans that are denominated in foreign currency and, furthermore, the customers have the option to change the currency of their loans to PLN. As a result, the Group is required to roll over such contracts when they mature, and it is exposed to market price fluctuations of these derivatives. Consequently, significant increases in the prices of such derivative contracts may adversely affect the funding costs of the Group's foreign-currency denominated loan portfolio which, in turn, could adversely affect the business, financial condition and results of operations of the Group.

Changes in Interest Rates Caused by Many Factors Beyond the Group's Control Can Have Significant Adverse Effects on the Group's Net Interest Income

The Group derives the majority of its net income on business activities (defined as operating profit before administrative expenses, net impairment allowance and write-downs) from net interest income (for the year ended 31 December 2010 the Group's net interest income constituted 63.9 per cent. of the Group's net income on business activities and 68.3 per cent. of the Group's net income on business activities in the year ended 31 December 2011 and 69.8 per cent. for the six months ended 30 June 2012). As a result, the Group's operations are affected by fluctuations of interest rates in Poland and Europe. In particular, the Group's operations depend on the management of the Group's exposure to interest rates, and the change of the relationship between market interest rates and interest margins. A mismatch of interest-earning assets and interest-bearing liabilities in any given period could, in the event of changes in interest rates, reduce the Group net interest margin and have a material adverse effect on the Group's net interest income and, thereby, on business, financial condition and results of operations of the Group.

In addition, the increase in interest rates may result in an increase in the installment amounts paid by the Group's customers. Such increase may result in difficulties related to the repayment of the assumed loans, which in turn may adversely affect the business, financial condition and results of operations of the Group.

The Value of the Group's Securities Portfolio May Be Negatively Affected by the Prices of Polish Treasury Securities

As of 30 June 2012, 38.7 per cent. of the Group's securities portfolio (which comprises financial instruments designated at fair value through profit and loss, trading assets, investment securities available for sale, and securities held to maturity) was composed of securities issued by the Polish government. An adverse effect on the price of the Polish Treasury securities may be caused by a number of factors, including: the increased supply of securities issued by the Polish government in the trading market, due to either increased issuance of such securities by the Polish government in order to finance the budget deficit; an increase in the volume of sales of such securities by investors or in domestic interest rates, or a downgrade of Poland's sovereign ratings. Should the Group attempt to sell all or a portion of the Polish Treasury securities it holds in its investment portfolio to finance its operations, the occurrence of one or more of the factors mentioned above would adversely affect the price it could receive, which would have an adverse effect on the business, financial condition and results of operations of the Group.

The Bank Faces Liquidity Risk

The Bank becomes exposed to liquidity risk when the maturities of its assets and liabilities are not matched. For example, the Bank may be exposed to increased liquidity risk as a result of its significant holdings of real estate mortgage loans, which are long-term assets that are financed by short-term and on-demand deposits. Maturity mismatches between the Bank's assets and liabilities may have an adverse effect on the Bank's business, financial condition and results of operations, especially if the

Bank is unable to obtain new deposits or find alternative sources of funding to fund existing and/or future loan portfolios.

In terms of current and short-term liquidity, the Bank is exposed to the risk of unexpected, rapid withdrawal of deposits by its clients in large volumes. Non-financial and budget deposits are the Bank's primary source of funding. As of 30 June 2012, 95.3 per cent. of the Bank's amounts due to customers had maturities of one year or less and 39.5 per cent. were payable on demand or deposited on O/N deposits. If a substantial portion of the Bank's clients withdraw their demand deposits or do not roll over their term deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be adversely affected.

Current liquidity may also be affected by unfavorable financial market conditions. If assets held by the Bank in order to provide liquidity become illiquid due to unforeseen financial market events or their value drops substantially, the Bank might not be able to meet its obligations as they come due and therefore might be forced to resort to inter-bank funding, which, in the event of an unstable market situation, may become excessively expensive and uncertain. In addition, the Bank's ability to use such external funding sources is directly connected with the level of credit lines available to the Bank, and this in turn is dependent on the Bank's financial and credit condition, as well as general market liquidity.

Realization of liquidity risks and the inability to raise sufficient funds to finance its operations, particularly its lending operations, may have an adverse effect on the business, financial condition and results of operations of the Group.

Any Reduction in the Bank's Credit Rating, Including a Reduction Due to a Decrease of the State's Shareholding, Could Increase Its Cost of Funding and Adversely Affect Its Interest Margins

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. On 18 June 2009, Moody's downgraded the Bank's long-term local currency deposit rating from "Aa2" to "A2" with a stable outlook and its financial strength rating from "C" to "C- " with a negative outlook. Fitch assigned to the Bank a support rating of "2" on 18 December 1996, which denotes a bank for which there is a high probability of support from the State Treasury. This probability of support indicates a minimum long-term rating floor of "BBB-". The support rating of "2" was maintained by Fitch on 9 August 2010 and on 4 August 2011. On 25 August 2004, Standard & Poor's assigned to the Bank a long-term local currency liabilities rating of "BBBpi" and in September 2010 it upgraded such rating to "A-pi". This rating was maintained by Standard & Poor's on 10 May 2011. Moreover, in December 2007, Capital Intelligence assigned to the Bank a long-term foreign currency liabilities rating of "A-" and in January 2010 it increased the support rating from "2" to "1". On 30 May 2011 Capital Intelligence corrected a financial strength rating from "BBB+" to "BBB". Finally, on 8 May 2012, Standard & Poor's assigned its long-term "A-" rating with a stable outlook and short-term "A-2" rating with a stable outlook to the Bank. Unlike Moody's and Standard & Poor's, the long-term and financial strength ratings assigned by Fitch and Capital Intelligence are unsolicited. On 20 June 2012, Standard and Poor's granted a solicited rating to the Programme at the level of "A-". On 17 September 2012, Moody's changed its outlook on the Bank's long-term debt and deposit ratings from stable to negative.

The Bank does not provide detailed information or schedule in-depth meetings with Fitch or Capital Intelligence and, therefore, these ratings are only based on an analysis of the Bank's published financial information, as well as additional information in the public domain. As a result, the Bank cannot provide assurance that the long-term or financial strength ratings assigned by Fitch or Capital Intelligence will reflect the most current information regarding the Bank's credit quality. A reduction in the Bank's long-term and financial strength ratings could increase the costs associated with its financing transactions on the inter-bank and debt market and impede the Bank's ability to diversify its sources of funding through the inter-bank and debt markets, which could adversely affect the Group's business, financial condition and results of operations.

Furthermore, there can be no assurance that following the proposed sale of shares in the Bank by the State Treasury and Bank Gospodarstwa Krajowego ("**BGK**") the Bank's credit ratings, especially its support and financial strength ratings, will not be downgraded. Any downgrade of the Group's credit ratings could adversely affect the Group's business, financial condition and results of operations.

The Group May Not Be Able to Sustain Its Current Levels of Margins on Loans and Deposits

Net interest income is the most significant component of the Group's net income on business activities and represented 63.9 per cent. of the Group's net income on business activities during 2010 and 68.3 per cent. during 2011 and 69.8 per cent. for the six months ended 30 June 2012. The net interest income of the Group depends primarily on the level of its interest-earning assets and interest-bearing liabilities, as well as the average rate earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities.

Various factors could make the Group unable to maintain its current levels of margins on loans and deposits, including increasing market competition, changing demand for fixed rate and floating rate loans, changes in the monetary policy of the Monetary Policy Council, increased inflation and changes in both WIBOR and international inter-bank interest rates as well as changes in FX swaps transaction costs.

The Group could suffer from the adverse effects of decreasing margins for a variety of reasons, including: (i) market interest rates on floating rate loans decrease and the Group is unable to offset such decrease by decreasing the rates payable on deposits; or (ii) interest rates payable on deposits increase and the Group is unable to offset such increase by increasing rates of loans to customers due to increased pricing competition among the banks. Decreasing margins may result in lower net interest income, and therefore adversely affect the business, financial condition and results of operations of the Group.

The Group May Be Unable to Satisfy Its Minimum Capital Adequacy and Other Regulatory Ratios

The Group is required to maintain a minimum capital adequacy ratio of 8 per cent. As of 30 June 2012, the Group's capital adequacy ratio stood at 13.01 per cent. Certain developments could affect the Group's ability to continue to satisfy the current capital adequacy requirements, including:

- an increase of the Group's risk-weighted assets;
- ability to raise capital;
- the payment of dividends by the Bank to its shareholders;
- losses resulting from a deterioration in the Group's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;
- a decline in the values of the Group's securities portfolio;
- failure to implement advanced credit and operational risk assessment methods;
- unreliability of the Group's estimates regarding the amount of capital needed to cover its operating risk;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of banks (such as the recently announced planned changes in the calculation of capital requirements for credit risk); and
- changes in PLN exchange rates for the foreign currencies in which the Group's loan and advances to customers are denominated.

The Bank may also be required to raise additional capital in the future in order to maintain its capital adequacy ratios above the minimum-required levels. The Bank's ability to raise additional capital may be limited by numerous factors, including:

- the Bank's future financial condition, results of operations and cash flows;
- any necessary government regulatory approvals;
- the Bank's credit rating;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- domestic and international economic, political and other conditions.

Moreover, there can be no assurance that the Bank will be able to comply with potentially more stringent prudential regulations concerning capital adequacy under Basel III (i.e., further changes to the CRD). In addition, due to the Bank's position in the Polish market and its place in the Polish financial system, there can also be no assurance that the Bank will not be considered by the regulators to be a systematically important financial institution and therefore subject to even more stringent capital adequacy requirements.

The Group cannot assure prospective investors that it will not need to raise additional capital in the future, nor can it assure prospective investors that it will be able to obtain such capital on favorable terms, in a timely manner or at all. Failure to maintain the minimum capital adequacy and other regulatory ratios or to otherwise maintain sufficient levels of capital to conduct the Bank's business may have an adverse effect on the business, financial condition and results of operations of the Group. Moreover, a breach of laws relating to the minimum capital adequacy and other regulatory ratios may result in entities in the Group being subject to administrative sanctions which may result in an increase in the operating costs of the Group, loss of reputation, and, consequently, an adverse effect on the business, financial condition and results of operations of the Group.

The Group May Not Comply with Certain Regulatory Requirements Applicable to Banking and Other Regulated Businesses, as well as with the Guidelines Set Forth by the Polish and the Ukrainian Banking Regulatory Authorities

In addition to its banking operations, the Group also renders other regulated financial services and offers financing products, including brokerage and trust activities or pension and investment funds operations, that are subject to supervision by the PFSA, the authority exercising supervision over the financial markets and banking sector in Poland. The level of supervision and regulation of these products and services is also affected by, among other things, directives and regulations issued by European regulatory authorities. Additionally, the business, financial condition and results of operations of the Group's activities in Ukraine are affected by many legal regulations, instructions and recommendations, including those issued by the National Bank of Ukraine.

The Bank and other Group entities may not be able to meet all applicable regulatory requirements or recommendations of the regulatory authorities and thus may be subject to sanctions, fines and other penalties in the future for their failure to comply with the applicable requirements. Any such sanctions, fines or other penalties as well as changes in regulatory requirements may have an adverse effect on the business, financial condition and results of operations of the Group.

The Group's Operations in Ukraine Pose Certain Risks and Could Generate Further Losses

The Group has offered banking services in Ukraine since August 2004, when it acquired an interest in Kredobank. Given that Kredobank is a subsidiary of the Bank, the results of operations and the financial condition of Kredobank have a direct impact on the Group's net interest income, net fee and commission income, the quality of the loan portfolio and the net impairment allowance, and, as a result, on the operating profit of the Group.

The economic conditions in Ukraine, and particularly material changes in the business environment and the level of competition in the Ukrainian banking sector, impact the operations and financial results of Kredobank. In addition, the Group is subject to certain risks resulting from the unpredictable nature of the Ukrainian governmental, regulatory and tax authorities' exercise of power.

The legal system in Ukraine is volatile, which creates uncertainties that do not exist in countries with more developed legal systems with respect to many of the legal and business decisions that Kredobank makes. These uncertainties result from, among other things, the possibility of adverse changes in laws, the existence of gaps and inconsistencies between laws and the regulatory structure, and difficulties in enforcement due to an underdeveloped judicial system. This could potentially have an adverse impact on the business, financial condition and/or results of operations of Kredobank. Furthermore, the nature of much of the legislation in Ukraine, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of its legal system, place the enforceability of laws and regulations in doubt and result in ambiguities, inconsistencies and anomalies. The independence of the judicial system and its immunity from political and economic influences in Ukraine remains largely untested, and court orders are not always enforced or followed by law enforcement agencies.

In February 2009, the NBU and Kredobank entered into an agreement setting forth a performance improvement plan for Kredobank's profitability and financial condition, which was replaced with a new agreement in April 2011. Kredobank's obligations under its agreement with the NBU were satisfied with respect to its capital position. In the beginning of 2012, Kredobank became compliant with the major requirements of Ukrainian bank regulations and the limits imposed on Kredobank and presented a plan to remove any other breaches of the NBU's guidelines. Such plan was accepted by the NBU and the above-referenced agreement with the NBU was terminated as of 1 August 2012. If the economic conditions in Ukraine worsen or there are any major changes in the conditions relating to the conduct of business in Ukraine, the Group may be required to recognize additional impairment on Kredobank's credit portfolio. This impairment, as well as the financial performance of Kredobank, which is worse than currently expected, and an increase of impaired loans, would adversely affect the business, financial condition and results of operations of the Group.

The Group Is Subject to Operational Risk Inherent to Its Business Activities

The Group is subject to the risk of incurring losses or undue costs due to inadequate or failed internal processes, failures of people or systems, or from external events such as errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorized transactions, robbery and damage to assets.

The Group may also be subject to risks from incidents pertaining to product or contract flaws, legal disputes, as well as penalties and fines imposed on the Group by regulatory authorities for infringement or attempted infringement of the law, market standards and recommendations.

The Group also faces risk due to the outsourcing of some of its activities to external entities, including IT services and document consignment services. Outsourcing risks may arise as a result of insufficient quality of services provided by external parties and may result in some operational deficiencies and reputational risk for the Group.

Any failure of the Group's risk management system to detect or correct operational risk, to comply with the law, standards and recommendations or any failure of third parties to perform adequately the activities outsourced could have a material adverse effect on the Group's business, financial condition or results of operations.

Factors Beyond the Group's Control Could Adversely Affect the Group's Business, Financial Condition and Results of Operations

Factors beyond the Group's control, such as catastrophic events, terrorist attacks, acts of war or hostilities, pandemic diseases and other similar unpredictable events, and responses to those events or acts, may create economic and/or political uncertainties, which could have a negative impact on the Polish economy and, more specifically, could impede the Group's business and result in substantial losses. Such events or acts and losses resulting therefrom are difficult to predict and may relate to property, financial assets or key employees. If the Group's plans do not fully address these events, or if its plans cannot be implemented under the circumstances, such losses may increase. Unforeseen events can also lead to additional operating costs, such as higher insurance premiums and the implementation of back-up systems. Insurance coverage for certain risks may also be unavailable, thus increasing the risk to the Group. The Group's inability to effectively manage these risks could have an adverse effect on the Group's business, financial condition and results of operations.

The Group May Not Be Able to Hire, Train or Retain a Sufficient Number of Qualified Staff

The success of the Group's business depends on its ability to recruit and maintain qualified personnel. The Group is dependent upon the qualifications and skills of its upper and mid-level management to implement its strategy and manage day-to-day operations. In Poland, there is strong competition for qualified personnel specialized in banking and finance, especially at the middle and upper management levels. The level of competition substantially increased when new domestic and international banks entered the Polish market. Some players on the Polish market have taken an aggressive approach to the recruitment of qualified and talented staff by offering significant pay increases to attract staff from their competitors. Competition of this kind may increase the Group's personnel expenses and make it difficult to recruit and retain qualified personnel. In addition, the Group's senior management and key employees of the Group companies may resign at any time and may seek to divert client relationships they have developed while working with the Group to their new employers. The Group may not be able to prevent such employees from leaving, and if they do leave, it may not be able to replace them with staff that have comparable skills and experience. It may also not be able to prevent a resultant defection of clients from the Group. The occurrence of the risks described above could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group's IT Systems May Fail or its Security May Be Compromised, Which Could Damage the Group's Business and Adversely Affect its Financial Condition and Results of Operations

The Group relies heavily on its IT systems for a variety of functions, including processing applications, providing information to customers and maintaining financial records. Despite the implementation of security and back-up measures, in light of the growing importance of the electronic access channels, the Integrated IT System and other IT systems used by the Group may be vulnerable to physical or electronic intrusions, computer viruses or other attacks. Moreover, programming errors and similar disruptive problems could impact the Group's ability to serve its clients' needs on a timely basis, interrupt the Group's operations, damage the Group's reputation and require it to incur significant technical, legal and other expenses. In addition, there is no guarantee that the Integrated IT System or upgraded information technology systems will perform to expected levels or will be sufficient to meet the needs of the Group's growing and changing business.

These risks may have an adverse effect on the business, financial condition and results of operations of the Group.

The State Treasury Holds Corporate Control Over the Bank

As of the date of the Prospectus, following a sale concluded in July 2012, the State Treasury directly held Shares representing 33.39% of the Bank's share capital (a decrease from 40.99%) and BGK (under the exclusive control of the State Treasury) directly held Shares representing 10.25% of the Bank's share capital. The State Treasury together with BGK holds Shares representing 43.64% of the Bank's share capital, and an equivalent percentage of the total number of voting power (a decrease from 51.24% prior to the sale). Moreover, on 21 April 2010 the State Treasury and BGK entered into a co-operation agreement with regard to the joint exercise of the ownership rights attached to the Shares held thereby.

In addition, while the Bank's Statute limits the voting rights of shareholders holding over 10 per cent. of the votes at the General Meeting, such limitation does not apply to: (i) shareholders that as of the date of the adoption of the amendment to the Bank's Statute had rights from Shares representing more than 10 per cent. of the total number of votes at the General Meeting (the State Treasury and BGK); (ii) the holders of series A registered shares (the State Treasury); and (iii) shareholders acting jointly with the shareholders mentioned in (ii) on the basis of agreements with regard to the joint exercise of the rights from their Shares. In addition, under the Bank's Statute, certain resolutions of the General Meeting (including resolutions concerning attaching preferences to shares, the merger of the Bank by way of a transfer of all of the Bank's assets to another company, the liquidation of the Bank, a decrease of the Bank's share capital through the redemption of a part of the Shares without a simultaneous increase in the share capital, and a change of the scope of the business of the Bank resulting in the discontinuation of banking activities) require a majority of 90 per cent. of the votes cast. Consequently, the State Treasury will be able to block the adoption of such resolutions by the General Meeting as long as it holds enough shares in the Bank's share capital to cast more than 10 per cent. of the total number of votes at the General Meeting and as long as the above limitations on voting rights have not expired. Voting-right limitations relating to companies partially owned by the state within the Member States have been addressed in rulings of the European Court of Justice (the "**ECJ**"). The rulings constitute case law and the position of the ECJ expressed therein has been evolving. The position of the ECJ in a given case may differ from the position previously expressed in a similar case. Consequently, no assurance can be given that the clause of the Bank's Statute stipulating the voting-rights restriction applicable to the holders of Shares representing more than 10 per cent. of the total number of the votes at the General Meeting will not be held to be in breach of EU law.

Furthermore, the Bank's Statute grants special rights to the shareholder of the Bank who is individually and in its own name authorized to exercise the voting rights from the largest number of Shares at the General Meeting at which members of the Supervisory Board are elected (the "**Eligible Shareholder**"). Pursuant to the Bank's Statute, the Eligible Shareholder determines the number of members of the Supervisory Board (including the voting by separate groups procedure, when five Supervisory Board members are to be elected). Moreover, the Eligible Shareholder is exclusively entitled to present its member candidates of the Supervisory Board in the number determined in accordance with the formula set out in the Bank's Statute.

In 2011, the Bank was in the process of preparation for the sale of shares by the State Treasury and Bank Gospodarstwa Krajowego by way of a public offering requiring the preparation of a prospectus which would have to be approved by the PFSA. Such transaction was intended to be finalized in September 2011, but was suspended in August 2011 by the State Treasury and BGK and finally discontinued in December 2011.

In July 2012, the State Treasury sold a portion of its shares in the Bank and decreased its stake in the Bank from 40.99% (51.24% together with BGK) to 33.39% (43.64% together with BGK). According to a press release published by the Ministry of the State Treasury, in connection with the above transaction the State Treasury and BGK entered into lock-up arrangements with respect to their shares in the Bank and undertook not to dispose of such shares for a period of 180 days.

Given that the State Treasury and BGK currently hold a significant portion of the votes at the General Meeting and retain their special rights as an Eligible Shareholder, the State Treasury may still effectively exercise the majority of votes at the General Meeting and may elect the majority of the members of the Supervisory Board, and be able to control the composition of the Management Board. See "*Management and Corporate Governance*". As a result of the influence of the State Treasury, the resolutions adopted by the Bank's corporate bodies might not be aligned with the interests of the other shareholders. The State Treasury may have a decisive influence on the Bank's business, including on the determination of its strategy and the development of its operations, the selection of members of its Supervisory Board and Management Board and its dividend policy. In particular, the State Treasury could decide to reduce the amount of the dividend, decide not to pay a dividend or decide to pay a dividend that exceeds the amount recommended by the Management Board. The Bank is unable to predict how the State Treasury will exercise its rights or how its actions will influence the Bank's operations, revenue and financial results and its ability to implement its strategy, nor can the Bank foresee whether the policy and actions of the State Treasury will be aligned with the interests of the noteholders of the Bank.

Risk Arising From Change-of-Control Clauses Provided in the Financing Agreements Concluded by the Bank

Some of the Bank's material financing agreements contain change-of-control clauses (see "*Material Contracts – Financing Agreements*"). As a result, a decrease in the State Treasury's direct or indirect shareholding in the Bank's share capital and the total number of votes at the General Meeting following any future sales of shares in the Bank by the State Treasury or BGK might, together with the satisfaction of certain conditions provided for in the financing agreements, require the Bank to renegotiate the terms of these financing agreements. No assurance can be given that the current counterparties will continue to be interested in further co-operation with the Bank following any future sales of shares in the Bank by the State Treasury or BGK and that they will not choose to exercise the right to terminate the financing agreements or that the terms that the counterparties propose will not be less favorable than the original terms of these agreements. In such situation, no assurance can be given that the Bank will be able to negotiate and conclude agreements with other counterparties on similar terms. The occurrence of any of the above events may have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

A Change-of-Control of the Bank Is Restricted by the Provisions of the Securities Law and the Bank's Statute

The acquisition of large blocks of shares in public companies in Poland may trigger the obligation to announce a tender offer in accordance with the Polish Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies dated 29 July 2005 (the "**Polish Act on Public Offering**"). In addition, pursuant to the Polish Act dated 29 August 1997 – the Banking Law (the "**Polish Banking Law**"), the intent to acquire shares in the Bank in a number that would result in reaching or exceeding 10 per cent., 20 per cent., one-third or 50 per cent. of the total votes or the share capital, or becoming the Bank's dominant entity in any other way, has to be notified to the PFSA, which may object thereto by way of a decision. The PFSA may raise an objection in cases where: (i) an entity submitting the notification has not completed the notification, information or documents attached to the notification within a specified date; (ii) an entity submitting the notification has not provided additional information or documents requested by the PFSA within a specified date; or (iii) such objection is justified by the need for prudent and stable management of a national bank, due to the possible impact of an entity submitting the notification on the national bank or due to the assessment of the financial position of an entity submitting the notification.

In addition, certain of the provisions of the Bank's Statute may limit any potential change-of-control over the Bank. In particular, as a result of the mechanism for the limitation on voting rights to 10 per cent., the acquisition of Shares representing more than 10 per cent. of the votes will not allow the shareholder acquiring such number of Shares to exercise control over the Bank.

The restrictions on the ability to take over control of the Bank may adversely affect the liquidity and trading price of the Shares and may be a disincentive to potential investors in a situation where the taking over of control of the Bank by such investors was perceived as favorable for the Bank's shareholders.

The Bank May Pay Higher Dividends Than Those Provided for in its Dividend Policy

Under the Polish Act dated 15 September 2000 – Code of Commercial Companies and Partnerships (the "**Polish Commercial Companies Code**"), dividend payments are authorized only if at the annual General Meeting a resolution providing for the distribution of profit among the shareholders in the form of dividend is adopted. The Management Board cannot ensure that the annual General Meeting will not adopt a resolution on payment of a higher or lower dividend than that provided for in the Bank's dividend policy or that which is recommended in the given year by the Management Board. The payment of dividends at a level higher than that provided for in the dividend policy of the Bank may limit the Group's potential of growth and, thus, may adversely affect the business, financial condition and results of operations of the Group.

Risk of the Bank's State Treasury and/or Governmental Benefits Being Classified as Public Aid

The Bank is party to several agreements with the State Treasury and/or other governmental agencies through which it directly or indirectly benefits from access to public funds, and such benefits could be classified as "state aid" within the meaning of Article 107 of the Treaty on the Functioning of the European Union. In particular, this interpretation may apply to the State Treasury guarantee of the old portfolio of housing loans (i.e. certain housing loans extended to housing communities, as set out in the Polish Act on state support for the repayment of certain housing loans, reimbursement to banks for guarantee bonuses and amendments to certain laws dated 30 November 1995 (Journal of Laws of 2003, No. 119, item 1115, as amended) and the Polish Regulation of the Council of Ministers on the rules of settlement with banks for the temporary repurchase of interest on housing loans from the state budget funds dated 25 February 2003 (Journal of Laws of 2003, No. 51, item 440, as amended)), as well as the other guarantees and/or additional payments by government agencies from which the Bank benefits. The European Commission has not received notice of certain of these benefits, including, *inter alia*, the old portfolio guarantee, and consequently, their admissibility under EC regulations has not been established. There is a risk that the benefits received by the Bank will be subject to an examination procedure by the European Commission. If such benefits are found to be non-compliant with EC regulations, the Bank will be required to return any state aid and will be deprived of such aid in the future. This may adversely affect the business, financial condition and results of operations of the Group.

The Bank May Be Required to Make Substantial Contributions to the Bank Guarantee Fund

Pursuant to the provisions of the Polish Act on Banking Guarantee Fund dated 14 December 1994 (the "**Polish Act on Bank Guarantee Fund**"), the Bank is a member of the mandatory deposit guarantee system and is required to create a fund to guarantee the claims of its depositors. Upon any member of the system meeting the conditions of benefiting from the guarantee, as set out in the Act on the Bank Guarantee Fund, other members of the system may be required to make payments to cover the liabilities of such entity. The amount of the payment by each member would be proportional to its interest in the Bank Guarantee Fund. Due to the scale of the Bank's operations, if a member of the mandatory guarantee system were to declare bankruptcy, the Bank may be obligated to make larger payments to the Bank Guarantee Fund than those members of the deposit guarantee system whose scale of business is relatively smaller than that of the Bank. This may have an adverse effect on the business, financial condition and results of operations of the Group.

The Bank May Fail to Comply with the Provisions of the Payment Services Directive

On 25 October 2011, the Polish Act dated 19 August 2011 on payment services (the "**Polish Payment Services Act**") entered into force. The Polish Payment Services Act aims to implement in Poland Directive 2007/64/EC of the European Parliament and the Council of 13 November 2007 on payment services in the internal market, amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (the "**PSD**"). The PSD aims to establish, at the EC level, a modern and coherent legal framework for payment services, regardless of whether or not such services are compatible with the Eurozone single system, in order to maintain consumer choice and a level playing field for all payment systems. The deadline for the implementation by the Bank of most of the provisions of the Polish Payment Services Act is one year after its entry into force, i.e. 24 October 2012. Because certain provisions of the Polish Payment Services Act are unclear, the Bank's interpretation or implementation thereof may be different to the interpretation adopted by the regulators or courts. The Bank adopting a conservative approach with regard to such unclear provisions may generate increased costs; however, the Bank adopting a liberal interpretation of such unclear provisions may result in regulatory sanctions being imposed on the Bank. Either of those situations may, in turn, have an adverse effect on the Bank's business, financial condition and results of operations.

Risk Involved in the Decisions of the Antimonopoly Authorities

The Group's business must comply with regulations regarding competition, consumer protection and public aid. Under the Polish Act on the Protection of Competition and Consumers dated 16 February 2007 (the "**Antimonopoly Act**"), the President of the Antimonopoly Office has the right to issue a decision stating that a business entity is participating in an arrangement which aims at or results in the limitation of competition. Moreover, the President of the Antimonopoly Office may accuse business entities having a dominant position in the Polish market of an abuse of such position. Having determined that such practice has taken place, the President of the Antimonopoly Office may order the discontinuance of such practices and may also impose a fine. The President of the Antimonopoly Office also has the authority to declare that the provisions of agreements, as well as the tariffs and fees used by a particular business, violate the collective interest of consumers and, by consequence, it may order the discontinuance of such agreements and impose a fine on the business, which may adversely affect the business, financial condition and results of operations of the Group.

If there is any suspicion of a breach which could impact trade between Member States, the Treaty on the Functioning of the European Union and other community legislation apply directly, while the authority competent to enforce them is the European Commission or the President of the Antimonopoly Office. Within the scope of their competencies, the European Commission or the President of the Antimonopoly Office may come to the conclusion that a specific action of a business entity constitutes a prohibited action or constitutes abuse of market power, and it may prohibit any such practices or apply other sanctions provided for in the EU law regulations, which may adversely affect the business, financial condition and results of operations of the Group.

Moreover, acquisitions by the Bank of businesses operating in the financial services and banking sectors may require competition clearance issued by Polish, foreign competition authorities or financial sector regulatory authorities. The grant of any such consent depends, among other things, on the evaluation of the consequences that the relevant concentration may have on the competition in the market. No assurance can be given that any such consents would be granted. If consent for concentration is refused for a particular acquisition, it will prevent the completion of such acquisition and would restrict the Group's ability to grow, which could adversely affect the business, financial condition and results of operations of the Group.

Banks in Poland Face Formalistic and Prolonged Procedures for the Perfection of Mortgages

Mortgages in Poland are perfected by registering the mortgage with land and mortgage registries (*księgi wieczyste*) kept by local courts corresponding to the location of the real estate. The procedure of establishing a security interest by registering a mortgage in the land and mortgage registry book may be time-consuming depending on the location of the given court. In addition, the procedure is very formalistic, and the court may refuse registration if there are even minor errors in the application for registration. Traditionally, banks in Poland will disburse loans prior to the registration of the mortgages in the land and mortgage registry book. As a result, there will be a period prior to registration when the loans are not collateralized by the mortgage. In order to limit the risks related to granting unsecured loans, banks will insure these loans during the interim period. If the borrower defaults on the loan before the mortgage is registered and the insurance company fails to pay damages under the insurance policy, the Bank's claim under the loan may be unsecured and thus difficult to collect, which may have an adverse effect on the business, financial condition and results of operations of the Group.

The Process of Enforcing Security of Bank Loans in Poland Is Difficult and Time Consuming

Although loans granted by the Bank are secured by various types of collateral, mostly mortgages, the enforcement of such security interests may be time consuming and difficult. In particular, the procedures for the sale or other enforcement of mortgages on real property may be protracted and difficult to implement in practice. A delay in enforcing or inability to enforce a security interest in collateral may have an adverse effect on the business, financial condition and results of operations of the Group.

Litigation or Other Proceedings or Actions May Adversely Affect the Group's Business, Financial Condition or Results of Operations

Due to the nature of its business the Bank and the Group's companies may be subject to the risk of litigation by customers, employees, shareholders or others through private actions, administrative proceedings, regulatory actions or other litigation. As of the date of the Prospectus, the outcome of litigation or similar proceedings or actions is difficult to assess or quantify. Plaintiffs in these types of actions against the Bank or the Group's companies may, in particular, seek recovery in large or indeterminate amounts or other remedies, or challenge the resolutions adopted by the Bank's governing bodies, which may affect the Bank's or the Group companies' ability to conduct their business, and the magnitude of the potential losses relating to such actions may remain unknown for substantial periods of time. The cost to defend future actions may be significant. There may also be adverse publicity associated with litigation against the particular Group's companies that could negatively impact the reputation of the Group or the particular Group's companies, regardless of whether the allegations are valid or whether the Group is ultimately found liable.

Furthermore, since July 2010 changes have been introduced into Polish law making it possible to bring class action lawsuits. The ability of customers to group their lawsuits against a bank in a single class action significantly lowers the legal fees and other costs of such lawsuits, which may cause court actions against the Bank or other Group companies to become more frequent. The first example of a class action lawsuit occurred in December 2010 when a group of clients filed a class action lawsuit against a Polish bank (see "*Banking Regulations in Poland – Class Action Lawsuits*").

The above events may adversely affect the Group's business, financial condition and results of operations.

Investors May Not Be Able To Enforce Foreign Court Judgments Against the Bank

The Bank is an entity established and operating in accordance with Polish law and the vast majority of the Group's assets are located in the territory of Poland. Investors from the European Union (the "**EU**") may enforce in Poland any judgment given in a civil or commercial case by a court in a Member State because Poland, as a Member State, directly applies Council Regulation No 44/2001 of 22 December 2000 on the jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. The only Member State of the EU where Council Regulation No 44/2001 does not apply is Denmark. Investors outside of the EU may face difficulties when attempting to enforce in Polish courts judgments that are issued by foreign courts. In general, foreign court judgments issued in civil matters are recognized by operation of law and may be enforced in Poland pursuant to the general provisions of the Polish Civil Procedure Code. Judgments of foreign courts may be enforced in Poland **provided that**, *inter alia*, the judgments of foreign courts are final in their original jurisdiction and do not contradict the basic public policy principles of the Polish legal system. The Bank cannot provide assurance that all conditions precedent to the enforcement of foreign judgments in Poland will be met or that any particular judgment will be enforceable in Poland.

Reprivatization Claims May Be Brought Relating to Certain Real Estate in the Group's Possession

As a result of the nationalization of property in Poland after the Second World War, many real estate and business entities which were owned by legal and natural persons were taken over by the State Treasury. In many cases, these takeovers were in breach of prevailing laws. After Poland's transformation into a market economy in 1989, many former owners of real estate or their legal successors took steps to recover the real estate and business entities that were expropriated after the war, or sought equivalent compensation. However, no comprehensive law regulating reprivatization claims in Poland has been enacted. Under the laws currently in force, former owners of real estate or their legal successors may file requests with the administrative authorities for the establishment of the invalidity of the administrative decisions by which they were deprived of the real estate. As of 30 June 2012 there were six pending administrative proceedings for the establishment of the invalidity of administrative decisions issued by public administration authorities with respect to any real estate currently held by the Group. Moreover, claims of former owners have been filed with respect to two real estate properties of the Group (the court proceedings are in progress), and the Bank has undertaken certain court steps in order to regulate the legal status of one additional parcel. Aside from the claims described above, reprivatization claims may be raised against the Group in the future and any such claims could adversely affect the business, financial condition and results of operations of the Group.

Interpretation of Polish Laws and Regulations May Be Unclear, and Polish Laws and Regulations May Change

The Bank has been established and operates under Polish law. The Polish legal system is based on statutory law enacted by the parliament. A significant number of applicable regulations and the regulations on the functioning of financial institutions, the issuance of and trading in securities, shareholders' rights, foreign investments, issues related to corporate operation and corporate governance, commerce, taxes and the conduct of business activity have been and may be changed. These regulations are also subject to diverse interpretations and may be applied in an inconsistent manner. Moreover, not all court decisions are published in official journals and, as a matter of general rule, they are not binding in other cases and are thus of limited importance as legal precedent. The Bank cannot provide assurance that its interpretation of Polish laws and regulations will not be challenged, which could result in liability on the part of the Bank or could require the Bank to modify its practices, all of which could have an adverse effect on the Group's business, financial condition and results of operations.

An example of a recent change to Polish regulations that has affected the Bank's business is an amendment dated 16 December 2010 to the Polish Act on Public Finance of 27 August 2009. The amendment seeks to introduce a centralized liquidity management system applicable to Polish public sector entities through the obligatory depositing of the cash surplus of certain public finance sector entities in savings accounts maintained by BGK. As a result of such change, such public finance sector entities were obliged to transfer their funds, some of which were deposited with the Bank, to BGK by 30 June 2011.

Interpretation of Polish Tax Laws and Regulations Applicable to the Group's Operations May Be Unclear, and Polish Tax Laws and Regulations May Change

The Polish tax system is subject to frequent changes. Furthermore, some provisions of the tax law are ambiguous and often there is no unanimous or uniform interpretation of the laws or uniform practice by the tax authorities. Because of frequent changes in the tax laws and varying interpretations thereof, the risk connected with Polish tax laws may be greater than that under other tax jurisdictions in developed markets. The Group cannot guarantee that no changes in tax laws unfavorable to the Group will be introduced and that the Polish tax authorities will not take a different and unfavorable interpretation of tax provisions adopted by the Group, which may have an adverse effect on the business, financial condition and results of operations of the Group.

Risks Related To The Issuer

Centre Of Main Interests

The Issuer has its registered office in the Kingdom of Sweden. As a result there is a rebuttable presumption that its center of main interest ("**COMI**") is in the Kingdom of Sweden and consequently that any main insolvency proceedings applicable to it would be governed by Swedish law. In the decision by the European Court of Justice in relation to Eurofood IFSC Limited, the European Court of Justice restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in the Kingdom of Sweden, has a Swedish director, is registered for tax in the Kingdom of Sweden and has a Swedish corporate services provider, the Issuer and the Borrower do not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision.

Risk Relating To The Notes

The Noteholders Have No Direct Recourse To The Borrower

Except as otherwise disclosed in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Senior Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Senior Loan Agreement or have direct recourse to the Borrower, except through action by the Trustee under the Security Interests (as defined in "*Terms and Conditions of the Notes*"). Pursuant to the Security Interests (as defined in "*Terms and Conditions of the Notes*"), the Trustee shall not be required to enter into proceedings to enforce payment under the Senior Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payment of principal and/or interest by the Borrower under the Senior Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy *pro tanto*, the Issuer's obligations in respect of the corresponding Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Borrower after such payment is made.

The Risk Of Prepayment Of A Senior Loan Is Assumed In Part By The Noteholders

Under the terms of the Senior Loan Agreement the Borrower may, subject to certain conditions, prepay the Senior Loan if it is required to increase its payments for tax reasons regardless of whether the increased payment obligations result from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the corresponding Notes. The Borrower may also prepay the Senior Loan if it is required to indemnify the Issuer in respect of certain increased costs to the Issuer (as set out in the Senior Loan Agreement). In the event that it becomes unlawful for the Issuer to allow the Senior Loan to remain outstanding under the Senior Loan Agreement, to allow the corresponding Notes to remain outstanding, to maintain or give effect to any of its obligations under the Senior Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Senior Loan, the Issuer may require the Borrower to repay the Senior Loan in full. In case of any such prepayment, all outstanding corresponding Notes would be redeemable at par with accrued interest and/or additional amounts payable (if any).

Payments On A Senior Loan May Be Subject To Polish Withholding Tax

In general, payments of interest on borrowed funds by a Polish entity to a non-resident legal person are subject to Polish withholding income tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, the Borrower believes that payments of interest on the Senior Loan made by the Borrower to the Issuer will, more likely than not, not be subject to withholding taxes under the terms of the double taxation treaty between Poland and Sweden, **provided that** the Polish tax documentation requirements (namely, an annual advance confirmation of the Issuer's tax residency) are satisfied. However, there can be no assurance that such double tax relief will continue to be available.

If the payments under the Senior Loan Agreement are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), the Borrower is required to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding taxes. In the event that the Borrower fails to increase the payments, such failure would constitute an Event of Default under the Senior Loan Agreement. If the Borrower is required to increase payments, it may prepay the Senior Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Risk Related to U.S. Foreign Account Tax Compliance Withholding

On 18 March 2010, the Hiring Incentives to Restore Employment Act was enacted, containing foreign account tax compliance provisions ("**FATCA**"). FATCA imposes a withholding tax of 30 per cent. on certain U.S. source payments and proceeds from the sale of certain assets that give rise to U.S. source payments, as well as a portion of certain payments by certain non-U.S. entities, to persons that fail to meet requirements under FATCA. This withholding tax may be imposed on (i) payments to the Borrower or the Issuer if either does not enter into and comply with an agreement with the IRS (an "**IRS Agreement**") to obtain and report information about, in the case of the Borrower, its account holders, and in the case of the Issuer, the holders of the Notes, or (ii) if the Issuer does enter into an IRS Agreement, a portion of payments to (a) holders or beneficial owners of Notes that fail to provide certain information requested by the Issuer (or any intermediary), (b) holders or beneficial owners if the Notes that do not consent, where necessary, to have information about U.S. ownership reported to the IRS and (c) any recipient of a payment that is a non-participating foreign financial institution (as the term is used in FATCA). The Borrower has agreed to gross-up the Issuer for any FATCA tax withheld by the Borrower on payments to the Issuer.

Withholding would be imposed from (i) 1 January 2014 in respect of certain U.S. source payments made on or after that date, (ii) 1 January 2015 in respect of proceeds from the sale of certain assets that give rise to U.S. source payments and (iii) 1 January 2017, at the earliest, in respect of "foreign passthru payments". It is expected that withholding would not be required with respect to payment to the Notes before 1 January 2017. In addition, under proposed regulations not yet under effect, debt instruments issued prior to 1 January 2013 are generally exempt from these rules (to the extent not materially modified after this date). Consequently, if such regulations are finalized in their present form, the Notes would be generally exempt from FATCA. If, however, the Notes are treated as equity for U.S. federal income tax purposes, the grandfather provisions discussed above would not apply. See "*Taxation ¬ United States*" below.

The future application of FATCA to the Issuer, an intermediary of payments that is not a participating foreign financial institution, and the holders of Notes is uncertain, and it is not clear at this time what actions, if any, will be required to minimize any adverse impact of FATCA on the Issuer and the holders of Notes. Neither the Borrower nor the Issuer has decided whether either or both will enter into an IRS Agreement and do not yet know whether it will be necessary. If the Borrower or the Issuer do not enter into the IRS Agreement or fail to comply with the IRS Agreement (and have not otherwise established an exemption), and are therefore subject to the 30 per cent. withholding tax on certain payments or a portion of such payments to it, the Borrower may have less cash to make payments to the Issuer, and the Issuer may have less cash to make payments on the Notes; however, the Borrower has agreed to gross-up payments to the Issuer with respect to FATCA tax it withheld on payments to the Issuer.

If the Issuer or other relevant intermediary enters into the IRS Agreement, then to the extent payments are not otherwise excluded from the FATCA regime, an investor that is not a financial institution may be required to provide certain information or be subject to U.S. withholding tax on a portion of payments on the Notes and the proceeds from their sale. Investors that (a) are financial institutions, or receive payments through a financial institution and (b) have not (or the relevant financial institution has not) entered an agreement with the IRS regarding compliance with (or otherwise established an exemption from) FATCA would also be subject to this U.S. withholding tax. Neither a holder nor a beneficial owner of Notes will be entitled to any additional amounts in the event such withholding tax is imposed.

Furthermore, it is uncertain as of the date of this Prospectus how the reporting mechanism will operate. In particular, certain changes will likely have to occur with the operation of Euroclear, Clearstream and other similar clearing systems. In particular, as of the date of this Prospectus it is not entirely clear whether the reporting obligations will apply to the Issuer, the relevant clearing system or the financial institution with which the beneficial owner has an account.

Financial institutions in jurisdictions that have entered into inter-governmental agreements with the United States and have enacted legislation to collect and share information regarding accountholders of financial institutions with the United States will generally be able to make and receive payments free of withholding under FATCA. The United Kingdom, the United States, France, Germany, Italy and Spain have announced their intention to enter into inter-governmental reciprocal information gathering and sharing agreements. It is not clear how any such legislation would impact the treatment of the Notes under FATCA.

FATCA is particularly complex and its application to the Issuer is uncertain at this time. Each holder of Notes should consult its own tax adviser to obtain a more detailed explanation of FATCA and to learn how it might affect such holder in its particular circumstance.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Borrower. Although application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes may be redeemed prior to maturity

In the event that the Issuer or the Borrower would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Sweden or the Republic of Poland or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition the Conditions provide that the Notes are redeemable at the Issuer's option in certain other circumstances and accordingly the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Because the Global Note Certificates are held by or on behalf of Euroclear and Clearstream, Luxembourg and/or DTC, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Borrower

The Notes will be represented by the Global Note Certificates except in certain limited circumstances described in the Global Note Certificates. The Regulation S Global Note Certificates will be registered in the name of Citibank, N.A. as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note Certificates will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg and/ or DTC will maintain records of the beneficial interests in the Global Note Certificates. While the Notes are represented by the Global Note Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg or DTC.

The Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg and/or DTC for distribution to their account holders. A holder of a beneficial interest in the Global Note Certificates must rely on the procedures of Euroclear and Clearstream, Luxembourg or DTC to receive payments under the Notes. The Issuer and the Borrower have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificates.

Holders of beneficial interests in the Global Note Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg or DTC to appoint appropriate proxies.

Minimum Denomination

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of US$200,000 (or its equivalent) that are not integral multiples of US$200,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive an Individual Note Certificate in respect of such holding (should Individual Note Certificates be provided) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

Limited Recourse Obligations

The Notes will be direct senior obligations of the Issuer, payable solely from amounts actually received from the Borrower pursuant to the Senior Loan Agreement which have been pledged to secure the Issuer's obligations in respect of the Notes. The Issuer is obligated to pay only such amount of such obligations as such relevant assets may satisfy. In the event that the relevant assets are insufficient to satisfy the Issuer's obligations in respect of the Notes in full, the additional portion of such obligations will be extinguished and holders will not have any recourse to the Issuer for the payment thereof.

The Notes may not be a suitable investment for all investors

You must determine the suitability of investment in the Notes in the light of your own circumstances. In particular, you should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the notes and the merits and risks of investing in the notes;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the notes and the impact the notes will have on your overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the notes, including where the currency for principal or interest payments is different from your currency;

(iv) understand thoroughly the terms of the notes and be familiar with the behavior of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Borrower's operating results, adverse business developments, changes to the regulatory environment in which the Borrower operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of the Republic of Poland as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Borrower's results of operations or financial condition.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in US dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than US dollars. These include the risk that exchange rates may significantly change (including changes due to a devaluation of the US dollars or a revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US dollars would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EU and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EU before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, (2) the rating is provided by a credit rating agency not established in the EU but is endorsed by a credit rating agency established in the EU and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EU, but which is certified under the CRA Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trustee may also agree, without the prior consent of any of the Noteholders, to modify any of the Notes, the Conditions, the Trust Deed or the Loan Agreements (subject to certain exceptions), which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the Noteholders (of a Series of Notes).

EU Savings Directive

If, pursuant to the European Union Savings Directive (Council Directive 2003/48/EC) (the "**EU Savings Directive**"), a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive. See also "*Taxation – EU Savings Directive*" below.

A change of law may adversely affect the Notes

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note Certificate (as defined in the Trust Deed) and, subject to amendment and completion and except for the text in italics, each Individual Note Certificate (as defined in the Trust Deed). The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Individual Note Certificate to the extent described under "Summary of Provisions Relating to the Notes in Global Form" in the Prospectus. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

The US$1,000,000,000 limited recourse loan participation notes (the "**Notes**", which expression shall include any further notes issued pursuant to the Trust Deed to form a single series with the Notes) are constituted by, are subject to, and have the benefit of, a trust deed dated 26 September 2012 (the "**Issue Date**") as modified, supplemented and/or restated from time to time (the "**Trust Deed**") made between PKO Finance AB (publ) (the "**Issuer**") and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include any trustee or trustees, and any successors or assigns for the time being under the Trust Deed) as trustee for the holders of the Notes (the "**Noteholders**").

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a senior loan (the "**Senior Loan**") to Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Borrower**") on the terms of the Senior Loan Agreement dated 20 September 2012 (as amended, modified, supplemented and/or restated from time to time, the "**Senior Loan Agreement**") between the Issuer and the Borrower.

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of funds in relation to the Senior Loan from the Borrower) pursuant to a paying agency agreement dated 26 September 2012 (as amended, modified, supplemented and/or restated from time to time, the "**Agency Agreement**") and made between the Issuer, the Borrower, the Trustee, Citibank, N.A., London Branch, Citigroup Global Markets Deutschland AG and Banque Internationale à Luxembourg. Citibank, N.A., London Branch will act as principal paying agent (the "**Principal Paying Agent**") and transfer agent (the "**Transfer Agent**"). Citigroup Global Markets Deutschland AG will act as the registrar (the "**Registrar**") and Banque Internationale à Luxembourg will act as Luxembourg paying agent (the "**Luxembourg Paying Agent**", and together with the Principal Paying Agent, the "**Paying Agents**" and each a "**Paying Agent**" and together with the Paying Agents, the Transfer Agent and the Registrar, the "**Agents**").

Hard copies of the Trust Deed, the Senior Loan Agreement, the Agency Agreement and the Account Bank Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the principal office of the Trustee being, at the date hereof, at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and at the respective specified offices of the Principal Paying Agent and Luxembourg Paying Agent.

Certain provisions of these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Senior Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

References to these "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

References to the "**Programme**" means the programme for the issuance of loan participation notes to be issued by, but with limited recourse to the Issuer for the purpose of financing senior and subordinated loans to the Borrower, which was established on 31 July 2008, as amended from time to time.

1. STATUS, SECURITY AND LIMITATION OF LIABILITY

1.1 Status and Security

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Senior Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Senior Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Senior Loan Agreement, less any amount in respect of Reserved Rights.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes constitute secured and limited recourse obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Senior Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes. In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Senior Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below).

Noteholders must therefore rely solely and exclusively on the Borrower's covenant to pay under the Senior Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, examinership, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in a liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Senior Loan Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Senior Loan Agreement to the Trustee (together with the Charge, the "**Security Interests**"). "**Reserved Rights**" are the rights excluded from the Security Interests, being all and any rights, interests and benefits of the Issuer in respect of the obligations of the Borrower under Clause 3.4 (*Ongoing Fees and Expenses*), Clause 11 (*Indemnity*), Clause 12 (*Survival*) and Clause 14.2 (*Stamp Duties*) and Clause 9.4 (*Withholding Tax Exemption*) of the Senior Loan Agreement.

In certain circumstances, the Trustee shall (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least 25% of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Senior Loan Agreement or the Senior Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Senior Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the relevant Security granted to the Trustee in the Trust Deed. The Trustee shall not be required to take enforcement proceedings under the Trust Deed, following the enforcement of the Security created in the Trust Deed, or the Senior Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

The obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Senior Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered by or on behalf of the Issuer or the Trustee. Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets (including the Issuer's rights with respect to any Senior Loan relating to any other Notes issued under the Programme) in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

1.2 **Limitation of Liability**

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Senior Loan Agreement, less any amounts in respect of the Reserved Rights and subject to Condition 7 (*Taxation*), will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Senior Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of setoff or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and are deemed to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement, the Account Bank Agreement and the Senior Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

1.2.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, (in the case of only the Issuer) save as otherwise expressly provided in the Trust Deed, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Senior Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts if any) due or to become due from the Borrower under the Senior Loan Agreement;

1.2.2 the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations;

1.2.3 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower;

1.2.4 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Senior Loan Agreement;

1.2.5 the financial servicing of the terms of the Notes depends solely and exclusively upon performance by the Borrower of its obligations under the Senior Loan Agreement and its covenant to make payments under the Senior Loan Agreement and its credit and financial standing; and

1.2.6 the Issuer and the Trustee shall be entitled to rely on certificates of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Senior Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The Trustee shall not at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions and/or the Trust Deed until it has received from the Borrower the funds that are necessary to cover the costs, expenses and all other liabilities in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

2. FORM, DENOMINATION, TITLE AND TRANSFER

2.1 Form and Denomination

The Notes will be issued in registered form and in the Specified Denomination of US$200,000 and integral multiples of US$1,000.

2.2 Title to Notes

The Registrar will maintain a register (the "**Register**") in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. "**Holder**" means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

2.3 Ownership

The Holder of any Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such Holder.

2.4 **Transfers of Notes**

Subject to Condition 2.7 (*Closed periods*) and Condition 2.8 (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Specified Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

2.5 **Registration and delivery of Note Certificates**

Within five business days of the surrender of a Note Certificate in accordance with Condition 2.4 (*Transfers of Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 2.5 (*Registration and delivery of Note Certificates*), "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

2.6 **No charge**

The transfer of a Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

2.7 **Closed periods**

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

2.8 **Regulations concerning transfers and registration**

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations from the Registrar.

3. **RESTRICTIVE COVENANT**

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution (as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the

Senior Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Senior Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Senior Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

The Trust Deed provides that, save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*: (i) incur any Indebtedness (as defined in the Trust Deed) (other than issuing further Notes (which may be consolidated and form a single series with the Notes) and/or issuing securities in connection with other limited recourse financing arrangements permitted under the Trust Deed and/or creating or incurring further obligations relating to such Notes or such other limited recourse financing arrangements); (ii) engage in any business (other than issuing the Notes, maintaining or updating the Programme, issuing notes thereunder from time to time for the sole purpose of financing loans to the Borrower in accordance with such Programme documentation, entering into a corporate services agreement for the administration of the Issuer and/or entering into other programmes or issuing securities in connection with other limited recourse financing arrangements permitted under the Trust Deed, entering into related agreements and transactions and performing any act incidental or necessary in connection with any of the foregoing); (iii) declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities); (iv) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions and the Trust Deed); (v) issue any shares (other than such shares as are in issue at the date of the Trust Deed); or (vi) give any guarantee or assume any other liability or petition for any voluntary winding up.

4. **INTEREST**

The Notes bear interest from day to day starting from 26 September 2012 (the "**Issue Date**") at the rate of 4.630 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 26 March and 26 September in each year (each, an "**Interest Payment Date**") or as soon thereafter as the same is received by the Issuer, subject as provided in Condition 6 (*Payments*). Accordingly, on each Interest Payment Date or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer, pursuant to the Senior Loan Agreement which interest under the Senior Loan Agreement is equal to 4.630 per cent. per annum.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) to but excluding the date on which payment in full of the outstanding principal amount of the Senior Loan is received by the Issuer.

The amount of interest payable on each Interest Payment Date shall be US$23.15 in respect of each Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means US$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. REDEMPTION AND PURCHASE

5.1 Scheduled redemption

Unless the Senior Loan is previously prepaid or repaid, the Borrower will be required to repay the Senior Loan one Business Day (as defined in the Senior Loan Agreement) before its Repayment Date (as defined in the Senior Loan Agreement) and, subject to such repayment, as set forth in the Senior Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in U.S. dollars on 26 September 2022 (the "**Maturity Date**") at their principal amount).

5.2 Mandatory redemption

If the Senior Loan should become repayable (and be repaid) or be prepaid pursuant to the Senior Loan Agreement prior to its scheduled repayment date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their principal amount (together with interest accrued to the date of redemption) and shall be redeemed by the Issuer. The Issuer shall provide not less than twenty five days' nor more than sixty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*) which notice shall be irrevocable and shall specify a date for redemption.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts if any (other than amounts in respect of the Reserved Rights) following acceleration of the Senior Loan pursuant to Clause 10 (*Events of Default*) of the Senior Loan Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 6 (*Payments*).

5.3 Purchase of Notes

The Issuer or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased, whilst held by or on behalf of the Issuer or the Borrower or, in either case, any of its subsidiaries, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding, including, without limitation, for the purpose of calculating quorums at meetings.

5.4 Cancellation

The Senior Loan Agreement provides that the Borrower may, from time to time, deliver Notes held by it to the Issuer, having an aggregate principal value of at least US$1,000,000 (or its equivalent in other currencies), together with a request for the Issuer to present such Notes to the relevant Registrar for cancellation in consideration of the extinguishment of the principal amount of the Senior Loan corresponding to the principal amount of such Notes surrendered for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar to cancel such Notes. Notes acquired or held by the Issuer will also be presented to the relevant Registrar for cancellation. Upon any such cancellation by or on behalf of the relevant Registrar the principal amount of the Senior Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

6. PAYMENTS

Any payments to be made by the Issuer under the Notes will be subject to receipt by the Issuer of corresponding payments actually received by the Issuer under the Senior Loan Agreement.

6.1 **Principal**

Payments of principal shall be made by US dollar cheque drawn on, or, upon application by a Holder of a Note to the specified office of the Principal Paying Agent not later than: (i) the fifteenth day, in respect of Notes represented by an Individual Note Certificate (as defined in the Trust Deed); or (ii) one day, in respect of Notes in any other form, prior to the due date for any such payment, by transfer to a US dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

6.2 **Interest**

Payments of interest shall be made by US dollar cheque drawn on, or upon application by a Holder of a Note to the specified office of the Principal Paying Agent not later than: (i) the fifteenth day, in respect of Notes represented by an Individual Note Certificate; or (ii) one day, in respect of Notes in any other form, prior to the due date for any such payment, by transfer to a US dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon presentation or surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

6.3 **Payments subject to applicable laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

6.4 **Payments on Business Days**

Where payment is to be made by transfer to a US dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by US dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the specified office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 7 (Payments) arriving after the due date for payment or being lost in the mail. In this Condition 7(d), "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City, London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

6.5 **Partial Payments**

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

6.6 Record Date

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

6.7 **Accrued Interest**

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Senior Loan Agreement.

6.8 **Payments by the Borrower**

Save as otherwise directed by the Trustee, at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to clause 8 (*Payments to Noteholders*) of the Agency Agreement, require the Borrower to make all payments of principal and interest and any additional amounts (other than any amounts constituting Reserved Rights) to be made pursuant to the Senior Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of itself and of the Noteholders.

7. **TAXATION**

7.1 All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland or the Kingdom of Sweden or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

Where any such deduction or withholding is required by law, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives and retains an equivalent amount from the Borrower under the Senior Loan Agreement. To the extent that the Issuer receives and retains any such equivalent sum from the Borrower, the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained by, or for the account of, the Issuer pursuant to the Senior Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

(a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; (ii) is liable for such taxes or duties by reason of his having some connection with the Republic of Poland or the Kingdom of Sweden other than the mere holding of such Note, the receipt of payment in respect thereof, or the enforcement by such Noteholder of its rights under the Notes;

(b) presented such Note for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

(c) where such withholding or deduction is imposed on a payment to an individual as a residual entity and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

7.2 As used herein, "**Relevant Date**" (i) means the date on which any payment under the Senior Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received and retained by, or for the account of, the Issuer pursuant to the Senior Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and retained and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14 (*Notices*).

7.3 Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 7 (*Taxation*) or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

8. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies.

At any time after an Event of Default (as defined in the Senior Loan Agreement) or (ii) if a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, in accordance with all applicable laws at its discretion and without notice, and shall, if requested in writing to do so by Noteholders holding at least 25% in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction against all Liabilities (as defined in the Trust Deed) to which it may become liable and all costs, charges and expenses which may be incurred in connection therewith, declare all amounts payable under the Senior Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default), or exercise any rights under the Security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event).

Upon a declaration as provided herein and repayment of the Senior Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount outstanding together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

9. MEETINGS OF NOTEHOLDERS; MODIFICATION OF NOTES, TRUST DEED AND SENIOR LOAN AGREEMENT; WAIVER; SUBSTITUTION OF THE ISSUER; APPOINTMENT/ REMOVAL OF TRUSTEE

9.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, these Conditions, the Senior Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Senior Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of 90% of all Noteholders for the time being entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by, or on behalf of, one or more Noteholders.

9.2 **Modification and Waiver**

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions, the Trust Deed or the Senior Loan Agreement (other than in respect of Reserved Matters (as defined in the Trust Deed)) which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by the Borrower of the terms of the Senior Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Senior Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than in respect of Reserved Matters); provided always that the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution or Written Resolution or a request of 25% in aggregate principal amount of Notes outstanding of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

9.3 **Substitution**

The Trust Deed and the Senior Loan Agreement contain provisions to the effect that the Issuer may, and at the request of the Borrower shall, having obtained the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such certain requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Senior Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Senior Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*). For so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, any document required by the Luxembourg Stock Exchange in respect of any such substitution will be prepared and submitted to the Luxembourg Stock Exchange.

9.4 **Exercise of Powers**

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

9.5 **Appointment and Removal of Trustee**

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14 (*Notices*). The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee in office after such resignation.

10. INDEMNIFICATION OF TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Senior Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Senior Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

11. PRESCRIPTION

Claims for principal and interest on redemption in respect of the Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

12. REPLACEMENT OF NOTES

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Paying Agents and their initial specified offices are set out on the Notes. The Agency Agreement provides that the Issuer may at any time vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents **provided that** (i) so long as the Notes are listed on the Luxembourg Stock Exchange or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the Luxembourg Stock Exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14 (*Notices*) and to the Trustee.

14. **NOTICES**

Notices to the Holders of Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the third day after the date of mailing.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above pursuant to Condition 14, then such notification to such holders as shall be given with the approval of the Trustee and shall constitute sufficient notice to such holders for every purpose hereunder.

15. **FURTHER ISSUES**

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount, issue price, issue date and/or the date of the first payment of interest) so as to be consolidated and form a single series with the Notes.

Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Senior Loan Agreement with the Borrower on substantially the same terms as the Senior Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further loan). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders.

16. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW

The Notes, the Agency Agreement, the Senior Loan Agreement, the Account Bank Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement, the Senior Loan Agreement, the Account Bank Agreement and the Trust Deed are governed by English law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has waived any objections to the courts of England on the grounds that they are an inconvenient or inappropriate forum and has appointed an agent for the service of process in England.

THE SENIOR LOAN AGREEMENT

The following is the text of the Senior Facility Agreement

THIS SENIOR LOAN AGREEMENT originally made on 20 September 2012 between:

(1) **POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA**, a company established under the laws of the Republic of Poland whose registered office is at Puławska 15, Warsaw, Poland (the "**Borrower**"); and

(2) **PKO FINANCE AB** (**PUBL**), a public company with limited liability incorporated in Sweden whose registered office is at c/o, AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden (the "**Lender**").

WHEREAS:

(A) The Lender has, at the request of the Borrower, agreed to make available to the Borrower a senior loan facility in the maximum amount of US$1,000,000,000. The senior loan facility is to be made available on the terms and subject to the conditions of this Agreement, as may be amended and/or supplemented from time to time.

(B) It is intended that, concurrently with the extension of the Senior Loan under this senior loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as the Senior Loan.

Now it is hereby agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

"**Account**" means the account 11656236 in the name of the Lender with the Account Bank or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least 5 Business Days in advance of such change;

"**Account Bank Agreement**" means the account bank agreement to be dated the Closing Date, as may be amended, modified, supplemented and/or restated from time to time between the Lender, the Borrower, the Trustee and the account bank named therein;

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the paying agency agreement to be dated the Closing Date, as may be amended, modified, supplemented and/or restated from time to time between the Lender, the Borrower, the Trustee and the agents named therein;

"**Agreement**" means this Agreement as originally executed or as it may be amended from time to time;

"**Arrangement Fee**" means US$2,500,000;

"**Auditors**" means the auditors of the Borrower's IFRS financial statements (consolidated if the same are then prepared) or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be nominated by the Borrower;

"**Borrower Account**" means the account 400807580 in the books of J.P. MORGAN CHASE BANK N.A., New York in the name of the Borrower for receipt of Senior Loan funds;

"**Borrower Agreements**" means this Agreement, the Agency Agreement, the Account Bank Agreement, the Fee Side Letter and the Subscription Agreement;

"**Business Day**" means (save in relation to Clause 4 (*Interest*)) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) a day on which foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency;

"**Calculation Amount**" means US$1,000;

"**Capital Stock**" means, with respect to any person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a person other than a corporation; in each case whether now outstanding or hereafter used;

"**Closing Date**" means 26 September 2012;

"**Conditions**" has the meaning ascribed to it in the Trust Deed;

"**Day Count Fraction**" means in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days within 12 30 day months);

"**Dollars**", "**$**", "**US dollars**" and "**US$**" means the lawful currency of the United States of America;

"**Event of Default**" has the meaning assigned to such term in Clause 10.1 (*Events of Default*) hereof;

"**Fee Side Letter**" has the meaning assigned to such term in Clause 13.2 (*Payment of Ongoing Expenses*) hereof;

"**Fiscal Period**" means any fiscal period for which the Borrower or the Group (if consolidated accounts are prepared) has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"**GAAP**" means generally accepted accounting principles in the Kingdom of Sweden (as amended, supplemented or re-issued from time to time);

"**Group**" means the Borrower and its Subsidiaries taken as a whole at any given time;

"**Guarantee**" means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness or other obligation of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); pr*ovided, however*, *that* the term "**Guarantee**" will not include endorsements for collection or deposit in the ordinary course of business. The term "**Guarantee**" used as a verb has a corresponding meaning;

"**IFRS**" means International Financial Reporting Standards as adopted by the European Union (as amended, supplemented or re-issued from time to time);

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

"**Indebtedness**" means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; and

(e) amounts raised under any other transaction (including, without limitation, any Repo, forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Individual Note Certificates**" means the individual note certificates in fully registered form representing the Notes to be issued in limited circumstances pursuant to the Trust Deed;

"**Interest Payment Date**" means 26 March and 26 September in each year commencing on the Closing Date and ending on the Repayment Date or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 (*Prepayment in the event of Taxes or Increased Costs*) or 5.3 (*Prepayment in the event of Illegality*), the date set for such redemption in respect of the Senior Loan;

"**Interest Period**" means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Closing Date, and ending on (but excluding) the next Interest Payment Date;

"**Joint Lead Managers**" means Goldman Sachs International and J.P. Morgan Securities plc or any successor appointed pursuant to the terms of the Subscription Agreement;

"**Lender Agreements**" means the Subscription Agreement, this Agreement, the Agency Agreement, the Account Bank Agreement, the Trust Deed and the Fee Side Letter;

"**Material Adverse Effect**" means a material adverse effect on (a) the condition (financial or otherwise), prospects or general affairs of the Borrower or the Group; or (b) the Borrower's ability to perform or comply with its obligations under the Borrower Agreements; or (c) the validity or enforceability of the Borrower Agreements or the rights or remedies of the Lender thereunder;

"**Material Subsidiary**" means, at any given time, a Subsidiary of the Borrower, which:

(a) has gross income representing 10 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or

(b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied;

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of that Subsidiary and the latest audited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group, but if a Subsidiary has been acquired since the date as at which the latest audited consolidated financial statements of the Group were prepared, the financial statements shall be adjusted in order to take into account the acquisition of that Subsidiary (that adjustment being certified by the Group's auditors as representing an accurate reflection of the revised consolidated gross income or consolidated total assets, as the case may be, of the Group), *provided however*, *that* if there is a dispute, unresolved for a period of at least 30 days, as to whether or not a member of the Group is a Material Subsidiary, a certificate of the Auditors as to whether a Subsidiary is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Noteholder**" means, in relation to a Note, the person in whose name such Note is registered from time to time in the register of the noteholders (or in the case of joint holders, the first named holder thereof);

"**Notes**" means the US$1,000,000,000 4.630 loan participation notes due September 2022 issued by the Lender corresponding to the Senior Loan;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower substantially, in the form set out in Schedule 1 hereto;

"**Opinion of Counsel**" means a written opinion from international legal counsel who is reasonably acceptable to the Lender;

"**Permitted Security Interest**" means:

(a) any Security Interest created by the Lender, either in favour of the Trustee for the benefit of the Noteholders pursuant to the Trust Deed, any Supplemental Trust Deed or in connection with any limited recourse financing arrangements that are permitted pursuant to clause 14.20.1(ii) of the Trust Deed;

(b) any Security Interest created by any other Subsidiary to secure Securities Indebtedness, provided that (i) any such Securities Indebtedness is incurred on a limited recourse basis for the sole purpose of financing loans to the Borrower or any other member of the Group pursuant to a loan participation notes arrangement or programme, the related prospectus or other offering document for which has been approved by a competent authority or by, or on behalf of, a stock exchange (as the case may be); (ii) the business activities of such other Subsidiary are contractually limited to incurring Indebtedness for the sole purpose of financing on-lending to the Borrower or any other member of the Group (and matters incidental thereto); and (iii) such Security Interest is created only over the relevant Subsidiary's benefit of the related on-lending arrangements and any bank accounts established specifically for the purposes of that incurrence of Securities Indebtedness or the related on-loan;

(c) any Security Interest upon, or with respect to, any securitisation of property or assets or similar financing structure in relation to property or assets where the primary source of payment of any obligations secured by property or assets is linked to the proceeds of such property or assets (or where payment of such obligations is otherwise supported by such property or assets), but may make provision for rights of recourse on an unsecured basis (apart from the property or assets subject to the securitisation or financing structure) which may arise upon any failure to perform or default by the obligors in relation to such property or assets; provided that the aggregate outstanding amount of such obligations secured, does not, at any time, exceed 10 per cent. of the total consolidated assets of the Group, as determined at any time by reference to the most recent consolidated statement of financial position of the Group prepared in accordance with IFRS; and

(d) any other Security Interests securing Relevant Indebtedness (not falling within any of paragraphs (a) to (c) above), provided that the aggregate amount of Relevant Indebtedness secured by all such Security Interests does not exceed five per cent. of the value of the consolidated total assets of the Group as calculated on a consolidated basis from the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group prepared in accordance with IFRS consistently applied, as delivered by the Borrower in accordance with this Agreement;

"**person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

"**PLN**" denotes Polish Zloty, the lawful currency of the Republic of Poland;

"**Polish National Bank**" means Narodowy Bank Polski;

"**Potential Event of Default**" means any event which is, or after notice or passage of time or after making any determinations under this Agreement (or any combination of the foregoing) would be, an Event of Default;

"**Prospectus**" means the prospectus dated 20 September 2012, as approved by the Luxembourg *Commission de Surveillance du Secteur Financier* prepared in connection with the Notes;

"**Rate of Interest**" has the meaning assigned to such term in Clause 4.1 (*Rate of Interest*);

"**Registrar**" has the meaning assigned to it in the Trust Deed;

"**Relevant Event**" has the meaning assigned to it in the Trust Deed;

"**Relevant Indebtedness**" means any present or future Indebtedness, having an original maturity of more than one year, in the form of or represented by:

(a) bonds, notes, debentures, loan stock or other securities that are for the time being, or are capable of being, quoted, listed or ordinarily dealt in or on any stock exchange, over-the-counter or other securities market, whether issued by private placement or otherwise (collectively, "**Securities Indebtedness**"); or

(b) any other Indebtedness that is funded or financed by Securities Indebtedness or which is intended to be the principal source of payment for any principal or interest payable in respect of any Securities Indebtedness;

"**Relevant Time**" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency;

"**Repayment Date**" means 26 September 2022;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "**securities**" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**Reserved Rights**" has the meaning assigned to such term in the Trust Deed;

"**Same-Day Funds**" means such funds for payment in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency;

"**Securities Act**" means the US Securities Act of 1933;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**SEK**" denotes Swedish Kroner, the lawful currency of the Kingdom of Sweden;

"**Senior Loan**" has the meaning assigned to such term in Clause 2.1 (*Senior Loan*);

"**Specified Currency**" means Dollars;

"**Subscription Agreement**" means the subscription agreement relating to the Notes dated 20 September 2012 as may be amended, modified, supplemented and/or restated from time to time between the Lender, the Borrower, the Joint Lead Managers and the other managers appointed pursuant to it;

"**Subsidiary**" means, in relation to any Person (the "**first person**") at any particular time, any other person (the "**second person**"):

(a) whose affairs and policies the first person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person;

"**Supplemental Trust Deed**" means any supplemental trust deed to the Trust Deed and made between the Lender and the Trustee;

"**Tangible Net Worth**" means, as of any date, the sum of the aggregate of the amounts paid up or credited as paid up on the issued ordinary share capital of the Lender, the aggregate amount of the reserves of the Lender and any balance standing to the credit of the profit and loss account of the Lender, less any debit balance on the profit and loss account of the Lender, any amount shown in respect of goodwill or other intangible assets of the Lender, any amount set aside for taxation, deferred taxation or bad debts and any amount in respect of any dividend or distribution declared, recommended or made by the Lender to the extent payable to a person who is not a member of the Group and to such extent such distribution is not provided for in the most recent financial statements, all amounts determined in accordance with GAAP;

"**Taxes**" means any present or future taxes, levies, duties, assessments or other governmental charges of whatever nature (including interest and penalties or addition thereon), no matter how they are levied or determined, and the terms "**Tax**" and "**taxation**" shall be construed accordingly;

"**Taxing Authority**" means any body having authority to levy Taxes;

"**Trust Deed**" means the trust deed to be dated the Closing Date, as may be amended, modified supplemented and/or restated from time to time between the Lender and the Trustee;

"**Trustee**" means Citicorp Trustee Company Limited, as trustee under the Trust Deed and any other trustee or trustees, successors or assigns thereunder; and

"**Warranty Date**" means the date hereof, the Closing Date, each date on which the Prospectus is amended, supplemented or replaced and each date any of the Lender Agreements are amended or supplemented.

1.2 **Other Definitions**

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the relevant Notes, the Agency Agreement or the Subscription Agreement.

1.3 **Interpretation**

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to a "**Clause**" or "**sub-clause**" are references to a Clause or sub-clause of this Agreement;

1.3.2 save as provided in the definition of "**Prospectus**" above, all references in this Agreement to an agreement, instrument or other document shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.

1.3.3 the terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.4 words importing the singular number include the plural and vice versa;

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof; and

1.3.6 any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such statute, provision, statutory instrument, order or regulation as the same may have been, or may from time to time be, amended or re-enacted.

2. **SENIOR LOAN**

2.1 **Senior Loan**

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to make available to the Borrower and the Borrower hereby agrees to borrow from the Lender, a single disbursement term loan facility in the amount of US$1,000,000,000 (the "**Senior Loan**").

2.2 **Purpose**

The proceeds of the Senior Loan will be used to fund the Borrower's lending activities and for general banking purposes and, accordingly, the Borrower shall apply all amounts raised by it hereunder to fund such activities and purposes, but the Lender shall not be concerned with the application thereof.

3. **DRAWDOWN**

3.1 **Drawdown**

On the terms and subject to the conditions set forth herein, on the Closing Date the Lender shall make the Senior Loan to the Borrower and the Borrower shall make a single drawing in the full amount of such Senior Loan.

3.2 **Senior Loan Arrangement Fee**

In consideration of the Lender's undertaking to make the Senior Loan available to the Borrower, the Borrower hereby agrees that it shall, no later than one Business Day before the Closing

Date, pay to or to the order of the Lender, in Same-Day Funds by 10 a.m. (Relevant Time) the Arrangement Fee in connection with the financing of the Senior Loan to the account 11656244 of the Lender with the Account Bank, pursuant to an invoice submitted by, or at the request of, the Lender to the Borrower in the total amount of the Arrangement Fee.

3.3 **Disbursement**

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the full amount of the Senior Loan to the Borrower Account.

3.4 **Ongoing Fees and Expenses**

In consideration of the Lender agreeing to make Senior Loans to the Borrower, the Borrower shall pay on demand to the Lender as and when such payments are due an amount or amounts to reimburse the Lender for its expenses relating to its management and operation in servicing the Senior Loans as set forth to the Borrower in an invoice from the Lender (including, for the avoidance of doubt and without limitation, the fees and expenses of the Lender's counsel, auditors, corporate services providers, trustees and agents and any other expenses of the Lender).

4. **INTEREST**

4.1 **Rate of Interest**

The Borrower will pay interest semi-annually in Dollars to the Lender on the outstanding principal amount of the Senior Loan from time to time hereunder at the rate of 4.630 per cent. per annum (the "**Rate of Interest**") as calculated in accordance with the provisions of this Agreement.

4.2 **Payment of Interest**

Interest at the Rate of Interest shall accrue from day to day starting from (and including) the Closing Date to (but excluding) the Repayment Date and shall be paid in accordance with Clause 6 (*Payments*). Interest on the Senior Loan (or, as applicable, the prepaid amount of the Senior Loan if not prepaid in full) will cease to accrue from the Repayment Date (or any date upon which the Senior Loan is prepaid pursuant to any of the provisions of Clause 5.2 (*Prepayment in the Event of Taxes or Increased Costs*), Clause 5.3 (*Prepayment in the event of Illegality*) or Clause 5.4 (*Reduction of the Senior Loan upon Cancellation of Corresponding Notes*) or repaid pursuant to Clause 10 (*Events of Default*)) *provided that*, in each case, if payment of principal is withheld or refused by the Borrower in breach of its obligations under this Agreement, interest will continue to accrue (before and after any judgment) at the relevant Rate of Interest to, but excluding, the value date on which payment in full of the whole or the relevant proportion (as applicable) of the principal amount of the Senior Loan is received by the Lender.

The amount of interest payable in respect of the Senior Loan for any Interest Period shall be US$23.15 in respect of each Calculation Amount, or for any other period in respect of which interest must be calculated, shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), and then multiplying such rounded figure by a fraction equal to the outstanding amount of the Senior Loan divided by the Calculation Amount.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Senior Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the event of Taxes or Increased Costs

If, (a) as a result of the application of or any amendments or clarification of a decision by a court of competent jurisdiction, or change (including a change in interpretation or application) in the double tax treaty between the Republic of Poland and the Kingdom of Sweden or the laws or regulations of the Republic of Poland or the Kingdom of Sweden or of any political sub-division thereof or any Taxing Authority therein, or (b) the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required to make or increase any payment due pursuant to this Agreement as provided in Clauses 6.2 (N*o Set-Off, Counterclaim or Withholding; Gross Up*) or 6.3 (*Withholding on Notes*) and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Senior Loan in whole (but not in part).

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which the Borrower would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Senior Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), the Borrower shall deliver to the Lender (copied to the Trustee) an Officers' Certificate confirming that it would be required to increase the amount payable and that the obligation to make such payment cannot be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser addressed to the Lender (copied to the Trustee).

5.3 Prepayment in the event of Illegality

If, at any time after the Closing Date, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any Agency, the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency of any state or otherwise for the Lender to make, fund or allow all or part of the Senior Loan or the corresponding Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Senior Loan (an "**Event of Illegality**"), then the Lender shall, after becoming aware of the same, deliver to the Borrower (with a copy to the Trustee) a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and the Borrower and the Lender shall consult in good faith as to a basis that eliminates the application of such Event of Illegality. If a basis has not been agreed between the Borrower and the Lender by the earlier of the latest date permitted by the relevant law or 30 days after the date on which the Lender notified the Borrower of such illegality, then upon written notice by the Lender to the Borrower and the Trustee, the Borrower shall prepay (without premium or penalty) the Senior Loan in whole (but not in part), on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify to be necessary to comply with such requirements.

5.4 **Reduction of the Senior Loan Upon Cancellation of Corresponding Notes**

The Borrower may from time to time deliver to the Lender Notes held by it, having an aggregate principal value of at least USD 1,000,000, together with a request for the Lender to present such Notes to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Notes with instructions to cancel a specified aggregate principal amount of Notes (being at least USD 1,000,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower is entitled to give such instructions), whereupon the Lender shall, pursuant to clause 9.3 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the relevant Global Notes). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Senior Loan corresponding to the principal amount of such Notes together with accrued interest and other amounts (if any) thereon shall be extinguished for all purposes as of the date of such cancellation.

5.5 **Payment of Other Amounts**

If the Senior Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clauses 5.2 (*Prepayment in the event of Taxes or Increased Costs*), or 5.3 (*Prepayment in the event of Illegality*), the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement. For the avoidance of doubt, if the principal amount of the Senior Loan is reduced pursuant to the provisions of Clause 5.4 (*Reduction of the Senior Loan Upon Cancellation of Corresponding Notes*), then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Senior Loan is so reduced and the Borrower shall not be entitled to any interest in respect of the cancelled Notes. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 5 (*Repayment and Prepayment*).

5.6 **Provisions Exclusive**

The Borrower shall not prepay or repay all or any part of the Senior Loan except at the times and in the manner expressly provided for in accordance with this Agreement. Any amount prepaid or repaid may not be reborrowed under this Agreement.

6. **PAYMENTS**

6.1 **Making of Payments**

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date, the Repayment Date or on the relevant prepayment date (as the case may be) in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of a Relevant Event. The Borrower shall, before 10.00 a.m. (Relevant Time) on the second Business Day prior to each Interest Payment Date, the Repayment Date or on the relevant prepayment date or (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested fax or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the Trust Deed, the Account Bank Agreement and the Agency Agreement.

6.2 **No Set-Off, Counterclaim or Withholding; Gross-Up**

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes imposed by any Taxing Authority. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall, on the due date for such payment, increase any payment of principal, interest or any other payment due under this Loan Agreement to such amount as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such deduction, withholding or additional amount received) a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes. The Borrower shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence reasonably satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in the Specified Currency for such payment on demand, subject to the receipt of relevant supporting documentation.

6.3 **Withholding on Notes**

Without prejudice to the provisions of Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), if the Lender notifies the Borrower that it has become obliged to make any withholding or deduction for or on account of any Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland, the Kingdom of Sweden or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of the Notes, the Borrower agrees to pay to the Lender, not later than 10.00 a.m. (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders, in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; *provided*, *however*, *that* the Lender shall procure that immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the Notes, pay such amounts received by way of such reimbursement to the Borrower (it being understood that neither the Lender, the Trustee, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder or such other Party is entitled to any such additional amount).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 (*Withholding on Notes*) shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 **Mitigation**

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower or the Lender to make any deduction, withholding or payment as described in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 *(Withholding on Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall, upon becoming aware of the same, notify the other party thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, the Lender shall take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; *provided that* the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the Trust Deed, the Agency Agreement or the Notes.

6.5 **Tax Treaty Relief**

The Lender shall, provided that in each case a corresponding request from the Borrower is received by the Lender no earlier than 65 Business Days but no later than 30 Business Days prior to the first Interest Payment Date or, as applicable, the beginning of each calendar year, and at the Borrower's cost, to the extent it is able to do so under applicable law including, without limitation, Polish laws, use commercially reasonable efforts to obtain and to deliver to the Borrower no later than 10 Business Days before the first Interest Payment Date or, as applicable, the beginning of each calendar year a certificate issued and certified (as applicable) by the competent Taxing Authority in the Kingdom of Sweden confirming that the Lender is tax resident in the Kingdom of Sweden in the calendar year of such Interest Payment Date and such other information or forms (including application forms) as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Polish Taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Polish Taxes has not been obtained.

The certificate or such other information or forms referred to in this Clause 6.5 (*Tax Treaty Relief*) shall be duly signed by the Lender (if applicable), stamped or otherwise approved by the competent Taxing Authority in the Kingdom of Sweden and apostilled or legalised (as applicable) with a notarised Polish translation attached thereto (an "**Authenticated Certificate**").

If a relief from deduction or withholding of Polish taxes under this Clause 6.5 (*Tax Treaty Relief*) has not been obtained and further to an application of the Borrower to the relevant Polish taxing authorities the latter requests the Lender's PLN bank account details, the Lender shall at the request of the Borrower (a) use its commercially reasonable efforts, at the Borrower's cost, to procure that such PLN bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such PLN bank account.

7. **CONDITIONS PRECEDENT**

The obligation of the Lender to make the Senior Loan shall be subject to the further conditions precedent that as of the Closing Date (a) the representations and warranties made and given by the Borrower in Clause 8 (*Representations and Warranties*) shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) there shall be no Event of Default or Potential Event of Default, (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement, (d) the Subscription Agreement, the Trust Deed, the Fee Side Letter and the Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Notes pursuant to the Subscription Agreement and (e) the Lender shall have received in full the amount referred to in Clause 3.2 (*Senior Loan Arrangement Fee*), if due and payable, above, as specified in this Agreement.

8. **REPRESENTATIONS AND WARRANTIES**

8.1 **The Borrower's Representations and Warranties**

The Borrower does, and on each Warranty Date shall be deemed to, represent and warrant to the Lender, with the intent that such shall form the basis of this Agreement, that:

8.1.1 the Borrower is duly organised and incorporated and validly existing under the laws of the Republic of Poland, is not in liquidation or receivership and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under this Agreement and to borrow Senior Loans; the Borrower has taken all necessary corporate, legal and other action required to authorise the borrowing of the Senior Loan on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and/or delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

8.1.2 this Agreement has been duly executed by the Borrower and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity, and (ii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;

8.1.3 the execution and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Republic of Poland, (ii) the constitutive documents, rules and regulations of the Borrower or the terms of the general banking licence granted to the Borrower by the Polish National Bank or (iii) any agreement or other undertaking or instrument to which the Borrower is a party or which is binding upon the Borrower or any of its respective assets, nor result in the creation or imposition of any Security Interests on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument;

8.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Republic of Poland (including, without limitation, the Polish National Bank), if any, required in order to ensure (i) the due execution, delivery and performance by the Borrower of this Agreement and (ii) the legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect;

8.1.5 (i) no Potential Event of Default or Event of Default has occurred and is continuing; (ii) no default under any agreement or instrument evidencing any Indebtedness of the Borrower which might have a Material Adverse Effect has occurred and is continuing; and (iii) no such Potential Event of Default, Event of Default or default under any agreement or instrument evidencing any Indebtedness of the Borrower will occur upon the making of the Senior Loan;

8.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to Taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Subsidiaries, the adverse determination of which would have a Material Adverse Effect;

8.1.7 except for Security Interests of the types referred to in the definition of Permitted Security Interests in Clause 1.1 (*Definitions*), the Borrower's obligations under this Agreement will rank at least pari passu with all its other unsecured and unsubordinated Indebtedness except as otherwise provided by mandatory provisions of applicable law;

8.1.8 the latest audited consolidated IFRS financial statements and unaudited interim consolidated financial statements of the Borrower:

(a) were prepared in accordance with IFRS, as consistently applied;

(b) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and

(c) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial year or financial period covered by such financial statements;

8.1.9 there has been no material adverse change since the date of the latest audited consolidated IFRS financial statements of the Borrower in the condition (financial or otherwise), results of business, operations or immediate prospects of the Group or on the Borrower's ability to perform its obligations under any Senior Loan Agreement;

8.1.10 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge of a material amount, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Republic of Poland or any political subdivision or taxing authority thereof or therein;

8.1.11 neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;

8.1.12 the Borrower and its Subsidiaries are in compliance in all respects with all applicable provisions of law and all applicable rules, regulations and guidelines of the Polish National Bank, except where the failure to be in so compliance would not have a Material Adverse Effect;

8.1.13 neither the Borrower, nor any of its Material Subsidiaries, has taken any corporate action nor, have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Material Subsidiaries, for its or their bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues;

8.1.14 there are no strikes or other employment disputes against the Borrower which have been started or are pending or, to its knowledge, threatened which would have a Material Adverse Effect;

8.1.15 save as disclosed in the Prospectus, in any proceedings taken in the Republic of Poland in relation to this Agreement, the choice of English law as the governing law of this Agreement and any judgement obtained in England in relation to this Agreement will be recognised and enforced in the Republic of Poland after compliance with the applicable procedures and rules and all other legal requirements in Republic of Poland;

8.1.16 no withholding in respect of any Taxes is required to be made from any payment by the Borrower under this Agreement;

8.1.17 except where the absence of which or (as the case may be), the non-compliance with which, would not be likely to have a Material Adverse Effect, each of the Borrower and its Subsidiaries has all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable each of the them, respectively, to own its assets and carry on its business, which are in full force and effect, and the Borrower is conducting such business in accordance with such licences, consents, examinations, clearances, filings registrations and authorisations; and

8.1.18 the Borrower has no overdue tax liabilities, other than those that would not have a Material Adverse Effect.

8.2 **Lender's Representations and Warranties**

The Lender represents and warrants to the Borrower as follows:

8.2.1 the Lender is duly incorporated under the laws of the Kingdom of Sweden and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;

8.2.2 the execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Kingdom of Sweden or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety;

8.2.3 the Lender Agreements have been duly executed by and constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

8.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect; and

8.2.5 the Lender is a resident of the Kingdom of Sweden for taxation purposes. The Lender will be liable for Swedish Taxes on its Swedish source income as well as on its foreign source income. The Lender may also benefit from tax treaties signed by the Kingdom of Sweden, including the double tax treaty concluded on 19 November 2004 between the Kingdom of Sweden and the Republic of Poland. At the date hereof, the Lender reasonably believes that it does not have a permanent establishment in the Republic of Poland save for that which may be created solely as a result of the Lender entering into this Agreement.

9. **COVENANTS**

So long as any amount remains outstanding under this Agreement:

9.1 **Negative Pledge**

The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Security Interests, other than Permitted Security Interests, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Relevant Indebtedness or any Guarantee of or indemnity in respect of any Relevant Indebtedness, unless, at the same time or prior thereto, the Borrower's obligations hereunder are to the satisfaction of the Trustee (i) secured equally and rateably with such other Relevant Indebtedness or (ii) have the benefit of such other security or other arrangement which is equivalent in all material respects to any such Security Interest and which is approved by the Trustee.

9.2 **Keep-well agreement**

The Borrower shall cause the Lender to have a positive Tangible Net Worth of at least SEK 500,000 at all times and, if at any time the Lender requires funds to meet its obligations from time to time as they fall due, the Borrower shall provide to the Lender, on a timely basis, the funds required by the Lender in order to meet such obligations.

9.3 **Maintenance of Authorisations**

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Poland for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof, *provided that*, in any case if the Borrower and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 9.3 (*Maintenance of Authorisations*) within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

9.4 **Withholding Tax Exemption**

The Borrower shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year the Lender can provide the Borrower with the documents required under Polish laws for the relief of the Lender from Polish withholding tax in respect of payments hereunder.

9.5 **Financial Information**

9.5.1 The Borrower shall, within 10 days of their being made available to the Warsaw Stock Exchange, deliver to the Lender and the Trustee the consolidated financial statements of the Group for such financial year, audited by the Auditors and accompanied by a report thereon of the Auditors.

9.5.2 The Borrower shall, within 10 days as their being made available to the Warsaw Stock Exchange, deliver to the Lender and the Trustee, unaudited condensed interim consolidated financial statements of the Group for such period.

9.5.3 The Borrower shall, so long as any amount remains outstanding under this Agreement, deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.

9.5.4 The Borrower shall ensure that each set of consolidated financial statements of the Group delivered by it pursuant to this Clause 9.5 (*Financial Information*) is:

(a) prepared in accordance with IFRS and consistently applied; and

(b) in the case of the statements provided pursuant to sub-clause 9.5.2, certified by an Authorised Signatory of the Borrower presenting fairly, in all material respects, of the Group's financial position as at the end of the period to which those consolidated financial statements relate and of its or, as the case may be, the Group's results of operations during such period.

9.6 **Ranking of Claims**

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

9.7 **Officers' Certificates**

At the time of the despatch to the Trustee of the consolidated financial statements of the Group pursuant to sub-clauses 9.5.1 and 9.5.2, or promptly upon request by the Lender or the Trustee (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender and the Trustee, written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

At the time of the despatch to the Trustee of the consolidated financial statements of the Group pursuant to sub-clauses 9.5.1 and 9.5.2, or promptly upon request by the Lender or the Trustee (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate listing its Material Subsidiaries, accompanied by a report by the Auditors addressed to the directors of the Borrower as to the proper extraction of the figures used in the Officers' Certificate, as described in the definition of "Officers' Certificate" in Clause 1.1 (*Definitions*).

9.8 **Notes Held by the Borrower**

Upon being so requested in writing by the Lender or the Trustee, the Borrower shall deliver to the Lender and the Trustee an Officers' Certificate of the Borrower setting out the total number of Notes which, at the date of such certificate, are held by the Borrower (or any Subsidiary of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

10. **EVENTS OF DEFAULT**

10.1 **Events of Default**

If one or more of the following events of default (each an "**Event of Default**") shall occur, the Lender shall be entitled to the remedies set forth in Clause 10.3 (*Default Remedies*).

10.1.1 The Borrower fails to pay any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than five days in the case of principal and seven days in the case of interest.

10.1.2 The Borrower fails to perform or observe any of its obligations under this Agreement (other than as referred to in paragraph 10.1.1 above) and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may agree) next following service by the Trustee on the Borrower of notice requiring the same to be remedied.

10.1.3

(a) Any present or future Indebtedness of the Borrower or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or

(b) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(c) the Borrower or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness, *provided that* the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above, individually or in the aggregate, exceeds €10,000,000 (or its equivalent amount in any other currency or currencies).

10.1.4 The occurrence of any of the following events: (i) any of the Borrower, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation; or (ii) the presentation or filing of a petition in respect of any of the Borrower or its Material Subsidiaries in any court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or its Material Subsidiaries, unless the petition is withdrawn or dismissed within 30 days of such presentation or filing; or (iii) the announcement by an appropriate court in the Republic of Poland of the insolvency (*upadłoś*) of any of the Borrower or any of its Material Subsidiaries pursuant to the Polish Bankruptcy and Recovery Law dated 28 February 2003 or any other laws or regulations that may replace the above; and/or (iv) any declaration of liquidation of the Borrower or any of its Material Subsidiaries pursuant to the Polish Banking Law dated 29 August 1997, or any other laws or regulations which may replace the above.

10.1.5 (i) The Borrower or any of its Material Subsidiaries is unable or admits its inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling a material part of its Indebtedness; (ii) the value of the assets of any of the Borrower or its Material Subsidiaries is less than its liabilities; and/or (iii) a moratorium is declared in respect of any Indebtedness of any of the Borrower or its Material Subsidiaries.

10.1.6 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the undertaking, revenues or assets of the Borrower or any of its Material Subsidiaries unless the levy against such undertaking, revenues or assets is discharged or dismissed within 30 days.

10.1.7 Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect, if such failure is not remedied within 30 days of its occurrence.

10.1.8 All or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 10 per cent. or more the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired, if, in the case of a member of the Group other than the Borrower or the Lender, such occurrence has a Material Adverse Effect.

10.1.9 The Borrower's general banking licence is revoked or the Borrower is prohibited from conducting any substantial part of its banking operations envisaged in its banking licence.

10.1.10 The aggregate amount of unsatisfied judgements, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower or any of its Subsidiaries exceeds €10,000,000 in aggregate, or the equivalent thereof in any other currency or currencies, and there is a period, being the later of, 60 days or such period as may be specified in the relevant judgment, decree or order following the entry thereof during which such judgment, decree or order is not appealed or within the period of time prescribed by Polish law, satisfied, discharged, waived or the execution thereof stayed and such default continues for 10 Business Days after the notice specified in Clause 10.2 (*Notice of Default*).

10.1.11 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in sub-clause 8.1.2 of Clause 8.1 (*The Borrower's Representations and Warranties*)) are not, or cease to be, legal, valid, binding and enforceable and such unlawfulness or cessation has a Material Adverse Effect.

10.1.12 The Borrower ceases to carry on the business of banking and deposit-taking in Poland.

10.1.13 The Borrower repudiates or communicates in writing to any other person an intention to repudiate any of the Borrower Agreements.

10.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-clauses.

10.2 **Notice of Default**

The Borrower shall deliver to the Lender and the Trustee within (i) 10 days of any written request by the Lender or the Trustee, or (ii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate, substantially in the form set out in Schedule 1, stating whether any Potential Event of Default or Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

10.3 **Default Remedies**

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Borrower, (a) declare the obligations of the Lender under this Agreement to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under this Agreement by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

10.4 **Right of Set-Off**

If any amount payable by the Borrower hereunder is not paid as and when due, the Borrower authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender, at any branch or office, to the full extent of all amounts payable to the Lender hereunder.

10.5 **Rights Not Exclusive**

The rights provided for in this Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11. **INDEMNITY**

11.1 **Indemnification**

The Borrower undertakes to the Lender, that if the Lender, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Senior Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes corresponding to the Senior Loan or this Agreement being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence or wilful default or arises out of a breach of the representations and warranties of the Lender contained herein or in the Subscription Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

11.2 **Independent Obligation**

Clause 11.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

11.3 **Evidence of Loss**

If requested by the Borrower, the Lender shall use its reasonable endeavours to provide the Borrower with a certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 11.1 (*Indemnification*) and specifying in full detail the basis therefore. Any such certificate shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

11.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Borrower under this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender, in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, notwithstanding any payment in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement, shall continue in full force and effect.

12. **SURVIVAL**

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.3 (*Withholding on Notes*), 11 (*Indemnity*), 14.2 (*Stamp Duties*) and 24 (*Limited Recourse and Non-Petition*) shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Senior Loan, in each case by the Borrower.

13. **EXPENSES**

13.1 **Reimbursement of Front-end Expenses for the Extension of the Senior Loan by the Lender**

The Borrower shall reimburse the Lender in the Specified Currency for all reasonable costs and expenses incurred by the Lender in connection with the negotiation, preparation and execution of this Agreement and all related documents and other expenses connected with the extension of the Senior Loan, including, without limitation, the reasonable fees and expense of its counsel.

13.2 **Payment of Ongoing Expenses**

In addition, the Borrower hereby agrees to pay to or to the order of the Lender on demand in the Specified Currency the upfront acceptance fee of the Trustee and all ongoing commissions, costs, fees and expenses and taxes (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements and the letter entered into between the Borrower, the Lender, the Trustee, the Account Bank and the Agents dated 20 September 2012 in respect of the Notes (as amended, modified, supplemented and/or restated from time to time, the "**Fee Side Letter**"). The Borrower shall also pay the Lender for, or pay to the order of the Lender for, any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement, the Account Bank Agreement, Trust Deed and/or the Fee Side Letter (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Notes). Payments to the Lender or to the order of the Lender referred to in this Clause 13.2 (*Payment of Ongoing Expenses*) shall be made by the Borrower at least one Business Day before the relevant payment is to be made or expense incurred.

13.3 **Invoices**

All payments, costs, commissions, fees and expenses to be paid or reimbursed by the Borrower or agreed to be paid by, or to the order of, the Lender, shall be paid or reimbursed upon receipt of an appropriate invoice (including value added taxes if applicable) submitted to the Borrower or to the Lender (as applicable).

14. **GENERAL**

14.1 **Evidence of Debt**

The entries made in the relevant Account of the Lender shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of the Borrower's obligations recorded therein.

14.2 **Stamp Duties**

14.2.1 The Borrower shall pay all stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such Taxes or similar charges.

14.2.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related thereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such Taxes or similar charges.

14.3 **Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power to privilege under this Agreement, and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 **Prescription**

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 of such Notes.

15. NOTICES

All notices, requests, demands or other communications to or upon the respective parties to this Agreement shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

15.1.1 if to the Borrower:

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
ul. Puławska 15
02-515 Warsaw
Poland

Tel: +48 22 521 81 41
Fax: +48 22 521 88 62
Attention: Ms Ilona Wołyniec, Managing Director - Investment Banking Division

15.1.2 if to the Lender:

PKO Finance AB (publ)
Stockholm
Sweden

Fax: +46 8611 34 34
Attention: The Directors - PKO Finance AB (publ)

15.1.3 if to the Trustee:

Citicorp Trustee Company Limited
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Fax: +353 1 622 4030
Attention: Agency and Trust

or to such other address or fax number as any party may hereafter specify in writing to the other.

16. ASSIGNMENT

16.1 **General**

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 16.3 (*By the Lender*) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

16.2 **By the Borrower**

The Borrower shall not to be entitled to assign, charge, transfer, declare a trust over or otherwise encumber or dispose of all or any part of its rights or obligations hereunder to any other person.

16.3 **By the Lender**

Subject to clause 23 of the Trust Deed, the Lender may not assign, charge, transfer, declare a trust over or otherwise encumber or dispose of, in whole or in part, any of its rights and benefits or obligations under this Agreement (other than the Reserved Rights) except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to clause 4 of the Trust Deed.

17. **LAW AND JURISDICTION**

17.1 **Governing Law**

This Agreement and any non-contractual obligations arising out of or in connection with this Agreement are governed by English law.

17.2 **Jurisdiction**

The courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with this Agreement (including a dispute relating to the existence, validity or termination of this Agreement or any non-contractual obligation arising out of or in connection with this Agreement) or the consequences of its nullity.

17.3 **Appropriate Forum**

The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes between them and, accordingly, that they will not argue to the contrary.

17.4 **Right of Lender to Take Proceedings Outside England**

Clause 17.2 (*Jurisdiction*) is for the benefit of the Lender only. As a result, nothing in Clause 17.2 (*Jurisdiction*) prevents the Lender from taking Proceedings in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent Proceedings in any number of jurisdictions.

17.5 **Lender's and Borrower's Process Agent**

Each of the Lender and the Borrower irrevocably appoints Capita Trust Company Limited, 4th Floor, 40 Dukes Place, London EC3 7NH, United Kingdom to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Lender). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of the Borrower, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a person by written notice to the Lender, at the Borrower's cost. Nothing in this Clause shall affect the right of the Borrower to serve process in any other manner permitted by law.

18. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

Other than the Trustee, a person who is not a party to a Senior Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Senior Loan Agreement.

19. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

20. **LANGUAGE**

The language which governs the interpretation of this Agreement is the English language.

21. **AMENDMENTS**

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22. **PARTIAL INVALIDITY**

The illegality, invalidity or unenforceability to any extent of any provision of this Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

23. **SEVERABILITY**

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

24. **LIMITED RECOURSE AND NON-PETITION**

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received and retained by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (1) to the Security Interests (as defined in the Trust Deed) and (2) to the fact that any claims of the Joint Lead Managers (as defined in the Subscription Agreement) pursuant to the Subscription Agreement shall rank in priority to any claims of the Borrower hereunder, any such claim by any and all such Joint Lead Managers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, the Borrower shall not be entitled to institute, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court based or otherwise) in relation to the Lender.

IN WITNESS WHEREOF, the parties hereto have caused this Senior Loan Agreement to be executed on the date first written above.
For and on behalf of

POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA

By:

By:

Signed by duly authorised signatories of

PKO FINANCE AB (PUBL)

By:

By:

SCHEDULE 1
FORM OF OFFICERS' CERTIFICATE

To: Citicorp Trustee Company Limited
Canada Square
Canary Wharf
London E14 5LB

From: Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

Dated:

Dear Sirs

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna – Senior Loan Agreement dated 20 September 2012 (as amended, modified, supplemented and/or restated from time to time, the "Senior Loan Agreement")

We refer to the Senior Loan Agreement. Terms defined therein shall mean the same herein. This is an Officers' Certificate for the purposes thereof:

For and on behalf of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

Signed:

principal executive officer/ principal accounting officer/ principal financial officer of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna	[officer] of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

[**encl**:] [*Auditors' report as to extraction*]

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of certain provisions to be contained in the Global Note Certificate which will apply to the Notes:

The Global Note Certificates

The Notes will be evidenced on issue by (i) the Regulation S Global Note Certificate (deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg) (the "**Regulation S Global Note Certificate**") and (ii) the Rule 144A Global Note Certificate (deposited with a custodian for, and registered in the name of Cede & Co. as nominee of DTC), (the "**Rule 144A Global Note Certificate**" and together with the Regulation S Global Note Certificate, each a "**Global Note Certificate**"). Beneficial interests in the Regulation S Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time and beneficial interests in the Rule 144A Global Note Certificate may only be held through DTC at any time. See "— *Book-Entry Procedures for the Global Note Certificates*".

By acquisition of a beneficial interest in the Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a US person, that it is located outside the United States and that, if it determines to transfer such beneficial interest prior to the expiration of the distribution compliance period (as such terms is defined in Rule 902 of Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Transfer Restrictions*".

By acquisition of a beneficial interest in the Rule 144A Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the relevant Trust Deed. See "*Transfer Restrictions*".

Beneficial interests in each Global Note Certificate will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to the Rule 144A Note, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions*". A beneficial interest in the Regulation S Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate in denominations greater than or equal to the minimum denominations applicable to interests in such Rule 144A Global Note Certificate and only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non-US person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate will, upon transfer, cease to be an interest in such Regulation S Global Note Certificate and become an interest in such Rule 144A Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such Rule 144A Global Note Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate will, upon transfer, cease to be an interest in such Rule 144A Global Note Certificate and become an interest in such Regulation S Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such Regulation S Global Note Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Note Certificates will not be entitled to receive physical delivery of individual definitive Notes in registered form ("**Individual Note Certificates**"). The Notes are not issuable in bearer form.

In the event that a Global Note Certificate is exchanged for Individual Note Certificates, such Individual Note Certificates shall be issued in denominations of US$200,000 and integral multiples of US$1,000 thereafter only. Noteholders who hold Notes in the relevant clearing system in amounts that are not integral multiples of US$200,000 or US$1,000 thereafter may need to purchase or sell, on or before the Exchange Date, a principal amount of Notes such that their holding is an integral multiple of US$200,000 or US$1,000 thereafter. See "*—Exchange for Individual Note Certificates*".

Amendments to Conditions

Each Global Note Certificate contains provisions that apply to the Notes that they represent, some of which modify the effect of the above relevant Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Note Certificate will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

Notices

So long as any Notes are evidenced by a Global Note Certificate and such Global Note Certificate is held by or on behalf of a clearing system, notices to the Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for delivery thereof as required by the Terms and Conditions of such Notes **provided that**, for so long as the relevant Notes are admitted to trading on the Luxembourg stock exchange's regulated market and the guidelines issued by the Luxembourg Stock Exchange so require, notices will also be filed with the Luxembourg Stock Exchange.

Meetings

The holder of each Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each US$1,000 for which the relevant Global Note Certificate may be exchangeable.

Trustee Powers

In considering the interests of Noteholders while the Global Note Certificates are held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to each Global Note Certificate and may consider such interests as if such accountholders were the holders of any Global Note Certificate.

Cancellation

Cancellation of any Note required by the Terms and Conditions of such Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note Certificate.

Tradable Amounts

So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradable only in principal amounts of at least US$200,000 and integral multiples of US$1,000.

Exchange for Individual Note Certificates

Exchange

Each Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Individual Note Certificates if the relevant Global Note Certificate is held by or on behalf of (a) DTC, and DTC notifies the Issuer, that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Global Note Certificate or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (b) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any transfer agent of its intention to exchange the relevant Global Note Certificate for Individual Note Certificates on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note Certificate for Individual Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note Certificate shall be exchanged in full for Individual Note Certificates and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or any Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the Noteholders. A person having an interest in a Global Note Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and delivery such Notes and (b) in the case of the Rule 144A Global Note Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Individual Note Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

The holder of an Individual Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Individual Note Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Individual Note Certificate, the Issuer will deliver only Rule 144A Individual Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Note Certificates

Custodial and depositary links have been established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*— Book-Entry Ownership*" and "*— Settlement and Transfer of Notes*".

Investors may hold their interests in such Global Note Certificates directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organizations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the US Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerized book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold interests in the Rule 144A Global Note Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organizations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*—Exchange for Individual Note Certificates*", DTC will surrender the Rule 144A Global Note Certificate in exchange for individual Rule 144A Individual Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note Certificate representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-I855, Luxembourg.

DTC

The Rule 144A Global Note Certificate representing the Rule 144A Notes will have an ISIN, a Common Code and a CUSIP number and will be deposited with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note Certificate and in relation to all other rights arising under such Global Note Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices.

Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the “**Beneficial Owner**”) will in turn be recorded on the Direct and Indirect Participants’ records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note Certificate held within a clearing system are exchanged for Individual Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in Individual Note Certificates. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC’s Same-Day Funds Settlement system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Note Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the relevant Rule 144A Global Note Certificate will instruct the Registrar to (a) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note Certificate and (b) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Note Certificate (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificate and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Note Certificates among participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor in immediately available funds on 26 September 2012 (i.e., the fifth business day following the date of pricing of the Notes (such date being referred to herein as the "**Closing Date**" and such settlement cycle being herein referred to as "**T+5**")). Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the date of pricing and the Closing Date should consult their own advisers.

USE OF PROCEEDS

The Issuer will use the proceeds of the issue of the Notes for the sole purpose of financing the Senior Loan to the Borrower. The proceeds from the Senior Loan (expected to amount to US$1,000,000,000 before taking into account commissions, fees and expenses) will be used by the Borrower for general corporate purposes. Total commissions, fees and expenses relating to the offering of the Notes are expected to be approximately US$4,100,000.

DESCRIPTION OF THE ISSUER

Establishment, Duration and Domicile

The Issuer's legal and commercial name is PKO Finance AB (publ). The Issuer changed its name from Aktiebolaget Grundstenen 108756 to PKO Finance AB (publ) on 17 July 2008.

The Issuer was incorporated in the Kingdom of Sweden as a public limited liability company registered in the Swedish Companies Register under number 556693-7461 on 14 December 2005 for indefinite time. The Issuer was registered, pursuant to the Act on Notification Regarding Certain Financial Activities (*Sw*: *Lag* (*1996*:*1006*) *om anmälningsplikt avseende viss finansiell verksamhet*), with the Swedish Financial Supervisory Authority (*Sw: Finansinspektionen*) on 5 December 2008.

Business of the Issuer

The Issuer's registered office is c/o AB 1909 Corporate Services, Norrlandsgatan 18, 111 43 Stockholm, Sweden and the telephone number of its registered office is +46-8-545 322 70.

The main object of the Issuer is to carry out, directly or indirectly either on its own account or for the account of third parties or in agreement with third parties, the activity of financing for the purposes of the development, and the needs, of the Bank and the Group in accordance with applicable laws. Consequently, the Issuer is a special purpose vehicle existing for the sole purpose of issuing the Notes and other notes **provided that** such other notes are issued in compliance with the relevant limitations as provided in the Terms and Conditions of the Notes. The Issuer has no subsidiaries and no employees.

All shares in the Issuer were bought by the Bank from Svenska Standardbolag AB on 27 June 2008.

The Issuer has been dormant since its incorporation and has not engaged in any material activities except for issuing EUR 800,000,000 3.733 per cent. Notes due 2015 under the programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank (the "**Programme**") in October 2010, CHF 250,000,000 3.538 per cent. Notes due 2016 under the Programme in July 2011 and EUR 50,000,000 4.000 per cent. Notes due 2022 in July 2012. Moreover, on 13 August 2012, the Issuer priced a fourth series of the Notes under the Programme, with a total nominal value of CHF 400,000,000. The issue will be settled on 21 September 2012. The notes will bear interest at the rate of 2.536 per cent. per annum and will mature on 21 December 2015. The notes are to be listed on the SIX Swiss Exchange. On 22 August 2012, the total nominal value of the issuance was increased to CHF 500,000,000. In September 2012, such notes were assigned ratings of A2 by Moody's and A- by Standard & Poor's.

The financial statements of the Issuer for the financial years ended 31 December 2010 and 2011 were audited by Öhrlings PricewaterhouseCoopers AB. Sussanne Sundvall, a registered auditor qualified to practice in the Kingdom of Sweden, is the responsible auditor.

Recent Events

There has been no material adverse change in the financial position or prospects of the Issuer since the date of its last financial statements, that is, 31 December 2011. In addition, there has been no significant change in the capitalization of the Issuer since its incorporation nor has it incurred any indebtedness in the nature of borrowings, guarantees or contingent liabilities since the date of its incorporation.

Management of the Issuer

The Issuer has a board of directors consisting of three directors:

Name	Position	Date on which the current term began	Expiration of the term of office
Artur Osytek	Chairman of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders in 2012)	On the date of the annual general meeting of the shareholders in 2013 (unless re-elected)
Magnus Sundström	Member of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders in 2012)	On the date of the annual general meeting of the shareholders in 2013 (unless re-elected)
Iwona Jankowska	Member of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders in 2012)	On the date of the annual general meeting of the shareholders in 2013 (unless re-elected)

Source: The Swedish Companies Registration Office

The business address for all the members of the board of directors is c/o AB Corporate Services, Norrlandsgatan 18, 111 43 Stockholm, Sweden.

There are no conflicts of interest between the duties of the persons listed above to the Issuer and their private interests or other duties.

Share Capital and Shareholders Structure

The Issuer has fully paid up share capital of EUR 55,473.58 made up of 5,000 shares, each with a quota of EUR 11.0947 per one share.

All shares of the Issuer are owned by the Bank. As a sole shareholder, the Bank may exercise control over the Issuer, in particular, to adopt resolutions as to the appointment of the members of the Board of Directors of the Issuer.

SELECTED FINANCIAL INFORMATION

This section should be read along with the information provided in "Operating and Financial Review" as well as in the Consolidated Financial Statements and the notes thereto and other financial data presented elsewhere in this Prospectus.

The following tables set forth selected consolidated financial data of the Group as at 30 June 2012, 31 December 2011, 31 December 2010 and 31 December 2009 and for the periods then ended. The information was extracted without material adjustments from the Consolidated Financial Statements and should be read in conjunction with the financial data included elsewhere in this Prospectus. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Such financial statements, together with the accompanying notes and the reports of PricewaterhouseCoopers Sp. z o.o., appear elsewhere in this Prospectus. The financial information presented below should be read in conjunction with such financial statements and the notes thereto.

Selected Data from the Consolidated Statements of Comprehensive Income

	Six months ended 30 June 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Six months ended 30 June 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
		(in PLN thousand)				*(in EUR thousand)*		
	(unaudited)	*(audited)*				*(unaudited)*		
Net interest income	4,042,245	7,609,116	6,516,166	5,051,182	956,835	1,837,906	1,627,252	1,163,706
Net fee and commission income	1,502,699	3,101,444	3,142,829	2,583,003	355,702	749,123	784,844	595,080
Operating profit	2,443,226	4,800,512	4,080,051	2,942,928	578,333	1,159,516	1,018,892	678,000
Profit before income tax	2,449,254	4,780,860	4,079,236	2,943,270	579,760	1,154,769	1,018,688	678,079
Net profit attributable to the equity holders of the parent company	1,953,361	3,807,195	3,216,883	2,305,538	462,378	919,590	803,337	531,157
Net comprehensive income	1,773,245	3,937,416	3,297,105	2,401,214	419,743	951,044	823,371	553,199

Source: Consolidated Financial Statements

Selected Data from the Consolidated Cash Flow Statements

	Six months ended 30 June 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Six months ended 30 June 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
		(in PLN thousand)				*(in EUR thousand)*		
	(unaudited)	*(audited)*				*(unaudited)*		
Net cash flow from / (used in) operating activities	(82,984)	5,556,998	340,637	(4,860,163)	(19,643)	1,342,238	85,066	(1,119,698)
Net cash flow from / (used in) investing activities	2,280,924	(3,630,127)	(1,967,767)	1,022,670	539,915	(876,821)	(491,401)	235,606
Net cash flow from / (used in) financing activities	(2,109,884)	1,057,418	1,073,418	4,559,643	(499,428)	255,409	268,060	1,050,464
Total net cash flows	**88,056**	**2,984,289**	**(553,712)**	**722,150**	**20,844**	**720,825**	**(138,276)**	**166,371**

Source: Consolidated Financial Statements

Selected Data from the Consolidated Statements of Financial Position

	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009
		(in PLN thousand)				*(in EUR thousand)*		
	(unaudited)	*(audited)*				*(unaudited)*		
Total assets	190,437,871	190,748,037	169,660,501	156,478,685	44,690,088	43,186,931	42,840,315	38,089,354
Total equity	23,007,729	22,821,984	21,359,568	20,435,870	5,399,228	5,167,086	5,393,422	4,974,410
Share capital	1,250,000	1,250,000	1,250,000	1,250,000	293,338	283,010	315,633	304,270

Source: Consolidated Financial Statements

Book Value Per Share

	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009
		(in PLN thousand)				*(in EUR thousand)*		
	(unaudited)	*(audited)*				*(unaudited)*		
Number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Book value per share (in PLN/EUR)	18.41	18.26	17.09	16.35	4.32	4.13	4.31	3.98
Diluted number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Diluted book value per share (in PLN/EUR)	18.41	18.26	17.09	16.35	4.32	4.13	4.31	3.98

Source: Consolidated Financial Statements

Earnings Per Share

	Six months ended 30 June 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Six months ended 30 June 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009
		(in PLN thousand)				*(in EUR thousand)*		
	(unaudited)	*(audited)*				*(unaudited)*		
Earnings per share for the period – basic and diluted (in PLN/EUR)	1.56	3.05	2.57	2.06	0.37	0.74	0.64	0.47

Source: Consolidated Financial Statements

Selected Capital Adequacy Data

	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009
		(in PLN thousand)				*(in EUR thousand)*		
	(unaudited)	*(audited)*				*(unaudited)*		
Tier 1 capital	18,971,668	16,664,233	15,960,072	16,246,441	4,452,085	3,772,920	4,030,016	3,954,637
Tier 2 capital	1,569,066	1,545,549	1,512,546	1,489,959	368,213	349,925	381,927	362,679
Tier 3 capital	59,979	133,134	145,928	129,876	14,075	30,143	36,848	31,614

Source: Consolidated Financial Statements

Selected Key Ratios

The table below presents selected ratios for the Group as of the dates and for the periods indicated below.

	As of and for the six months ended 30 June	As of and for the year ended 31 December		
	2012	2011	2010	2009
		(%) (unaudited)		
Profitability ratios				
NIM[1]	4.7	4.6	4.4	3.9
Cost to income ratio (C/I)[2]	38.8	39.6	41.7	47.9
ROA net[3]	2.1	2.1	2.0	1.6
ROE net[4]	17.5	17.5	14.9	14.8
Capital Ratios				
Tier 1 ratio[5]	11.98	11.24	11.30	13.46
Capital adequacy ratio	13.01	12.37	12.47	14.81
Loan portfolio quality				
Impaired loans ratio[6]	8.7	8.0	8.0	7.6
Coverage of impaired loans and advances[7]	47.0	48.0	44.6	43.2
Other				
Dividend payout ratio for the Bank[8]	–	40.2	74.7	97.7

Source: the Bank

1 Calculated by dividing net interest income of the Group for the twelve months ended 30 June 2012 and 31 December 2011, 2010 and 2009, respectively, by the average balance of total interest-earning assets (calculated as the arithmetical average of interest-earning assets at the beginning and at the end of reporting period and interim quarterly periods).

2 Calculated by dividing administrative expenses by total net income on business activity (defined as operating profit before administrative expenses, net impairment allowance and write-downs).

3 Calculated by dividing net profit attributable to the equity holders of the parent company for the twelve months ended 30 June 2012 and 31 December 2011, 2010 and 2009, respectively, by average total assets (calculated as the arithmetical average of total assets at the beginning and the end of the reporting period and interim quarterly periods).

4 Calculated by dividing net profit attributable to the equity holders of the parent company for the twelve months ended 30 June 2012 and 31 December 2011, 2010 and 2009, respectively, by average total equity attributable to the equity holders of the parent company (calculated as the arithmetical average of total equity at the beginning and the end of the reporting period and interim quarterly periods).

5 The Tier 1 ratio constitutes a percentage ratio the numerator of which is the value of Tier 1 capital and the denominator of which is the entire capital requirement multiplied by 12.5.

6 Calculated by dividing the gross carrying value of impaired loans and advances to customers by the gross carrying value of loans and advances to customers.

7 Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying value of impaired loans and advances to customers.

8 Calculated by dividing the dividend for the year by the net profit of the Bank for the year.

Capitalization

The following table sets forth the Bank's total equity as at 30 June 2012 and as at 31 December 2011, 2010 and 2009. The information was extracted without material adjustments from the stand-alone financial statements of the Bank for the year ended 31 December 2011 (the "**2011 Stand-Alone Financial Statements**") and the stand-alone financial statements of the Bank for the year ended 31 December 2010 (the "**2010 Stand-Alone Financial Statements**" and together with the 2011 Stand-Alone Financial Statements and condensed interim financial statements of the Bank for the six-month period ended 30 June 2012, the "**Stand-Alone Financial Statements**") which have not been included in this Prospectus nor incorporated into this Prospectus by reference and should be read in conjunction with the Stand-Alone Financial Statements and with the other financial data included elsewhere in this Prospectus (the table includes stand-alone data).

	As of 30 June	As of 31 December		
	2012	2011	2010	2009
		(PLN thousand)		
	(unaudited)		*(audited)*	
Share capital	1,250,000	1,250,000	1,250,000	1,250,000
Other capital, of which	**19,873,361**	**17,598,753**	**16,640,639**	**16,497,365**
Reserve capital	15,198,111	12,898,111	12,098,111	12,048,111
Other reserves	3,385,743	3,319,621	3,283,412	3,276,260
General banking risk fund	1,070,000	1,070,000	1,070,000	1,070,000
Total other reserves	**19,784,828**	**17,287,732**	**16,451,523**	**16,394,371**
Financial assets available for sale	(35,210)	(51,164)	(28,808)	(16,282)
Cash flow hedges	166,184	362,185	217,924	119,276
Total other capital from other comprehensive income	**130,974**	**311,021**	**189,116**	**102,994**
Net profit for the period	2,005,686	3,953,622	3,311,209	2,432,152
Total equity	**23,129,047**	**22,802,375**	**21,201,848**	**20,179,517**

Source: Stand-Alone Financial Statements

Consolidated Income Statements

The following tables set forth the consolidated income statements and the consolidated statements of comprehensive income of the Group for the six-month periods ended 30 June 2012 and 2011, as well as for the years ended 31 December 2011, 2010 and 2009. The information was extracted without material adjustments from the Consolidated Financial Statements and should be read in conjunction with the financial data included elsewhere in this Prospectus.

CONSOLIDATED INCOME STATEMENTS	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**	**Year ended 31 December 2011**	**Year ended 31 December 2010**	**Year ended 31 December 2009**
			(in PLN thousand)		
	(unaudited)			*(audited)*	
Continuing operations:					
Interest and similar income	6,487,257	5,602,314	12,037,762	10,415,315	9,031,330
Interest expense and similar charges	(2,445,012)	(2,027,768)	(4,428,646)	(3,899,149)	(3,980,148)
Net interest income	**4,042,245**	**3,574,546**	**7,609,116**	**6,516,166**	**5,051,182**
Fee and commission income	1,853,696	1,899,854	3,837,165	3,880,863	3,335,347
Fee and commission expense	(350,997)	(358,451)	(735,721)	(738,034)	(752,344)
Net fee and commission income	**1,502,699**	**1,541,403**	**3,101,444**	**3,142,829**	**2,583,003**
Dividend income	6,077	6,537	6,800	5,663	5,381
Net income from financial instruments designated at fair value	15,385	(35,276)	(75,056)	(62,577)	60,872
Gains less losses from investment securities	4,642	15,937	20,179	73,056	(2,622)
Net foreign exchange gains	144,655	132,385	337,296	346,762	909,139
Other operating income	237,646	230,109	451,723	469,388	584,949
Other operating expense	(162,497)	(150,042)	(309,186)	(293,736)	(324,066)
Net other operating income and expense	**75,149**	**80,067**	**142,537**	**175,652**	**260,883**
Net impairment allowance and write-downs	(1,101,285)	(881,400)	(1,930,447)	(1,868,364)	(1,681,075)
Administrative expenses	(2,246,341)	(2,123,171)	(4,411,357)	(4,249,136)	(4,243,835)
Operating profit	**2,443,226**	**2,311,028**	**4,800,512**	**4,080,051**	**2,942,928**
Share of profit (loss) of associates and jointly controlled entities	6,028	(3,797)	(19,652)	(815)	342
Profit before income tax	**2,449,254**	**2,307,231**	**4,780,860**	**4,079,236**	**2,943,270**
Income tax expense	(496,449)	(470,084)	(976,115)	(866,430)	(631,486)
Net profit (including non-controlling shareholders)	**1,952,805**	**1,837,147**	**3,804,745**	**3,212,806**	**2,311,784**
Profit (loss) attributable to non-controlling shareholders	(556)	(1,167)	(2,450)	(4,077)	6,246
Net profit attributable to the equity holders of the parent company	**1,953,361**	**1,838,314**	**3,807,195**	**3,216,883**	**2,305,538**
Basic earnings per share for the period (in PLN)	1.56	1.47	3.05	2.57	2.06
Diluted earnings per share for the period (in PLN)	1.56	1.47	3.05	2.57	2.06
Weighted average number of ordinary shares during the period (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000	1,121,562
Weighted average diluted number of ordinary shares during the period (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000	1,121,562

Source: Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

	Six months ended 30 June 2012	Six months ended 30 June 2011	Year ended 31 December 2010	Year ended 31 December 2010	Year ended 31 December 2009
	(in PLN thousand)				
	(unaudited)			*(audited)*	
Net profit (including non-controlling shareholders)	**1,952,805**	**1,837,147**	**3,804,745**	**3,212,806**	**2,311,784**
Other comprehensive income	**(179,560)**	**(79,780)**	**132,671**	**84,299**	**89,430**
Currency translation differences from foreign operations	(2,443)	(26,318)	16,894	(1,211)	(51,321)
Share in other comprehensive income of an associate	1,181	(367)	(1,233)	271	–
Unrealized net gains on financial assets available for sale (gross)	21,811	28,856	(33,649)	(16,159)	26,582
Deferred tax on unrealized net gains on financial assets available for sale	(4,108)	(5,482)	6,398	2,750	(5,107)
Unrealized net gains on financial assets available for sale (net)	17,703	23,374	(27,251)	(13,409)	21,475
Cash flow hedges (gross)	(241,976)	(94,406)	178,100	121,788	147,254
Deferred tax on cash flow hedges	45,975	17,937	(33,839)	(23,140)	(27,978)
Cash flow hedges (net)	(196,001)	(76,469)	144,261	98,648	119,276
Total net comprehensive income	**1,773,245**	**1,757,367**	**3,937,416**	**3,297,105**	**2,401,214**
Total net comprehensive income, of which attributable to:	**1,773,245**	**1,757,367**	**3,937,416**	**3,297,105**	**2,401,214**
equity holders of PKO Bank Polski SA	1,773,883	1,758,261	3,940,696	3,301,437	2,394,911
non-controlling shareholders	(638)	(894)	(3,280)	(4,332)	6,303

Source: Consolidated Financial Statements

Consolidated Statements of Financial Position

The following table sets forth the consolidated statements of financial position of the Group as at 30 June 2012 and 31 December 2011, 2010 and 2009. The information was extracted without material adjustments from the Consolidated Financial Statements and should be read in conjunction with the financial data included elsewhere in this Prospectus.

	As at 30 June	As at 31 December		
	2012	**2011**	**2010**	**2009**
		(in PLN thousand)		
	(unaudited)		*(audited)*	
ASSETS				
Cash and balances with the central bank	8,837,388	9,142,168	6,182,412	7,094,350
Amounts due from banks	2,761,316	2,396,227	2,307,032	2,023,055
Trading assets	389,610	1,311,089	1,503,649	2,212,955
Derivative financial instruments	2,857,209	3,064,733	1,719,085	2,029,122
Financial assets designated upon initial recognition at fair value through profit and loss	14,946,799	12,467,201	10,758,331	12,360,690
Loans and advances to customers	141,331,155	141,634,494	130,668,119	116,572,585
Investment securities available for sale	12,741,997	14,393,276	10,219,400	7,944,317
Securities held to maturity	–	–	–	9,894
Investments in associates and jointly controlled entities	124,555	123,119	172,931	228,692
Non-current assets held for sale	20,401	20,410	19,784	13,851
Inventories	586,039	566,846	530,275	653,075
Intangible assets	1,770,959	1,800,008	1,802,037	1,572,577
Tangible fixed assets	2,494,788	2,541,317	2,576,445	2,777,694
– of which investment properties	243	248	259	322
Current income tax receivables	2,387	5,957	4,318	7,184
Deferred income tax asset	615,651	543,922	582,802	403,218
Other assets	957,617	737,270	613,881	575,426
TOTAL ASSETS	**190,437,871**	**190,748,037**	**169,660,501**	**156,478,685**
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to the central bank	2,868	3,454	3,370	6,581
Amounts due to banks	5,740,840	6,239,164	5,233,875	5,146,048
Derivative financial instruments	2,759,720	2,645,281	2,404,795	1,544,370
Amounts due to customers	146,986,505	146,473,897	132,981,215	125,072,934
Debt securities in issue	7,303,275	7,771,779	3,298,867	289,360
Subordinated liabilities	1,614,369	1,614,377	1,611,779	1,612,178
Other liabilities	2,294,797	2,450,763	2,092,834	1,566,623
Current income tax liabilities	75,382	78,810	67,744	181,893
Deferred income tax liability	33,673	29,364	22,764	20,534
Provisions	618,713	619,164	583,690	602,294
TOTAL LIABILITIES	**167,430,142**	**167,926,053**	**148,300,933**	**136,042,815**
Equity				
Share capital	1,250,000	1,250,000	1,250,000	1,250,000
Other capital	20,004,020	17,881,264	16,888,145	16,732,988
Currency translation differences from foreign operations	(94,384)	(92,023)	(109,747)	(108,791)
Unappropriated profits	(103,340)	(23,162)	112,297	248,806
Net profit for the year	1,953,361	3,807,195	3,216,883	2,305,538
Capital and reserves attributable to the equity holders of the parent company	**23,009,657**	**22,823,274**	**21,357,578**	**20,428,541**
Non-controlling interest	(1,928)	(1,290)	1,990	7,329
TOTAL EQUITY	**23,007,729**	**22,821,984**	**21,359,568**	**20,435,870**
TOTAL LIABILITIES AND EQUITY	**190,437,871**	**190,748,037**	**169,660,501**	**156,478,685**
Capital adequacy ratio	13.01%	12.37%	12.47%	14.81%
Book value (in PLN thousand)	23,007,729	22,821,984	21,359,568	20,435,870
Number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000
Book value per share (in PLN)	18.41	18.26	17.09	16.35
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)	18.41	18.26	17.09	16.35

Source: Consolidated Financial Statements

SELECTED STATISTICAL AND OTHER INFORMATION

The following selected statistical and other information has been derived from the Bank's stand-alone financial statements or the Bank's management accounts. In this section, average balances are calculated from quarterly balances, except where otherwise noted. This section should be read along with and is qualified in its entirety by reference to the information provided in "Risk Management", and "Operating and Financial Review" as well as in the Consolidated Financial Statements and the notes thereto and other financial data presented elsewhere in the Prospectus.

Stand-Alone Statements of Financial Position

The table below sets forth, as of the dates indicated, information on the statement of financial position of the Bank.

	As at 30 June	As at 31 December		
	2012	2011	2010	2009
	(PLN thousand) *(unaudited)*		*(PLN thousand)* *(audited)*	
ASSETS				
Cash and balances with the central bank	8,766,337	9,060,280	6,112,562	6,993,966
Amounts due from banks	2,831,260	2,320,198	2,379,239	2,053,767
Trading assets	394,696	1,311,089	1,503,649	2,212,955
Derivative financial instruments	2,857,555	3,065,149	1,719,764	2,029,921
Financial assets designated at fair value through profit and loss	14,930,124	12,467,201	10,758,331	12,356,532
Loans and advances to customers	139,620,879	140,058,649	128,933,129	114,425,789
Investment securities available for sale	12,573,527	14,168,933	9,876,252	7,965,697
Investments in subsidiaries, jointly controlled entities and associates	1,332,213	1,497,975	1,467,507	1,333,707
Non-current assets held for sale	20,401	20,410	19,784	13,851
Intangible assets	1,501,812	1,522,568	1,528,267	1,268,781
Tangible fixed assets	2,216,258	2,013,314	2,077,140	2,291,949
- including investment properties	243	248	259	322
Deferred income tax asset	431,171	384,134	462,923	275,204
Other assets	699,644	482,790	400,372	425,360
TOTAL ASSETS	**188,175,877**	**188,372,690**	**167,238,919**	**153,647,479**
EQUITY AND LIABILITIES				
Liabilities				
Amounts due to the central bank	2,868	3,454	3,370	6,581
Amounts due to banks	4,787,522	5,321,390	4,164,181	4,166,725
Derivative financial instruments	2,759,720	2,645,281	2,404,795	1,544,370
Amounts due to customers	150,497,206	150,030,681	135,289,055	124,044,400
Debt securities in issue	2,775,735	3,105,588	-	-
Subordinated liabilities	1,614,369	1,614,377	1,611,779	1,612,178
Other liabilities	1,921,841	2,156,523	1,787,599	1,319,917
Current income tax liabilities	66,652	77,532	61,854	175,165
Provisions	620,917	615,489	714,438	598,626
TOTAL LIABILITIES	**165,046,830**	**165,570,315**	**146,037,071**	**133,467,962**
Equity				
Share capital	1,250,000	1,250,000	1,250,000	1,250,000
Other capital	19,873,361	17,598,753	16,640,639	16,497,365
Net profit for the period	2,005,686	3,953,622	3,311,209	2,432,152
TOTAL EQUITY	**23,129,047**	**22,802,375**	**21,201,848**	**20,179,517**
TOTAL EQUITY AND LIABILITIES	**188,175,877**	**188,372,690**	**167,238,919**	**153,647,479**
Capital adequacy ratio (%)	12.74	11.93	11.99	14.41
Book value (in PLN thousand)	23,129,047	22,802,375	21,201,848	20,179,517
Number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000
Book value per share (in PLN)	18.50	18.24	16.96	16.14
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)	18.50	18.24	16.96	16.1

Source: Stand-Alone Financial Statements

Average Balances and Interest Rates

The table below sets forth, as of the dates and for the periods indicated, the average balances and interest rates of the Bank.

	As of and for the Six Months ended 30 June 2012			As of and for the Year ended 31 December 2011		
	Average balance	Interest earned/ paid	Average Interest rate*	Average balance	Interest earned/ paid	Average Interest rate*
	(PLN thousand, except percentages) (unaudited)					
Loans and advances to customers	139,713,081	5,032,078	7.2	134,390,979	9,581,320	7.1
Amounts due from banks and other	2,348,618	123,134	10.5	2,673,935	228,041	8.5
Financial assets designated upon initial recognition at fair value through profit and loss	14,088,351	359,288	5.1	12,014,047	561,826	4.7
Trading assets	1,385,686	32,468	4.7	1,715,235	74,847	4.4
Investment securities available for sale	13,485,363	361,892	5.4	11,348,104	557,750	4.9
Cash flow hedges	–	466,217	–	–	814,275	–
Total interest-earning assets	**171,021,099**	**6,375,077**	**7.5**	**162,142,300**	**11,818,059**	**7.3**
Amounts due to customers	149,408,305	(2,260,428)	3.0	142,480,642	(4,133,424)	2.9
Amounts due to banks	5,548,373	(14,379)	0.5	5,047,439	(45,684)	0.9
Debt securities in issue measured at amortised cost and subordinated liabilities	4,049,433	(107,728)	5.3	2,594,525	(130,568)	5.0
Other	–	(5,807)	–	–	(3,414)	–
Total interest-bearing liabilities	**159,006,111**	**(2,388,342)**	**3.0**	**150,122,606**	**(4,313,090)**	**2.9**

Source: Stand-Alone Financial Statements, the Bank

* Calculated by dividing interest earned/paid by average interest-earning assets/interest-bearing liabilities.

	As of and for the Year ended 31 December					
	2010			2009		
	Average balance	Interest earned/ paid	Average Interest rate*	Average balance	Interest earned/ paid	Average Interest rate*
	Amount	*Amount*	*%*	*Amount*	*Amount*	*%*
	(PLN thousand, except percentages) (unaudited)					
Loans and advances to customers	121,298,424	8,246,231	6.8	106,073,470	7,140,485	6.7
Amounts due from banks and other	2,296,835	151,510	6.6	3,499,642	169,390	4.8
Financial assets designated upon initial recognition at fair value through profit and loss	12,005,358	494,702	4.1	8,935,779	403,112	4.5
Trading assets	2,650,464	128,940	4.9	1,869,979	97,207	5.2
Investment securities available for sale	9,210,309	437,053	4.7	7,137,602	389,355	5.5
Cash flow hedges	–	649,116	–	–	403,899	–
Total interest-earning assets	**147,461,389**	**10,107,552**	**6.9**	**127,516,472**	**8,603,448**	**6.7**
Amounts due to customers	127,997,846	(3,586,343)	2.8	113,023,487	(3,589,601)	3.2
Amounts due to banks	4,728,723	(31,218)	0.7	4,753,102	(47,523)	1.0
Debt securities in issue measured at amortised cost and subordinated liabilities	1,620,062	(82,191)	5.1	1,625,420	(99,575)	6.1
Other	–	(24,024)	–	–	(24,300)	–
Total interest-bearing liabilities	**134,346,631**	**(3,723,776)**	**2.8**	**119,402,009**	**(3,760,999)**	**3.1**

Source: Stand-Alone Financial Statements, the Bank

* Calculated by dividing interest earned/paid by average interest-earning assets/interest-bearing liabilities.

	Six months ended 30 June	Year ended 31 December		
	2012	2011	2010	2009
NIM (%)[1]	4.7	4.6	4.3	3.8
Equity-to-assets ratio (%)[2]	13.6	13.4	14.5	12.0

Source: Stand-Alone Financial Statements, the Bank

1) Calculated by dividing net interest income of the Bank for the 12 months ended 30 June 2012 and on 31 December 2011, 2010 and 2009, respectively, by the average balance of total interest-earning assets (calculated as the arithmetical average of interest-earning assets at the beginning and at the end of reporting period and interim quarterly periods).

2) Calculated by dividing average equity by the total value of average interest-earning assets (calculated as the arithmetical average of total interest-earning assets at the beginning and the end of the reporting period and interim quarterly periods).

Analysis of Changes in Net Interest Income

The tables below set forth, at the dates and for the periods indicated, an analysis of changes in the Bank's net interest income attributable to changes in volume of interest-earning assets and interest-bearing liabilities and changes in rate. Increases and decreases under "*Volume*" and "*Interest rate*" below have been calculated on the movement in the average balances and the change in the interest rates on average interest-earning assets and average interest-bearing liabilities.

	Six Months ended 30 June 2012/2011			Year ended 31 December 2011/2010		
	Increase/(decrease) due to changes in:					
	Volume[1]	Interest rate[2]	Total	Volume[1]	Interest rate[2]	Total
	(PLN thousand, except percentages) (unaudited)					
Loans and advances to customers	295,518	237,136	532,654	911,748	423,341	1,335,089
Amounts due from banks and other	(7,700)	30,780	23,080	28,518	48,013	76,531
Financial assets designated upon initial recognition at fair value through profit and loss	65,335	37,637	102,972	382	66,742	67,124
Trading assets	(17,015)	4,179	(12,836)	(43,154)	(10,939)	(54,093)
Investment securities available for sale	84,438	40,423	124,861	103,257	17,440	120,697
Cash flow hedges	–	–	115,072	–	–	165,159
Total interest-earning assets	**489,015**	**396,788**	**885,803**	**1,038,166**	**672,341**	**1,710,507**
Amounts due to customers	160,802	191,984	352,786	412,971	134,110	547,081
Amounts due to banks	2,886	(7,906)	(5,020)	2,494	11,972	14,466
Debt securities in issue measured at amortised cost and subordinated liabilities	63,433	2,864	66,297	49,238	(861)	48,377
Other	–	–	4,465	–	–	(20,610)
Total interest-bearing liabilities	**206,339**	**212,189**	**418,528**	**445,262**	**144,052**	**589,314**
Net interest income	**–**	**–**	**467,275**	**–**	**–**	**1,121,193**

	Year ended 31 December 2010/2009			Year ended 31 December 2009/2008		
	Increase/(decrease) due to changes in:					
	Volume(1)	Interest rate(2)	Total	Volume(1)	Interest rate(2)	Total
	(PLN thousand, except percentages) (unaudited)					
Loans and advances to customers	1,029,964	75,782	1,105,746	1,687,217	(1,935,342)	(248,125)
Amounts due from banks and other	(68,781)	50,901	(17,880)	(109,641)	(125,304)	(234,945)
Financial assets designated upon initial recognition at fair value through profit and loss	132,481	(40,891)	91,590	156,186	(187,049)	(30,863)
Trading assets	39,271	(7,538)	31,733	20,456	12,705	33,161
Investment securities available for sale	105,711	(58,013)	47,698	31,393	2,502	33,895
Cash flow hedges	–	–	245,217	–	–	403,899
Total interest-earning assets	**1,356,384**	**147,720**	**1,504,104**	**1,790,534**	**(1,833,512)**	**(42,978)**
Amounts due to customers	447,573	(450,831)	(3,258)	608,357	484,260	1,092,617
Amounts due to banks	(202)	(16,103)	(16,305)	6,572	(19,820)	(13,248)
Debt securities in issue measured at amortised cost and subordinated liabilities	(300)	(17,084)	(17,384)	(162)	(15,578)	(15,740)
Other	–	–	(276)	–	–	19,027
Total interest-bearing liabilities	**442,483**	**(479,706)**	**(37,223)**	**623,865**	**458,791**	**1,082,656**
Net interest income	**–**	**–**	**1,541,327**	**–**	**–**	**(1,125,634)**

Source: the Bank

(1) Change in average volume times average rate for the period.

(2) Change in average rate times average volume for the period.

Loans and Advances to Customers Portfolio Analysis

Structure of Loans and Advances to Customers

The following table sets forth, as of the dates indicated, information on the Bank's loans and advances to customers portfolio.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(unaudited)		(PLN thousand, except percentages) (audited)					
Gross loans and advances to customers, including	**145,026,362**	**100.0**	**145,041,439**	**100.0**	**133,198,613**	**100.0**	**117,840,734**	**100.0**
Consumer	22,719,927	15.7	23,981,749	16.5	25,367,184	19.0	23,344,509	19.8
Corporate*	50,703,016	35.0	49,553,967	34.2	45,046,772	33.8	41,910,393	35.6
Housing**	70,563,304	48.7	70,551,334	48.6	62,183,520	46.7	52,120,376	44.2
Interest	1,040,115	0.7	954,389	0.7	601,137	0.5	465,456	0.4
Impairment allowances on loans and advances	(5,405,483)	–	(4,982,790)	–	(4,265,484)	–	(3,414,945)	–
Loans and advances to customers – net	**139,620,879**	**–**	**140,058,649**	**–**	**128,933,129**	**–**	**114,425,789**	**–**

Source: Stand-Alone Financial Statements

* Corporate loans include also loans extended to SMEs.

** Housing loans include i.a. mortgages and loans extended to corporate housing market customers, including real estate developers.

Concentration of Credit Risk by Currency

The following table sets forth, as of the dates indicated, the concentration of credit risk by currency.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(unaudited)		(PLN thousand, except percentages) (audited)					
PLN	112,695,587	77.7	111,057,016	76.6	103,345,706	77.6	90,805,491	77.1
Foreign currencies, of which:	**32,330,775**	**22.3**	**33,984,423**	**23.4**	**29,852,907**	**22.4**	**27,035,243**	**22.9**
CHF	23,240,990	16.0	24,569,554	16.9	22,827,853	17.1	21,370,299	18.1
EUR	7,546,348	5.2	7,899,058	5.4	5,927,535	4.5	4,631,260	3.9
Other	1,543,437	1.1	1,515,811	1.0	1,097,519	0.8	1,033,684	0.9
Total	**145,026,362**	**100.0**	**145,041,439**	**100.0**	**133,198,613**	**100.0**	**117,840,734**	**100.0**

Source: Stand-Alone Financial Statements, the Bank

Maturity Profile of Loans and Advances to Customers Portfolio

The following table sets forth, as of the dates indicated, the Bank's loans and advances to customers by maturity.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(PLN thousand, except percentages)							
	(unaudited)		*(audited)*					
Short-term	38,012,664	27.2	36,042,051	25.7	24,732,023	19.2	25,447,641	22.2
Long-term	107,013,698	76.6	108,999,388	77.8	108,466,590	84.1	92,393,093	80.7
Impairment allowances	(5,405,483)	(3.9)	(4,982,790)	(3.6)	(4,265,484)	(3.3)	(3,414,945)	(3.0)
Total carrying amount ..	**139,620,879**	**100.0**	**140,058,649**	**100.0**	**128,933,129**	**100.0**	**114,425,789**	**100.0**

Source: Stand-Alone Financial Statements, the Bank

Asset Quality of the Bank's Loans and Advances to Customers Portfolio

Loans and Advances to Customers Classification Criteria and Provisioning Policy of the Bank

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

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

- significant financial difficulties of the issuer or the debtor,
- breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
- 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,
- high probability of bankruptcy or other financial reorganization of the issuer or the debtor,
- disappearance of an active market for a given financial asset on the active market due to financial difficulties of the issuer or the debtor and
- 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.

First, the Bank assesses impairment on an individual basis for significant receivables. If, for a given financial asset assessed individually, there is no objective evidence 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.

Loans are classified by the Bank on the basis of the amount of exposure to individual and group portfolios.

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

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

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

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

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

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

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

The Bank plans that the adopted methodology used for estimating the impairment allowance will be developed in line with the further accumulations of historic impairment data from the existing information systems and applications. As a consequence, new data obtained by the Bank could affect the level of the impairment allowance in the future.

The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts.

Allowance for Impairment on Credit Exposures

The following table sets forth, as of the dates indicated, information on the Bank's allowance for impairment on credit exposures.

	As of 30 June	As of 31 December		
	2012	**2011**	**2010**	**2009**
	(PLN thousand) (unaudited)	*(PLN thousand) (audited)*		
Loans and advances to customers				
Receivables assessed on a group basis (IBNR*)	132,647,855	133,959,785	123,335,376	109,602,411
Receivables assessed on an individual basis	6,023,512	5,145,413	5,059,607	4,677,152
Receivables assessed on a portfolio basis	6,354,995	5,936,241	4,803,630	3,561,171
Loans and advances to customers – gross	**145,026,362**	**145,041,439**	**133,198,613**	**117,840,734**
Allowance on exposures assessed on a group basis (IBNR*)	(682,922)	(652,514)	(479,882)	(558,250)
Allowance on exposures assessed on an individual basis	(1,730,466)	(1,498,059)	(1,276,776)	(971,326)
Allowance on exposures assessed on a portfolio basis	(2,992,095)	(2,832,217)	(2,508,826)	(1,885,369)
Impairment allowances – total	**(5,405,483)**	**(4,982,790)**	**(4,265,484)**	**(3,414,945)**
Loans and advances to customers – net	**139,620,879**	**140,058,649**	**128,933,129**	**114,425,789**

Source: Stand-Alone Financial Statements

* IBNR – incurred but not reported credit losses

Exposure to Credit Risk

The following table sets forth, as of the dates indicated, information on the Bank's exposure to credit risk.

	As of 30 June	As of 31 December		
	2012	**2011**	**2010**	**2009**
	(PLN thousand) (unaudited)	*(PLN thousand) (audited)*		
Loans and advances impaired	11,488,623	10,395,779	9,490,018	7,500,728
of which assessed on an individual basis	5,133,628	4,459,538	4,686,388	3,939,557
Loans and advances not impaired	133,537,739	134,645,660	123,708,595	110,340,006
neither past due nor impaired	129,888,667	131,102,983	119,904,124	106,011,526
past due but not impaired	3,649,072	3,542,677	3,804,471	4,328,480
Gross total	**145,026,362**	**145,041,439**	**133,198,613**	**117,840,734**
Impairment allowances	**(5,405,483)**	**(4,982,790)**	**(4,265,484)**	**(3,414,945)**
Net total	**139,620,879**	**140,058,649**	**128,933,129**	**114,425,789**

Source: Stand-Alone Financial Statements

Impaired Loans and Advances to Customers

The following table sets forth, as of the dates indicated, information on the Bank's impaired loans and advances to customers assessed on an individual basis and on a portfolio basis.

	As of 30 June	As of 31 December		
	2012	**2011**	**2010**	**2009**
	(PLN thousand) *(unaudited)*		*(PLN thousand)* *(audited)*	
Corporate loans	3,693,968	3,275,281	3,834,020	3,289,535
Consumer loans	71,912	75,337	88,303	33,454
Housing loans	1,367,748	1,108,920	764,065	616,568
Impaired loans and advances to customers assessed on an individual basis	**5,133,628**	**4,459,538**	**4,686,388**	**3,939,557**
Impaired loans and advances to customers assessed on a portfolio basis	**6,354,995**	**5,936,241**	**4,803,630**	**3,561,171**
Total impaired loans and advances to customers	**11,488,623**	**10,395,779**	**9,490,018**	**7,500,728**

Source: Stand-Alone Financial Statements

Changes to the Allowances for Impairment Losses

The following table sets forth, as of the dates indicated, the changes to the allowances for impairment losses on loans and advances to customers.

	As of 30 June	As of 31 December		
	2012	**2011**	**2010**	**2009**
	(PLN thousand) *(unaudited)*		*(PLN thousand)* *(audited)*	
Impairment allowances at the beginning of the period	4,982,790	4,265,484	3,414,945	2,600,540
Impairment allowances recognized during the period	2,900,896	5,122,158	4,000,692	3,032,727
Other increases	7,845	63,604	26,642	-
Decrease in impairment allowances due to derecognition of assets, not impacting income statement	604,375	1,077,694	776,817	469,556
Impairment allowances reversed during the period	1,881,673	3,390,762	2,399,978	1,748,766
Impairment allowances at the end of the period	5,405,483	4,982,790	4,265,484	3,414,945
Net impairment allowance (impact on the income statement)	**(1,019,223)**	**(1,731,396)**	**(1,600,714)**	**(1,283,961)**

Source: Stand-Alone Financial Statements

Distribution of Allowances for Impairment Losses by Product Type

The following table sets forth, as of the dates indicated, the allowances for impairment losses by product type.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(PLN thousand, except percentages)							
	(unaudited)		*(audited)*					
Consumer loans	1,359,151	25.1	1,451,068	29.1	1,499,403	35.2	1,325,580	38.8
Housing loans	1,418,560	26.2	1,234,974	24.8	907,343	21.3	643,055	18.8
Corporate loans	2,627,772	48.6	2,296,748	46.1	1,858,738	43.6	1,446,310	42.4
Total impairment allowances	**5,405,483**	**100.0**	**4,982,790**	**100.0**	**4,265,484**	**100.0**	**3,414,945**	**100.0**

Source: Stand-Alone Financial Statements

Asset Quality Ratios of the Bank's Loans and Advances to Customers Portfolio

The following table sets forth, as of the dates indicated, the asset quality ratios of the Bank's loans and advances to customers portfolio.

	As of 30 June	As of 31 December		
	2012	2011	2010	2009
	(PLN thousand) *(unaudited)*	*(PLN thousand)* *(audited)*		
Impaired loans ratio[1]	7.9	7.2	7.1	6.4
Coverage of impaired loans and advances[2]	47.1	47.9	44.9	45.5
Cost of risk[3]	(1.3)	(1.2)	(1.3)	(1.2)

Source: Stand-Alone Financial Statements, the Bank

1) Calculated by dividing the gross carrying value of impaired loans and advances to customers by the gross carrying value of loans and advances to customers.

2) Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying value of impaired loans and advances to customers.

3) Calculated by dividing net impairment allowance and write-downs on loans and advances to customers for the 12 months ended 30 June 2012 and on 31 December 2011, 2010 and 2009, respectively, by the average balance of gross loans and advances to customers (calculated as the arithmetic mean of gross loans and advances to customers at the beginning and at the end of a reporting period and the interim quarterly periods).

Individually Determined to be Impaired Loans by Product Type

The following table sets forth, as of the dates indicated, the distribution of the Bank's individually determined to be impaired loans by product type.

	As of 30 June	As of 31 December		
	2012	2011	2010	2009
	(%)			
	(unaudited)	*(audited)*		
Corporate loans	72.0	73.4	81.8	83.5
Consumer loans	1.4	1.7	1.9	0.8
Housing loans	26.6	24.9	16.3	15.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Stand-Alone Financial Statements

Credit Risk Concentration

The Bank sees credit risk concentration as a risk factor which should be monitored separately. This monitoring is performed with respect to, *inter alia*, industry concentrations, geographic regions and single name concentrations.

Industry Concentration

The tables below set forth, as of the dates indicated, the Bank's institutional customers loans according to the Polish classification of business activity (*Polska Klasyfikacja Działalności*, PKD).

	As of 30 June 2012	
	Exposure	**Number of entities**
	(%) *(unaudited)*	
Institutional customer loans, according to sector, including		
Industrial processing	18.34	11.88
Wholesale and retail trade, repair of motor vehicles	16.08	25.11
Maintenance of real estate	16.33	16.02
Construction	12.63	12.93
Public administration and national defense, obligatory social security contributions	8.86	0.52
Electricity, gas, water, hot water and air to the mechanical systems production and supply	1.62	0.15
Other	26.14	33.39
Total	**100.00**	**100.00**

	As of 31 December 2011	
	Exposure	**Number of entities**
	(%) *(unaudited)*	
Institutional customer loans, according to sector, including		
Industrial processing	18.89	12.02
Wholesale and retail trade, repair of motor vehicles	16.41	25.62
Maintenance of real estate	16.11	10.75
Construction	12.54	13.87
Public administration and national defense, obligatory social security contributions	8.69	0.51
Electricity, gas, water, hot water and air to the mechanical systems production and supply	1.57	0.19
Other	25.79	37.04
Total	**100.00**	**100.00**

	As of 31 December 2010	
	Exposure	**Number of entities**
	(%) *(unaudited)*	
Institutional customer loans, according to sector, including		
Industrial processing	21.87	12.38
Wholesale and retail trade, repair of motor vehicles	16.91	26.11
Construction	14.70	12.64
Real estate activities	13.79	12.37
Public administration and national defense, obligatory social security contributions	7.34	0.55
Electricity, gas, water, hot water and air to the mechanical systems production and supply	1.57	0.15
Other	23.82	35.80
Total	**100.00**	**100.00**

	As of 31 December 2009	
	Exposure	**Number of entities**
	(%) *(unaudited)*	
Institutional customers loans, according to sector, including		
Industrial processing	25.27	13.27
Wholesale and retail trade. Repair of motor vehicles and personal and household goods	16.96	29.92
Property management. Lease and services related to the running of business activities	14.25	10.81
Public administration and national defense. Obligatory social security and public health insurance	11.63	0.57
Construction	6.94	14.17
Electricity, gas and water production and supply	2.91	0.18
Other	22.04	31.08
Total	**100.00**	**100.00**

Source: the Bank

Single Name Concentration

The tables below set forth, as of the dates indicated, the Bank's ten largest credit exposures with respect to single name borrowers.

	As of 30 June 2012	
	Exposure*	Share in the loan portfolio**
	(PLN thousand) *(unaudited)*	*(%)*
Entity 1***	1,910,795	1.32
Entity 2***	1,226,033	0.85
Entity 3	470,111	0.32
Entity 4	404,234	0.28
Entity 5	343,746	0.24
Entity 6***	340,809	0.23
Entity 7	340,270	0.23
Entity 8	336,000	0.23
Entity 9	327,111	0.23
Entity 10	312,429	0.22
Total	**6,011,538**	**4.15**

Source: the Bank

* Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable.

** Loan portfolio does not include off-balance sheet and capital exposures.

*** Commitments to entities which are exempt from commitment restrictions under Article 71, section 3 of the Banking Law.

	As of 31 December 2011	
	Exposure*	Share in the loan portfolio**
	(PLN thousand) *(unaudited)*	*(%)*
Entity 1	1,258,272	0.87
Entity 2***	1,205,697	0.84
Entity 3	541,970	0.38
Entity 4	484,761	0.33
Entity 5	399,939	0.28
Entity 6***	394,293	0.27
Entity 7	342,022	0.24
Entity 8	325,542	0.22
Entity 9	323,299	0.22
Entity 10	313,271	0.22
Total	**5,589,066**	**3.87**

Source: Stand-Alone Financial Statements

* Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable.

** Loan portfolio does not include off-balance sheet and capital exposures.

*** Commitments to entities which are exempt from commitment restrictions under Article 71, section 3 of the Banking Law.

Securities Portfolio Analysis

The following table sets forth, as of the dates indicated, the components of the Bank's securities portfolio by issuer type.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(PLN thousand, except percentages)							
	(unaudited)		(audited)					
Issued by the State Treasury	10,538,240	37.8	13,199,415	47.2	13,601,469	61.4	12,343,528	54.8
Issued by the central bank	11,189,539	40.1	8,593,791	30.8	3,997,780	18.1	6,994,218	31.0
Issued by other banks ..	53,750	0.2	52,594	0.2	50,858	0.2	91,885	0.4
Issued by other financial institutions	172,297	0.6	152,496	0.5	8,189	0.0	245,215	1.1
Issued by other non-financial institutions	2,082,705	7.5	2,147,216	7.7	1,448,628	6.5	786,873	3.5
Issued by local government bodies	3,762,083	13.5	3,726,034	13.3	2,960,412	13.4	2,002,429	8.9
Other	117,469	0.4	91,179	0.3	84,474	0.4	86,612	0.4
Impairment allowances	(17,736)	(0.1)	(15,502)	(0.1)	(13,578)	(0.1)	(15,576)	(0.1)
Total securities portfolio	**27,898,347**	**100.0**	**27,947,223**	**100.0**	**22,138,232**	**100.0**	**22,535,184**	**100.0**

Source: Stand-Alone Financial Statements

The following table sets forth, as of the dates indicated, the components of the Bank's securities portfolio.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(PLN thousand, except percentages)							
	(unaudited)		(audited)					
Trading assets................	394,696	1.4	1,311,089	4.7	1,503,649	6.8	2,212,955	9.8
Financial assets designated upon initial recognition at fair value through profit and loss	14,930,124	53.5	12,467,201	44.6	10,758,331	48.6	12,356,532	54.8
Investment securities available for sale	12,573,527	45.1	14,168,933	50.7	9,876,252	44.6	7,965,697	35.3
Total securities portfolio	**27,898,347**	**100.0**	**27,947,223**	**100.0**	**22,138,232**	**100.0**	**22,535,184**	**100.0**

Source: Stand-Alone Financial Statements

Trading Assets

The following table sets forth, as of the dates indicated, the components of the trading assets in the Bank's securities portfolio.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(unaudited)		*(PLN thousand, except percentages)*		*(audited)*			
Debt securities	383,155	97.1	1,300,164	99.2	1,491,053	99.2	2,202,847	99.5
issued by the State Treasury	327,956	83.1	1,268,471	96.7	1,483,144	98.6	2,198,840	99.4
issued by local government bodies	14,809	3.8	14,783	1.1	7,390	0.5	2,208	0.1
issued by non-financial institutions	19,388	4.9	14,947	1.1	509	0.0	–	–
issued by other financial institutions	18,084	4.6	239	0.0	10	0.0	–	–
issued by banks	2,918	0.7	1,724	0.1	–	–	1,799	0.1
Shares in other entities – listed on the stock exchange	11,541*	2.9	10,925	0.8	12,596	0.8	10,108	0.5
Total	**394,696**	**100.0**	**1,311,089**	**100.0**	**1,503,649**	**100.0**	**2,212,955**	**100.0**

Source: Stand-Alone Financial Statements

* including investment certificates and rights issues

Financial Assets Designated Upon Initial Recognition at Fair Value through Profit and Loss

The following table sets forth, as of the dates indicated, the components of the financial assets designated upon initial recognition at fair value through profit and loss in the Bank's securities portfolio.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(unaudited)		*(PLN thousand, except percentages)*		*(audited)*			
Debt securities								
issued by the State Treasury	3,492,752	23.4	3,620,515	29.0	6,631,702	61.6	5,362,314	43.4
issued by the central bank	11,189,539	74.9	8,593,791	68.9	3,997,780	37.2	6,994,218	56.6
issued by local government bodies	247,833	1.7	252,895	2.0	128,849	1.2	—	—
Total	**14,930,124**	**100.0**	**12,467,201**	**100.0**	**10,758,331**	**100.0**	**12,356,532**	**100.0**

Source: Stand-Alone Financial Statements

Investment Securities Available for Sale

The following table sets forth, as of the dates indicated, the components of the investment securities available for sale in the Bank's securities portfolio.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(PLN thousand, except percentages)							
	(unaudited)		*(audited)*					
Issued by banks	50,832	0.4	50,870	0.4	50,858	0.5	90,086	1.1
Issued by financial institutions	154,213	1.2	152,257	1.1	8,179	0.1	245,215	3.1
Issued by non-financial institutions	2,063,317	16.4	2,132,269	15.0	1,448,119	14.7	786,873	9.9
Issued by the State Treasury	6,717,532	53.4	8,310,429	58.7	5,486,623	55.6	4,782,374	60.0
Issued by the local government bodies	3,499,441	27.8	3,458,356	24.4	2,824,173	28.6	2,000,221	25.1
Equity securities	105,928	0.8	80,254	0.6	71,878	0.7	76,504	1.0
Net impairment allowance	(17,736)	(0.1)	(15,502)	(0.1)	(13,578)	(0.1)	(15,576)	(0.2)
Total	**12,573,527**	**100.0**	**14,168,933**	**100.0**	**9,876,252**	**100.0**	**7,965,697**	**100.0**

Source: Stand-Alone Financial Statements

Maturity Profile of Investment Securities Available for Sale Portfolio

The following tables set forth, as of the dates indicated, the Bank's investment securities available for sale by remaining maturity.

	As of 30 June 2012					
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
	(PLN thousand, except percentages) *(unaudited)*					
Investment securities available for sale						
issued by banks	–	–	–	–	50,832	50,832
issued by other financial institutions	45,410	108,803	–	–	–	154,213
issued by non-financial institutions	251,058	41,268	32,668	1,556,304	176,483	2,057,781
issued by the State Treasury	–	–	101,344	4,498,382	2,117,806	6,717,532
issued by local government bodies	17,362	33,424	185,477	1,297,603	1,965,575	3,499,441
Total	**313,830**	**183,495**	**319,489**	**7,352,289**	**4,310,696**	**12,479,799**

Source: the Bank

	As of 31 December 2011					
	up to 1 month	**from 1 to 3 months**	**from 3 months to 1 year**	**from 1 to 5 years**	**over 5 years**	**Total**
	(PLN thousand, except percentages) (unaudited)					
Investment securities available for sale						
issued by banks	–	–	–	–	50,870	50,870
issued by other financial institutions	9,958	142,299	–	–	–	152,257
issued by non-financial institutions	376,277	41,698	53,585	1,464,517	183,194	2,119,271
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
Total	**526,034**	**191,483**	**1,180,590**	**7,714,198**	**4,478,878**	**14,091,183**

Source: Stand-Alone Financial Statements

	As of 31 December 2010					
	up to 1 month	**from 1 to 3 months**	**from 3 months to 1 year**	**from 1 to 5 years**	**over 5 years**	**Total**
	(PLN thousand, except percentages) (unaudited)					
Investment 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**

Source: Stand-Alone Financial Statements

Maturity Profile of Financial Assets Designated Upon Initial Recognition at Fair Value through Profit and Loss

The following tables set forth, as of the dates indicated, the Bank's financial assets designated upon initial recognition at fair value through profit and loss by remaining maturity.

	As of 30 June 2012					
	up to 1 month	**from 1 to 3 months**	**from 3 months to 1 year**	**from 1 to 5 years**	**over 5 years**	**Total**
	(PLN thousand, except percentages) (unaudited)					
Debt securities						
Issued by central banks	11,189,539	–	–	–	–	11,189,539
Issued by the State Treasury	373,913	99,171	1,167,133	1,840,882	11,653	3,492,752
Issued by local government bodies	–	–	–	–	247,833	247,833
Total	**11,563,452**	**99,171**	**1,167,133**	**1,840,882**	**259,486**	**14,930,124**

Source: the Bank

	As of 31 December 2011					
	up to 1 month	**from 1 to 3 months**	**from 3 months to 1 year**	**from 1 to 5 years**	**over 5 years**	**Total**
	(PLN thousand, except percentages) (unaudited)					
Debt securities						
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**

Source: Stand-Alone Financial Statements

	As of 31 December 2010					
	up to 1 month	**from 1 to 3 months**	**from 3 months to 1 year**	**from 1 to 5 years**	**over 5 years**	**Total**
	(PLN thousand, except percentages) (unaudited)					
Debt securities						
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**

Source: Stand-Alone Financial Statements

Maturity Profile of Trading Assets

The following tables set forth, as of the dates indicated, the Bank's trading assets by remaining maturity.

	As of 30 June 2012					
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
	(PLN thousand, except percentages) (unaudited)					
Debt securities						
Issued by banks	–	–	–	1,636	1,282	2,918
Issued by other financial institutions	–	–	–	18,084	–	18,084
Issued by other non-financial institutions	145	–	494	18,749	–	19,388
Issued by the State Treasury	32,137	42	74,402	157,604	63,771	327,956
Issued by local government bodies	–	–	4,600	7,764	2,445	14,809
Total	**32,282**	**42**	**79,496**	**203,837**	**67,498**	**383,155**

Source: the Bank

	As of 31 December 2011					
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
	(PLN thousand, except percentages) (unaudited)					
Debt securities						
Issued by banks	–	–	–	1,465	259	1,724
Issued by other financial institutions	–	227	–	12	–	239
Issued by non-financial institutions	92	821	620	13,414	–	14,947
Issued by the State Treasury	68,317	50,092	501,826	474,429	173,807	1,268,471
Issued by local government bodies	—	778	4,623	8,405	977	14,783
Total	**68,409**	**51,918**	**507,069**	**497,725**	**175,043**	**1,300,164**

Source: Stand-Alone Financial Statements

	As of 31 December 2010					
	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
	(PLN thousand, except percentages) *(unaudited)*					
Debt securities						
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**

Source: Stand-Alone Financial Statements

Liabilities

The following tables set forth, as of the dates indicated, the components of the Bank's total liabilities.

	As of 30 June 2012		As of 31 December 2011	
	Amount	%	Amount	%
	(PLN thousand, except percentages) *(unaudited)*		*(audited)*	
Amounts due to customers	150,497,206	91.2	150,030,681	90.6
Amount due to central banks and banks	4,790,390	2.9	5,324,844	3.2
Subordinated liabilities	1,614,369	1.0	1,614,377	1.0
Debt securities in issue	2,775,735	1.7	3,105,588	1.9
Current tax liabilities..	66,652	0.0	77,532	0.0
Provisions	620,917	0.4	615,489	0.4
Other liabilities*	4,681,561	2.8	4,801,804	2.9
Total liabilities	**165,046,830**	**100.0**	**165,570,315**	**100.0**

Source: Stand-Alone Financial Statements

* Includes "Other liabilities" and "Derivative Financial Instruments".

	As of 31 December			
	2010		2009	
	Amount	%	Amount	%
	(PLN thousand, except percentages) *(audited)*			
Amounts due to customers	135,289,055	92.6	124,044,400	92.9
Amount due to central banks and banks	4,167,551	2.9	4,173,306	3.1
Subordinated liabilities	1,611,779	1.1	1,612,178	1.2
Debt securities in issue	–	–	–	–
Current tax liabilities..	61,854	0.0	175,165	0.1
Provisions	714,438	0.5	598,626	0.4
Other liabilities*	4,192,394	2.9	2,864,287	2.1
Total liabilities	**146,037,071**	**100.0**	**133,467,962**	**100.0**

Source: Stand-Alone Financial Statements

* Includes "Other liabilities" and "Derivative Financial Instruments".

Amounts Due to Customers

The following tables set forth, as of the dates indicated, the Bank's amounts due to customers by product type and customer type.

	As of 30 June 2012		As of 31 December 2011	
	Amount	%	Amount	%
	(PLN thousand, except percentages)			
	(unaudited)		*(audited)*	
Amounts due to retail clients	**105,760,500**	**70.3**	**103,424,136**	**68.9**
Term deposits	57,687,500	38.3	54,897,173	36.6
Current accounts and overnight deposits	47,836,450	31.8	48,054,921	32.0
Other money market deposits	236,550	0.2	472,042	0.3
Amounts due to corporate entities	**39,738,366**	**26.4**	**42,784,326**	**28.5**
Term deposits	22,847,008	15.2	24,012,372	16.0
Current accounts and overnight deposits	9,245,142	6.1	11,187,998	7.5
Loans and advances received*	6,339,559	4.2	6,453,092	4.3
Amounts due from repurchase agreements	970,319	0.6	644,005	0.4
Other money market deposits	336,338	0.2	486,859	0.3
Amounts due to state budget entities	**4,998,340**	**3.3**	**3,822,219**	**2.5**
Term deposits	2,479,924	1.6	1,516,981	1.0
Current accounts and overnight deposits	2,435,597	1.6	2,241,309	1.5
Other money market deposits	82,819	0.1	63,929	0.0
Total	**150,497,206**	**100.0**	**150,030,681**	**100.0**

Source: Stand-Alone Financial Statements

* Including loans and advances from financial institutions and loans of nominal value of EUR 800,000 thousand and CHF 250,000 thousand received from PKO Finance AB in relation to the issue of notes under the Programme.

	As of 31 December			
	2010		2009	
	Amount	%	Amount	%
	(PLN thousand, except percentages)			
	(audited)			
Amounts due to retail clients	**94,347,108**	**69.7**	**86,627,306**	**69.8**
Term deposits	47,744,721	35.3	48,746,371	39.3
Current accounts and overnight deposits	46,308,729	34.2	37,613,105	30.3
Other money market deposits	293,658	0.2	267,830	0.2
Amounts due to corporate entities	**34,895,145**	**25.8**	**27,736,114**	**22.4**
Term deposits	18,039,764	13.3	17,060,972	13.8
Current accounts and overnight deposits	11,139,468	8.2	8,784,705	7.1
Loans and advances received*	5,020,400	3.7	1,421,527	1.1
Amounts due from repurchase agreements	446,175	0.3	237,071	0.2
Other money market deposits	249,338	0.2	231,839	0.2
Amounts due to state budget entities	**6,046,802**	**4.5**	**9,680,980**	**7.8**
Term deposits	3,349,821	2.5	6,279,377	5.1
Current accounts and overnight deposits	2,689,361	2.0	3,355,753	2.7
Other money market deposits	7,620	0.0	45,850	0.0
Total	**135,289,055**	**100.0**	**124,044,400**	**100.0**

Source: Stand-Alone Financial Statements

* Including loans and advances from financial institutions and a loan of nominal value of EUR 800,000 thousand received from PKO Finance AB in relation to the issue of notes under the Programme.

Distribution of Deposits by Currency

The following table sets forth, as of the dates indicated, the distribution of the Bank's amounts due to customers by currency.

	As of 30 June		As of 31 December					
	2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(PLN thousand, except percentages)							
	(unaudited)		*(audited)*					
PLN	135,533,254	90.1	132,705,731	88.5	123,166,413	91.0	116,103,469	93.6
EUR	9,706,834	6.4	10,237,739	6.8	8,649,236	6.4	4,843,387	3.9
CHF	2,192,811	1.5	2,227,079	1.5	1,069,806	0.8	934,399	0.8
Other	3,064,307	2.0	4,860,132	3.2	2,403,600	1.8	2,163,145	1.7
Total amounts due to customers	**150,497,206**	**100.0**	**150,030,681**	**100.0**	**135,289,055**	**100.0**	**124,044,400**	**100.0**

Source: Stand-Alone Financial Statements, the Bank

Contractual Maturities of the Bank's Liabilities

The following table set forth, as of the date indicated, the distribution of the Bank's liabilities (before effective interest rate ("**EIR**") adjustment and including future interest) by remaining contract maturity.

	As of 30 June 2012											
	Up to 1 month	%	Over 1 month to 3 months	%	Over 3 months to 1 year	%	Over 1 year to 5 years	%	Over 5 years	%	Contractural value	Carrying amount
	(PLN thousand, except percentages) (unaudited)											
Amounts due to the central bank...............	2,868	100.0	–	–	–	–	–	–	–		2,868	2,868
Amounts due to banks	4,767,837	99.4	28,533	0.6	–	–	–	–	–	–	4,796,370	4,787,522
Derivative financial instruments	280,714	15.0	(84,215)	(4.5)	707,416	37.7	809,838	43.1	163.764	8.7	1,877,517	2,759,720
Amount due to customers........	89,179,383	57.9	16,332,589	10.6	40,660, 850	26.4	6,074,493	3.9	1,644,983	1.1	153,892,298	150,497,206
Debt securities in issue...........	–	–	2,480,700	88.6	44,482	1.6	275,697	9.8	–	–	2,800,879	2,775,735
Subordinated liabilities..........	–	–	–	–	96,329	4.6	348,335	16.7	1,646,237	78.7	2,090,901	1,614,369
Other liabilities	1,644,502	85.6	83,298	4.3	144,103	7.5	19,738	1.0	30,200	1.6	1,921,841	1,921,841
Off-balance sheet financial liabilities – granted..........	16,938,191	53.5	955,134	3.0	4,371,026	13.8	3,427,642	10.8	5,970,172	18.9	31,662,165	–
Off-balance sheet guarantee liabilities – issued	91,530	0.8	400,522	3.3	5,206,437	42.8	4,874,613	40.0	1,603,581	13.2	12,176,683	–
Total liabilities ..	**112,905,025**	**53.5**	**20,196,561**	**9.6**	**51,230,643**	**24.3**	**15,830,356**	**7.5**	**11,058,937**	**5.2**	**211,221,522**	**164,359,261**

Source: the Bank

	As of 31 December 2011											
	Up to 1 month	%	Over 1 month to 3 months	%	Over 3 months to 1 year	%	Over 1 year to 5 years	%	Over 5 years	%	Contractural value	Carrying amount
	(PLN thousand, except percentages) (unaudited)											
Amounts due to the central bank	3,454	100.0	–	–	–	–	–	–	–	–	**3,454**	**3,454**
Amounts due to banks	2,176,374	37.3	209,010	3.6	3,446,741	59.1	–	–	–	–	**5,832,125**	**5,321,390**
Derivative financial instruments	(9,115)	(0.8)	389,545	33.3	(24,985)	(2.1)	761,864	65.0	54,226	4.6	**1,171,535**	**2,645,281**
Amount due to customers	92,633,327	60.7	15,019,129	9.8	35,092,306	23.0	8,059,411	5.3	1,715,026	1.1	**152,519,199**	**150,030,681**
Debt securities in issue	–	–	2,950,000	94.3	–	–	179,193	5.7	–	–	**3,129,193**	**3,105,588**
Subordinated liabilities	–	–	–	–	96,383	4.4	369,881	17.1	1,699,775	78.5	**2,166,039**	**1,614,377**
Other liabilities	1,612,533	74.8	382,901	17.8	95,112	4.4	26,229	1.2	39,748	1.8	**2,156,523**	**2,156,523**
Off-balance sheet financial liabilities – granted	15,247,959	49.7	957,788	3.1	4,885,157	15.9	4,215,505	13.7	5,365,335	17.5	**30,671,744**	**-**
Off-balance sheet guarantee liabilities – issued	102,662	1.4	337,260	4.6	1,769,827	23.9	4,003,958	54.1	1,190,346	16.1	**7,404,053**	**-**
Total liabilities	**111,767,194**	**54.5**	**20,245,633**	**9.9**	**45,360,541**	**22.1**	**17,616,041**	**8.6**	**10,064,456**	**4.9**	**205,053,865**	**164,877,294**

Source: Stand-Alone Financial Statements

	As of 31 December 2010											
	Up to 1 month	%	Over 1 month to 3 months	%	Over 3 months to 1 year	%	Over 1 year to 5 years	%	Over 5 years	%	Contractural value	Carrying amount
	(PLN thousand, except percentages) (unaudited)											
Amounts due the central to bank	3,370	100.0	–	–	–	–	–	–	–	–	**3,370**	**3,370**
Amounts due to banks	1,109,587	21.4	2,304	0.0	6,990	0.1	4,064,602	78.4	–	–	**5,183,483**	**4,164,181**
Derivative financial instruments	95,536	(57,5)	88,412	(52.6)	(223,929)	133.3	(198,336)	118.1	69,388	(41.3)	**(167,929)**	**2,404,795**
Amount due to customers	82,185,269	59.6	17,198,795	12.5	31,504,824	22.9	5,437,904	3.9	1,523,160	1.1	**137,849,952**	**135,289,055**
Subordinated liabilities	–	–	–	–	80,835	3.7	323,563	14.9	1,762,592	81.3	**2,166,990**	**1,611,779**
Other liabilities	1,787,451	100.0	–	–	–	–	148	0.0	–	–	**1,787,599**	**1,787,599**
Off-balance sheet financial liabilities – granted	16,629,361	55.6	291,994	1.0	3,999,554	13.4	3,320,204	11.1	5,694,425	19.0	**29,935,538**	**–**
Off-balance sheet guarantee liabilities – issued	1,649,125	20.0	971,746	11.8	1,828,734	22.2	3,313,539	40.2	489,684	5.9	**8,252,828**	**–**
Total liabilities	**103,460,699**	**55.9**	**18,553,251**	**10.0**	**37,197,008**	**20.1**	**16,261,624**	**8.8**	**9,539,249**	**5.2**	**185,011,831**	**145,260,779**

Source: Stand-Alone Financial Statements

	As of 31 December 2009											
	Up to 1 month	%	Over 1 month to 3 months	%	Over 3 months to 1 year	%	Over 1 year to 5 years	%	Over 5 years	%	Contractual value	Carrying amount
	(PLN thousand, except percentages) (unaudited)											
Amounts due to the central bank	6,581	100.0	–	–	–	–	–	–	–	–	**6,581**	**6,581**
Amounts due to banks	1,439,131	33.4	108,098	2.5	7,955	0.2	2,645,718	61.4	105,427	2.4	**4,306,329**	**4,166,725**
Derivative financial instruments	800,154	148.5	82,525	15.3	(17,328)	(32.0)	(182,410)	(33.9)	10,928	2.0	**538,869**	**1,544,370**
Amount due to customers	71,645,951	57.2	20,316,475	16.2	29,302,799	23.4	3,296,711	2.6	648,278	0.5	**125,210,214**	**124,044,400**
Subordinated liabilities	–	–	–	–	84,997	3.7	255,224	11.2	1,940,921	85.1	**2,281,142**	**1,612,178**
Other liabilities	1,107,004	83.9	–	–	212,868	16.1	–	–	–	–	**1,319,872**	**1,319,917**
Off-balance sheet financial liabilities – granted	15,083,878	54.6	306,327	1.1	5,065,882	18.3	2,438,473	8.8	4,734,320	17.1	**27,628,880**	**–**
Off-balance sheet guarantee liabilities – issued	1,364,677	23.5	1,493,569	25.7	1,532,101	26.4	1,289,899	22.2	133,213	2.3	**5,813,459**	**–**
Total liabilities	**91,447,376**	**54.7**	**22,306,994**	**13.3**	**36,034,274**	**21.6**	**9,743,615**	**5.8**	**7,573,087**	**4.5**	**167,105,346**	**132,694,171**

Source: Stand-Alone Financial Statements

Concentration of the Securities Portfolio

The following table below sets forth, as of the date indicated, the Bank's securities portfolio concentration against the largest entities.

	As of 30 June 2012		As of 31 December 2011	
	Book value	% of securities portfolio	Book value	% of securities portfolio
	(PLN thousand, except percentages)			
	(unaudited)		*(audited)*	
State Treasury	10,538,240	48.5	13,199,415	60.6
Central Banks	11,189,539	51.5	8,593,791	39.4
Total	**21,727,779**	**100.0**	**21,793,206**	**100.0**

Source: Stand-Alone Financial Statements

OPERATING AND FINANCIAL REVIEW

The operating and financial review presented below was prepared based on the Consolidated Financial Statements.

The following discussion of the Group's results of operations, financial condition and cash flows should be read and interpreted in conjunction with the Consolidated Financial Statements and other financial information included in other sections of this Prospectus, specifically jointly with the data presented in "Selected Statistical and Other Information". This section includes forward-looking statements that reflect the current views of the Management Board and due to their nature involve risks and uncertainties. The actual results of the Group could differ materially from those contained in any forward-looking statements as a result of the factors discussed below and in other sections of this Prospectus, particularly in "Risk Factors" (see also "Forward-Looking Statements"). Investors should read the whole of this Prospectus and not base their decisions or opinions solely upon the information contained in this section.

The summary of critical accounting policies and estimates according to which the Consolidated Financial Statements were prepared is provided in this section in the point "Critical accounting policies and estimates".

Overview

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of total assets, net income, total equity, loan and deposit portfolios, number of customers and size of the distribution network, as well as the largest commercial bank in CEE and one of the 25 leading banks in Europe in terms of market capitalization as of the date of the Prospectus. Historically, the Group was focused mainly on providing banking products and services to individuals, but since 2004 the Group has also actively offered products and provided services to corporate clients. As of the date of the Prospectus, the Group is the Polish market leader in terms of the value of loans granted to business entities. The Group's share in the net profit, assets and equity of the Polish banking sector as of and for the year ended 31 December 2011 amounted to 24.4 per cent., 14.7 per cent. and 17.7 per cent., respectively (based on PFSA data).

As of 30 June 2012, the Bank serviced approximately 7.4 million retail banking customers (including 7.1 million individual customers, 306.1 thousand small and medium enterprise ("**SME**") clients, and 46.2 thousand housing sector entities, excluding Inteligo clients), approximately 642.9 thousand customers of the Bank using the Inteligo electronic banking platform and 11.8 thousand corporate clients.

In addition to the products and services offered with regard to retail and corporate banking, the Group provides specialist financial services with regard to leasing, factoring, investment funds, pension funds, investment banking, electronic payment services and offers Internet banking products and services. The Bank also generates income from its investment operations by investing the Bank's excess liquidity in the inter-bank and Polish treasury securities markets.

The Group has also been offering banking products and services in Ukraine since 2004 through its subsidiary, Kredobank. As of the date of the Prospectus, the operations of Kredobank do not constitute a significant portion of the Group's operations.

With 1,197 branches, 1,218 agencies, 2,525 ATMs and 326 self-service terminals, as of 30 June 2012, the Bank has the largest and most extensive distribution network for banking products and services in Poland which enables it to attract and service clients throughout Poland. The Bank employed 25,437 full-time equivalent staff and employees as of 30 June 2012.

As of 30 June 2012, the Group had total assets of PLN 190,437.9 million, amounts due to customers of PLN 146,986.5 million and loans and advances to customers of PLN 141,331.2 million which equated to market shares in the Polish banking sector of 14.5 per cent., 16.1 per cent., 15.1 per cent., respectively (based on PFSA data). For the year ended 31 December 2010, the Group generated a net profit attributable to the equity holders of the parent company of PLN 3,216.9 million, and PLN 3,807.2 million for the year ended 31 December 2011, which, according to data from the PFSA, accounted for 28.2 per cent. and 24.4 per cent., respectively, of the net profit of the Polish banking sector over the same periods. For the six-month periods ended 30 June 2012 and 30 June 2011 the Group generated a net profit attributable to the equity holders of the parent company of PLN 1,953.4 million and PLN 1,838.3 million, respectively, which, according to the data from the PFSA, accounted for 24.6 and 23.6 per cent., respectively, of the net profit of the Polish banking sector over such six-month periods. The Group has a strong capital base, with a capital adequacy ratio of 13.01 per cent. and a Tier 1 ratio of 11.98 per cent. with Tier 1 capital of PLN 18,971.7 million as of 30 June 2012 and no hybrid capital on the Group's balance sheet.

General Factors Affecting Operating and Financial Results

The Group's operating and financial results are affected by: (i) general economic conditions, in particular the economic environments in Poland and to a lesser extent in Ukraine (see *"Specific Factors Affecting Operating and Financial Results – Investment in Kredobank"*, below), the inflation rate and the level of interest rates, currency exchange rates and the situation on the capital markets; (ii) the development in the Polish banking sector, especially in terms of the level of competition, and regulatory changes; and (iii) Group-driven factors, such as the product and target customer strategy as well as cost cutting initiatives. The Group's operating and financial results are also affected by the development of the mortgage and real estate market in Poland, the quality of the loan portfolio, and the availability of funding.

The key factors affecting the Group's financial and operating results for the years 2009-2011 and for the first half of 2012 are discussed below. The Management Board believes that these factors had and in the future may have an impact on the business, operating and financial results, financial condition and development prospects of the Group.

Economic Environment in Poland

The Group conducts its operations almost exclusively in Poland, where the vast majority of its clients are located. Therefore the macroeconomic factors relating to Poland, such as GDP, the inflation rate and interest rates and currency exchange rates, as well as unemployment rate, personal income, the financial situation of companies, together with various other factors, have a material impact on customer demand, loan losses and margins for Group's products and services, which materially affects the Group's results and balance sheet positions.

The Polish economy is one of the fastest growing economies in the EU. In terms of the number of inhabitants (38.5 million), Poland is the largest of the new Member States and ranks sixth among all EU countries. With a GDP of EUR 369.5 billion during 2011 (according to Eurostat data), it is the eighth largest EU economy and the twentieth largest economy in the world (according to IMF data).

Despite the global economic downturn, the country's economic growth between 2009 and 2011 remained positive and Poland was the only country in the EU not to register a negative GDP growth throughout that period. According to data obtained from GUS, Poland's GDP grew by 1.6 per cent. during 2009, by 3.9 per cent. in 2010 and by 4.3 per cent. during 2011 as measured in real terms.

During the first half of 2009 there was a marked deterioration in Poland's key economic indicators and its growth prospects as the global financial crisis spilled over into the real economy. During 2009 the GDP growth slowed to 1.6 per cent. in real terms year-on-year. At the same time, the unemployment rate increased from 9.5 per cent. at the end of December 2008 to 12.1 per cent. at the end of December 2009 (according to data from GUS). The economic slowdown in Poland reduced the growth rate of the Group's portfolio of mortgage loans, corporate loans and consumer loans, in turn affecting the Group's net interest income and net fee and commission income. Moreover, financing costs increased both due to the availability of financing on the inter-bank market (a reduction in banks' transaction limits and inter-bank transaction volumes as a result of falling confidence on the financial market due to the world economic crisis) and banks' increasing interest rates on deposits due to growing competition on the deposit market, which had a negative impact on the net interest income generated by the Group (see "*Availability and Cost of Funding*" below). The quality of the Group's loan portfolio deteriorated as a result of the economic slow-down (in particular the increase in the unemployment rate and the worsening of the financial situation of corporate clients, as well as the increase in the number of company insolvencies). The above, together with other factors, resulted in a drop of the net profit attributable to shareholders of the Group's parent company in 2009 and a slow-down in the total asset growth compared to 2008.

During 2010, GDP growth accelerated in the wake of the improvement in the economic situation in the USA and in the Eurozone, including Germany. Real GDP growth improved to 3.9 per cent. year-on-year. The improvement in the economic situation in Poland during 2010 and 2011 had a positive impact on the results of the entire banking sector in Poland, including the results of the operations of the Group. The improved dynamics of the economic growth in Poland led to a surge in personal wealth, which resulted in increased consumption and in corporate activity. These factors, combined with a low interest rate environment (see "*Inflation Rate and Interest Rates*" below), resulted in: (i) increased interest in home ownership, which led to a growth of the Group's mortgage lending activities; (ii) increased demand for consumer loans and investment products; and (iii) generally increased corporate activity, which fuelled the growth of the Group's corporate loan portfolio. These developments contributed to a large extent in the growth of the Group's portfolio of mortgage loans, consumer and corporate loans, as well as an increase in customer interest in mutual funds and other investment products, which led to an increase in the Group's net interest income and its net fee and commission income. The improved economic conditions in Poland also resulted in a decrease of the pace of deterioration in the Group's loan portfolio. All these factors combined led to a growth of the net profit attributable to the equity holders of the parent company as well as in most balance sheet positions of the Group.

Furthermore, Poland has maintained a stable "A-" sovereign rating from Standard & Poor's. The Polish government is improving its structured fiscal balance and reducing its public debt through various initiatives which include the reform of the pension system and the privatization program and introducing rules for public expenses. The goal of these measures is to ensure that public finances remain on a sustainable path and, in particular, to ensure that the ratio of national debt to GDP stays below 60 per cent., which is required under the Constitution of the Republic of Poland and is one of the eligibility criteria for accession to the Eurozone.

Inflation Rate and Interest Rates

A substantial portion of the Group's income is related to interest and similar income, and the Group's assets and liabilities are sensitive to changes in the interest rate environment. Both the level of market interest rates and the trend in the change thereof have a material impact on the net interest income earned by the Group, and also impact the Group's investment securities portfolio.

The interest rates announced by the NBP are determined by the Monetary Policy Council. When making decisions about potential changes in interest rates, the Monetary Policy Council takes several factors into account, including economic growth forecasts, the actual and forecasted inflation rate for the Polish economy. Since 1998 the Monetary Policy Council has utilized a direct inflation target strategy in the implementation of its monetary policy. The Monetary Policy Council defines the inflation target and then adjusts the NBP basic interest rates in order to maximize the probability of achieving the target. Starting from 2004 the Monetary Policy Council adopted a long-term inflation goal of 2.5 per cent. (with a symmetric permissible fluctuation band of ± 1 p.p.).

Polish banks are free to determine interest rates on loans and deposits, subject to limitations resulting from usury rules and client rights protection regulations in respect of interest rates on consumer loans. The official NBP interest rates, in particular the reference rate, have a considerable impact on market interest rates, and thereby on interest rates on loans and deposits. The three-month Polish inter-bank offering rates (commonly referred to as the "three-month WIBOR") are widely used in Poland as the reference rates for inter-bank borrowings and deposits in Poland as well as for loans to customers and customer deposits.

The following table sets forth the average annual inflation rates, the NBP reference rates and the three-month inter-bank loan interest rates for the periods and on the dates indicated.

	Average Annual Inflation	NBP Reference Rate	Three-month inter-bank loan interest rate			
			WIBOR[1]	EUR LIBOR[2]	USD LIBOR[3]	CHF LIBOR[4]
			(%)			
31 December 2009........	3.5	3.50	4.2700	0.7000	0.2506	0.2517
31 December 2010........	2.6	3.50	3.9500	1.0060	0.3028	0.1700
31 December 2011........	4.3	4.50	4.9400	1.6560	0.3003	0.1717
30 June 2012..................	4.3[5]	4.75	5.0300	0.6530	0.4600	0.0870

Source: GUS, NBP, Reuters.

1) Represents the Polish inter-bank interest rates on PLN-denominated three-month inter-bank loans.

2) Represents the London inter-bank interest rates on EUR-denominated three-month inter-bank loans.

3) Represents the London inter-bank interest rates on USD-denominated three-month inter-bank loans.

4) Represents the London inter-bank interest rates on CHF-denominated three-month inter-bank loans.

5) Represents the year-on-year rate of inflation.

The deterioration in the macroeconomic environment during the fourth quarter of 2008 and during 2009 and the lack of inflationary pressure resulted in a reduction in the official interest rates by the NBP and other central banks, which translated into a decrease in the market interest rates in 2009. Due to the fact that as of 30 June 2012, 31 December 2011, 2010 and 2009, 88.5 per cent., 88.0 per cent., 85.7 per cent. and 83.8 per cent., respectively, of the Banks's loan portfolio was linked to market interest rates, in particular WIBOR and CHF LIBOR, the reduction in the interest rates during 2009 had a negative impact on the interest income generated by the Group. The share of the Bank's deposits linked to market interest rates is significantly lower (22.0 per cent., 23.1 per cent., 18.5 per cent., and 23.5 per cent. as of 30 June 2012, 31 December 2011, 2010 and 2009, respectively). Simultaneously, a major source of financing for credit-related activities are the deposits with interest rates determined by the Bank (53.7 per cent., 51.6 per cent., 55.2 per cent., and 50.1 per cent. as of 30 June 2012, 31 December 2011, 2010 and 2009, respectively), which allows the Group to quickly reflect the market interest rate changes in the prices of its deposits. During 2010 the Monetary Policy Council maintained interest rates at an unaltered level. However, in response to increased inflationary pressure in the second half of 2010, which, *inter alia*, resulted from an increase in food, energy and fuel prices in the first half of 2011 (in January, April, May, and in June 2011), the NBP interest rates went up by a total of 100 basis points. As of the date of this Prospectus, the last increase of the NBP interest rates (of 25 basis points) took place in May 2012.

The level of market interest rates on loans and deposits in Poland is also indirectly affected by the availability of inter-bank loans and other sources of financing which can be used by Polish banks, as well as changes in the PLN exchange rate in respect of the main currencies (i.e. CHF, EUR and USD,). The limited liquidity on the Polish inter-bank market stemming, in particular, from limited financing from foreign banks which are parent companies of Polish banks and limited confidence on the Polish and international inter-bank market, resulted in an increase in the demand for deposits during the first quarter of 2009, which were the main sources of financing for the lending campaign conducted by Polish banks (see "*Availability and Cost of Funding*" below). These factors contributed to the increased competition on the market for savings products and limited the Group's ability to reflect the changes in the market interest rates in interest rates on deposits. As a result, the costs of deposits incurred by the Group went up, which resulted in an increase in interest expense and had a negative impact on the Group.

During 2010, the first half of 2011 and the first half of 2012 the PLN exchange rate appreciated against the majority of currencies (in 2010 and 2011 CHF was an exception in respect of which PLN depreciated by approximately 14.4 per cent. during 2010 and 14.8 per cent. during 2011). A strong depreciation against the majority of currencies in the second half of 2011 was followed by rapid appreciation in the first half of 2012.

Moreover, combined with the increased ability to obtain financing on the inter-bank market (despite maintaining the transaction limits at a level lower than before the crisis), resulting from an increase in the confidence on the market, resulted in limiting demand, and therefore increasing the availability of sources of financing for Polish banks during 2010 and 2011. It also contributed to reducing and stabilizing interest rates on customer deposits (including deposits of customers of the Group) during 2010 and 2011, which had a positive impact on the Group's interest expense and interest margin.

Moreover, the differences between the inter-bank interest rates for PLN and foreign currencies have an impact on the level of the Group's income from swaps which off sets lower income from interest in foreign currencies (the Group finances a significant portion of its assets denominated in foreign currencies by cross-currency interest rate swaps ("**CIRS**") transactions), which in turn influences the Group's net interest income.

Exchange Rate Environment

A substantial portion of the total assets of the Bank (18.6 per cent., 19.3 per cent., 19.3 per cent., and 19.0 per cent., as of 30 June 2012, 31 December 2011, 2010 and 2009, respectively), especially the mortgage loan portfolio, is denominated in foreign currencies, primarily CHF. Historically the relatively high demand for CHF-denominated loans was mainly driven by the difference between the CHF and PLN interest rates, combined with the appreciation of the PLN against foreign currencies. Moreover, as of 30 June 2012, 31 December 2011, 2010 and 2009, 11.9 per cent., 13.3 per cent., 11.0 per cent., and 8.3 per cent., respectively, of the Bank's liabilities were denominated in foreign currencies. The value of the Group's loan portfolio denominated in foreign currencies is substantially larger than the value of the Group's liabilities denominated in foreign currencies. Therefore, the Group enters into foreign exchange swap transactions to mitigate the foreign exchange risk. The level of compensating income from foreign exchange swap transactions is dependent on the movement off foreign exchange rates and the interest rate differential between the WIBOR and LIBOR rates, and spreads reflecting, *inter alia*, the Group's credit risk.

Therefore, fluctuations in exchange rates between PLN and foreign currencies, especially CHF, are a factor which has a material impact on the Group's financial and operating results and its financial condition. In particular, exchange rate fluctuations impact: (i) the financial standing of the Group due to the fact that the assets denominated in foreign currencies are presented in PLN as a functional currency of the Group; (ii) the operating profit of the Group through net foreign exchange gains; (iii) the scale of the Group's lending activity in foreign currencies; and (iv) the asset quality, especially the loan portfolio denominated in CHF (see "*Loan Portfolio Quality*"). Moreover, fluctuations in the PLN exchange rate to foreign currencies can also indirectly impact market interest rates on customer deposits and financing costs incurred by the Group, and thus its net interest income (see *"Inflation Rate and Interest Rates"* above).

For information on the exchange rates of PLN against EUR, USD, CHF and UAH in recent years, please see "*Exchange Rates*".

Competition Landscape in the Polish Banking Sector

The amount of competition in the Polish banking sector and material changes in this respect (see "*Industry Overview*") have a significant impact on the Group's cost of funding, the levels of fees and commissions for granting loans, the level of margins on loans and deposits as well as the volume of loans and deposits. These factors, combined with various others, have a material impact on the Group's NIM. In addition, increasing competition in the market for investment and insurance products has a material influence on the net fee and commission income of the Group.

The Polish banking sector is highly competitive and somewhat fragmented compared with the banking sectors of other EU states. According to the PFSA, as of 30 June 2012 there were 46 commercial banks operating in Poland, and the market share of the five largest banks in the Polish banking sector by assets, amounts due to customers and loans to customers were 44.8 per cent., 45.3 per cent. and 39.1 per cent., respectively, as of 30 June 2012.

During the first half of 2009, customer deposits became the main source for financing lending activities by Polish banks due to limited financing by foreign banks which were the parent companies of Polish banks, as well as limited confidence on the Polish and international inter-bank market. These factors contributed to increased competition on the market of savings products, which in combination with many other factors, contributed to systematic increases in the interest rates paid on such products (what was referred to as the 'deposit war'). This trend resulted in an increase in the costs of deposits incurred by the Group, which led to an increase in interest expense and had a negative impact on the Group's NIM.

The improvement in the economic situation in Poland during 2010 and 2011 resulted in a gradual easing of the credit policies of banks and an increase in competition with regard to mortgage loans and credit for local governments during 2010 and 2011. This trend resulted in a decrease of the margins on loans granted by the Group.

Loan Portfolio Quality

The Group applies a conservative policy to the recognition and measurement of credit risk. As of 30 June 2012 and as of 31 December 2011, 2010 and 2009 impaired loans amounted to 7.9 per cent., 7.2 per cent., 7.1 per cent. and 6.4 per cent., respectively, of the gross loan portfolio of the Bank, which was in the indicated periods at a level that was lower than the level of the ratio of impaired loans for the peer group, a group of commercial banks and branches of credit institutions which, according to data from the PFSA, amounted to 8.6 per cent., 8.3 per cent., 9.0 per cent. and 8.3 per cent., respectively. The increase in the value of impaired loans has a significant direct impact on the net impairment allowance and consequently, on the operating profit of the Group.

The quality of the Bank's consumer and mortgage loan portfolios is primarily affected by: (i) the level of household income; (ii) the unemployment rate; (iii) interest rates; and (iv) foreign exchange rates (in respect of loans denominated in foreign currencies). Real estate prices are an additional driver which affects the quality of the mortgage loan portfolio, as the majority of mortgage loans are secured by properties. In the consumer loan portfolio, due to the fact that consumer loans are usually unsecured (e.g. loans granted on credit cards), the ratio of loans showing evidence of impairment is as a rule higher than in the case of the mortgage loan portfolio. The higher risk inherent in the consumer loan portfolio is taken into account in the interest margin, which is higher than the margin for mortgage loans.

The quality of the Bank's corporate loan portfolio is primarily affected by: (i) macroeconomic factors influencing the financial condition of companies; (ii) the financial situation of the individual industries; and (iii) the number of company insolvencies.

The lower quality of the Bank's loan portfolio in the first half of 2012 was a consequence of the deterioration of the quality of corporate and mortgage loans. The growth of impaired corporate loans was mainly attributable to SME loans and the construction sector as well as mortgage loans, mainly those extended between 2008 and 2009. The deterioration of both portfolios and the slower increase of the whole portfolio (lower sales due to lower demand and change of credit policy), caused the deterioration of the quality ratio. Stable economic conditions in Poland in the first half of 2012 resulted in a decrease in the pace of the deterioration of the consumer portfolio quality.

The quality of the loan portfolio is directly reflected in the net impairment allowance. The increase in impairment allowance between 2009 and 30 June 2012 was recorded in all segments in which the Group operates, but to the largest extent in the corporate and mortgage loan portfolios of the Group.

Availability and Cost of Funding

The main sources of funding used by Polish banks for lending activities are the following: (i) customer deposits; (ii) funding obtained on the Polish and international inter-bank and capital markets; (iii) funding provided by foreign parents; and (iv) equity. The funding structure and the share of respective sources of funding vary depending on the shareholding structure of banks in Poland, the liquidity of the Polish and international inter-bank and capital markets and the availability and costs of deposits from customers.

The availability and the cost of funding has a material impact on the net interest income of Polish banks, including the Group, impacting the dynamics of growth of loan portfolios and net interest margins. Despite a significant increase in the Group's loan portfolio over the period from 2009 to the first half of 2012, the ratio of the Group's loan (loans and advances to customers) to deposit portfolio (amounts due to customers) at the end of 2009, 2010, 2011 and as of 30 June 2012 was below 100 per cent. (96.2 per cent., 96.7 per cent., 98.3 per cent. and 93.2 per cent. as of 30 June 2012, 31 December 2011, 2010 and 2009, respectively). At the end of 2009, 2010, 2011 and as of 30 June 2012, the ratio of loans to stable sources of funding (comprising amounts due to customers and long-term external financing in the form of debt securities in issue, subordinated liabilities and loans and advances received from banks) amounted to 89.3 per cent., 92.0 per cent., 88.4 per cent., 88.2 per cent., respectively. This was a result of the Group's consistent strategy and activities which were aimed at obtaining new deposits from customers (see "*Liabilities – Amounts Due to Customers*"), and obtaining other, stable sources of funding, *inter alia*, from the issuance of Eurobonds (see "*Description of the Group – Material Contracts – Material Issues of Debt Securities*") and the syndicated loan in CHF (see "*Description of the Group – Material Contracts – Financing Agreements*"). Moreover, in 2009 the Bank carried out a share issue as a result of which the Bank's equity increased by PLN 5,081.1 million.

The increase in competition on the deposit market during the first half of 2009 resulted in a significant increase in interest rates on deposits on the Polish banking market (see "*Competition Landscape in the Polish Banking Sector*" above). Due to a lack of liquidity on financial markets resulting from the financial crisis, the Group did not have the possibility of off-setting the negative impact of increased costs of deposits by tapping the Polish inter-bank market or international financial markets. As a result, the increasing costs of financing had a negative impact on the Group's net interest income.

During 2010 and 2011 the PLN exchange rate appreciated with respect to the majority of currencies (an exception was CHF, with respect to which PLN depreciated by approximately 14.4 per cent. during 2010 and by approximately 14.8 per cent. during 2011). Nevertheless, in combination with the increased ability to obtain financing on the inter-bank market (despite maintaining the transaction limits at a level lower than in the period before the crisis), resulting from an increase in the confidence on the market and the still moderate rate of increase in loans compared to prior years, the demand for sources of financing decreased, and therefore the availability of such sources of financing for Polish banks increased during 2010 and 2011. This also contributed to reducing and stabilizing interest rates on customer deposits (including deposits of customers of the Group) during 2010 and 2011, which had a positive impact on the interest expense and interest margin of the Group.

Performance of Capital Markets

Banking operations and the Group's condition are connected with the situation on the capital markets (both equity and debt capital markets). In addition to its banking activities, the Group also provides other services and offers financial products, including brokerage and custodian services and products, and also manages pension and mutual funds operations. Therefore, the situation on the capital markets, and especially on the Warsaw Stock Exchange (the "**WSE**"), has a material impact on the Group's net fee and commission income. Depending on the composition of the Group's securities, the situation on the capital markets can also have an impact on the value of the Group's assets.

The sharp downturn during 2008, and the uncertain situation on the capital markets during 2009, despite the reversal of the negative trend in the last months of 2009, had a negative influence on the

Group's brokerage operations and investment and pension fund operations, leading to a decrease in the fee and commission income. On the other hand, customers transferring their funds from investments in shares in listed companies and other investment products to investments in deposits had a positive impact on the growth rate of the deposit volume and on the Group's general liquidity.

The improvement in the capital markets environment during 2010 and the first half of 2011 resulted in the return of investors to stock markets, whereas due to the early stage of recovery, these were mainly institutional investors, and the demand for shares and stocks from individual investors remained moderate. The improvement in the situation on the capital markets during 2010 and the first half of 2011 had a positive impact, in particular, on the net fee and commission income generated by the Group.

The global capital markets have been very turbulent over the period of the twelve months preceding the date of this Prospectus. They have been and continue to be driven mostly by the developments in Europe, in particular the Eurozone crisis, as well as the slowdown in emerging markets and the fragile recovery in the United States. Generally, economic activity across the world remains weak, which makes investors insecure about future corporate profits and the ability of debt-ridden economies to improve their financial standing. In the short run, addressing the liquidity and solvency problems of Greece, Italy, Ireland, Portugal and Spain appears to be prerequisite to calm the economy, but long-term revival of the economic growth is crucial for the performance of financial assets.

Developments on capital markets generally have a significant impact on the securities portfolios of banks. Given the composition of the Group's securities portfolio and the accounting treatment thereof (consisting of securities issued by the State Treasury, especially Treasury bonds, securities issued by the NBP and by Polish local government bodies), the performance of capital markets in the analyzed period had a limited impact on the financial and operational results and financial condition of the Group.

Development of the Mortgage and Real Estate Market

The situation on the mortgage and real estate market in Poland has a material impact on the Group's net interest income as well as on the growth rate and quality of its housing loan portfolio including mortgage loans and loans extended to corporate housing market customers comprising real estate developers (excluding accrued interest), which accounted for 48.1 per cent., 48.1 per cent., 46.1 per cent., and 43.5 per cent. of the Group's (gross) loans and advances to customers as of 30 June 2012, 31 December 2011, 2010 and 2009. In addition, due to the Group's operations in the real estate sector through the Qualia Development Group, the development of the mortgage and real estate market in Poland affects the net other operating income and costs of the Group.

The development of the Polish mortgage loan market was supported by an increase in household income, which increased by 10.4 per cent. from PLN 61.9 thousand per household in 2008 to PLN 68.4 thousand in 2010 according to data from GUS, which resulted in increased creditworthiness as a result of the good economic situation, and the increasing availability of a wide range of mortgage loans with low (single-digit) interest rates, accompanied by a relatively low level of satisfaction of housing needs in Poland (although it was proportionate to Polish GDP). Moreover, housing needs increased in this period due to the young people born during the demographic boom of the 1980s reaching adulthood. The response to the increasing demand was a gradual increase in the supply of apartments. At the same time the development business underwent dynamic development during this period and was largely financed by loans drawn by development companies' clients. According to data from GUS, from 2004 until the end of 2008 636,000 apartments were built (of which 208,000 by developers), while the best result of the past decade was recorded in 2008: 165,000 apartments (including 66,000 by developers). In the period from 2009 until the end of 2010, 296,000 apartments were built (of which 125,000 were built by developers), and in 2011 131.1 thousand apartments (of which 49.6 thousand were built by developers).

This situation had a direct impact on the increase of the Group's portfolio of loans, in particular mortgage loans, which resulted in the growth of the Group's net interest income.

The world financial crisis contributed to a slow-down of the Polish real estate market. From the fourth quarter of 2009 the dynamic development of the real estate market decreased, and over the following four quarters of 2010 approximately 15 per cent. and four quarters of 2011 approximately 3 per cent. fewer apartments were commissioned for use. Furthermore, Polish banks tightened their lending policies and limited lending activities at the end of 2008 and in the first half of 2009. The Bank adjusted its lending policy to the situation by restricting its lending activity in mortgage loans denominated in foreign currencies and developing lending in PLN, while benefiting from an increased margin level on these loans. The standstill of the demand for housing due to more stringent lending conditions and a change in consumer behavior, combined with an increased supply of flats, resulted in a decrease in housing prices since the fourth quarter of 2008. This negatively affected the quality of collateral and as a result, the Group's loan portfolio quality (see "*Loan Portfolio Quality*" above).

From the second half of 2009 onwards the symptoms of the financial crisis have weakened. This resulted in lower liquidity pressure in the banking sector, which was perceived as the end of the "deposit war" and an increase in competition on the mortgage loan market, namely a decrease in margins, which resulted in the slightly better availability of loans. The decrease in housing prices, which has been visible since the end of 2009 onwards, has slowed down recently, and prices are now relatively stable. However, a slight downward trend is still possible due to the pressure of high supply of flats on the primary and secondary market which is increasing faster than the demand, demand being further limited by the more conservative evaluation of creditworthiness (in particular, in the case of loans denominated in foreign currencies), recommended by the PFSA, and an increase in interest rates. In the housing construction industry, after a visible slow-down in the past two and a half years, the effects of stopping new investments from the second half of 2008 to the end of 2009 are currently withdrawing, and at the same time, signs of a revival in the form of a gradual increase in the number of new investments in flats can be observed.

Regulatory Environment

EU and Polish laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions, in particular regarding consumer protection, are continually evolving and changing. Changes in banking and other regulations affect the Group's business, the financial condition, the capital position and its operating and financial results.

Since 1 January 2008 Polish banks have been required to comply with the CRD as far as the Basel II requirements.

From the beginning of 2008 changes in respect of capital requirements have been noted and regulations for banking activities are more and more stringent. In particular, this relates to Recommendation S (II) published by the PFSA in 2008 and updated in 2011, which imposed limitations on Polish banks in respect of granting foreign currency loans and resulted in limiting the Group's ability to grant such loans. Moreover, in February 2010 the PFSA published Recommendation T, the aim of which was to improve the quality risk management in banks, and thus preventing excessive indebtedness of retail borrowers. The PFSA determined the maximum level of the ratio of expenses to service debt to average income earned by the borrowers at a maximum of 50 per cent. for retail customers with net income not exceeding the average remuneration in the economy, and a maximum of 65 per cent. for the remaining customers. Recommendation T could lead to a reduction in the number of potential borrowers in the retail segment, in particular those interested in mortgage loans and advances, as well as a decrease in the value of loans granted. Changes in the Group's lending policies forced by the introduction of Recommendation T could limit the Group's ability to win retail customers.

In June 2011, the PFSA increased the risk weighting of consumer and mortgage loans denominated in foreign currencies from 75 per cent. to 100 per cent. (Resolution 76/2010). Risk weighting applies to the calculation of risk-weighted assets which are the basis for the calculation of banks' capital adequacy ratios. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of such type. This change came into force on 30 June 2012.

For detailed information on the regulatory environment, see the "*Banking Regulations in Poland*" and "*Capital Adequacy*" below.

Specific Factors Affecting Financial and Operating Results

Reorganization of the Group

The reorganization of the Bank's operations and the resulting reduction in the number of employees have had an impact on the Group's overall administrative expenses.

Over the past three years the Group has continued its investments, mainly in the reorganization and modernization of its branches and IT infrastructure, which has had an impact on the Group's overall administrative expenses and tangible and intangible assets (see "*Capital Expenditure*"). The level of the Group's capital expenditure and its impact on the Group's operations affected the net profit attributable to the shareholders of the parent company and the value of the tangible and intangible assets of the Group.

Moreover, over the same period as a part of the restructuring, the Group carried out a program of gradual reduction in the number of its employees (see "*Description of the Group – Employees*"), which contributed to the decrease in the growth of the Group's employee-related expenses, thus impacting the net profit attributable to the shareholders of the Group's parent company.

Investment in Kredobank

The Group has been offering banking services in Ukraine since August 2004, when it acquired an interest in Kredobank. Given that Kredobank is a subsidiary of the Bank, the results of operations and the financial condition of Kredobank have a direct impact on the Group's net interest income, net fee and commission income, the quality of the loan portfolio and the net impairment allowance, and as a result on the operating profit of the Group. As of the date of this Prospectus, Kredobank's operations do not constitute a significant part of the Group's operations.

However, the period from the fourth quarter of 2008 to the end of 2009 saw a severe economic recession in Ukraine as a result of the sudden slowdown of the global economy and strong net outflow of foreign capital from the Ukrainian market (a decrease in GDP of 14.8 per cent. during 2009 (in prices from 2001 according to data from the IMF)). As a result, Ukrainian banks were adversely affected by a shortage of liquidity, reduced inflows of foreign capital, a decline in household income and corporate earnings and the depreciation of the UAH against key foreign currencies (such as USD and EUR).

During 2010 and 2011, Ukraine recorded real GDP growth of 4.2 per cent. and 5.2 per cent., respectively (in prices from 2001 according to data from the IMF and the SSCU (the Ukrainian statistics authority). The more stable economic environment resulted in an increase in the real value of salaries and wages, and stabilization of the UAH exchange rate. Despite the stabilization of the economic environment, the situation in the Ukrainian banking sector remained difficult due to the slow economic growth accompanied by low household incomes, a high unemployment rate and the low economic activity of enterprises.

Despite the relatively low share of the assets of Kredobank and, as of 2012 also of its subsidiary Finansowa Kompania 'Idea Kapitał' Sp. z o.o., in the Group's total assets (before consolidation adjustments) (0.8 per cent., 0.8 per cent., 1.0 per cent., and 1.2 per cent., as of 30 June 2012 and 31 December 2011, 2010 and 2009, respectively), the worsening financial condition of Kredobank had a material impact on the quality of the loan portfolio and on the net impairment allowance, and as a result on the Group's operating profits over the period from 2009 to 2011. Following a review of its investment in the shares of Kredobank and the worsening quality of the loan portfolio of Kredobank, the Group recognized a write-down on goodwill of PLN 76.4 million during 2008 and

PLN 3.4 million during 2009. In addition, the net profit attributable to the equity holders of the parent company (before consolidation adjustments) of the Group was negatively affected by net losses of PLN (190.2) million, PLN (40.3) million and PLN (74.5) million during 2009, 2010 and 2011, respectively, which resulted mainly from an increase in write-downs of loans at Kredobank which were determined to be impaired (the net impairment allowance (before consolidation adjustments) on Kredobank's loan portfolio amounted to PLN (270.8) million, PLN (7.8) million and PLN (63.4) million during 2009, 2010 and 2011, respectively). Kredobank's result in the year ended 31 December 2011 was not directly related to the macroeconomic situation in Ukraine, as was the case in preceding years, but resulted primarily from the recognition of losses incurred from the sale of a portfolio of loans to "Private Investments" limited liability company. As at the end of June 2012, Kredobank and its subsidiary generated a net loss of PLN 13.9 million including a negative result on net impairment allowance on loans and advances to customers of PLN (5.1) million.

In addition, on 30 June 2010 and 15 November 2010 the Bank extended two guarantees to Kredobank in the total nominal amount of USD 74.8 million in order to secure the repayment of loans under certain loan agreements entered into by Kredobank. The guarantees expired on 30 November 2011. Moreover, on 30 December 2010, the Bank deposited USD 4.8 million in Kredobank's account maintained by the Bank of New York Mellon, which was subsequently pledged for the benefit of Kredobank as a security for Kredobank's loan receivables. A successful debt collection carried out by Kredobank and the recovery of claims secured by deposits resulted in the reduction of the amount of the deposit to USD 1.4 million (PLN 4.6 million) as of 30 June 2012.

Recent events

Restructuring of the Group's activities in Ukraine

On 16 January 2012, 'Inter-Risk Ukraine' Additional Liability Company with its seat in Kiev was registered with the State Ukrainian Register of Businesses (additional liability means that the shareholder is responsible for the company's liabilities, in addition to the liability by its share in an amount stipulated by the company's charter: the charter of 'Inter-Risk Ukraine' Additional Liability Company envisages such additional liability in the amount of up to 3 per cent. of the respective shareholder's share). The corporate charter of such company indicates the Bank as its sole shareholder. The Bank acquired one share constituting 100 per cent. of such company's share capital, which entitles it to 100 per cent. of the votes at the meeting of the shareholders of the company. The acquisition price was PLN 2,500 thousand. On 30 January 2012, the Bank made a capital contribution to such company of UAH 43 million (PLN 17,212.9 thousand). The main purpose of the acquisition and share capital increase was to utilize the company to facilitate the 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.

In February 2012, the Bank sold a 2 per cent. interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' 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' Additional Liability Company.

Taking over the assets of Centrum Finansowe Puławska sp. z o.o.

In connection with the liquidation of Centrum Finansowe Puławska sp. z o.o., a former subsidiary of the Bank, on 1 March 2012, the Bank took over the assets of such company, including the real property in which the Bank's head office is located.

Issuances of debt securities

In 2012, the Bank issued a number of series of short-term notes under the Domestic Market Programme, discussed in "*Description of the Group – Issuances of Debt Securities – Domestic Market Programme*", with a total nominal value of PLN 1,564,000 thousand as at the date of the Prospectus.

On 25 July 2012, PKO Finance AB (publ), the Bank's subsidiary, issued a third series of notes under the Programme, discussed in "*Description of the Group – Material Issue of Debt Securities – Programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank (the "**Programme**")*", with a total nominal value of EUR 50,000,000. The issued notes bear interest at a fixed rate of 4.00 per cent. per annum, paid annually and have a maturity of ten years. The notes are listed on the Luxembourg Stock Exchange.

Moreover, on 13 August 2012, PKO Finance AB (publ) priced a fourth series of the Notes under the Programme, with a total nominal value of CHF 400,000,000. The issue is be settled on 21 September 2012. The notes will bear interest at the rate of 2.536 per cent. per annum and will mature on 21 December 2015. The notes are to be listed on the SIX Swiss Exchange. On 22 August 2012, the total nominal value of the issuance was increased to CHF 500,000,000. In September 2012, such notes were assigned ratings of A2 by Moody's and A- by Standard & Poor's.

Changes in the Bank's shareholding structure

On 26 July 2012, the Bank received a notification from the Minister of the State Treasury with regard to selling a significant block of the Bank's shares as a result of which the number of total votes held by the State Treasury in the Bank has changed. According to such notification, the sale by the State Treasury of 95,000,000 shares in the Bank was settled on 24 July 2012. As a result, the shareholding of the State Treasury fell from 40.99% to 33.39% of the share capital representing an equivalent share in the votes at the General Meeting. Moreover, Bank Gospodarstwa Krajowego, fully controlled by the State Treasury, continues to hold a total of 128,102,731 of the Bank's ordinary shares giving the same number of votes at the General Meeting. Such shares amount to 10.25% of the share capital and the same share in the total number of votes in the Bank. As a result of the transaction described above, the aggregate shareholding of both the State Treasury and BGK fell from 51.24% to 43.64% of the share capital (representing an equal number of votes at the General Meeting).

According to a press release published by the Ministry of the State Treasury, in connection with the above transaction the State Treasury and Bank Gospodarstwa Krajowego entered into lock-up arrangements with respect to their shares in the Bank and undertook not to dispose of such shares for a period of 180 days.

Moreover, the Bank has been informed by ING Otwarty Fundusz Emerytalny, an open pension fund, that on 24 July 2012 it increased its stake in the Bank from 4.29% to a level which exceeds 5% of the votes at the General Meeting, namely to 5.17%, and became the third shareholder (after the State Treasury and Bank Gospodarstwa Krajowego) to exceed such 5% threshold.

Execution of a standstill agreement with Polimex-Mostostal S.A.

On 24 July 2012 the Bank and other institutions financing the activities of Polimex-Mostostal S.A. signed a standstill agreement with such company for a period of four months. As at the end of June 2012 the Bank was exposed with both on-balance and off-balance sheet exposures towards the company. As at the balance date the Bank classified these exposures as unimpaired based on the analysis of the financial standing of the company and the terms of the above-mentioned standstill agreement which did not introduce any significant changes to the terms of co-operation with the company.

Rating assigned to the Programme by Standard and Poor's

On 20 June 2012, Standard and Poor's granted a solicited rating to the Programme at the level of "A-" (on a scale of marks from the best: AAA, AA, A, BBB, BB, B, CCC, CC, C, D). "A"-rated liabilities are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. Ratings from "AA" to "CCC" may be modified by the addition of a "+" or "-" sign to show the relative standing within the major rating categories.

Changes in the composition of the Management Board and Supervisory Board of the Bank

On 13 July 2012 Andrzej Kołatkowski resigned from his position as member of the Management Board of the Company responsible for risk management and debt recovery. As of the date of this Prospectus, Bartosz Drabikowski is acting as the Vice President of the Management Board responsible for Risk and Debt Collection (see "*Management and Corporate Governance – Management Board*"). Moreover, on 6 June 2012 the ordinary General Meeting of the Bank dismissed Ewa Miklaszewska from the function of member of the Supervisory Board, simultaneously appointing Zofia Dzik. See "*Management and Corporate Governance – Supervisory Board*").

Apart from the events described above, between 31 December 2011 and the date of this Prospectus, no significant changes have occurred with respect to the operating or financial position of the Group.

Explanation of the Key Consolidated Income Statement Items

The key consolidated income statement items of the Group are defined and explained below.

Net Interest Income

Net interest income represents the difference between interest and similar income earned by the Group in a respective period and interest expense and similar charges incurred by the Group over the same period. The net interest income of the Group depends primarily on the level of its interest-earning assets (loans and advances to customers, financial instruments designated upon initial recognition at fair value through profit and loss, amounts due from banks, investment securities available for sale and securities held to maturity, financial assets held for trading) and interest-bearing liabilities (amounts due to customers, debt securities in issue, subordinated liabilities, amounts due to the central bank and amounts due to other banks), as well as the average rate earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities.

The largest component of interest and similar income of the Group is income from loans and advances to customers (measured at amortized cost). The volume development for loans is closely linked to the economic situation, interest rate levels (driven both by market rates and competition in the banking sector) and property prices in respect to mortgage loans.

Interest and similar income also includes this fee and commission income (received and paid) which is included in the effective interest rate calculation. The effective interest rate calculation is a method of calculating the amortized cost of financial assets or liabilities and allocating interest income to a given period. The effective interest rate is the percentage rate at which estimated future cash payments or receipts are discounted over the period to the expiry of the financial instrument to the net balance sheet value of the asset or liability. When calculating the effective interest rate, the Group estimates cash flows taking into account all the contractual terms and conditions of a given financial instrument, excluding potential future loan losses. The calculation includes all fees and commissions paid or received by the parties to the agreement which are an integral part of the effective interest rate, as well as transaction costs and all other premiums and discounts.

Interest and similar income also includes, *inter alia*, income from the securities portfolio (which comprises financial instruments designated upon initial recognition at fair value through profit and loss, trading assets, investment securities available for sale, and securities held to maturity), and income from hedging instruments, and income from placements with other banks, including the NBP.

Interest expense and similar charges of the Group measured at amortized cost comprise primarily interest expense with regard to customers, including in particular interest paid on customer deposits placed with the Group, depending on the interest rates level, driven by market rates, liquidity on the inter-bank market and competition in the banking sector. Other components thereof include, *inter alia*, interest expense on deposits from banks and interest expense on debt securities in issue and subordinated liabilities.

Interest income or expense in respect of derivative financial instruments classified as held for trading are recognized in "*Net income from financial instruments designated 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 are presented in interest income.

Furthermore, net interest income includes costs incurred by the Group in direct relation to concluding loan agreements (mainly commissions paid to third-party agents' entities, e.g. financial intermediaries and agents for concluding mortgage loan agreements) which are an integral part of the effective interest rate calculation and are subject to amortization in time.

Net Fee and Commission Income

Net fee and commission income represents the difference between fee and commission income earned by the Group during the respective period and fee and commission expense incurred by the Group over the same period, except fees and commissions directly related to the initial recognition of financial assets with agreed payment schedules, which therefore constitute part of the calculation of the effective interest rate (see "*Net Interest Income*" above). Moreover, fees and commissions (both income and expenses) directly allocated to the initial recognition of financial assets without any agreed repayment schedules are amortized on a straight-line basis over the expected life of a given financial instrument.

Fee and commission income of the Group also includes one-off fees received by the Group on activities not included in the effective interest rate for loans, advances and other receivables, as well as fees for services provided by the Group over a period longer than three months, settled on a straight-line basis.

The main components of fee and commission income of the Group are: (i) income fees from payment cards, which is mainly driven by bank card transaction volumes and value and by the number of new bank cards issued by the Group, as well as the payment behavior of customers; (ii) income from the maintenance of bank accounts, which depends on an increase in bank accounts operated by the Group and its policy with respect to the level of fees and commissions charged; (iii) income from insurance of loans, which depends primarily on the volume and value of loan insurance sold, in particular to retail customers, which in turn depends on the scale of the Group's lending activities and the volume and value of loans granted; (iv) income from managing investment funds and open pension funds (including management fees), which to a large extent depend on the type and value of assets under management, which are impacted by the performance of capital markets; and (v) income from loans and advances (without fixed repayment schedules, e.g., credit cards and overdraft facilities), which is primarily generated by the retail segment from lending fees and impacted by the volume and value of loans granted in the given period.

Fee and commission expenses of the Group comprise, in particular: (i) expenses on payment cards, which to a large extent depend on bank card transaction volume and value, as well as on the number of new bank cards issued by the Group; (ii) expenses on loan insurance, which depend primarily on the volume and value of loan insurance sold, in particular to retail customers, which in turn depend on the scale of the Group's lending activities and the volume and value of loans granted; (iii) expenses on acquisition services, which include fees and commissions paid by the Group to sales agents and financial intermediaries (those not included in the effective interest rate); and (iv) expenses on portfolio and other management fees, which to a large extent depend on the type and value of assets under management, which are impacted by the performance of the capital markets.

Net Income from Financial Instruments Designated at Fair Value Through Profit and Loss

Net income of the Group from financial instruments designated at fair value through profit and loss comprises gains and losses arising on disposal of financial instruments included in financial assets / liabilities designated at fair value through profit and loss as well as the effect of their fair value measurement. Net income from financial instruments designated at fair value through profit and loss is one of the most volatile components of the Group's profit before taxation. Over the period discussed, the financial instruments designated at fair value through profit and loss comprised mainly Treasury securities as well as securities issued by the NBP.

Gains Less Losses from Investment Securities

Net profit or loss on investment securities of the Group includes gains and losses on the disposal of financial instruments which were classified as being part of the portfolio of securities available for sale and held to maturity. Over the discussed period, the financial instruments classified in the portfolio of financial instruments available for sale and held to maturity comprised mainly securities issued by the State Treasury with a lower share of bonds of local government and corporate entities.

Net Foreign Exchange Gains

Net foreign exchange gains comprise gains and losses, both realized and unrealized, arising from the daily revaluation of assets and liabilities in foreign currencies and the valuation at fair value of unrealized fx derivative transactions (such as foreign exchange options, forward contracts, foreign exchange swaps and CIRS).

During the second quarter of 2009 the Group began applying hedge accounting against fluctuations in cash flows. As a result, changes in the fair value of a fx derivative financial instrument designated as a cash flow hedge are recognized directly in total other comprehensive income in respect of the part constituting the effective portion of the hedge. The ineffective portion of a hedge is recognized in the income statement in "*Net income from financial instruments designated at fair value through profit and loss*" (see *"Critical accounting policies and estimates – Hedge accounting – Cash flow hedges*").

Net Other Operating Income and Expense

Net other operating income and expense represents the difference between other operating income earned by the Group during a respective period and other operating expenses incurred by the Group over the same period.

Other operating income and expense includes income and expense which are not directly related to banking activities. Other operating income comprises mainly gains on the sale of housing investments (which is mainly related to income from developer's activities pursued by the Qualia Development Group), sale or scrapping of fixed assets and repossessed assets, bad debts recovered, recovery on damages and income from lease or rental of real estate properties. Other operating expense includes primarily cost of sale of products incurred by the Bank's subsidiaries, losses on the sale or scrapping of fixed assets, including repossessed assets, costs of enforcement of receivables, and donations.

Total Net Income on Business Activities

For the purposes of this Prospectus the total net income on business activities of the Group represents the sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income; (iv) net income from financial instruments designated at fair value through profit and loss; (v) gains less losses from investment securities; (vi) net foreign exchange gains; and (vii) net other operating income and expense. The Management Board believes the total net income on business activities serves as a useful supplementary indicator in measuring the financial results and the results of the Group's operations. However, total net income on business activities is not an IFRS measure and should not be considered as an alternative to any IFRS measures. It should also be noted that the total net income on business activities is not a uniform or standardized measure, and the method of calculation of the total net income on business activities, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies. The total net income on business activities is calculated by the Group and it has not been included in the Consolidated Financial Statements.

Net Impairment Allowance and Write-downs

Net impairment allowance and write-downs of the Group is driven mainly by the size and composition of the loan portfolio (the share of mortgage loans, consumer loans and corporate loans), overall loan portfolio quality, the quality and value of collateral, as well as economic developments and movements of PLN against foreign currencies, especially CHF. The net impairment allowance tends to follow the business cycle and increases when the economy deteriorates.

Administrative Expenses

Administrative expenses of the Group are primarily generated by staff costs and overheads. Staff costs are driven by the overall number of the Group's full-time equivalent employees, as well as the level of wages and salaries and social insurance costs. The main components of the Group's overheads are IT, maintenance of fixed assets and rents, as well as promotion and advertising activities.

Income Tax Expense

Income tax expense is mainly determined by the statutory tax rates applicable in Poland and is generally proportional to profit before income tax. In the periods under review, the corporate income tax rate for the Group's operations in Poland remained at 19 per cent.

Results of Operations

The Six Months Ended 30 June 2012 Compared to the Six Months Ended 30 June 2011

The table below sets forth, for the periods indicated, certain information on the results of the Group's operations.

	Six Months Ended 30 June		
	2012	**2011**	**Change**
	(PLN thousand) (unaudited)		%
Net interest income	4,042,245	3,574,546	13.1
Net fee and commission income	1,502,699	1,541,403	(2.5)
Dividend income	6,077	6,537	(7.0)
Net income from financial instruments designated at fair value	15,385	(35,276)	–
Gains less losses from investment securities	4,642	15,937	(70.9)
Net foreign exchange gains	144,655	132,385	9.3
Net other operating income and expense	75,149	80,067	(6.1)
Total net income on business activities*	**5,790,852**	**5,315,599**	**8.9**
Net impairment allowance and write-downs	(1,101,285)	(881,400)	24.9
Administrative expenses	(2,246,341)	(2,123,171)	5.8
Operating profit	**2,443,226**	**2,311,028**	**5.7**
Share of profit (loss) of associates and jointly controlled entities	6,028	(3,797)	–
Profit before income tax	**2,449,254**	**2,307,231**	**6.2**
Income tax expense	(496,449)	(470,084)	5.6
Net profit (including non-controlling shareholders)	**1,952,805**	**1,837,147**	**6.3**
Net profit/(loss) attributable to non-controlling shareholders	(556)	(1,167)	(52.4)
Net profit attributable to the equity holders of the parent company	**1,953,361**	**1,838,314**	**6.3**

Source: Consolidated Financial Statements

* *Total net income on business activities understood as the sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income; (iv) net income from financial instruments designated at fair value; (v) gains less losses from investment securities; (vi) net foreign exchange gains; and (vii) net other operating income and expense.*

Net Interest Income

The table below sets forth, for the periods indicated, the principal components of the Group's interest income and expense.

	Six Months Ended 30 June		
	2012	**2011**	**Change**
	(PLN thousand) *(unaudited)*		%
Interest and similar income			
Income from loans and advances to customers	5,129,789	4,601,737	11.5
Income from derivative hedging instruments	466,217	351,145	32.8
Income from investment securities available for sale	376,903	247,738	52.1
Income from financial assets designated upon initial recognition at fair value through profit and loss	359,288	256,316	40.2
Income from placements with banks	119,322	96,958	23.1
Income from trading assets	32,468	45,304	(28.3)
Other income	3,270	3,116	4.9
Total	**6,487,257**	**5,602,314**	**15.8**
Interest expense and similar charges			
Interest expense on amounts due to customers	(2,231,607)	(1,902,444)	17.3
Interest expense on debt securities in issue	(193,697)	(104,015)	86.2
Interest expense on deposits from banks	(13,883)	(19,399)	(28.4)
Premium expense on debt securities available for sale	(4,992)	(223)	2,138.6
Other expense	(833)	(1,687)	(50.6)
Total	**(2,445,012)**	**(2,027,768)**	**20.6**
Net interest income	**4,042,245**	**3,574,546**	**13.1**
NIM (%)*	**4.7**	**4.5**	**0.2 p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing net interest income for the twelve months ended 30 June 2012 and 30 June 2011, respectively, by the average balance of total interest-earning assets (calculated as the arithmetical average of interest-earning assets at the beginning and at the end of the relevant reporting period and interim quarterly periods).*

Interest and similar income increased by PLN 884.9 million, or 15.8 per cent., to a level of PLN 6,487.3 million for the six months ended 30 June 2012, compared to a level of PLN 5,602.3 million for the six months ended 30 June 2011 mainly due to an increase in interest income on loans and advances to customers of PLN 528.1 million and interest income from investment securities available for sale of PLN 129.2 million.

The increase in interest income on loans and advances to customers resulted mainly from loan portfolio growth (which increased by 4.2 per cent.), as well as from a rise in interest rates.

The increase in interest income on derivative hedging instruments of 32.8 per cent. to a level of PLN 466.2 million during the six months ended 30 June 2012, compared to PLN 351.1 million during the six months ended 30 June 2011, was mainly due to an increase in their volume and CIRS net coupons (due to an increase in the WIBOR).

The increase in interest income of the Group's securities portfolio (comprising securities designated at fair value through profit and loss, trading assets and investment securities) of PLN 219.3 million, or 39.9 per cent., to a level of PLN 768.7 million for the six months ended 30 June 2012 compared to PLN 549.4 million for the six months ended 30 June 2011, resulted mainly from a 12.7 per cent. increase in the balance of the Group's securities portfolio.

For detailed information on the Group's assets, please see "*Financial Position – Assets – 30 June 2012 Compared to 31 December 2011*" and "*Selected Statistical and Other Information*".

Interest expense and similar charges increased by PLN 417.2 million, or 20.6 per cent., to a level of PLN 2,445.0 million for the six months ended 30 June 2012, compared to PLN 2,027.8 million for the six months ended 30 June 2011, primarily as a result of an increase of PLN 329.2 million, or 17.3 per cent., in interest expense on amounts due to customers and an increase of PLN 89.7 million, or 86.2 per cent., in interest expense on debt securities in issue.

For detailed information on the Group's liabilities, please see "*Financial Position – Liabilities – 30 June 2012 Compared to 31 December 2011*" and "*Selected Statistical and Other Information*".

Net Fee and Commission Income

The table below sets forth, for the periods indicated, the structure of the Group's fee and commission income and expense.

	Six Months Ended 30 June		
	2012	**2011**	**Change**
	(PLN thousand) (unaudited)		%
Fee and commission income			
Income from financial assets, which are not valued at fair value through profit and loss, of which:	285,577	278,295	2.6
Income from loans and advances granted	285,577	278,295	2.6
Other fee and commission income	1,566,299	1,620,352	(3.3)
Income from payment cards	552,059	501,426	10.1
Income from maintenance of bank accounts	449,005	462,630	(2.9)
Income from loan insurance	202,821	262,157	(22.6)
Income from maintenance of investment funds and pension funds (including management fees)	152,032	186,799	(18.6)
Income from cash transactions	68,317	82,376	(17.1)
Income from securities transactions	35,277	32,652	8.0
Income from servicing foreign mass transactions	24,124	23,393	3.1
Income from sale and distribution of court fee stamps	10,267	10,618	(3.3)
Other*	72,397	58,301	24.2
Income from fiduciary services	1,820	1,207	50.8
Total	**1,853,696**	**1,899,854**	**(2.4)**
Fee and commission expense			
Expense on payment cards	(180,611)	(145,231)	24.4
Expense on loan insurance	(54,820)	(68,464)	(19.9)
Expense on acquisition services	(54,233)	(69,789)	(22.3)
Expense on settlement services	(11,026)	(11,875)	(7.1)
Expense on asset management fees	(6,952)	(18,416)	(62.3)
Expense on fee and commissions for operating services provided by banks	(5,095)	(5,476)	(7.0)
Other**	(38,260)	(39,200)	(2.4)
Total	**(350,997)**	**(358,451)**	**(2.1)**
Net fee and commission income	**1,502,699**	**1,541,403**	**(2.5)**

Source: Consolidated Financial Statements

* *Included in 'Other' are commissions received for servicing bond sale transactions, commissions of Dom Maklerski (a brokerage house) for servicing Initial Public Offerings and commissions for servicing loans granted by the State Budget.*

** *Included in 'Other' are: fees and expenses paid by Dom Maklerski (a brokerage house) to the Warsaw Stock Exchange and the National Depositary for Securities.*

Total fee and commission income decreased by PLN 46.2 million, or by 2.4 per cent., to a level of PLN 1,853.7 million for the six months ended 30 June 2012, compared to PLN 1,899.9 million for the six months ended 30 June 2011.

The decrease in fee and commission income for the six months ended 30 June 2012 was mainly driven by a decrease in fee and commission income from loan insurance of PLN 59.3 million, or 22.6 per cent., as a result of a decrease in the sales of consumer loans with optional insurance, as well as a decrease in commission income with respect to maintenance of investment funds and pension funds (including management fees) of PLN 34.8 million, or 18.6 per cent., mainly as a result of the decrease of sales and the value of net assets of investment funds.

The increase in fee and commission income from payment cards of PLN 50.6 million, or 10.1 per cent. was primarily driven by the increase in the volume of card transactions.

The increase in commission income in respect of loans and advances of PLN 7.3 million, or 2.6 per cent. mainly resulted from an increase in loans sales, mainly loans to corporate clients.

Total fee and commission expense decreased by PLN 7.5 million, or 2.1 per cent., to PLN 351.0 million for the six months ended 30 June 2012, compared to PLN 358.5 million for the six months ended 30 June 2011.

The increase in commission expense on payment cards of PLN 35.4 million was primarily driven by an increase in the payments made for commissions paid to publishers and other organizations.

As a result of the factors discussed above, the Group's net fee and commission income decreased by PLN 38.7 million, or 2.5 per cent., to PLN 1,502.7 million for the six months ended 30 June 2012, compared to PLN 1,541.4 million for the six months ended 30 June 2011, and represented 25.9 per cent. of the Group's total net income on business activities.

Net Income from Financial Instruments Designated at Fair Value

For the six months ended 30 June 2012, net income from financial instruments designated at fair value increased by PLN 50.7 million to PLN 15.4 million from a loss of PLN 35.3 million in the six months ended 30 June 2011. Simultaneously, for the six months ended 30 June 2012 net income from financial instruments designated at fair value through profit and loss, in the item "*Derivative Instruments*", representing the ineffective part of hedging against the volatility of cash flows in the negative amount of PLN 12.2 million, compared to PLN 26.1 million for the six months ended 30 June 2011, was recognized.

Gains Less Losses from Investment Securities

The Group's reported gains on investment securities decreased by PLN 11.3 million, or by 70.9 per cent., from PLN 15.9 million for the six months ended 30 June 2011 to PLN 4.6 million for the six months ended 30 June 2012. Such decrease resulted primarily from one-off gains on the sale of equity in the first half of 2011.

Net Foreign Exchange Gains

Net foreign exchange gains increased by PLN 12.3 million, or 9.3 per cent., to PLN 144.7 million for the six months ended 30 June 2012, compared to PLN 132.4 million for the six months ended 30 June 2011. The increase in net foreign exchange gains resulted mainly from higher net foreign exchange differences on financial instruments at fair value through profit and loss realized in the first half of 2012.

Net Other Operating Income and Expense

Net other operating income decreased by PLN 4.9 million, or by 6.1 per cent., to PLN 75.1 million for the six months ended 30 June 2012 compared to PLN 80.1 million for the six months ended 30

June 2011. This was mainly a result of a decrease in the sale and liquidation of fixed assets, intangible assets and assets held for sale as well as other costs.

Total Net Income on Business Activities

As a result of the factors described above, total net income on business activities increased by PLN 475.3 million, or 8.9 per cent., to PLN 5,790.9 million for the six months ended 30 June 2012 compared to PLN 5,315.6 million for the six months ended 30 June 2011.

Net Impairment Allowance and Write-downs

The table below sets forth, as of the dates and for the periods indicated, the structure of the Group's net impairment allowance and write-downs and selected ratios.

	Six Months Ended 30 June		
	2012	**2011**	**Change**
	(PLN thousand) (unaudited)		%
Net impairment allowance on:			
Investment securities available for sale	(8,132)	(10)	–
Loans and advances to customers and amounts due from banks measured at amortized cost	(1,029,765)	(843,726)	22.0
Tangible fixed assets	(11,226)	(36)	–
Intangible assets	(4,542)	(2,076)	118.8
Investments in associates and jointly controlled entities	(5,526)	(643)	759.4
Non-current assets held for sale	–	–	–
Other	(42,094)	(34,909)	20.6
Total	**(1,101,285)**	**(881,400)**	**24.9**
Impaired loans ratio[1] (%)	**8.7**	**7.6**	**1.1 p.p.**
Cost of the risk for the portfolio of gross loans and advances to customers[2] (%)	**(1.39)**	**(1.27)**	**(0.12) p.p.**
Coverage of impaired loans[3] (%)	**47.0**	**49.2**	**(2.2) p.p.**

Source: Consolidated Financial Statements

1 *Unaudited, calculated by dividing the gross carrying value of impaired loans and advances to customers by the gross carrying value of loans and advances to customers.*

2 *Unaudited, calculated by dividing net impairment allowance on loans and advances to customers for the twelve months ended 30 June 2012 and 30 June 2011 by the average balance of gross loans and advances to customers (calculated as the arithmetic mean of gross loans and advances to customers as of the beginning and the end of the reporting period and interim quarterly periods).*

3 *Unaudited, calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying value of impaired loans and advances to customers.*

The net impairment allowance amounted to PLN 1,101.3 million for the six months ended 30 June 2012. This represented an increase of PLN 219.9 million, or 24.9 per cent., compared to the six months ended 30 June 2011, which was mainly driven by the deteriorating impairment allowance on SME loans and construction sector loans. Apart from the general economic conditions which have affected the commercial and residential real estate market in Poland, the Polish construction sector was adversely impacted by the low profitability of construction contracts for road infrastructure, entered into with the Polish government agency responsible for the development and maintenance of such infrastructure. Fierce competition in the market for such contracts, resulting from increased expenditure by the Polish government, lowered the profit margins attained by the contractors. Moreover, many of the construction contracts provided for fixed prices not related to the price of construction materials. The increase of such prices severely deteriorated the condition of many construction enterprises, some of which were forced to enter into bankruptcy or restructuring proceedings (e.g. Polimex-Mostosal S.A., see *"– Recent events – Execution of a standstill agreement with Polimex-Mostostal S.A."*). The Bank created a provision on an IBNR (incurred but not reported basis) for any potential losses relating to the situation in the Polish construction industry, which amounted to PLN 46.3 million as of 30 June 2012. As of June 2012, the construction sector represented 17.63 per cent. of the Bank's total exposure to institutional customer loans (according to PKD).

The increase in net impairment allowance for the six months ended 30 June 2012 resulted from the impairment allowance recognized with respect to corporate and SME loans, which was partially due to the Group's conservative policy regarding identifying and evaluating credit risk.

The impaired loans ratio increased to 8.7 per cent. as of 30 June 2012, as compared to 7.6 as of 30 June 2011.

The cost of risk during the six months ended 30 June 2012 increased by 0.12 p.p. to (1.39) per cent., compared to (1.27) per cent. during the six months ended 30 June 2011.

The ratio of the coverage of impaired loans decreased by 2.2 p.p. to 47.0 per cent. as of 30 June 2012, compared to 49.2 per cent. as of 30 June 2011.

For detailed information on the impairment allowance of the Bank on loans and advances to customers, please see *"Selected Statistical and Other Information – Asset Quality of the Bank's Loans and Advances to Customers Portfolio".*

Administrative Expenses

The table below sets forth, for the periods indicated, information on the Group's administrative expenses and selected ratios.

	Six Months Ended 30 June		
	2012	**2011**	**Change**
	(PLN thousand) (unaudited)		%
Staff costs	(1,213,338)	(1,145,184)	6.0
Overheads	(655,077)	(622,803)	5.2
Depreciation and amortization expense	(269,622)	(251,381)	7.3
Taxes and other charges	(36,310)	(35,435)	2.5
Contribution and payments to the Bank Guarantee Fund	(71,994)	(68,368)	5.3
Total	**(2,246,341)**	**(2,123,171)**	**5.8**
C/I ratio* (%)	**38.8**	**39.9**	**(1.1) p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing administrative expenses by total net income on business activities.*

The Group's administrative expenses increased by PLN 123.2 million, or 5.8 per cent., to a level of PLN 2,246.3 million for the six months ended 30 June 2012, compared to PLN 2,123.2 million for the six months ended 30 June 2011. The increase was primarily a result of an increase in employee costs.

The increase in employee costs of PLN 68.2 million, or 6.0 per cent., resulted mainly from an increase in wages and salaries of PLN 42.0 million, or 4.4 per cent.

The increase in depreciation and amortization expense of PLN 18.2 million, or 7.3 per cent., was mainly related to the depreciation costs of intangible assets.

The C/I (cost-to-income) ratio decreased by 1.1 p.p. to a level of 38.8 per cent. for the six months ended 30 June 2012, compared to 39.9 per cent. for the six months ended 30 June 2011, which was mainly the result of an increase in the Group's net income on business activities (of 8.9 per cent.) which was higher than the increase of administrative expenses (5.8 per cent.).

Operating Profit

Operating profit increased by PLN 132.2 million, or 5.7 per cent., to PLN 2,443.2 million for the six months ended 30 June 2012, compared to PLN 2,311.0 million for the six months ended 30 June 2011, which resulted from an increase in the Group's total net income on business activities of PLN 475.3 million, which considerably exceeded the increase in the negative net impairment allowance and write-downs, as well as the administrative expenses.

Profit Before Income Tax

As a result of the factors described above, the Group's profit before income tax increased by PLN 142.0 million, or 6.2 per cent., to PLN 2,449.3 million for the six months ended 30 June 2012, compared to PLN 2,307.2 million for the six months ended 30 June 2011.

Income Tax Expense

The Group reported income tax expense of PLN 496.4 million for the six months ended 30 June 2012, compared to PLN 470.1 million for the six months ended 30 June 2011. The income tax expense increased principally as a result of an increase in taxable income.

Net Profit Attributable to the Equity Holders of the Parent Company

As a result of the factors described above, the net profit attributable to the equity holders of the parent company increased by PLN 115.0 million or by 6.3 per cent., to PLN 1,953.4 million for the six months ended 30 June 2012, compared to PLN 1,838.3 million for the six months ended 30 June 2011. The increase in net profit attributable to the equity holders of the parent company for the six months ended 30 June 2012 was primarily attributable to the PLN 467.7 million, or 13.1 per cent., increase in net interest income. The increase was only partially offset by an increase in negative net impairment allowance of PLN (219.9) million, or 24.9 per cent., and an increase in administration expenses of PLN 123.2 million, or 5.8 per cent.

Net ROA is a ratio of the net profit attributable to the equity holders of the parent company to average total assets (calculated as the arithmetical average of total assets at the beginning and the end of the reporting period and interim quarterly periods). For the six months ended 30 June 2012 the ROA ratio for the Group remained stable at 2.1 per cent., compared to the six months ended 30 June 2011.

Net ROE is a ratio of net profit attributable to the equity holders of the parent company to average equity attributable to the equity holders of the parent company (calculated as the arithmetical average of equity at the beginning and the end of the reporting period and interim quarterly periods). For the six months ended 30 June 2012 the Group's net profit attributable to the shareholders of the parent company increased at a higher rate than the average of its equity. As a result, net ROE increased by 1.2 p.p. to 17.5 per cent. for the six months ended 30 June 2012 compared to 16.3 per cent. for the six months ended 2011.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

The table below sets forth, for the periods indicated, certain information on the results of the Group's operations.

	Year Ended 31 December		
	2011	**2010**	**Change**
	(PLN thousand) *(audited)*		%
Net interest income	7,609,116	6,516,166	16.8
Net fee and commission income	3,101,444	3,142,829	(1.3)
Dividend income	6,800	5,663	20.1
Net income from financial instruments designated at fair value	(75,056)	(62,577)	19.9
Gains less losses from investment securities	20,179	73,056	(72.4)
Net foreign exchange gains	337,296	346,762	(2.7)
Net other operating income and expense	142,537	175,652	(18.9)
Total net income on business activities*	**11,142,316**	**10,197,551**	**9.3**
Net impairment allowance and write-downs	(1,930,447)	(1,868,364)	3.3
Administrative expenses	(4,411,357)	(4,249,136)	3.8
Operating profit	**4,800,512**	**4,080,051**	**17.7**
Share of profit (loss) of associates and jointly controlled entities	(19,652)	(815)	2,311.3
Profit before income tax	**4,780,860**	**4,079,236**	**17.2**
Income tax expense	(976,115)	(866,430)	12.7
Net profit (including non-controlling shareholders)	**3,804,745**	**3,212,806**	**18.4**
Net profit/(loss) attributable to non-controlling shareholders	(2,450)	(4,077)	(39.9)
Net profit attributable to the equity holders of the parent company	**3,807,195**	**3,216,883**	**18.4**

Source: Consolidated Financial Statements

* Total net income on business activities understood as the sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income; (iv) net income from financial instruments designated at fair value; (v) gains less losses from investment securities; (vi) net foreign exchange gains; and (vii) net other operating income and expense.

Net Interest Income

The table below sets forth, for the periods indicated, the principal components of the Group's interest income and expense.

	Year Ended 31 December 2011	Year Ended 31 December 2010	Change
	(PLN thousand) (audited)		%
Interest and similar income			
Income from loans and advances to customers	9,782,468	8,532,201	14.7
Income from derivative hedging instruments	814,275	649,116	25.4
Income from investment securities	576,630	457,958	25.9
Income from financial assets designated upon initial recognition at fair value through profit and loss	561,826	494,702	13.6
Income from placements with banks	218,731	148,494	47.3
Income from trading assets	74,847	128,940	(42.0)
Other income	8,985	3,904	130.1
Total	**12,037,762**	**10,415,315**	**15.6**
Interest expense and similar charges			
Interest expense on amounts due to customers	(4,101,578)	(3,715,721)	10.4
Interest expense on debt securities in issue	(278,178)	(123,382)	125.5
Interest expense on deposits from banks	(45,684)	(30,276)	50.9
Premium expense on debt securities available for sale	(1,322)	(3,553)	(62.8)
Other expense	(1,884)	(26,217)	(92.8)
Total	**(4,428,646)**	**(3,899,149)**	**13.6**
Net interest income	**7,609,116**	**6,516,166**	**16.8**
NIM (%)*	**4.6**	**4.4**	**0.2 p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing net interest income by the average balance of total interest-earning assets (calculated as the arithmetical average of interest-earning assets at the beginning and at the end of the relevant reporting period and interim quarterly periods).*

Interest and similar income increased by PLN 1,622.4 million, or 15.6 per cent., to PLN 12,037.8 million during 2011, compared to a level of PLN 10,415.3 million during 2010 mainly due to an increase in interest income on loans and advances to customers of PLN 1,250.3 million and interest income on derivative hedging instruments of PLN 165.2 million.

The amount of interest income on loans and advances to customers resulted mainly from an 8.4 per cent. increase in the balance of loans and advances to customers to a level of PLN 141,634.5 million at the end of 2011, compared to a total of PLN 130,668.1 million at the end of 2010, with a stable average interest yield on loans, which amounted to 7.1 per cent. in 2011, as compared to 6.8 per cent. during 2010. The increase in the loan portfolio was mainly due to an increase of the portfolio of housing and corporate loans.

The increase in interest income on derivative hedging instruments of 25.4 per cent. to a level of PLN 814.3 million during 2011, compared to PLN 649.1 million during 2010, was mainly due to an increase in the volume of CIRS transactions as expressed in PLN, which resulted from an increase in the average CHF exchange rate and an increase in CIRS net coupons (due to an increase, on an annual basis, in average 3-month WIBOR rate).

The increase in interest income of the Group's securities portfolio (comprising securities designated at fair value through profit and loss, trading securities and investment securities) of PLN 131.7 million, or 12.2 per cent., to a level of PLN 1,213.3 million during 2011 compared to PLN 1,081.6 million during 2010 resulted mainly from a 4.9 per cent. increase in the average balance of the Group's securities portfolio.

For detailed information on the Group's assets, please see "*Financial Position – Assets – 31 December 2011 Compared to 31 December 2010*" and "*Selected Statistical and Other Information*".

Interest expense and similar charges increased by 529.5 million, or 13.6 per cent., to a level of PLN 4,428.6 million during 2011, compared to PLN 3,899.1 million during 2010, primarily as a result of an increase of PLN 385.9 million, or 10.4 per cent., in interest expense on amounts due to customers and an increase of PLN 154.8 million, or 125.5 per cent., in interest expense on debt securities in issue.

For detailed information on the Group's liabilities, please see "*Financial Position – Liabilities – 31 December 2011 Compared to 31 December 2010*" and "*Selected Statistical and Other Information*".

Net Fee and Commission Income

The table below sets forth, for the periods indicated, the structure of the Group's fee and commission income and expense.

	Year Ended 31 December		
	2011	**2010**	**Change**
	(PLN thousand) (audited)		%
Fee and commission income			
Income from financial assets, which are not valued at fair value through profit or loss, of which:	582,100	528,824	10.1
Income from loans and advances granted	582,100	528,824	10.1
Other fee and commission income	3,252,259	3,350,380	(2.9)
Income from payment cards	1,048,720	963,434	8.9
Income from maintenance of bank accounts	916,484	922,632	(0.7)
Income from loan insurance	515,499	653,501	(21.1)
Income from maintenance of investment funds and pension unds (including management fees)	340,751	338,144	0.8
Income from cash transactions	160,451	177,684	(9.7)
Income from securities transactions	70,344	73,261	(4.0)
Income from foreign mass transactions servicing	47,966	44,754	7.2
Income from sale and distribution of court fee stamps	18,625	26,255	(29.1)
Other*	133,419	150,715	(11.5)
Income from fiduciary services	2,806	1,659	69.1
Total	**3,837,165**	**3,880,863**	**(1.1)**
Fee and commission expense			
Expense on payment cards	(320,592)	(293,247)	9.3
Expense on acquisition services	(140,216)	(144,252)	(2.8)
Expense on loan insurance	(133,488)	(150,842)	(11.5)
Expense on settlement services	(20,977)	(21,751)	(3.6)
Expense on asset management fees	(16,158)	(21,672)	(25.4)
Expense on fee and commissions for operating services provided by banks	(11,435)	(10,137)	12.8
Other**	(92,855)	(96,133)	(3.4)
Total	**(735,721)**	**(738,034)**	**(0.3)**
Net fee and commission income	**3,101,444**	**3,142,829**	**(1.3)**

Source: Consolidated Financial Statements

* *Included in 'Other' are commissions received for servicing bond sale transactions, commissions of Dom Maklerski (a brokerage house) for servicing Initial Public Offerings and commissions for servicing loans granted by the State Budget.*

** *Included in 'Other' are: fees and expenses paid by Dom Maklerski (a brokerage house) to the Warsaw Stock Exchange and the National Depositary for Securities.*

Total fee and commission income decreased by PLN 43.7 million, or by 1.1 per cent., to a level of PLN 3,837.2 million during 2011, compared to PLN 3,880.9 million during 2010.

The decrease in fee and commission income during 2011 was mainly driven by a decrease in fee and commission income from loan insurance of PLN 138.0 million, or 21.1 per cent., as a result of a decrease in the sales of consumer loans with optional insurance, as well as a decrease in commission income with respect to cash transactions of PLN 17.2 million, or 9.7 per cent., as a result of an increased share of transactions concluded by way of electronic banking by the Group's customers.

The increase in fee and commission income from payment cards of PLN 85.3 million, or 8.9 per cent., was primarily driven by the increase in the volume of card transactions.

The increase in commission income in respect of loans and advances by PLN 53.3 million, or 10.1 per cent., resulted from increase in loans sales, mainly loans to corporate clients.

Total fee and commission expense decreased by PLN 2.3 million, or 0.3 per cent., to PLN 735.7 million during 2011, compared to PLN 738.0 million during 2010.

The increase in commission expense on payment cards of PLN 27.3 million was primarily driven by an increase in the payments made for servicing card transactions.

As a result of the factors discussed above, the Group's net fee and commission income decreased by PLN 41.4 million, or 1.3 per cent., to PLN 3,101.4 million during 2011, compared to PLN 3,142.8 million during 2010, and represented 27.8 per cent. of the Group's total net income on business activities.

Net Income from Financial Instruments Designated at Fair Value

During 2011 loss from financial instruments designated at fair value increased by PLN 12.5 million, or 19.9 per cent. Simultaneously, during 2011 net income from financial instruments designated at fair value, in the item "*Derivative Instruments*", representing the ineffective part of hedging against the volatility of cash flows of the negative amount of PLN 64.3 million, compared to PLN 82.9 million during 2010, was recognized.

Gains Less Losses from Investment Securities

The Group's reported net gains on investment securities decreased by PLN 52.9 million, or by 72.4 per cent., from PLN 73.0 million during 2010 to PLN 20.2 million in 2011. Such decrease resulted primarily from one-off gains on the sale of equity and debt securities in 2010.

Net Foreign Exchange Gains

Net foreign exchange gains decreased by PLN 9.5 million, or 2.7 per cent., to PLN 337.3 million during 2011, compared to PLN 346.8 million during 2010.

Net Other Operating Income and Expense

Net other operating income decreased by PLN 33.1 million, or by 18.9 per cent., to PLN 142.5 million during 2011 compared to PLN 175.7 million during 2010. This was mainly a result of a decrease in sales of products and services.

Total Net Income on Business Activities

As a result of the factors described above, total net income on business activities increased by PLN 944.8 million, or 9.3 per cent., to PLN 11,142.3 million during 2011 compared to PLN 10,197.6 million during 2010.

Net Impairment Allowance and Write-downs

The table below sets forth, as of the dates and for the periods indicated, the structure of the Group's net impairment allowance and write-downs and selected ratios.

	Year Ended 31 December		
	2011	**2010**	**Change**
	(PLN thousand) *(audited)*		%
Net impairment allowance on:			
Investment securities available for sale	1,330	(1,319)	–
Loans and advances to customers and amounts due from banks measured at amortized cost	(1,838,737)	(1,746,953)	5.3
Tangible fixed assets	(4,549)	(28,790)	(84.2)
Intangible assets	(2,561)	(37,837)	(93.2)
Investments in entities measured using equity method	(28,815)	(55,110)	(47.7)
Non-current assets held for sale	–	(1,281)	–
Other	(57,115)	2,926	–
Total	**(1,930,447)**	**(1,868,364)**	**3.3**
Impaired loans ratio[1] (%)	**8.0**	**8.0**	**–**
Cost of the risk for the portfolio of gross loans and advances to customers[2] (%)	**(1.30)**	**(1.37)**	**0.07 p.p.**
Coverage of impaired loans[3] (%)	**48.0**	**44.6**	**3.4 p.p.**

Source: Consolidated Financial Statements

1 *Unaudited, calculated by dividing the gross carrying value of impaired loans and advances to customers by the gross carrying value of loans and advances to customers.*

2 *Unaudited, calculated by dividing net impairment allowance on loans and advances to customers for the years ended 31 December 2011 and 31 December 2010 by the average balance of gross loans and advances to customers (calculated as the arithmetic mean of gross loans and advances to customers as of the beginning and the end of the reporting period and interim quarterly periods).*

3 *Unaudited, calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying value of impaired loans and advances to customers.*

The net impairment allowance (reflecting impairment allowance recognized exceeding that reversed) was negative and amounted to PLN 1,930.4 million during 2011. This represented an increase of PLN 62.1 million compared to 2010, which was mainly driven by deteriorating impairment allowance on housing and corporate loans partly compensated by improved results on consumer loans.

The increase in negative net impairment allowance during 2011 resulted from the Group's conservative policy regarding identifying and valuating credit risk as well as an increase in the gross portfolio of loans and advances to customers by 8.7 per cent. compared to 2010.

The impaired loans ratio remained stable at 8.0 per cent. as of 31 December 2010 and 2011.

The cost of risk during 2011 decreased by 0.07 p.p. to (1.30) per cent., compared to (1.37) per cent. during 2010.

The ratio of the coverage of impaired loans increased by 3.4 p.p. to 48.0 per cent. as of 31 December 2011, compared to 44.6 per cent. as of 31 December 2010.

For detailed information on the impairment allowance of the Bank on loans and advances to customers, please see "*Selected Statistical and Other Information – Asset Quality of the Bank's Loans and Advances to Customers Portfolio*".

Administrative Expenses

The table below sets forth, for the periods indicated, information on the Group's administrative expenses and selected ratios.

	Year Ended 31 December		
	2011	**2010**	**Change**
	(PLN thousand) (audited)		%
Staff costs	(2,403,744)	(2,374,901)	1.2
Overheads	(1,276,586)	(1,237,892)	3.1
Depreciation and amortization expense	(520,161)	(512,319)	1.5
Taxes and other charges	(74,129)	(70,640)	4.9
Contribution and payments to the Bank Guarantee Fund	(136,737)	(53,384)	156.1
Total	**(4,411,357)**	**(4,249,136)**	**3.8**
C/I ratio* (%)	**39.6**	**41.7**	**(2.1) p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing administrative expenses by total net income on business activities.*

The Group's administrative expenses increased by PLN 162.2 million, or 3.8 per cent., to a level of PLN 4,411.4 million during 2011, compared to PLN 4,249.1 million during 2010. The increase was primarily a result of an increase in the contributions and payments to the Bank Guarantee Fund (*Bankowy Fundusz Gwarancyjny*), an increase in promotion and advertising costs as well as an increase in employee benefits.

The increase in staff costs of PLN 28.8 million, or 1.2 per cent., resulted mainly from an increase in wages and salaries of PLN 20.6 million, or 1.0 per cent.

The increase in depreciation and amortization expense of PLN 7.8 million, or 1.5 per cent., was mainly related to depreciation costs of intangible assets.

The C/I (cost-to-income) ratio decreased by 2.1 p.p. to a level of 39.6 per cent. during 2011, compared to 41.7 per cent. during 2010, which was mainly the result of an increase in the Group's net income on business activities accompanied by the stable level of its administrative expenses.

Operating Profit

Operating profit increased by PLN 720.5 million, or 17.7 per cent., to a level of PLN 4,800.5 million during 2011, compared to PLN 4,080.1 million during 2010, which resulted from an increase in the Group's total net income on business activities of PLN 944.8 million, which considerably exceeded the increase in the negative net impairment allowance and write-downs, as well as the stable level of the Group's administrative expenses.

Profit Before Income Tax

As a result of the factors described above, the Group's profit before income tax increased by PLN 701.6 million, or 17.2 per cent., to a level of PLN 4,780.9 million during 2011, compared to PLN 4,079.2 million during 2010.

Income Tax Expense

The Group reported income tax expense of PLN 976.1 million during 2011, compared to PLN 866.4 million during 2010. The income tax expense increased principally as a result of an increase in taxable income.

Net Profit Attributable to the Equity Holders of the Parent Company

As a result of the factors described above, the net profit attributable to the equity holders of the parent company increased by PLN 590.3 million or by 18.4 per cent., to a level of PLN 3,807.2 million during 2011, compared to PLN 3,216.9 million during 2010. The increase in net profit attributable to the equity holders of the parent company during 2011 was primarily attributable to a PLN 1,093.0 million, or 16.8 per cent., increase in net interest income. The increase was only partially offset by an increase in net impairment allowance and write-downs of PLN 62.1 million, or 3.3 per cent., and an increase in administration expenses of PLN 162.2 million, or 3.8 per cent.

Net ROA is the ratio of the net profit attributable to the equity holders of the parent company to average total assets (calculated as the arithmetical average of total assets at the beginning and the end of the reporting period and interim quarterly periods). During 2011 the Group's net profit attributable to the equity holders of the parent company increased at a higher rate than the average of its total assets. As a result, net ROA increased by 0.1 p.p. to a level of 2.1 per cent. during 2011 compared to 2.0 per cent. during 2010.

Net ROE is the ratio of net profit attributable to the equity holders of the parent company to average equity attributable to the equity holders of the parent company (calculated as the arithmetical average of equity at the beginning and the end of the reporting period and interim quarterly periods). During 2011 the Group's net profit attributable to the equity holders of the parent company increased at a higher rate than the average of its equity. As a result, net ROE increased by 2.6 p.p. to a level of 17.5 per cent. during 2011 compared to 14.9 per cent. during 2010.

Year Ended 31 December 2010 Compared to Year Ended 31 December 2009

The table below sets forth, for the periods indicated, certain information on the results of the Group's operations.

	Year Ended 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)		%
Net interest income	6,516,166	5,051,182	29.0
Net fee and commission income	3,142,829	2,583,003	21.7
Dividend income	5,663	5,381	5.2
Net income from financial instruments designated at fair value	(62,577)	60,872	–
Gains less losses from investment securities	73,056	(2,622)	–
Net foreign exchange gains	346,762	909,139	(61.9)
Net other operating income and expense	175,652	260,883	(32.7)
Total net income on business activities*	**10,197,551**	**8,867,838**	**15.0**
Net impairment allowance and write-downs	(1,868,364)	(1,681,075)	11.1
Administrative expenses	(4,249,136)	(4,243,835)	0.1
Operating profit	**4,080,051**	**2,942,928**	**38.6**
Share of profit (loss) of associates and jointly controlled entities	(815)	342	–
Profit before income tax	**4,079,236**	**2,943,270**	**38.6**
Income tax expense	(866,430)	(631,486)	37.2
Net profit (including non-controlling shareholders)	**3,212,806**	**2,311,784**	**39.0**
Net profit (loss) attributable to non-controlling shareholders	(4,077)	6,246	–
Net profit attributable to the equity holders of the parent company	**3,216,883**	**2,305,538**	**39.5**

Source: Consolidated Financial Statements

* Total net income on business activities understood as a sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income; (iv) net income from financial instruments designated at fair value; (v) gains less losses from investment securities; (vi) net foreign exchange gains; and (vii) net other operating income and expense.

Net Interest Income

The table below sets forth, for the periods indicated, the principal components of the Group's interest income and expense.

	Year Ended 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)		%
Interest and similar income			
Income from loans and advances to customers	8,532,201	7,562,344	12.8
Income from derivative hedging instruments	649,116	403,899	60.7
Income from financial assets designated upon initial recognition at fair value through profit and loss	494,702	403,112	22.7
Income from investment securities	457,958	393,530	16.4
Income from placements with banks	148,494	159,262	(6.8)
Income from trading assets	128,940	97,207	32.6
Other income	3,904	11,976	(67.4)
Total	**10,415,315**	**9,031,330**	**15.3**
Interest expense and similar charges			
Interest expense on amounts due to customers	(3,715,721)	(3,785,790)	(1.9)
Interest expense on debt securities in issue	(123,382)	(119,319)	3.4
Interest expense on deposits from banks	(30,276)	(47,470)	(36.2)
Other	(29,770)	(27,569)	8.0
Total	**(3,899,149)**	**(3,980,148)**	**(2.0)**
Net interest income	**6,516,166**	**5,051,182**	**29.0**
NIM (%)*	**4.4**	**3.9**	**0.5 p.p.**

Source: Consolidated Financial Statements

* Unaudited, calculated by dividing net interest income by average balance of total interest-earning assets (calculated as the arithmetical average of interest-earning assets at the beginning and at the end of reporting period and interim quarterly periods).

Interest and similar income increased by PLN 1,384.0 million, or 15.3 per cent., to a level of PLN 10,415.3 million during 2010, compared to a level of PLN 9,031.3 million during 2009, mainly due to the increase in interest income on loans and advances to customers of PLN 969.9 million, and interest income on derivative hedging instruments of PLN 245.2 million.

The amount of interest income on loans and advances to customers resulted mainly from the increase in the balance of loans and advances to customers of 12.1 per cent. to a level of PLN 130,668.1 million at the end of 2010, compared to a total of PLN 116,572.6 million at the end of 2009, with a stable average interest yield on loans, which amounted to 6.8 per cent. during 2010. The increase in the loan portfolio was mainly due to an increase in the housing loan portfolio.

The increase in interest income on derivative hedging instruments of 60.7 per cent. to a level of PLN 649.1 million during 2010, compared to PLN 403.9 million during 2009, was mainly due to the commencement of the application of hedge accounting in the Group beginning with the second quarter of 2009 (see "*Critical Accounting Policies and Estimates – Hedge Accounting – Cash flow hedges*").

The increase in interest income on the Group's securities portfolio (comprising financial assets designated upon initial recognition at fair value through profit and loss, trading assets and investment securities) by PLN 187.8 million, or 21.0 per cent., to a level of PLN 1,081.6 million during 2010 compared to PLN 893.8 million during 2009, resulted mainly from the increase in the average balance of the Group's securities portfolio.

For detailed information on the Group's assets, please see "*Financial Position – Assets – 31 December 2010 Compared to 31 December 2009*" and "*Selected Statistical and Other Information*".

Interest expense and similar charges decreased by 81.0 million, or 2.0 per cent., to a level of PLN 3,899.1 million during 2010, compared to PLN 3,980.1 million during 2009, primarily as a result of a decrease of PLN 70.1 million in interest expense on amounts due to customers and a decrease of PLN 17.2 million in interest expense on deposits from other banks.

The decrease in interest expense resulted mainly from a decrease in the average interest rate on deposits from customers, which decreased by 0.4 p.p. to a level of 2.8 per cent. during 2010, compared to 2009, with a relatively low growth rate in the balance of amounts due to customers, which during 2010 increased by 6.3 per cent. to a level of PLN 132,981.2 million. The decrease in the average interest rate on the deposit portfolio resulted mainly from the expiry of time deposits offered by the Group during 2008 at high interest rates. The relatively low growth rate of the Group's deposit portfolio was predominantly due to a decrease in time deposits from customers by 4.0 per cent. to a level of PLN 70,202.4 million at the end of 2010, compared to PLN 73,124.9 million at the end of 2009.

The decrease in interest expense on deposits from banks resulted mainly from a decrease in their volume, change in the structure (an increase in the share of foreign currency deposits at the cost of PLN deposits), and a decrease in market interest rates.

For detailed information on the Group's liabilities, please see "*Financial Position – Liabilities – 31 December 2010 Compared to 31 December 2009*" and "*Selected Statistical and Other Information*".

The Group's net interest income increased by PLN 1,465.0 million, or 29.0 per cent., to a level of PLN 6,516.2 million during 2010, compared to PLN 5,051.2 million during 2009 and constituted 63.9 per cent. of the Group's total net income on business activities. The Group's net interest income increased at a higher rate than the average balance of its interest-earning assets, which increased by PLN 19,832.5 million, or 15.3 per cent., to PLN 149,686.4 million for 2010, compared to PLN 129,854.0 million for 2009. As a result, the Group's NIM increased by 0.5 p.p. to 4.4 per cent. during 2010 compared to 3.9 per cent. during 2009.

Net Fee and Commission Income

The table below sets forth, for the periods indicated, the structure of the Group's fee and commission income and expense.

	Year Ended 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)		%
Fee and commission income			
Income from financial assets, which are not valued at fair value through profit and loss, of which:	528,824	367,955	43.7
Income from loans and advances granted	528,824	367,955	43.7
Other fee and commission income	3,350,380	2,965,738	13.0
Income from payment cards	963,434	932,319	3.3
Income from maintenance of bank accounts	922,632	895,974	3.0
Income from loan insurance	653,501	327,312	99.7
Income from maintenance of investment funds and pension funds (including management fees)	338,144	310,366	9.0
Income from cash transactions	177,684	189,221	(6.1)
Income from securities transactions	73,261	53,300	37.5
Income from foreign mass transactions servicing	44,754	41,524	7.8
Income from sale and distribution of court fee stamps	26,255	27,842	(5.7)
Other*	150,715	187,880	(19.8)
Income from fiduciary services	1,659	1,654	0.3
Total	**3,880,863**	**3,335,347**	**16.4**
Fee and commission expense			
Expense on payment cards	(293,247)	(334,400)	(12.3)
Expense on loan insurance	(150,842)	(92,937)	62.3
Expense on acquisition services	(144,252)	(152,428)	(5.4)
Expense on settlement services	(21,751)	(20,401)	6.6
Expense on asset management fees	(21,672)	(58,266)	(62.8)
Expense on fee and commissions for operating services provided by banks	(10,137)	(6,734)	50.5
Other**	(96,133)	(87,178)	10.3
Total	**(738,034)**	**(752,344)**	**(1.9)**
Net fee and commission income	**3,142,829**	**2,583,003**	**21.7**

Source: Consolidated Financial Statements

* *Included in 'Other' are commissions received for servicing bond sale transactions, commissions of Dom Maklerski (a brokerage house) for servicing Initial Public Offerings and commissions for servicing loans granted by the State Budget.*

** *Included in 'Other' are: fees and expenses paid by Dom Maklerski (a brokerage house) to the Warsaw Stock Exchange and the National Depositary for Securities and fee and commissions paid for settlement and clearing services.*

Total fee and commission income increased by PLN 545.5 million, or 16.4 per cent., to a level of PLN 3,880.9 million during 2010 compared to PLN 3,335.3 million during 2009.

The increase in fee and commission income during 2010 was mainly driven by the increase in fee and commission income from loan insurance of PLN 326.2 million and the increase in fee and commission income from loans and advances to customers of PLN 160.9 million, primarily as a result of an increase in the volume of loans sold and extending the offer of insurance products linked to loan products.

The increase in fee and commission income from payment cards of PLN 31.1 million was primarily driven by the increase in the volume and the average value of card transactions.

The increase in fee and commission income from the maintenance of investment funds and pension funds (including management fees) of PLN 27.8 million was mainly due to an increase in the interest of customers in this form of savings products and more favorable situation in the capital markets. The value of the assets under management of PKO TFI increased by 13.9 per cent. to PLN 9.67 billion as of 31 December 2010, and the value of the assets under the management of PTE BANKOWY increased by 33.7 per cent. to PLN 6.57 billion as of 31 December 2010.

The increase in fee and commission income from the maintenance of bank accounts of PLN 26.7 million was mainly due to the upwards reassessment of fee and commission rates for the maintenance of accounts conducted by the Group in the middle of 2009.

Total fee and commission expense decreased by PLN 14.3 million, or 1.9 per cent., to PLN 738.0 million during 2010, compared to PLN 752.3 million during 2009.

The decrease in commission expense on payment cards of PLN 41.2 million was primarily driven by a decrease in the payments made for servicing card transactions.

The decrease in commission expense on asset management fees of PLN 36.6 million was mainly due to the change in the procedures applied to asset and investment fund management and taking over management of the PKO/CREDIT SUISSE funds by PKO TFI as of 1 January 2010.

The increase in commission expense on loan insurance of PLN 57.9 million was mainly due to an increase in the volume of loans sold and extending the range of insurance products offered linked to loan products.

As a result of the factors discussed above, the Group's net fee and commission income increased by PLN 559.8 million, or 21.7 per cent., to PLN 3,142.8 million during 2010, compared to PLN 2,583.0 million during 2009 and represented 30.8 per cent. of the Group's total net income on business activities.

Net Income from Financial Instruments Designated at Fair Value

During 2010 the loss from financial instruments designated at fair value amounted to PLN 62.6 million compared to an income of PLN 60.9 million during 2009.

The loss on financial instruments designated at fair value through profit or loss during 2010 resulted mainly from a decrease in IRS market rates causing a loss on the derivative instruments hedging the securities portfolio. Simultaneously, during 2010 net income from financial instruments designated at fair value, in the item "*Derivative Instruments*", the ineffective part of hedging against the volatility of cash flows of the negative amount of PLN 82.9 million, compared to the negative amount of PLN 0.4 million during 2009, was recognized.

Gains Less Losses from Investment Securities

During 2010 the Group reported gains on investment securities which amounted to PLN 73.1 million compared to losses of PLN 2.6 million during 2009. The gains on investment securities during 2010 resulted mainly from gains on the sale of securities classified as investment securities available for sale.

Net Foreign Exchange Gains

Net foreign exchange gains decreased by PLN 562.4 million, or 61.9 per cent., to PLN 346.8 million during 2010, compared to PLN 909.1 million during 2009.

The decrease in net foreign exchange gains resulted mainly from the Bank commencing the application of hedge accounting as from the second quarter of 2009. The above resulted in a change of the classification of the results of hedge transactions in various items of the profit and loss account (mostly CIRS CHF/PLN transactions) (see "*Critical Accounting Policies and Estimates – Hedge Accounting – Cash Flow Hedges*").

Net Other Operating Income and Expense

Net other operating income and expense decreased by PLN 85.2 million, or 32.7 per cent., to PLN 175.7 million during 2010 compared to PLN 260.9 million during 2009. The decrease in net other operating income resulted from the higher rate of decrease in other operating income, which went down by PLN 115.6 million, or 19.8 per cent., to PLN 469.4 million during 2010 compared to PLN 584.9 million during 2009, than the rate of decrease in other operating expenses, which went down by PLN 30.3 million, or 9.4 per cent., to PLN 293.7 million during 2010 compared to PLN 324.1 million during 2009.

Total Net Income on Business Activities

As a result of the factors described above, total net income on business activities increased by PLN 1,329.7 million, or 15.0 per cent., to PLN 10,197.6 million during 2010 compared to PLN 8,867.8 million during 2009.

Net Impairment Allowance and Write-downs

The table below sets forth, as of the dates and for the periods indicated, the structure of the Group's net impairment allowance and write-downs and selected ratios.

	As of December or for the year ended 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)		%
Net impairment allowance on:			
Investment securities available for sale	(1,319)	(3,292)	(59.9)
Loans and advances to customers and amounts due from banks measured at amortized cost	(1,746,953)	(1,583,376)	10.3
Tangible fixed assets	(28,790)	161	-
Intangible assets	(37,837)	(3,402)	1,012.2
Investments in entities measured using equity method	(55,110)	(3,876)	1,321.8
Non-current assets held for sale	(1,281)	(1,680)	(23.8)
Other	2,926	(85,610)	-
Total	**(1,868,364)**	**(1,681,075)**	**11.1**
Impaired loans ratio[1] (%)	**8.0**	**7.6**	**0.4 p.p.**
Cost of the risk for the portfolio of gross loans and advances to customers[2] (%)	**(1.37)**	**(1.41)**	**0.04 p.p.**
Coverage of impaired loans[3] (%)	**44.6**	**43.2**	**1.4 p.p.**

Source: Consolidated Financial Statements

1 *Unaudited, calculated by dividing the gross carrying value of impaired loans and advances to customers by the gross carrying value of loans and advances to customers.*

2 *Unaudited, calculated by dividing net impairment allowance on loans and advances to customers by the average balance of gross loans and advances to customers (calculated as the arithmetic mean of gross loans and advances to customers as of the beginning and the end of the reporting period and interim quarterly periods).*

3 *Unaudited, calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying value of impaired loans and advances to customers.*

The net impairment allowance and write-downs (reflecting impairment allowance recognized exceeding that reversed) was negative and amounted to PLN 1,868.4 million during 2010. This represented an increase of PLN 187.3 million compared to 2009, which was mainly caused by an increase in the negative net impairment allowance on corporate and housing loans.

The increase in the negative net impairment allowance during 2010 resulted from the Group's conservative policy for identifying and valuating credit risk, as well as an increase in the gross portfolio of loans and advances to customers by 12.5 per cent. compared to 2009.

The impaired loans ratio increased by 0.4 p.p. to 8.0 per cent. as of 31 December 2010, compared to 7.6 per cent. as of 31 December 2009.

The cost of the risk during 2010 decreased by 0.04 p.p. to (1.37) per cent., compared to (1.41) per cent. during 2009.

The ratio of the coverage of impaired loans increased by 1.4 p.p. to 44.6 per cent. as of 31 December 2010, compared to 43.2 per cent. as of 31 December 2009.

For detailed information on the impairment allowance of the Bank on loans and advances to customers, please see *"Selected Statistical and Other Information – Asset Quality of the Bank's Loans and Advances to Customers Portfolio".*

Administrative Expenses

The table below sets forth, for the periods indicated, information on the Group's administrative expenses and selected ratios.

	Year Ended 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)		%
Staff costs	(2,374,901)	(2,307,514)	2.9
Overheads	(1,237,892)	(1,351,208)	(8.4)
Depreciation and amortization expense	(512,319)	(469,152)	9.2
Taxes and other charges	(70,640)	(66,338)	6.5
Contribution and payments to the Bank Guarantee Fund	(53,384)	(49,623)	7.6
Total	**(4,249,136)**	**(4,243,835)**	**0.1**
C/I ratio* (%)	**41.7**	**47.9**	**(6.2) p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing administrative expenses by total net income on business activities.*

The Group's administrative expenses remained at a stable level and amounted to PLN 4,249.1 million during 2010, compared to PLN 4,243.8 million during 2009 (an increase of PLN 5.3 million, or 0.1 per cent.).

The increase in staff costs of PLN 67.4 million resulted mainly from an increase in the cost of actuarial provisions for long-service and retirement bonuses.

The increase in depreciation and amortization expense of PLN 43.2 million was related to an almost equal extent to the depreciation of fixed tangible assets and amortization of intangible assets, and resulted mainly from changes in the depreciation and amortization periods and the depreciation and amortization of new fixed asset items.

The decrease in overheads of PLN 113.3 million was predominantly due to a decrease in the costs of promotion and advertising, IT and telecommunication costs, the costs of other postal and courier services.

The C/I (cost-to-income) ratio decreased by 6.2 p.p. to a level of 41.7 per cent. during 2010, compared to 47.9 per cent. during 2009, which was mainly the result of an increase in the Group's net income on business activities accompanied by the stable level of its administrative expenses.

Operating Profit

Operating profit increased by PLN 1,137.1 million, or 38.6 per cent., to a level of PLN 4,080.1 million during 2010, compared to PLN 2,942.9 million during 2009, which resulted from an increase in the Group's total net income on business activities of PLN 1,329.7 million, which considerably exceeded the increase in the negative impairment allowance and the stable level of the Group's administrative expenses.

Profit Before Income Tax

As a result of the factors described above, the Group's profit before income tax increased by PLN 1,136.0 million, or 38.6 per cent., to a level of PLN 4,079.2 million during 2010, compared to PLN 2,943.3 million during 2009.

Income Tax Expense

The Group reported income tax expense of PLN 866.4 million during 2010, compared to PLN 631.5 million during 2009. The income tax expense increased principally as a result of the increase in taxable income.

Net Profit Attributable to the Equity Holders of the Parent Company

As a result of the factors described above, the net profit attributable to the equity holders of the parent company increased by PLN 911.3 million, i.e. 39.5 per cent., to a level of PLN 3,216.9 million during 2010 compared to PLN 2,305.5 million during 2009. The increase in net profit attributable to the equity holders of the parent company during 2010 was primarily attributable to a PLN 1,465.0 million, or 29.0 per cent., increase in net interest income and a PLN 559.8 million, i.e. 21.7 per cent., increase in net fee and commission income. The increase was partially offset by the PLN 562.4 million, i.e. 61.9 per cent., decrease in foreign exchange gains; increase in net impairment allowance of PLN 187.3 million or 11.1 per cent., the negative result on financial instruments designated at fair value, which amounted to PLN (62.6) million during 2010, compared to the positive result of PLN 60.9 million during 2009; and the decrease in net other operating income of PLN 85.2 million, or 32.7 per cent.

Net ROA is the ratio of the net profit attributable to the equity holders of the parent company to average total assets (calculated as the arithmetical average of total assets at the beginning and the end of the reporting period and interim quarterly periods). During 2010 the Group's net profit attributable to the equity holders of the parent company increased at a higher rate than the average of its total assets. As a result, net ROA increased by 0.4 p.p. to a level of 2.0 per cent. during 2010 compared to 1.6 per cent. during 2009.

Net ROE is the ratio of net profit attributable to the equity holders of the parent company to average equity attributable to the equity holders of the parent company (calculated as the arithmetical average of equity at the beginning and the end of the reporting period and interim quarterly periods). During 2010 the Group's net profit attributable to the equity holders of the parent company increased at a higher rate than the average of its equity. As a result, net ROE increased by 0.1 p.p. to a level of 14.9 per cent. during 2010 compared to 14.8 per cent. during 2009.

Results of Operations by Business Segments

The business segments of the Group are reflected in the Consolidated Financial Statements. The segmentation is made based on the criterion of each group of clients, that is, the recipients of the products and services offered by the Group. Each business segment comprises the activities relating to products and services that are associated with similar risk and rewards, other than in the remaining segments. The 2011 Consolidated Financial Statements and the 2010 Consolidated Financial Statements and the discussion in this section reflect the breakdown of the Group's operations into the following segments:

- *Retail Segment*. The Retail Segment comprises the Group's transactions with retail, SME and housing market clients, as well as the activities of: Kredobank, PTE BANKOWY, PKO TFI, the IFS Group, CEUP eService, Qualia Development Group and Fort Mokotów Inwestycje. This segment includes, inter alia, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for SMEs, and housing market customers.

- *Corporate Segment*. The Corporate Segment includes the Group's transactions with large corporate clients as well as the activities of the Bankowy Fundusz Leasingowy group and of the Bankowe Towarzystwo Kapitalowe group. This segment includes, inter alia, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy-back and buy sell-back transactions, corporate loans, as well as leasing and factoring. Within the Corporate Segment the Bank also enters, on its own or in consortiums with other banks, into loan agreements to finance large investment projects.

- *Investment Segment*. The investment segment comprises the Bank's own account, such as investing activities and trusteeship services, brokerage activities, inter-bank transactions, transactions in derivative instruments and debt securities, as well as the activities of PKO Finance and Centrum Finansowe Puławska. The results of this segment also comprise the results of the transfer centre, including any intracompany settlements of transfer prices of funds, the net income on sources of long-term finance and the results from items classified as hedge accounting. Internal transfer of funds is based on transfer rates related to market rates. Transactions between segments are carried out on standard, commercial terms. Long-term external financing includes issues of securities, subordinated debt and funds from issuance of notes under the Programme, and loans and advances received from financial institutions.

Since the beginning of 2012, the activities of all the Bank's subsidiaries have been presented in the investment segment. The main reason behind the change in the presentation of the Group's results by business segments was to more accurately reflect the business lines which influence and supervise the activities of the Bank's subsidiaries: such activities are managed and supervised largely by the business lines responsible for the investment segment rather than the retail and corporate segments. Consequently, as a result of the change, as of the date of this Prospectus, the Group conducts its operations through the following business segments:

- *Retail Segment*. The retail segment comprises transactions of the Group with retail clients, SME clients and housing market clients. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market customers.

- *Corporate Segment*. The corporate segment includes transactions of the Group with large corporate clients. This segment comprises, among others, the following products and services: current accounts, deposits securities, depositary services, currency and derivative products, sell buy back and buy sell back transactions, corporate loans, leases and factoring. Within the segment, the Bank also enters, individually or in a consortium with other banks, into loan agreements for the purposes of financing large investment projects.

- *Investment Segment*. The investment segment comprises transactions of the Bank with financial institutions and the Bank's portfolio activity on its own account, i.e. investing and brokerage activities, inter-bank transactions, derivative instruments and debt securities transactions and activities of the following of the Bank's subsidiaries: the KREDOBANK SA Group, the Inter-Risk Ukraina ALC Group, PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA, PKO BP Finat Sp. z o.o., Centrum Elektronicznych Usług Płatniczych eService SA, the Qualia Development Sp. z o.o. Group, Fort Mokotów Inwestycje Sp. z o.o., the Bankowy Fundusz Leasingowy SA Group, the Bankowe Towarzystwo Kapitałowe SA Group, PKO Finance AB and, until its liquidation which was completed in May 2012, Centrum Finansowe Puławska Sp. z .o.o – in liquidation. The net result of the segment comprises the net result of the transfer center, which includes internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing which is dependent on interest rates. The transactions between business segments are conducted on arm's length terms. Long-term external financing includes the issuance of bonds, subordinated liabilities and funds under the Programme as well as amounts due to financial institutions.

The changes decribed above, relating to presentation of segments of activities have been applied in the 2012 Consolidated Interim Financial Statements. However, the 2011 Consolidated Financial Statements and the 2010 Consolidated Financial Statements were not restated to reflect the changes retrospectively. As a result, comparability of data relating to segments of activities, included in the 2012 Consolidated Interim Financial Statements with the data presented in the 2011 Consolidated Financial Statements and the 2010 Consolidated Financial Statements, may be limited.

The Year Ended 31 December 2011 Compared to the Year Ended 31 December 2010

The table below sets forth certain information on the Group's results of operations by business segment (in connection with the changes in the presentation of the Group's results by segments, the data in respect of 2010 has been reconciled for comparability with the data for 2011).

					Investment segment					
	Retail segment		**Corporate segment**		**Own activities**		**Transfer center**		**Total activity of the Group**	
	Year Ended 31 December									
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
					(PLN thousand) *(unaudited)*					
Net interest income	5,524,147	5,170,877	707,871	637,047	151,339	280,911	1,225,759	427,331	7,609,116	6,516,166
Net fee and commission income	2,654,554	2,738,897	319,628	287,478	127,262	116,454	–	–	3,101,444	3,142,829
Other net income, of which:	301,703	241,202	110,322	76,058	196,253	219,850	(176,522)	1,446	431,756	538,556
Net result from financial operations	7,528	(3,713)	101	(293)	864	75,266	(63,370)	(60,781)	(54,877)	10,479
Net foreign exchange gains	184,509	93,444	82,077	58,328	183,862	132,763	(113,152)	62,227	337,296	346,762
Dividend income	–	–	–	–	6,800	5,663	–	–	6,800	5,663
Net other operating income and expense	83,632	125,447	54,178	44,047	4,727	6,158	–	–	142,537	175,652
Income/expenses relating to internal customers	26,034	26,024	(26,034)	(26,024)	–	–	–	–	–	–
Net impairment allowance and write–downs	(1,516,117)	(1,473,947)	(383,963)	(328,488)	(30,367)	(65,929)	–	–	(1,930,447)	(1,868,364)
Administrative expenses	(3,952,170)	(3,836,090)	(304,113)	(273,465)	(155,074)	(139,581)	–	–	(4,411,357)	(4,249,136)
Share in gains or losses of associates and jointly controlled entities	–	–	–	–	–	–	–	–	(19,652)	(815)
Segment gross profit	**3,012,117**	**2,840,939**	**449,745**	**398,630**	**289,413**	**411,705**	**1,049,237**	**428,777**	**4,780,860**	**4,079,236**
ASSETS*	**119,171,733**	**112,010,210**	**43,459,366**	**34,963,122**	**28,116,938**	**22,687,169**	**–**	**–**	**190,748,037**	**169,660,501**
LIABILITIES*	**117,311,415**	**109,307,500**	**33,246,940**	**27,721,094**	**17,367,698**	**11,272,339**	**–**	**–**	**167,926,053**	**148,300,933**

Source: Consolidated Financial Statements

* As of 31 December 2011 or 2010

During 2011 the Retail Segment generated PLN 3,012.1 million gross profit, the Corporate Segment generated PLN 449.7 million gross profit and the Investment Segment generated PLN 1,338.7 million gross profit, which represented 63.0 per cent., 9.4 per cent. and 28.0 per cent., respectively, of the total gross profit generated by the Group.

As of 31 December 2011, assets allocated to the Retail Segment represented 62.5 per cent. of the total assets of the Group and had increased by PLN 7,161.5 million compared to 31 December 2010, and assets allocated to the Corporate Segment and the Investment Segment, representing 22.8 per cent. and 14.7 per cent., respectively, of the total assets of the Groups had increased by PLN 8,496 million and PLN 5,429.8 million, respectively.

As of 31 December 2011, liabilities allocated to the Retail Segment, the Corporate Segment and the Investment Segment accounted for 69.9 per cent., 19.8 per cent. and 10.3 per cent., respectively, of the Group's total liabilities and had increased by PLN 8,003.9 million, PLN 5,525.8 million and PLN 6,095.4 million, respectively.

Net Interest Income

During 2011 the Retail Segment contributed 72.6 per cent. of the Group's net interest income, while the Corporate Segment generated 9.3 per cent. of that income and the Investment Segment 18.1 per cent.

The increase in net interest income generated by the Retail Segment (PLN 353.3 million, or 6.8 per cent.) and by the Corporate Segment (PLN 70.8 million, or 11.1 per cent.) compared to 2010 was largely due to an increase in the net income on lending activities (resulting from both an increase in the loan portfolio and an increase in interest margin).

The decrease in net interest income from own activities in the Investment Segment (PLN 129.6 million, or 46.1 per cent.) compared to 2010, resulted mainly from decrease in interest margin of bonds portfolio.

The increase in net interest income from the transfer center (PLN 798.4 million, or 186.8 per cent.) compared to 2010 resulted primarily from increase in the liquidity margin and interest rate spread (adjustments to internal transfer prices), which was related to changes in the internal cost of liquidity and changes in the ageing structure of deposits and loans.

Net Fee and Commission Income

During 2011 the Retail Segment contributed 85.6 per cent. of the Group's net fee and commission income, while the Corporate Segment generated 10.3 per cent. of such income and the Investment Segment generated 4.1 per cent.

The decrease in net fee and commission income generated by the Retail Segment of PLN 84.3 million, or 3.1 per cent., compared to 2010, was primarily driven by decrease of commission from loan insurance as a result of a decrease in the sales of consumer loans with optional insurance.

During 2011 the net fee and commission income increased in the Corporate Segment by PLN 32.2 million, or 11.2 per cent., compared to 2010, which was mainly due to an increase in net income from lending activities.

The increase in net fee and commission income generated by the Investment Segment of PLN 10.8 million, or 9.3 per cent., compared to 2010 was largely driven by net income generated by DM PKO BP, which, *inter alia*, comprised commission for participating in the preparation and implementation of public offerings during 2011.

Other Net Income

The increase in other net income generated by the Retail Segment (PLN 60.5 million, or 25.1 per cent., compared to 2010) and by the Corporate Segment (PLN 34.3 million, or 45.0 per cent., compared to 2010) was due to net foreign exchange gains.

The decrease in other net income generated by the Investment Segment of PLN 201.6 million, or 91.1 per cent., compared to 2010, was largely driven by changes in the net profit of the transfer center.

Net Impairment Allowance and Write-downs

During 2011 the net impairment allowance and write-downs assigned to the Retail Segment represented 78.5 per cent. of the net impairment allowance of all three segments, while the net impairment allowance and write-downs assigned to the Corporate Segment represented 19.9 per cent. and the net impairment allowance and write-downs assigned to the Investment Segment was 1.6 per cent. of the total net impairment allowance and write-downs.

During 2011 the net impairment allowance and write-downs assigned to the Retail and Corporate Segments deteriorated by PLN 42.2 million (2.9 per cent.) and PLN 55.5 million (i.e. 16.9 per cent.), respectively, compared to 2010, which was mainly the result of deteriorating recovery rates for all loan types.

During the same period the net impairment allowance and write-downs assigned to the Investment Segment improved by PLN 35.6 million, or by 53.9 per cent., which was largely driven by lower loses on investments in entities measured under the equity method.

Administrative Expenses

During 2011 administrative expenses incurred by the Retail, Corporate and Investment Segments represented 89.6 per cent., 6.9 per cent. and 3.5 per cent., respectively, of the total administrative expenses of the Group.

The administrative expenses incurred by the Retail Segment of the Group were relatively stable during 2011 compared to 2010 (an increase of PLN 116.1 million, or 3.0 per cent.).

During 2011 the administrative expenses incurred in the Corporate Segment increased by PLN 30.6 million, or 11.2 per cent., compared to 2010.

The increase in administrative expenses incurred by the Investment Segment amounted to PLN 15.5 million, or 11.1 per cent., compared to 2010.

The Year Ended 31 December 2010 Compared to the Year Ended 31 December 2009

The table below sets forth certain information on the Group's results of operations by business segment (in connection with the changes in the presentation of Group's results by segments, the data in respect of 2009 has been reconciled for comparability with the data for 2010).

	Retail segment		Corporate segment		Investment segment: Own activities		Investment segment: Transfer center		Total activity of the Group	
	Year Ended 31 December									
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	(PLN thousand) (unaudited)									
Net interest income	5,170,877	5,112,462	637,047	585,102	280,911	266,408	427,331	(912,790)	6,516,166	5,051,182
Net fee and commission income	2,738,897	2,264,928	287,478	223,068	116,454	95,007	–	–	3,142,829	2,583,003
Other net income, of which:	241,202	315,013	76,058	88,558	219,850	229,584	1,446	600,498	538,556	1,233,653
Net result from financial operations	(3,713)	(3,537)	(293)	4,412	75,266	58,306	(60,781)	(931)	10,479	58,250
Net foreign exchange gains	93,444	109,608	58,328	63,136	132,763	134,966	62,227	601,429	346,762	909,139
Dividend income	–	–	–	–	5,663	5,381	–	–	5,663	5,381
Net other operating income and expense	125,447	182,942	44,047	47,010	6,158	30,931	–	–	175,652	260,883
Income/expenses relating to internal customers	26,024	26,000	(26,024)	(26,000)	–	–	–	–	–	–
Net impairment allowance and write–downs	(1,473,947)	(1,281,366)	(328,488)	(393,528)	(65,929)	(6,181)	–	–	(1,868,364)	(1,681,075)
Administrative expenses	(3,836,090)	(3,865,716)	(273,465)	(276,113)	(139,581)	(102,006)	–	–	(4,249,136)	(4,243,835)
Share in gains or losses of associates and jointly controlled entities	–	–	–	–	–	–	–	–	(815)	342
Segment gross profit	**2,840,939**	**2,545,321**	**398,630**	**227,087**	**411,705**	**482,812**	**428,777**	**(312,292)**	**4,079,236**	**2,943,270**
ASSETS*	**112,010,210**	**96,506,139**	**34,963,122**	**36,426,480**	**22,687,169**	**23,546,066**	**–**	**–**	**169,660,501**	**156,478,685**
LIABILITIES*	**109,307,500**	**100,543,468**	**27,721,094**	**28,402,191**	**11,272,339**	**7,097,156**	**–**	**–**	**148,300,933**	**136,042,815**

Source: Consolidated Financial Statements

* As of 31 December 2010 or 2009

During 2010 the Retail Segment generated PLN 2,840.9 million gross profit, the Corporate Segment generated PLN 398.6 million gross profit and the Investment Segment generated PLN 840.5 million gross profit, which represented 69.6 per cent., 9.8 per cent. and 20.6 per cent., respectively, of the total gross profit generated by the Group.

As of 31 December 2010 assets allocated to the Retail Segment represented 66.0 per cent. of the total assets of the Group and had increased by PLN 15,504.1 million compared to 31 December 2009, whereas assets allocated to the Corporate Segment and the Investment Segment, representing 20.6 per cent. and 13.4 per cent., respectively, of the total assets of the Groups had decreased by PLN 1,463.4 million and PLN 858.9 million, respectively.

As of 31 December 2010 liabilities allocated to the Retail Segment and the Investment Segment accounted for 73.7 per cent. and 7.6 per cent., respectively, of the Group's total liabilities and had increased by PLN 8,764.0 million and PLN 4,175.2 million, respectively, whereas liabilities allocated to the Corporate Segment, representing 18.7 per cent. of the Group's total liabilities, decreased by PLN 681.1 million.

Net Interest Income

During 2010 the Retail Segment contributed 79.4 per cent. of the Group's net interest income, while the Corporate Segment generated 9.8 per cent. of that income and the Investment Segment 10.9 per cent.

The increase in net interest income generated by the Retail Segment (PLN 58.4 million, or 1.1 per cent.) and by the Corporate Segment (PLN 51.9 million, or 8.9 per cent.) compared to 2009 was largely due to an increase in the net income on lending activities (resulting from both an increase in the loan portfolio and an increase in interest margin).

The increase in net interest income from own activities in the Investment Segment (PLN 14.5 million, of 5.4 per cent.), compared to 2009, resulted mainly from an increase in the results of interest rate arbitrage.

The increase in net interest income from the transfer center (PLN 1,340.1 million), resulted primarily from an increase in the liquidity margin and interest rate spread (adjustments to internal transfer prices), which was related to changes in the internal cost of liquidity and changes in the ageing structure of deposits and loans.

Net Fee and Commission Income

During 2010 the Retail Segment contributed 87.1 per cent. of the Group's net fee and commission income, while the Corporate Segment generated 9.1 per cent. of that income and the Investment Segment generated 3.7 per cent.

The increase in net fee and commission income generated by the Retail Segment of PLN 474.0 million, or 20.9 per cent., compared to 2009, was primarily driven by an increase in net income from loan insurance, mutual funds and payment cards.

During 2010 the net fee and commission income increased in the Corporate Segment by PLN 64.4 million, or 28.9 per cent., compared to 2009, which was mainly due to an increase in net income from lending activities.

The increase in net fee and commission income generated by the Investment Segment of PLN 21.4 million, or 22.6 per cent., compared to 2009, was largely driven by net income generated by DM PKO BP, which, *inter alia*, comprised commission for participating in the preparation and implementation of public offerings during 2010.

Other Net Income

The decrease in other net income generated by the Retail Segment (PLN 73.8 million, or 23.4 per cent., compared to 2009) and by the Corporate Segment (PLN 12.5 million, or 14.1 per cent. compared to 2009) was due to, *inter alia*, changes in the level of net foreign exchange gains.

The decrease in other net income generated by the Investment Segment of PLN 608.8 million, or 73.3 per cent., compared to 2009, was largely driven by changes in the net profit of the transfer center.

Net Impairment Allowance and Write-downs

During 2010 the net impairment allowance and write-downs assigned to the Retail Segment represented 78.9 per cent. of the net impairment allowance and write-downs of all three segments, while the net impairment allowance and write-downs assigned to the Corporate Segment represented 17.6 per cent. and the net impairment allowance and write-downs assigned to the Investment Segment was 3.5 per cent. of the total net impairment allowance and write-downs.

During 2010 the net impairment allowance and write-downs assigned to the Retail and Investment Segments deteriorated by PLN 192.6 million (15.0 per cent.) and PLN 59.7 million (i.e. 966.6 per cent.), respectively, compared to 2009, which was mainly the result of deterioration of the results of the retail portfolio managed by the Restructuring and Debt Collection Division and writedowns on the investment in an associated company.

During the same period the net impairment allowance and write-downs assigned to the Corporate Segment improved by PLN 65.0 million, or 16.5 per cent., which was largely driven by an improvement in the quality of the portfolio of off-balance-sheet liabilities.

Administrative Expenses

During 2010 administrative expenses incurred by the Retail, Corporate and Investment Segment represented 90.3 per cent., 6.4 per cent. and 3.3 per cent., respectively, of total administrative expenses of the Group.

The administrative expenses incurred by the three segments of the Group were stable during 2010 compared to 2009 (a decrease of PLN 29.6 million, or 0.8 per cent., in the Retail Segment, a decrease of PLN 2.6 million, or 1.0 per cent., in the Corporate Segment and an increase of PLN 37.6 million, or 36.8 per cent. in the Investment Segment).

Financial position

Assets

30 June 2012 Compared to 31 December 2011

The table below sets forth, as of the dates indicated, information on the assets of the Group.

	As of 30 June 2012		As of 31 December 2011	
	(PLN thousand) (unaudited)	*(%)*	*(PLN thousand) (audited)*	*(%)*
ASSETS				
Cash and balances with the central bank	8,837,388	4.6	9,142,168	4.8
Amounts due from banks	2,761,316	1.4	2,396,227	1.3
Trading assets	389,610	0.2	1,311,089	0.7
Derivative financial instruments	2,857,209	1.5	3,064,733	1.6
Financial assets designated upon initial recognition at fair value through profit and loss	14,946,799	7.8	12,467,201	6.5
Loans and advances to customers	141,331,155	74.2	141,634,494	74.3
Investment securities available for sale	12,741,997	6.7	14,393,276	7.5
Investments in associates and jointly controlled entities	124,555	0.1	123,119	0.1
Non-current assets held for sale	20,401	0.0	20,410	0.0
Inventories	586,039	0.3	566,846	0.3
Intangible assets	1,770,959	0.9	1,800,008	0.9
Tangible fixed assets, of which:	2,494,788	1.3	2,541,317	1.3
investment properties	*243*	*0.0*	*248*	*0.0*
Current income tax receivables	2,387	0.0	5,957	0.0
Deferred income tax asset	615,651	0.3	543,922	0.3
Other assets	957,617	0.5	737,270	0.4
TOTAL ASSETS	**190,437,871**	**100.0**	**190,748,037**	**100.0**

Source: Consolidated Financial Statements

As of 30 June 2012, the main components of the total assets of the Group were loans and advances to customers, financial assets designated upon initial recognition at fair value through profit or loss, investment securities available for sale, and cash and balances with the central bank, representing 74.2 per cent., 7.8 per cent., 6.7 per cent. and 4.6 per cent., respectively, of total assets. As of 30 June

2012, tangible fixed assets and intangible assets jointly represented 2.2 per cent. of the total assets, whereas derivative financial instruments and amounts due from banks represented 1.5 per cent. and 1.4 per cent., respectively, of the Group's total assets.

As of 30 June 2012, total assets had decreased by PLN 310.2 million to PLN 190,437.9 million, compared to PLN 190,748.0 million as of 31 December 2011, which was mainly attributable to a decrease in the cash and balances with the central bank of PLN 304.8 million, and a decrease in net loans and advances to customers of PLN 303.3 million, which were partly offset by an increase in amounts due from banks of PLN 365.1 million.

The main components of the Group's assets and the key drivers of the changes in the assets of the Group as of the indicated dates are described below.

Loans and Advances to Customers

The table below sets forth, as of the dates indicated, information on the composition of the gross loan portfolio of the Group by type of loan.

	As of 30 June 2012	As of 31 December 2011	Change
	(PLN thousand) (unaudited)	*(PLN thousand) (audited)*	%
Consumer loans	22,859,393	24,067,134	(5.0)
Housing loans*	70,805,066	70,808,365	0.0
Corporate loans**	52,534,294	51,336,449	2.3
Interest	1,149,467	1,080,789	6.4
Loans and advances to customers – gross	**147,348,220**	**147,292,737**	**0.0**
Impairment allowances	(6,017,065)	(5,658,243)	6.3
Loans and advances to customers – net	**141,331,155**	**141,634,494**	**(0.2)**

Source: Consolidated Financial Statements

* Housing loans include i.a. mortgages and loans extended to corporate housing market customers, including real estate developers.

** Corporate loans include also loans extended to SMEs.

The decrease in the net loans and advances to customers was mainly driven by an increase in the impairment allowances of PLN 358.8 million, as a consequence of the deterioration of the quality of corporate and mortgage loans.

As of 30 June 2012, housing loans (excluding accrued interest) represented 48.1 per cent. of gross loans and advances to customers and constituted the largest component of the Group's loan portfolio. The value of housing loans decreased slightly to PLN 70,805.1 million compared to the end of 2011.

As of 30 June 2012 corporate loans (excluding accrued interest) represented 35.7 per cent. of gross loans and advances to customers. The value of corporate loans increased by PLN 1,197.8 million as compared to the end of 2011, which primarily resulted from an increase in the volume of corporate loans denominated in PLN.

As of 30 June 2012, consumer loans (excluding accrued interest) represented 15.5 per cent. of gross loans and advances to customers. Consumer loans decreased by PLN 1,207.7 million mainly as a consequence of the decrease in the Group's volume of consumer loans denominated in PLN.

For detailed information on the Bank's loan portfolio structure, please see "*Selected Statistical and Other Information – Loans to Customers Portfolio Analysis*".

Securities Portfolio

The table below sets forth, as of the dates indicated, information on the composition of the securities portfolio of the Group by type of securities.

	As of 30 June 2012	As of 31 December 2011	Change
	(PLN thousand) *(unaudited)*	*(PLN thousand)* *(audited)*	%
Trading assets	389,610	1,311,089	(70.3)
Financial assets designated upon initial recognition at fair value through profit and loss	14,946,799	12,467,201	19.9
Investment securities available for sale	12,741,997	14,393,276	(11.5)
Total	**28,078,406**	**28,171,566**	**(0.3)**

Source: Consolidated Financial Statements

As of 30 June 2012, the Group's securities portfolio comprised of trading assets, financial instruments designated upon initial recognition at fair value through profit or loss, and investment securities available for sale, representing 1.4 per cent., 53.2 per cent. and 45.4 per cent., respectively, of the Group's entire securities portfolio.

The carrying value of the Group's securities portfolio decreased as of 30 June 2012 compared to 31 December 2011 and amounted to PLN 28,078.4 million (a decrease of 0.3 per cent., or PLN 93.2 million).

As of 30 June 2012, the balance of financial assets designated upon initial recognition at fair value through profit and loss increased by PLN 2,479.6 million, or 19.9 per cent.

As of 30 June 2012, the balance of trading assets and investment securities available for sale decreased by PLN 921.5 million (or 70.3 per cent.), and PLN 1,651.3 million (or 11.5 per cent.), respectively.

For detailed information on the Bank's securities portfolio structure, please see "*Selected Statistical and Other Information – Securities Portfolio Analysis*".

Derivative Financial Instruments

The decrease in derivative financial instruments by PLN 207.5 million, or 6.8 per cent., to PLN 2,857.2 million as of 30 June 2012, compared to PLN 3,064.7 million as of 31 December 2011, resulted mainly from a decrease in the valuation of, foreign exchange swap and forward transactions.

31 December 2011 Compared to 31 December 2010

The table below sets forth, as of the dates indicated, information on the assets of the Group.

	As of 31 December			
	2011		**2010**	
	(PLN thousand) (audited)	*(%)*	*(PLN thousand) (audited)*	*(%)*
ASSETS				
Cash and balances with the central bank	9,142,168	4.8	6,182,412	3.6
Amounts due from banks	2,396,227	1.3	2,307,032	1.4
Trading assets	1,311,089	0.7	1,503,649	0.9
Derivative financial instruments	3,064,733	1.6	1,719,085	1.0
Financial assets designated upon initial recognition at fair value through profit and loss	12,467,201	6.5	10,758,331	6.3
Loans and advances to customers	141,634,494	74.3	130,668,119	77.0
Investment securities available for sale	14,393,276	7.5	10,219,400	6.0
Investments in associates and jointly controlled entities	123,119	0.1	172,931	0.1
Non-current assets held for sale	20,410	0.0	19,784	0.0
Inventories	566,846	0.3	530,275	0.3
Intangible assets	1,800,008	0.9	1,802,037	1.1
Tangible fixed assets, of which:	2,541,317	1.3	2,576,445	1.5
investment properties	*248*	*0.0*	*259*	*0.0*
Current income tax receivables	5,957	0.0	4,318	0.0
Deferred income tax asset	543,922	0.3	582,802	0.3
Other assets	737,270	0.4	613,881	0.4
TOTAL ASSETS	**190,748,037**	**100.0**	**169,660,501**	**100.0**

Source: Consolidated Financial Statements

As of 31 December 2011, the main components of the total assets of the Group were loans and advances to customers, investment securities available for sale, financial assets designated upon initial recognition at fair value through profit and loss, and cash and balances with the central bank, representing 74.3 per cent., 7.5 per cent., 6.5 per cent. and 4.8 per cent., respectively, of total assets. As of 31 December 2011, tangible fixed assets and intangible assets jointly represented 2.2 per cent. of the total assets, whereas derivative financial instruments and amounts due from banks represented 1.6 per cent. and 1.3 per cent., respectively, of the Group's total assets.

As of 31 December 2011, total assets had increased by PLN 21,087.5 million, or by 12.4 per cent., to PLN 190,748.0 million, compared to PLN 169,660.5 million as of 31 December 2010, which was mainly attributable to an increase in the portfolio of loans and advances to customers of PLN 10,966.4 million, or 8.4 per cent., compared to the balance as of 31 December 2010.

The main components of the Group's assets and the key drivers of the changes in the assets of the Group as of the indicated dates are described below.

Loans and Advances to Customers

The table below sets forth, at the dates indicated, information on the composition of the gross loan portfolio of the Group by type of loan.

	As of 31 December		
	2011	**2010**	**Change**
	(PLN thousand) (unaudited)	*(PLN thousand) (audited)*	%
Consumer loans	24,067,134	25,446,265	(5.4)
Housing loans*	70,808,365	62,441,248	13.4
Corporate loans**	51,336,449	46,912,413	9.4
Interest	1,080,789	724,863	49.1
Loans and advances to customers – gross	**147,292,737**	**135,524,789**	**8.7**
Impairment allowances	(5,658,243)	(4,856,670)	16.5
Loans and advances to customers – net	**141,634,494**	**130,668,119**	**8.4**

Source: Consolidated Financial Statements

* Housing loans include i.a. mortgages and loans extended to corporate housing market customers, including real estate developers.

** Corporate loans include also loans extended to SMEs.

The increase of the loans and advances to customers was mainly driven by an increase in the housing loan portfolio of PLN 8,367.1 million.

As of 31 December 2011, housing loans (excluding accrued interest) represented 48.1 per cent. of loans and advances to customers (gross) and constituted the largest component of the Group's loan portfolio. The increase in housing loans resulted from both an increase in the Group's PLN loan volumes and the depreciation of the PLN against foreign currencies, which resulted in an increase in the carrying value of the portion of the loan portfolio denominated in foreign currencies.

As of 31 December 2011 corporate loans (excluding accrued interest), the non-financial sector and the public sector) represented 34.9 per cent. of loans and advances to customers (gross). The value of corporate loans had increased by PLN 4,424.0 million as compared to the end of 2010, which primarily resulted from an increase in the volume of corporate loans denominated in PLN.

As of 31 December 2011, consumer loans (excluding accrued interest) represented 16.3 per cent. of loans and advances to customers (gross). Consumer loans had decreased by PLN 1,379.1 million mainly as a consequence of the decrease in the Group's volume of consumer loans denominated in PLN. The depreciation of the PLN against foreign currencies had almost no impact on the Group's consumer loans as these loans are mostly denominated in PLN.

For detailed information on the Bank's loan portfolio structure, please see "*Selected Statistical and Other Information – Loans to Customers Portfolio Analysis*".

Securities Portfolio

The table below sets forth, as of the dates indicated, information on the composition of the securities portfolio of Group by type of securities.

	As of 31 December		
	2011	**2010**	**Change**
	(PLN thousand) (unaudited)	*(PLN thousand) (audited)*	%
Trading assets	1,311,089	1,503,649	(12.8)
Financial assets designated upon initial recognition at fair value through profit and loss	12,467,201	10,758,331	15.9
Investment securities available for sale	14,393,276	10,219,400	40.8
Total	**28,171,566**	**22,481,380**	**25.3**

Source: Consolidated Financial Statements

As of 31 December 2011, the Group's securities portfolio comprised trading assets, financial instruments designated upon initial recognition at fair value through profit and loss, and investment securities available for sale, representing 4.7 per cent., 44.3 per cent. and 51.1 per cent., respectively, of the Group's entire securities portfolio.

The carrying value of the Group's securities portfolio had increased as of 31 December 2011 compared to 31 December 2010 (an increase of PLN 5,690.2 million, or 25.3 per cent., to PLN 28,171.6 million).

As of 31 December 2011, the balance of investment securities available for sale and financial assets designated at fair value through profit or loss had increased by PLN 4,173.9 million (40.8 per cent.) and PLN 1,708.9 million (i.e. 15.9 per cent.), respectively.

As of 31 December 2011, trading assets decreased by PLN 192.6 million (12.8 per cent.).

The increase in the balance of financial assets designated upon initial recognition at fair value through profit and loss and investment securities available for sale were largely the result of investment policy and increase of business activity of the Group.

For detailed information on the Bank's securities portfolio structure, please see "*Selected Statistical and Other Information – Securities Portfolio Analysis*".

Derivative Financial Instruments

The increase in derivative financial instruments (assets) by PLN 1,345.6 million, or 78.3 per cent., to PLN 3,064.7 million as of 31 December 2011, compared to PLN 1,719.1 million as of 31 December 2010, resulted mainly from increase in the valuation of IRS, FX SWAP and CIRS transactions.

31 December 2010 Compared to 31 December 2009

The table below sets forth, as of the dates indicated, information on the assets of the Group.

	As of 31 December			
	2010		**2009**	
	(PLN thousand) (audited)	*(%)*	*(PLN thousand) (audited)*	*(%)*
ASSETS				
Cash and balances with the central bank	6,182,412	3.6	7,094,350	4.5
Amounts due from banks	2,307,032	1.4	2,023,055	1.3
Trading assets	1,503,649	0.9	2,212,955	1.4
Derivative financial instruments	1,719,085	1.0	2,029,122	1.3
Financial assets designated upon initial recognition at fair value through profit and loss	10,758,331	6.3	12,360,690	7.9
Loans and advances to customers	130,668,119	77.0	116,572,585	74.5
Investment securities available for sale	10,219,400	6.0	7,944,317	5.1
Securities held to maturity	–	–	9,894	0.0
Investments in associates and jointly controlled entities	172,931	0.1	228,692	0.1
Non-current assets held for sale	19,784	0.0	13,851	0.0
Inventories	530,275	0.3	653,075	0.4
Intangible assets	1,802,037	1.1	1,572,577	1.0
Tangible fixed assets	2,576,445	1.5	2,777,694	1.8
- including investment properties	*259*	*0.0*	*322*	*0.0*
Current income tax receivables	4,318	0.0	7,184	0.0
Deferred income tax asset	582,802	0.3	403,218	0.3
Other assets	613,881	0.4	575,426	0.4
TOTAL ASSETS	**169,660,501**	**100.0**	**156,478,685**	**100.0**

Source: Consolidated Financial Statements

As of 31 December 2010 the main components of total assets of the Group were loans and advances to customers, financial assets designated at fair value through profit or loss, investment securities available for sale, and cash and balances with the central bank, representing 77.0 per cent., 6.3 per cent., 6.0 per cent. and 3.6 per cent., respectively, of total assets. As of 31 December 2010 tangible fixed assets and intangible assets represented jointly 2.6 per cent. of total assets, whereas amounts due from banks and derivative financial instruments represented 1.4 per cent. and 1.0 per cent., respectively, of the Group's total assets.

As of 31 December 2010 total assets had increased by PLN 13,181.8 million, or 8.4 per cent., to PLN 169,660.5 million compared to PLN 156,478.7 million as of 31 December 2009, which was mainly attributable to an increase in the portfolio of loans and advances to customers of PLN 14,095.5 million, or 12.1 per cent., compared to the balance as of 31 December 2009.

The main components of the Group's assets and the key drivers of the changes in the assets of the Group as of the indicated dates are described below.

Loans and Advances to Customers

The table below sets forth, at the dates indicated, information on the composition of the gross loan portfolio of the Group by type of loan.

	As of 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)	*(PLN thousand) (audited)*	%
Consumer loans	25,446,265	23,483,449	8.4
Housing loans*	62,441,248	52,471,695	19.0
Corporate loans**	46,912,413	43,990,773	6.6
Interest	724,863	563,792	28.6
Loans and advances to customers – gross	**135,524,789**	**120,509,709**	**12.5**
Impairment allowances	(4,856,670)	(3,937,124)	23.4
Loans and advances to customers– net	**130,668,119**	**116,572,585**	**12.1**

Source: Consolidated Financial Statements

* Housing loans include i.a. mortgages and loans extended to corporate housing market customers, including real estate developers.

** Corporate loans include also loans extended to SMEs.

The increase of the loans and advances to customers was mainly driven by an increase in the housing loan portfolio of PLN 9,969.6 million.

As of 31 December 2010 housing loans (excluding accrued interest) represented 46.1 per cent. of loans and advances to customers (gross) and constituted the largest component of the Group's loan portfolio. The increase in housing loans resulted from both an increase in the Group's PLN loan volumes and the depreciation of PLN against foreign currencies, which resulted in an increase in the carrying value of the loan portfolio denominated in foreign currencies.

As of 31 December 2010 corporate loans (excluding accrued interest) represented 34.6 per cent. of loans and advances to customers (gross). The value of corporate loans had increased by PLN 2,921.6 million as compared to the end of 2009, which primarily resulted from an increase in the volume of corporate loans denominated in PLN.

As of 31 December 2010 consumer loans (excluding accrued interest) represented 18.8 per cent. of loans and advances to customers (gross). Consumer loans had increased by PLN 1,962.8 million, mainly as a consequence of the increase in the Group's volume of consumer loans denominated in PLN. The depreciation of PLN against foreign currencies had almost no impact on the Group's consumer loans as these loans are mostly denominated in PLN.

For detailed information on the Bank's loan portfolio structure, please see "*Selected Statistical and Other Information – Loans to Customers Portfolio Analysis*".

Securities Portfolio

The table below sets forth, as of the dates indicated, information on the composition of securities portfolio of Group by type of securities.

	As of 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)	*(PLN thousand) (audited)*	%
Trading assets	1,503,649	2,212,955	(32.1)
Financial assets designated at fair value through profit and loss	10,758,331	12,360,690	(13.0)
Investment securities available for sale	10,219,400	7,944,317	28.6
Securities held to maturity	–	9,894	(100.0)
Total	**22,481,380**	**22,527,856**	**(0.2)**

Source: Consolidated Financial Statements

As of 31 December 2010 the Group's securities portfolio comprised trading assets, financial instruments designated at fair value through profit or loss, and investment securities available for sale, representing 6.7 per cent., 47.9 per cent. and 45.5 per cent., respectively, of the Group's entire portfolio.

The carrying value of the Group's securities portfolio was stable as of 31 December 2010 compared to 31 December 2009 (a decrease of PLN 46.5 million, or 0.2 per cent., to PLN 22,481.4 million). Over the analyzed period the decrease in the balance of financial assets designated upon initial recognition at fair value through profit or loss and trading assets of PLN 1,602.4 million (13.0 per cent.) and PLN 709.3 million (i.e. 32.1 per cent.), respectively, was compensated for by the increase in the balance of investment securities available for sale of PLN 2,275.1 million (28.6 per cent.).

The decrease in the balance of financial assets designated at fair value through profit or loss and trading assets, accompanied by the increase in the balance of investment securities available for sale was largely a result of the Group's investment policy.

For detailed information on the Bank's securities portfolio structure, please see "*Selected Statistical and Other Information – Investment Portfolio Analysis*".

Derivative Financial Instruments

The decrease in derivative financial instruments (assets) by PLN 310.0 million, or 15.3 per cent., to PLN 1,719.1 million as of 31 December 2010, compared to PLN 2,029.1 million as of 31 December 2009, resulted mainly from a decrease in the valuation of CIRS transactions of PLN 276.0 million.

Liabilities

30 June 2012 Compared to 31 December 2011

The table below sets forth, as of the dates indicated, information on the liabilities of the Group.

	As of 30 June 2012		As of 31 December 2011	
	(PLN thousand) (audited)	*(%)*	*(PLN thousand) (audited)*	*(%)*
Liabilities				
Amounts due to the central bank..	2,868	0.0	3,454	0.0
Amounts due to banks	5,740,840	3.4	6,239,164	3.7
Derivative financial instruments....	2,759,720	1.6	2,645,281	1.6
Amounts due to customers...........	146,986,505	87.8	146,473,897	87.2
Debt securities in issue	7,303,275	4.4	7,771,779	4.6
Subordinated liabilities	1,614,369	1.0	1,614,377	1.0
Other liabilities	2,294,797	1.4	2,450,763	1.5
Current income tax liabilities........	75,382	0.0	78,810	0.0
Deferred income tax liability	33,673	0.0	29,364	0.0
Provisions	618,713	0.4	619,164	0.4
TOTAL LIABILITIES	**167,430,142**	**100.0**	**167,926,053**	**100.0**

Source: Consolidated Financial Statements

As of 30 June 2012, the main components of total liabilities of the Group were amounts due to customers, debt securities in issue and amounts due to other banks, representing 87.8 per cent., 4.4 per cent. and 3.4 per cent., respectively, of the total liabilities of the Group.

As of 30 June 2012, total liabilities decreased by PLN 495.9 million to a level of PLN 167,430.1 million, compared to PLN 167,926.1 million as of 31 December 2011. This was mainly attributable to a decrease in amounts due to other banks by PLN 498.3 million, a decrease in debt securities in issue by PLN 468.5 million and a decrease in other liabilities by PLN 156.0 million, which were partly offset by an increase in amounts due to customers of PLN 512.6 million.

The main components of the Group's liabilities and the key drivers of the changes in the total liabilities of the Group as of the indicated dates are described below.

Amounts Due to Customers

The table below sets forth, as of the dates indicated, information on the distribution of the liabilities of the Group.

	As of 30 June 2012	As of 31 December 2011	Change
	(PLN thousand) (audited)	*(PLN thousand) (audited)*	%
Amounts due to retail clients	106,462,857	104,183,094	2.2
Amounts due to corporate entities	35,525,139	38,468,560	(7.7)
Amounts due to state budget entities	4,998,509	3,822,243	30.8
Total	**146,986,505**	**146,473,897**	**0.3**
Loan to deposit ratio (%)*	**96.2**	**96.7**	**(0.5) p.p.**
Loans to stable sources of funding ratio (%)**	**88.2**	**88.4**	**(0.2) p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing loans and advances to customers by amounts due to customers.*

** *Unaudited, calculated by dividing loans and advances to customers by stable sources of funding, which comprise amounts due to customers and long-term external financing in the form of debt securities in issue, subordinated liabilities and loans and advances received from banks.*

As of 30 June 2012, amounts due to customers increased by PLN 512.6 million compared to the balance as of 31 December 2011.

As of 30 June 2012, amounts due to retail clients (representing 72.4 per cent. of amounts due to customers) increased by PLN 2,279.8 million, or 2.2 per cent., compared to the balance as of 31 December 2011. This increase was mainly attributable to an increase in term deposits.

As of 30 June 2012 amounts due to corporate entities represented 24.2 per cent. of amounts due to customers and decreased by PLN 2,943.4 million, or 7.7 per cent., compared to the balance as of 31 December 2011. The decrease resulted mainly from a decline in current accounts and overnight deposits.

As of 30 June 2012 amounts due to state budget entities represented 3.4 per cent. of amounts due to customers and increased by PLN 1,176.3 million, or 30.8 per cent., compared to the balance as of 31 December 2011. The increase resulted mainly from an increase in term deposits.

Loan-to-deposit ratio is a ratio of the balance of loans and advances to customers to amounts due to customers. For the six months ended 30 June 2012 the Group's portfolio of loans and advances to customers decreased (0.2 per cent.) while the amounts due to customers increased by 0.3 per cent. As a result, the Group's loan-to-deposit ratio decreased by 0.5 p.p. to 96.2 per cent. as of 30 June 2012 compared to 96.7 per cent. at the end of 2011.

The ratio of loans to stable sources of funding is a ratio of loans and advances to customers to stable sources of funding (comprising amounts due to customers and long-term external financing in the form of debt securities in issue, subordinated liabilities and loans and advances received from. The ratio of loans to stable sources of funding decreased from 88.4 per cent. as at 31 December 2011 to 88.2 per cent. as at 30 June 2012.

For detailed information on the Bank's deposit portfolio, please see "*Selected Statistical and Other Information – Liabilities – Deposits from Customers*".

Debt Securities in Issue

As of 30 June 2012, debt securities in issue decreased by PLN 468.5 million, or by 6.0 per cent., to PLN 7,303.3 million, compared to PLN 7,771.8 million as of 31 December 2011, which resulted mainly from lower level of issuances of short-term bonds under the Domestic Market Programme.

Derivative Financial Instruments

Derivative financial instruments with negative fair values are recognized as liabilities. As of 30 June 2012, the balance of such financial instruments increased by PLN 114.4 million, or 4.3 per cent., compared to 31 December 2011, mainly due to an increase in the negative valuation of FX Swap transactions of PLN 122.1 million.

31 December 2011 Compared to 31 December 2010

The table below sets forth, as of the dates indicated, information on the liabilities of the Group.

	As of 31 December			
	2011		**2010**	
	(PLN thousand) (audited)	*(%)*	*(PLN thousand) (audited)*	*(%)*
Liabilities				
Amounts due to the central bank	3,454	0.0	3,370	0.0
Amounts due to banks	6,239,164	3.7	5,233,875	3.5
Derivative financial instruments	2,645,281	1.6	2,404,795	1.6
Amounts due to customers	146,473,897	87.2	132,981,215	89.7
Debt securities in issue	7,771,779	4.6	3,298,867	2.2
Subordinated liabilities	1,614,377	1.0	1,611,779	1.1
Other liabilities	2,450,763	1.5	2,092,834	1.4
Current income tax liabilities	78,810	0.0	67,744	0.0
Deferred income tax liability	29,364	0.0	22,764	0.0
Provisions	619,164	0.4	583,690	0.4
TOTAL LIABILITIES	**167,926,053**	**100.0**	**148,300,933**	**100.0**

Source: Consolidated Financial Statements

As of 31 December 2011, the main components of total liabilities of the Group were amounts due to customers, debt securities in issue and amounts due to other banks, representing 87.2 per cent., 4.6 per cent. and 3.7 per cent., respectively, of the total liabilities of the Group.

As of 31 December 2011, total liabilities had increased by PLN 19,625.1 million, or by 13.2 per cent., to a level of PLN 167,926.1 million, compared to PLN 148,300.9 million as of 31 December 2010. This was mainly attributable to: (i) an increase in amounts due to customers of PLN 13,492.7 million; and (ii) an increase in debt securities in issue of PLN 4,472.9 million.

The main components of the Group's liabilities and the key drivers of the changes in the total liabilities of the Group as of the indicated dates are described below.

Amounts Due to Customers

The table below sets forth, as of the dates indicated, information on the distribution of the liabilities of the Group.

	As of 31 December		
	2011	**2010**	**Change**
	(PLN thousand) (audited)	*(PLN thousand) (audited)*	%
Amounts due to retail clients	104,183,094	95,107,854	9.5
Amounts due to corporate entities	38,468,560	31,826,551	20.9
Amounts due to state budget entities	3,822,243	6,046,810	(36.8)
Total	**146,473,897**	**132,981,215**	**10.1**
Loan to deposit ratio (%)*	**96.7**	**98.3**	**(1.6) p.p.**
Loans to stable sources of funding ratio (%)**	**88.4**	**92.0**	**(3.6) p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing loans and advances to customers by amounts due to customers.*

** *Unaudited, calculated by dividing loans and advances to customers by stable sources of funding, which comprise amounts due to customers and long-term external financing in the form of debt securities in issue, subordinated liabilities and loans and advances received from banks.*

As of 31 December 2011, amounts due to customers had increased by PLN 13,492.7 million compared to the balance as of 31 December 2010.

As of 31 December 2011, amounts due to retail clients (representing 71.1 per cent. of amounts due to customers) and amounts due to corporate entities (representing 26.3 per cent. of amounts due to customers) had increased by PLN 9,075.2 million and PLN 6,642.0 million, respectively, compared to the balances as of 31 December 2010. This increase was mainly attributable to the Group's strategy of expanding its deposit portfolio in a stable manner, the intensified marketing activities of the Group directed at retail and corporate customers.

As of 31 December 2011 amounts due to state budget entities represented 2.6 per cent. of amounts due to customers and they had decreased by PLN 2,224.6 million, or 36.8 per cent., compared to the balance as of 31 December 2010. The decrease resulted mainly from consolidation of state budget entities amounts.

Loan-to-deposit ratio is the ratio of the balance of loans and advances to customers to amounts due to customers. During 2011 the Group's portfolio of loans and advances to customers increased at a lower rate than the amounts due to customers. As a result, the Group's loan-to-deposit ratio decreased by 1.6 p.p. to 96.7 per cent. at the end of 2011 compared to 98.3 per cent. at the end of 2010.

The ratio of loans to stable sources of funding is the ratio of loans and advances to customers to stable sources of funding (comprising amounts due to customers and long-term external financing in the form of debt securities in issue, subordinated liabilities and loans and advances received from banks. During 2011 the Group's portfolio of loans and advances to customers grew slower than stable sources of funding. As a result, the ratio of loans to stable sources of funding for the Group decreased by 3.6 p.p. to 88.4 per cent. at the end of 2011, compared to 92.0 per cent. at the end of 2010.

For detailed information on the Bank's deposit portfolio, please see "*Selected Statistical and Other Information – Liabilities – Deposits from Customers*".

Debt Securities in Issue

As of 31 December 2011, debt securities in issue had increased by PLN 4,472.9 million, or by 135.6 per cent., to PLN 7,771.8 million, compared to PLN 3,298.9 million as of 31 December 2010, which was due to the issuance on 7 July 2011 (by a Swedish subsidiary of the Bank, PKO Finance AB (publ)) of five-year Eurobonds with a nominal value of CHF 250 million, as well as the issuances of short-term bonds under the Domestic Market Programme. Please see "*Business of the Group – Material Contracts – Material Issues of Debt Securities*".

Derivative Financial Instruments

Derivative financial instruments with negative fair values are recognized as liabilities. The balance of such financial instruments had increased by PLN 240.5 million, or 10.0 per cent., compared to 31 December 2010, mainly as a result of an increase in the negative valuation of IRS transactions of PLN 372.1 million.

31 December 2010 Compared to 31 December 2009

The table below sets forth, as of the dates indicated, information on the liabilities of the Group.

	As of 31 December			
	2010		**2009**	
	(PLN thousand) (audited)	*(%)*	*(PLN thousand) (audited)*	*(%)*
Liabilities				
Amounts due to the central bank	3,370	0.0	6,581	0.0
Amounts due to banks	5,233,875	3.5	5,146,048	3.8
Derivative financial instruments	2,404,795	1.6	1,544,370	1.1
Amounts due to customers	132,981,215	89.7	125,072,934	91.9
Debt securities in issue	3,298,867	2.2	289,360	0.2
Subordinated liabilities	1,611,779	1.1	1,612,178	1.2
Other liabilities	2,092,834	1.4	1,566,623	1.2
Current income tax liabilities	67,744	0.0	181,893	0.1
Deferred income tax liability	22,764	0.0	20,534	0.0
Provisions	583,690	0.4	602,294	0.4
TOTAL LIABILITIES	**148,300,933**	**100.0**	**136,042,815**	**100.0**

Source: Consolidated Financial Statements

As of 31 December 2010 the main components of total liabilities of Group were amounts due to customers, amounts due to banks and debt securities in issue, representing 89.7 per cent., 3.5 per cent. and 2.2 per cent., respectively, of the total liabilities of the Group.

As of 31 December 2010 total liabilities had increased by PLN 12,258.1 million, or 9.0 per cent., to a level of PLN 148,300.9 million compared to PLN 136,042.8 million as of 31 December 2009. This was mainly attributable to: (i) an increase in the amounts due to customers of PLN 7,908.3 million; and (ii) an increase in debt securities in issue of PLN 3,009.5 million.

The main components of the Group's liabilities and the key drivers of the changes in the total liabilities of the Group as of the indicated dates are described below.

Amounts Due to Customers

The table below sets forth, as of the dates indicated, information on the distribution of the liabilities of the Group.

	As of 31 December		
	2010	**2009**	**Change**
	(PLN thousand) (audited)	*(PLN thousand) (audited)*	%
Amounts due to retail clients	95,107,854	87,557,401	8.6
Amounts due to corporate entities	31,826,551	27,834,542	14.3
Amounts due to state budget entities	6,046,810	9,680,991	(37.5)
Total	**132,981,215**	**125,072,934**	**6.3**
Loan to deposit ratio (%)*	**98.3**	**93.2**	**5.1 p.p.**
Loans to stable sources of funding ratio (%)**	**92.0**	**89.3**	**2.7 p.p.**

Source: Consolidated Financial Statements

* *Unaudited, calculated by dividing loans and advances to customers by amounts due to customers.*

** *Unaudited, calculated by dividing loans and advances to customers by stable sources of funding, comprising amounts due to customers and long-term external financing in the form of debt securities in issue, subordinated liabilities and loans and advances received from banks.*

As of 31 December 2010 amounts due to customers had increased by PLN 7,908.3 million compared to the balance as of 31 December 2009.

As of 31 December 2010 amounts due to retail clients (representing 71.5 per cent. of amounts due to customers) and amounts due to corporate entities (representing 23.9 per cent. of amounts due to customers) had increased by PLN 7,550.5 million and PLN 3,992.0 million, respectively, compared to the balances as of 31 December 2009. This increase was mainly attributable to the Group's strategy of expanding its deposit portfolio in a stable manner, intensified marketing activities of the Group directed at retail and corporate customers, and the introduction of new deposit products offering higher interest rates.

As of 31 December 2010 amounts due to state budget entities represented 4.5 per cent. of amounts due to customers and they had decreased by PLN 3,634.2 million compared to the balance as of 31 December 2009. The decrease resulted mainly from a decrease in the term deposits of these entities due to the moderate pricing policy in respect of the quotation of negotiated deposits as a result of the good liquidity of the Group and regulatory changes requiring public entities to deposit funds at BGK.

Loan-to-deposit ratio is the ratio of the balance of loans and advances to customers to amounts due to customers. During 2010 the Group's portfolio of loans and advances to customers increased at a higher rate than the amounts due to customers. As a result, the Group's loan-to-deposit ratio increased by 5.1 p.p. to 98.3 per cent. at the end of 2010 compared to 93.2 per cent. at the end of 2009.

The ratio of loans to stable sources of funding is the ratio of loans and advances to customers to stable sources of funding (comprising amounts due to customers and long-term external financing in the form of debt securities in issue, subordinated liabilities and loans and advances received from financial institutions). During 2010 the Group's portfolio of loans and advances to customers grew faster than stable sources of funding. As a result, the ratio of loans to stable sources of funding for the Group increased by 2.7 p.p. to 92.0 per cent. at the end of 2010, compared to 89.3 per cent. at the end of 2009.

For detailed information on the Bank's deposit portfolio please see "*Selected Statistical and Other Information – Liabilities – Deposits from Customers*".

Debt Securities in Issue

As of 31 December 2010 debt securities in issue had increased by PLN 3,009.5 million, or 1,040.1 per cent., to PLN 3,298.9 million compared to PLN 289.4 million as of 31 December 2009, which was due to the issuance on 12 October 2010 (by a subsidiary, PKO Finance AB, Sweden) of five-year Eurobonds with a nominal value of EUR 800 million. (Please see "*Description of the Group – Material Contracts – Material Issues of Debt Securities*").

Derivative Financial Instruments

Derivative financial instruments with negative fair values are recognized as liabilities. The balance of such financial instruments had increased by PLN 860.4 million, or 55.7 per cent., compared to 31 December 2009, mainly as a result of an increase in liabilities in respect of the negative valuation of CIRS transactions of PLN 654.3 million.

Equity

The table below sets forth, as of the dates indicated, data regarding the equity of the Group.

			As of 31 December					
	As of 30 June 2012		**2011**		**2010**		**2009**	
	(PLN thousand) (unaudited)	*(%)*	*(PLN thousand) (audited)*	*(%)*	*(PLN thousand) (audited)*	*(%)*	*(PLN thousand) (audited)*	*(%)*
Equity								
Share capital	1,250,000	5.4	1,250,000	5.5	1,250,000	5.9	1,250,000	6.1
Other capital	20,004,020	86.9	17,881,264	78.4	16,888,145	79.1	16,732,988	81.9
Currency translation differences from foreign operations	(94,384)	(0.4)	(92,023)	(0.4)	(109,747)	(0.5)	(108,791)	(0.5)
Unappropriated profits	(103,340)	(0.4)	(23,162)	(0.1)	112,297	0.5	248,806	1.2
Net profit for the period	1,953,361	8.5	3,807,195	16.7	3,216,883	15.1	2,305,538	11.3
Capital and reserves attributable to the equity holders of the parent company	**23,009,657**	**100.0**	**22,823,274**	**100.0**	**21,357,578**	**100.0**	**20,428,541**	**100.0**
Non-controlling interest	(1,928)	0.0	(1,290)	0.0	1,990	0.0	7,329	0.0
TOTAL EQUITY	**23,007,729**	**100.0**	**22,821,984**	**100.0**	**21,359,568**	**100.0**	**20,435,870**	**100.0**

Source: Consolidated Financial Statements

30 June 2012 Compared to 31 December 2011

Total equity increased by PLN 185.7 million to PLN 23,007.7 million as of 30 June 2012, compared to PLN 22,822.0 million as of 31 December 2011, mainly as a consequence of accumulation of the result for the six months ended 30 June 2012 less dividend distributed by the Bank out of the profit for the year ended 31 December 2011 in the amount of PLN 1,587.5 million represented 40.2 per cent. of the net profit of the Bank for 2011.

31 December 2011 Compared to 31 December 2010

Total equity increased by PLN 1,462.4 million, or 6.8 per cent., to PLN 22,822.0 million as of 31 December 2011, compared to PLN 21,359.6 million as of 31 December 2010, mainly as a consequence of appropriation of 24.2 per cent. of the 2010 net profit to reserve capital and higher result for the six months ended 30 June 2011.

During 2011 the Bank distributed a dividend out of the profit for the year ended 31 December 2010 in the amount of PLN 2,475.0 million, which represented 74.7 per cent. of the net profit of the Bank for 2010.

31 December 2010 Compared to 31 December 2009

Total equity had increased by PLN 923.7 million, or 4.5 per cent., to PLN 21,359.6 million as of 31 December 2010, compared to PLN 20,435.9 million as of 31 December 2009, principally as a result of an increase in the net profit for the year of PLN 911.3 million.

During 2010 the Bank distributed a dividend out of the profit for the year ended 31 December 2009 in the amount of PLN 2,375.0 million, which represented 97.7 per cent. of the net profit of the Bank for 2009.

Capital Adequacy

The Group is required to comply with the capital requirements for credit institutions and capital adequacy guidelines adopted by the Basel Committee on Banking Supervision (Basel II), as adopted in the EU (CRD implementing Basel II) and transposed to the Polish legal system in the Polish Banking Law and rules and regulations related thereto.

Capital adequacy is the condition under which the amount of the capital base of the Group is sufficient to meet the regulatory requirements concerning capital requirements ("**Pillar I**") and internal capital ("**Pillar II**"), resulting from the CRD. Public disclosure of the information on the capital adequacy constitutes what is referred to as "**Pillar III**". The objective of capital adequacy management is to maintain, on an on-going basis, a level of capital that is adequate to the scale and risk profile of the Group's business activities.

The main measures of capital adequacy provided in the Polish Banking Law are (i) a capital adequacy ratio of at least 8 per cent., and (ii) an own-funds-to-internal-capital ratio of at least 1.0.

The table below sets forth the Group's capital adequacy ratio calculated in accordance with CRD, respectively, as of the dates indicated (the data as of 2009 has been reconciled for comparability purposes and regulatory requirements applicable as of 30 June 2012 and 31 December 2011, 2010 and 2009).

	CRD			
	As of 30 June	As of 31 December		
	2012	2011	2010	2009
Capital adequacy ratio (%)	13.01	12.37	12.47	14.81

Source: Consolidated Financial Statements

The Group's capital adequacy ratio as of 30 June 2012 and 31 December 2011, 2010 and 2009, as well as the relation of own funds to the Bank's internal capital, was at a level significantly above the statutory limits.

The most important factors which influenced the capital adequacy level were:

- the growth in the Group's loan portfolio over the period of 2009 to 2012 resulting in an increase in capital requirements and internal capital to cover credit risk (see "*Financial Position*" above); and
- the rate of dividend paid by the Bank over the period of 2009 to 30 June 2012, which amounted to 34.7 per cent., 97.7 per cent., 74.7 per cent. and 40.2 per cent. of the Bank's net profit of the years 2008, 2009, 2010 and 2011, respectively.

Own Funds for Capital Adequacy Purposes

The table below sets forth, as of the dates indicated, information on the Group's own funds for capital adequacy purposes.

	As of 30 June	As of 31 December		
	2012	2011	2010	2009
		(PLN thousand) (unaudited)		
Basic funds (Tier 1)	**18,971,668**	**16,664,233**	**15,960,072**	**16,246,441**
Share capital	1,250,000	1,250,000	1,250,000	1,250,000
Reserve capital	15,363,674	13,041,390	12,212,177	12,149,682
Other reserves	3,437,957	3,460,368	3,412,239	3,405,087
General banking risk fund for unidentified banking activities risk	1,070,000	1,070,000	1,070,000	1,070,000
Profits from previous years	(103,340)	(23,162)	112,297	248,806
Unrealized losses on debt and equity instruments classified as available for sale	(97,602)	(129,518)	(67,406)	(52,749)
Intangible assets	(1,770,959)	(1,800,008)	(1,802,037)	(1,572,577)
Equity exposures[1] (50%)	(78,715)	(109,054)	(118,285)	(142,371)
Negative currency translation differences from foreign operations	(97,400)	(94,350)	(110,720)	(110,123)
Non-controlling interest	(1,928)	(1,290)	1,990	7,329
Adjustments to the valuation of assets in trading portfolio[2]	(19)	(143)	(183)	(6,643)
Supplementary funds (Tier 2)	**1,569,066**	**1,545,549**	**1,512,546**	**1,489,959**
Subordinated liabilities classified as supplementary funds	1,600,700	1,600,700	1,600,700	1,600,700
Unrealized profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	44,065	51,576	29,158	30,298
Positive currency translation differences from foreign operations	3,016	2,327	973	1,332
Equity exposures[1] (50%)	(78,715)	(109,054)	(118,285)	(142,371)
Short-term equity (Tier 3)	**59,979**	**133,134**	**145,928**	**129,876**
Total own funds (for capital adequacy purposes)	**20,600,713**	**18,342,916**	**17,618,546**	**17,866,276**

Source: Consolidated Financial Statements

1 *Decreased by 50 per cent. of capital exposure in financial institutions, credit institutions, domestic banks, foreign banks and insurance companies. If the value of the decreases were to reduce the amount of supplementary funds below zero, the surplus is deducted from basic funds.*

2 *According to PFSA regulation No. 325/2011 of 20 December 2011, effective on 31 December 2011, data for previous years restated for comparability.*

During the period from 31 December 2009 to 30 June 2012 the Group's own funds increased by PLN 2,734.4 million from PLN 17,866.3 million as of 31 December 2009 to PLN 20,600.7 million as of 30 June 2012.

Own funds increased by PLN 2,257.8 million, or 12.3 per cent., to PLN 20,600.7 million as of 30 June 2012, compared to PLN 18,342.9 million as of 31 December 2011. Own funds increased by PLN 724.4 million, or 4.1 per cent., to PLN 18,342.9 million as of 31 December 2011 compared to PLN 17,618.5 million as of 31 December 2010. Own funds had decreased by PLN 247.7 million, or 1.4 per cent., to PLN 17,618.5 million as of 31 December 2010, compared to PLN 17,866.3 million as of 31 December 2009.

The most important factors which influenced the Group's total own funds as of the indicated dates were:

- the rate of dividend paid by the Bank over the period of 2009 to 2012, which amounted to 34.7 per cent., 97.7 per cent., 74.7 per cent. and 40.2 per cent. of the Bank's net profit for the year ended 31 December 2008, 2009, 2010 and 2011, respectively; and
- an increase in intangible assets of PLN 198.4 million during the period from 31 December 2009 to 30 June 2012 due to the purchase of a license and the implementation and extension of the IT system in the Group (intangible assets reduce own funds).

Capital Requirements (Pillar I)

The Group has calculated its capital requirements in accordance with Resolution No. 76/2010 of 10 March 2010 of the PFSA, amended by PFSA Resolution No. 369/2010 of 12 October 2010 (CRD 2), PFSA Resolution No. 153/2011 of 7 June 2011, PFSA Resolution No. 206/2011 of 22 August 2011 and PFSA Resolution No. 324/2011 of 20 December 2011: in respect of credit risk, using the standard method; in respect of the Bank's operational risk – from 30 June 2011 according to AMA (Advanced Measurement Approach) (over the period from February 2009 to May 2011 – using the standard method, and until January 2009, inclusive, in accordance with the basic indicator method); for companies in the Group using the basic indicator method; and in respect of market risk, using the basic methods. The comparability of data as of 31 December 2009 was ensured in accordance with the provisions of the aforesaid Resolution.

The table below sets forth, as of the dates indicated, information on the Group's total capital requirements.

	As of 30 June	As of 31 December		
	2012	**2011**	**2010**	**2009**
	(PLN thousand) (unaudited)			
Capital requirements				
Credit risk	11,256,992	10,657,309	9,821,710	8,497,504
credit risk (banking book)	11,132,432	10,534,714	9,756,757	8,427,715
Counterparty credit risk (trading book)	124,560	122,595	64,953	69,790
Market risk	500,523	355,284	422,154	204,148
equity securities risk	710	1,604	767	2,390
specific risk of debt instruments	404,706	262,412	341,058	168,088
general interest rates risk	95,107	91,268	80,329	33,670
Operational risk	912,787	852,099	1,057,922	952,075
Total capital requirement	**12,670,302**	**11,864,692**	**11,301,786**	**9,653,727**

Source: Consolidated Financial Statements

Between 31 December 2009 and 30 June 2012 the capital requirements for the Group increased by PLN 3,016.6 million from PLN 9,653.7 million to PLN 12,670.3 million.

The most important factor affecting the capital requirements in the aforesaid period was an increase in the Group's loan portfolio, which resulted in an increase in the capital requirements in respect of credit risk (see "*Financial Position*" above).

Internal Capital (Pillar II)

Internal capital is the amount of capital, as assessed by the Group, that is required to cover all identified significant types of risk present in the Group's activities and the effect of changes in the business environment, with the anticipated risk level taken into account. The Group's internal capital is calculated in accordance with PFSA Resolution No. 258/2011 of 4 October 2011 (PFSA Resolution No. 383/2008 of 17 December 2008 as at 31 December 2010 and 2009) implementing CRD to the extent of the Basel II requirements.

The Group's internal capital is calculated so as to cover each significant risk type, such as credit risk (including default risk and concentration risk), market risk (foreign exchange risk, interest rate risk), liquidity risk, operational risk and business risk. The Group regularly monitors the significance of individual types of risk related to its activities.

Disclosures (Pillar III)

The Bank, as a dominant entity within the meaning of applicable regulations, annually discloses information concerning capital adequacy and risk management in a separate document, published not later than 30 days from the date of approval of the annual financial statements by the General Meeting.

Contingent liabilities

In the ordinary course of business, the Group enters into transactions which, upon being concluded, are not disclosed in the Group's statement of financial position as assets or liabilities, but result in contingent liabilities. The main items of these off-balance sheet liabilities of the Group include: (i) financial commitments, mainly credit facilities granted; (ii) guarantees granted; (iii) contractual commitments relating to intangibles; and (iv) underwriting commitments (e.g. underwriting of securities, in particular debt securities issuances).

The contingent liabilities expose the Group to various risks, including credit risk.

As of 30 June 2012, the total value of the Group's contingent liabilities amounted to PLN 42,543.3 million, of which the majority comprised financial commitments granted.

Financial Commitments

A major item of off-balance sheet liabilities are financial commitments issued by the Group to non-financial entities, financial entities and public sector entities. These commitments comprise in particular commitments relating to credit facilities granted but not used and unused tranches of operating and investment loans granted.

As of 30 June 2012, the financial commitments of the Group amounted to PLN 31,379.2 million, compared to PLN 30,455.7 million as of 31 December 2011. Granted non-cancelable commitments of the Group amounted to PLN 7,941.8 million as of 30 June 2012, compared to PLN 5,946.1 million as of 31 December 2011, when they dropped by PLN 1,055.3 million compared to 31 December 2010.

The increase in financial commitments granted by the Group between 31 December 2011 and 30 June 2012 resulted primarily from the increase in financial commitments granted to budget entities by PLN 2,510.3 million, or 304.7 per cent., to PLN 3,334.2 million as of 30 June 2012, from PLN

823.9 million as of 31 December 2011. The increase was offset by (i) a decrease in financial commitments granted to financial entities by PLN 98.5 million to PLN 1,046.5 million as of 30 June 2012 from PLN 1,145.0 million as of 31 December 2011; and (ii) a decrease in financial commitments granted to non-financial entities by PLN 1,488.3 million to PLN 26,998.5 million as of 30 June 2012 from PLN 28,486.8 million as of 31 December 2011.

The increase in financial commitments granted by the Group between 31 December 2010 and 31 December 2011 resulted mainly from an increase in financial commitments to financial entities of PLN 392.9 million, or 52.2 per cent., to PLN 1,145.0 million as of 31 December 2011 compared to PLN 752.1 million as of 31 December 2010 and an increase in the amounts due to non-financial entities (mainly corporate clients, but also retail customers – in respect of mortgage loans) of PLN 739.4 million, or 2.7 per cent., to PLN 28,486.8 as of 31 December 2011 compared to PLN 27,747.3 million as of 31 December 2010, which was partly compensated for by a decrease in the amounts due to budget entities of PLN 181.7 million, or 18.1 per cent.

Guarantees

The Group issues guarantees, including guarantees for loans and advances, primarily to non-financial entities (95.4 per cent. of the balance as of 30 June 2012), financial entities (0.5 per cent. of the balance as of 30 June 2012) and budget entities (4.1 per cent. of the balance as of 30 June 2012).

As of 30 June 2012 the total guarantees granted by the Group amounted to PLN 11,164.1 million and increased by PLN 4,729.4 million, or 73.5 per cent., from PLN 6,434.7 million as of 31 December 2011. Between 31 December 2010 and 31 December 2011 they decreased by PLN 845.6 million, or 11.6 per cent.

Contractual Commitments in Respect of Intangibles

As of 31 December 2011, the Group had PLN 98.2 million of contractual commitments in respect of intangibles, whereas as of 31 December 2010, the value of those commitments had amounted to PLN 1.1 million.

Underwriting Commitments

The Group also incurs underwriting commitments in order to ensure successful securities issuances by its customers. The Group's underwriting commitments are usually of a binding nature and result in the obligation to take up the portion of the issue that is not acquired by investors. The Group's underwriting commitments comprise mainly the issuance of corporate bonds and municipal bonds.

As of 30 June 2012 the Group acted as an underwriter in the issuance of debt securities. The total value of the Group's underwriting commitments (the maximum total amount up to which the Group undertook to engage under guarantee agreements) amounted to PLN 2,506.0 million and had increased by PLN 1,799.4 million compared to PLN 706.6 million as of 31 December 2011.

Liquidity and Sources of Funding

Liquidity

The Bank views liquidity risk as the risk of the Bank's inability to meet its current and future obligations as they fall due. PKO Bank Polski demonstrates a conservative attitude towards liquidity risk management and strives to diversify its sources of funding, and accordingly seeks to establish and maintain relationships with investors in order to manage market access in difficult market conditions (see "*Risk Management – Market Risk – Liquidity Risk*").

Sources of Funding

The Group finances its operations with amounts due to other entities (mainly amounts due to customers) and equity. Over the last several years the structure of the main sources of financing for the Group has been stable. As of 30 June 2012, 87.8 per cent. of the Group's total liabilities comprised amounts due to customers, 4.4 per cent. comprised debt securities in issue and 3.4 per cent. comprised amounts due to banks. As of 31 December 2011, 87.2 per cent. of the Group's total liabilities comprised amounts due to customers, 4.6 per cent. comprised debt securities in issue and 3.7 per cent. comprised amounts due to banks. As of 31 December 2010, 89.7 per cent. of the total liabilities of the Group represented amounts due to customers, and 3.5 per cent. amounts due to banks. As of 31 December 2009, 91.9 per cent. of the total liabilities of the Group comprised amounts due to customers, and 3.8 per cent. amounts due to banks.

The Group's loan-to-deposit ratio increased from 93.2 per cent. as of 31 December 2009 to 98.3 per cent. as of 31 December 2010 and dropped to 96.7 per cent. as of 31 December 2011 and to 96.2 per cent. as of 30 June 2012. Amounts due to customers, which comprise mainly customers' funds deposited in current accounts and term deposits, constitute the main source of financing of the Group's operations. In a period from 31 December 2009 to 30 June 2012 the Group reported continuous increase in amounts due to customers, mainly due to intensified marketing activities directed at retail and corporate customers, and the introduction of new deposit products. This increase made it possible for the Group to maintain the share of amounts due to customers in the overall structure of liabilities at the level of 91.9 per cent. (as of 31 December 2009), through 89.7 per cent. (as of 31 December 2010), through 87.2 per cent. (as of 31 December 2011) to 87.8 per cent. (as of 30 June 2012). The decrease in the share of amounts due to customers in the liabilities of the Group as of 31 December 2009 as compared to 30 June 2012 resulted mainly from the increase in amounts of debt securities in issue, which became the second largest source of funding for the Group's operations.

Over the last several years the Group has pursued a policy aimed at ensuring a stable deposit base to finance its lending activities. By contrast to many Polish banks owned by international financial groups, the operations of the Group were not financed from funds obtained from foreign parent banks.

Amounts due to banks are the third largest source of funding for the Group and comprise funds of banks deposited in current accounts (including loro accounts and overnight deposits from inter-bank market), term deposits on inter-bank market, and loans and advances received (see "*Description of the Group – Material Contracts – Financing Agreements*"). Amounts due to banks remained stable at a level of 3.4 per cent., 3.7 per cent., 3.5 per cent. and 3.8 per cent. of total liabilities as of 30 June 2012, 31 December 2011, 2010 and 2009, respectively.

On 12 October 2010 the Bank (through its subsidiary, PKO Finance) issued five-year Eurobonds with a nominal value of EUR 800 million, on 7 July 2011 five-year bonds of CHF 250 million and on 25 July 2012 ten-year bonds of EUR 50 million (see "*Description of the Group – Material Contracts – Material Issues of Debt Securities – Programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank*"). Apart from the aforesaid Eurobonds and subordinated bonds discussed below, as of 30 June 2012 the only debt securities issued by members of the Group were corporate bonds issued by Bankowy Fundusz Leasingowy. The total carrying amount of the bonds issued by Bankowy Fundusz Leasingowy amounted to PLN 277.2 million, out of which PLN 154.2 million was held by the Bank as of 30 June 2012.

In 2007 the Bank issued subordinated ten-year bonds with a total issue price and a total nominal value of PLN 1,600.7 million. The final redemption date of the bonds, at the nominal value thereof, is 30 October 2017, with the Bank having the option of early redemption on 30 October 2012 (see "*Description of the Group–Material Contracts–Material Issues of Debt Securities*").

The share of equity in the Group's funding structure was: 12.0 per cent. as of 31 December 2011; 12.6 per cent. as of 31 December 2010; and 13.1 per cent. as of 31 December 2009. The decrease of the share of equity in the Group's funding structure during 2010 and 2011 was primarily driven by payment of a dividend out of the profit for 2009 and 2010 in the amount of PLN 2,375.0 million (which represented 97.7 per cent. of the net profit of the Bank for 2009) and PLN 2,475.0 million (which represented 74.7 per cent. of the net profit of the Bank for 2010), respectively.

For legal and capital adequacy requirements see "*Banking Regulations in Poland*" and "*Capital Adequacy and Risk Management Requirements*".

As of the date of the Prospectus, in addition to the restrictions resulting from the applicable regulations and financing agreements concluded by the Bank and the terms of issue of debt securities by Group companies (see "*Description of the Group – Material Contracts*"), there are no restrictions on the ability to use the Group's financing sources which would determine the allocation of funds obtained from deposits or loan facilities.

Cash Flows

The key consolidated cash flow statement items are described below.

Operating Activities

The Group prepares its statement of cash flows using the indirect method, where in order to arrive at the Group's cash flow from/(used in) operating activities, the gross profit for the period is adjusted for items of a non-cash nature, including impairment allowances and provisions, unrealized gains and losses, capital gains and losses, depreciation, and amortization. Cash flow from/(used in) operating activities is presented after changes in operating assets and liabilities. Operating assets and liabilities consist of assets and liabilities that are part of the Group's normal business activities, such as loans and advances to customers, amounts due to customers, and debt securities in issue and which are not attributable to investing and financing activities.

Investment Activities

Investment activities of the Group include acquisitions and divestments of investment securities, intangible assets and non-current assets, such as property, plant and equipment.

Financing Activities

The Group's financing activities are activities that result in changes in equity and subordinated liabilities, such as the payment of dividends, issuance and redemption of debt securities in issue, as well as long-term borrowings or repayment of long-term loans.

Cash and Cash Equivalents

Cash and cash equivalents of the Group consist of cash in hand, cash in nostro accounts with the NBP, current amounts due from banks, as well as other cash equivalents with maturities up to three months from the date of acquisition, which are presented at their carrying values.

Cash Flows for the Six Months Ended 30 June 2012

The table below sets out, for the period indicated, information on the Group's net consolidated cash flows on operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the period.

	30 June 2012
	(PLN thousand) (unaudited)
Net cash from / (used in) operating activities	(82,984)
Net cash from / (used in) investing activities	2,280,924
Net cash flow from / (used in) financing activities	(2,109,884)
Net cash inflow / (outflow)	**88,056**
Cash and cash equivalents at the beginning of the period	**11,422,970**
Cash and cash equivalents at the end of the period	**11,511,026**

Source: Consolidated Financial Statements

Operating Activities

The operating activities of the Group generated net cash outflows of PLN (83.0) million. The main adjustments to gross profit (of PLN 2,449.3 million) which resulted in net cash outflows were due to: (i) changes in trading assets and financial assets designated upon initial recognition at fair value through profit and loss (PLN 1,558.1 million); (ii) changes in amounts due to banks (PLN 525.1 million); (iii) interest and dividends paid (PLN 427.5 million); and (iv) income tax paid (PLN 521.1 million). These outflows were partly offset by net cash inflows resulting from: (i) changes in amounts due to customers of PLN 512.6 million and changes in impairment allowances and provisions of PLN 315.9 million.

Investing Activities

The Group's investing activities generated net cash inflows of PLN 2,280.9 million. Cash inflows from investing activities of PLN 9,569.0 million, which primarily comprised proceeds from the sale of investment securities (PLN 9,565.0 million) were partly offset by cash outflows on investing activities of PLN 7,288.1 million resulting mainly from the purchase of investment securities available for sale (PLN 7,072.2 million).

Financing Activities

The financing activities of the Group generated net cash outflows of PLN (2,109.9) million. The cash outflows resulted mainly from the payment of dividends (PLN 1,587.5 million), the redemption of debt securities (PLN 4,853.5 million) offset by issuance of debt securities of PLN 4,462.9 million.

Cash and cash equivalents as of 30 June 2012

As a result of cash flows from operating, investing and financing activities, as of 30 June 2012 the balance of the Group's cash and cash equivalents increased by PLN 88.1 million to PLN 11,511.0 million, compared to PLN 11,423.0 million as of 31 December 2011.

Cash Flows for the Year Ended 31 December 2011

The table below sets out, for the periods indicated, information on the Group's net consolidated cash flows on operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the period.

	31 December 2011
	(PLN thousand) *(audited)*
Net cash from / (used in) operating activities	5,556,998
Net cash from / (used in) investing activities	(3,630,127)
Net cash flow from / (used in) financing activities	1,057,418
Net cash inflow / (outflow)	**2,984,289**
Cash and cash equivalents at the beginning of the period	**8,438,681**
Cash and cash equivalents at the end of the period	**11,422,970**

Source: Consolidated Financial Statements

Operating Activities

The operating activities of the Group generated net cash inflows of PLN 5,557.0 million. The main adjustments to gross profit (of PLN 4,780.9 million) which resulted in net cash inflows are due to: (i) changes in amounts due to customers (PLN 13,548.7 million); (ii) changes in amounts due to other banks (PLN 1,199.7 million); and (iii) changes in impairment allowances and provisions (PLN 868.4 million). These inflows were partly offset by net cash outflows resulting from: (i) changes in loans and advances to customers (PLN 11,767.9 million); (ii) changes in trading assets and financial instruments designated at fair value through profit or loss (PLN 1,516.3 million); and (iii) change in derivative financial instruments (asset) of PLN 1,345.6 million.

Investing Activities

The Group's investing activities generated net cash outflows of PLN (3,630.1) million. Cash outflows on investing activities of PLN 11,924.8 million resulting mainly from the purchase of investment securities available for sale (PLN 11,427.0 million) were partly offset by cash inflows from investing activities of PLN 8,294.7 million, which primarily comprised proceeds from the sale of investment securities (PLN 8,271.6 million).

Financing Activities

The financing activities of the Group generated net cash inflows of PLN 1,057.4 million. The cash outflows resulted mainly from the payment of dividends (PLN 2,475.0 million), the redemption of debt securities (PLN 1,951.5 million) and the repayment of long-term borrowings (PLN 1,302.4 million), which was offset by the issuance of debt securities of PLN 5,925.6 million.

Cash and cash equivalents as of 31 December 2011

As a result of cash flows on operating, investing and financing activities, as of 31 December 2011, the balance of the Group's cash and cash equivalents increased by PLN 2,984.3 million, or by 35.4 per cent., to PLN 11,423.0 million, compared to PLN 8,438.7 million at the beginning of 2011.

Cash Flows for the Year Ended 31 December 2010

The table below sets forth, for the periods indicated, information on the Group's consolidated net cash flows on operating, investing and financing activities, as well as cash and cash equivalents at the beginning and at the end of the period.

	Year Ended 31 December 2010
	(PLN thousand) *(audited)*
Net cash from / (used in) operating activities	340,637
Net cash from / (used in) investing activities	(1,967,767)
Net cash flow from / (used in) financing activities	1,073,418
Net cash inflow / (outflow)	**(553,712)**
Cash and cash equivalents at the beginning of the period	**8,992,393**
Cash and cash equivalents at the end of the period	**8,438,681**

Source: Consolidated Financial Statements

Operating Activities

The Group's operating activities generated net cash inflow of PLN 340.6 million. The main adjustments to the gross profit (PLN 4,079.2 million) that resulted in the positive net cash flow included the positive net cash flows on account of the following: (i) a change in the balance of amounts due to customers (PLN 7,499.3 million); (ii) a change in the balance of trading assets and other financial instruments designated upon initial recognition at fair value through profit or loss (PLN 2,311.7 million); and (iii) a change in the balance of provisions and impairment allowances (PLN 923.1 million). The aforesaid cash inflows were partly compensated for by cash outflows on account of the following: (i) a change in the balance of amounts due from customers (PLN 15,015.1 million); (ii) income tax paid (PLN 1,178.3 million); and (iii) interest and dividend paid (PLN 413.8 million).

Investment Activities

The Group's investment activities generated net cash outflows of PLN 1,967.8 million. Cash outflows on investing activities of PLN 10,637.2 million mainly from the purchase of investment securities available for sale (PLN 10,017.5 million) and the purchase of intangible assets and tangible fixed assets (PLN 619.7 million) (see "– *Capital Expenditures*") were partly offset by cash inflows of PLN 8,669.4 million generated primarily by proceeds from the sale of investment securities (PLN 8,643.9 million).

Financing Activities

The Group's financing activities generated net cash inflow of PLN 1,073.4 million. Cash inflows resulting mainly from issuing debt securities (PLN 3,168.2 million) and contracting long-term liabilities (PLN 1,084.1 million) were partly offset by outflows primarily attributable to dividend payments (PLN 2,375.0 million) and repayment of long-term liabilities (PLN 721.4 million).

Cash and Cash Equivalents as of 31 December 2010

As a result of cash flows on operating, investing and financing activities, at the end of 2010 the Group's level of cash and cash equivalents had decreased by PLN 553.7 million, or 6.2 per cent., to PLN 8,438.7 million, compared to PLN 8,992.4 million at the beginning of 2010.

Capital Expenditure

During the years ended 31 December 2009, 2010 and 2011 projects and investments relating to the implementation and development of IT systems, in particular the Integrated IT System and systems supporting the Bank's business, occupied a dominant position in the Bank's total capital expenditure, representing 80 per cent. to 89 per cent. and 62 per cent., respectively. During the first half of 2012 expenditures for IT infrastructure and tools supporting the Bank's business constituted 46 per cent. of total capital expenditures, while the modernization of the Bank's network represented 26 per cent. of such expenditures.

Total capital expenditures during the first half of 2012 amounted to approximately PLN 180 million and increased by approximately 18 per cent. compared to the first half of 2011. The amount of capital expenditures reflected the development of the Integrated IT System; the upgrading of the Bank's telephone infrastructure; the unification, standardization and updating of Microsoft Office and Microsoft Windows; the replacement of the ATM network; as well as projects related to the new branding policy of the Bank, the migration of cards to the EMV standard, and the servicing of consolidated accounts and mass payments. As regards the modernization of the Bank's outlet network during the first half of 2012, 19 branches were modernized, seven branches were relocated and one new branch was opened.

During 2011 the Bank's capital expenditure, including expenditure incurred within the Group, decreased by PLN 146.5 million (or 26.8 per cent.) to PLN 400.3 million, compared to PLN 546.8 million during 2010.

The level of expenditures reflected the implementation of solutions supporting the operational activities of the Bank as well as the development and upgrading of its IT systems. The scope of the main projects in this area concentrated on the optimization of processes supporting sales, servicing a new range of personal accounts, management of sales campaigns, implementation of a CRM system, improvement of cash management processes, and further development of the Integrated IT System. Moreover, there were continued projects related to the implementation of IRB internal rating and behavioral scoring, as well as automation of monitoring and management of accounts due which are in difficult situation. Similarly to previous periods, a further modernization of PKO Bank Polski's outlet network was continued in 2011, and nine branches were moved, two branches were opened and 13 branches were modernized.

During 2010 the Bank's capital expenditure, including expenditure incurred within the Group, increased by PLN 158.8 million (or 40.9 per cent.) to PLN 546.8 million compared to PLN 388.0 million during 2009. The increase was related to the continuing development of the Integrated IT System, the implementation of solutions supporting sales processes, and adapting the Bank to the requirements of EU Directives. Furthermore, during 2010 the Bank incurred license fees on the IT tools used in the Bank and outlays on the development of the telecommunications and IT infrastructure. Capital expenditure was also earmarked for the further modernization of PKO Bank Polski's outlet network, and 20 branches were modernized and 20 were moved.

During 2009 the Bank's capital expenditure, including expenditure incurred within the Group, decreased by PLN 404.7 million (51.1 per cent.) to PLN 388.0 million compared to PLN 792.7 million during 2008. During 2009 capital expenditure comprised mainly projects and investments relating to the implementation and modernization of IT systems (including continuing the development of the Integrated IT System), the development of applications supporting risk management and the development of applications supporting business operations, and the implementation and modernization of IT systems related to MIFID Directive. In addition to the investments and projects relating to IT development, the Bank also modernized 23 branches, moved 22 branches and opened 10 new outlets.

Over the period of 2009 to 2011 the main projects and investments by companies in the PKO Bank Polski Group (excluding the Bank) were related to the purchase of: motor vehicles as part of lease activities (companies in the Bankowy Fundusz Leasingowy Group), terminals, pin-pads, modems and ATMs (CEUP eService), software, licenses and IT equipment (in particular IFS, CEUP eService, Kredobank) as well as the modernization of office space, the purchase of office equipment and upgrade of the sales network in Ukraine (Kredobank).

The Group financed these investments from its net profit and equity and in respect of vehicles purchased under lease operations from funds obtained in the form of loans and the issue of bonds.

Current and Planned Investments

During 2012 the Bank's investments are focused primarily on the projects opened in previous periods as well as new undertakings related to the introduction of the School Savings Education Programme, new identification of the Bank's image, and centralization of treasury back office.

In addition to the aforesaid investments, the Bank's investment program is also aimed at continuing the modernization of the Bank's branch network.

As of 30 June 2012, the Bank's capital expenditure related to the above investments as far as the major projects and undertakings concerning the modernization of the branch network were valued at approximately PLN 180 million.

Critical Accounting Policies and Estimates

In preparing financial statements in accordance with IFRS as adopted by the EU, the Group makes certain estimates and assumptions which have a direct influence on both the financial statements presented as well as the notes to such financial statements.

The estimates and assumptions that are used by the Group 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 unequivocally determined using other sources. In making assessments, the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. Actual results may differ from the estimates.

Estimates and assumptions made by the Group are subject to periodic reviews. Changes to estimates are recognized in the periods in which the estimates were changed, provided that they only affect the given period. If the changes affect both the period in which they were made as well as future periods, they are recognized in the period in which the changes were made and in the future periods. The main assumptions about the future that were used by the Group in making estimates mainly include the below-listed areas.

Impairment of loans and advances

Loans and advances are impaired and impairment loss is incurred when there is objective evidence of impairment as a result of events that occurred after the initial recognition of an asset ("a loss event") when the loss has a reliably measurable impact on the present value of the expected future cash flows from a financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters updated to the current conditions. The adopted methodology used for estimating impairment allowances will be developed in line with further accumulations of historic impairment data from the existing information systems and applications. As a consequence, new data obtained by the Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts.

Impairment of investments in associates and jointly controlled entities

At the end of each reporting period, the Group makes an assessment as to whether there is any objective evidence that investments in associates and jointly controlled entities may be impaired. If any such objective evidence exists, the Group estimates the recoverable amount of the asset – being the higher of the value in use of the investment or its fair value less costs to sale; if the carrying amount of the investment exceeds its recoverable amount, the Group recognizes impairment loss in its income statement. The projection of value in use requires making assumptions on, e.g. future cash flows that the Group may receive from dividends or the cash inflows from a potential disposal of an investment less the costs of the disposal. The adoption of different assumptions with reference to projected cash flows could consequently affect the recoverable amount and recognized impairment loss.

Valuation of non-quoted financial instruments

The fair value of financial instruments which are measured at fair value according to IFRS and for which no active market exists is established by the Group through the use of a valuation technique. Valuation techniques are based on discounted cash flow models, option models or yield curves. Valuation techniques make maximum use of market inputs (deposit margins on the inter-bank market, IRS and basis swap quotations) with reference to a given contractor's credit risk. Periodically, the Group calibrates its valuation techniques and tests their validity using prices from observable current market transactions in the same instruments or based on available observable market data. Any change in these assumptions could affect the valuation of the above-mentioned instruments.

Hedge accounting – Cash flow hedge

Since 2009, the Group applies hedge accounting with respect to cash flow hedges related to:

- mortgage loans denominated in CHF and negotiated term deposits denominated in PLN hedged with CIRS against interest rates and foreign exchange rate volatility; and
- floating interest rate PLN loans, CHF loans and EUR loans hedged with IRS against fluctuations in interest rates.

A change in the fair value of derivatives designated as hedging instruments in a cash flow hedge relationship which qualifies as being highly effective is directly recognized in other comprehensive income. The ineffective portion of the change is recognized in the income statement in "Net income from financial instruments designated at fair value". Amounts transferred directly to other comprehensive income are recognized in the income statement in the same period or periods in which the planned hedged transaction affects the income statement.

Effectiveness tests comprise the valuation of hedging transactions net of interest accrued and foreign exchange differences on the nominal value of the hedging transactions. These are shown in the income statement in "*Net interest income*" and "*Net foreign exchange gains*", respectively.

Differences between IFRS issued by the IASB and IFRS applicable to the financial statements of the Group

The Group applies IFRS issued by the IASB and adopted by the EU through the endorsement procedure established by the European Commission (IFRS as adopted by the EU), which differs in certain aspects from IFRS issued by the IASB (IFRS as issued by the IASB).

The European Commission has adopted IAS 39 "Financial Instruments: Recognition and Measurement", except for certain provisions on hedging. Due to the fact that the Group applies IFRS as adopted by the EU, the Group has applied IAS 39. AG99C in the form adopted by the EU to designate as a hedged item a portion of cash flows from variable rate deposits that must be less than the total cash flows from those deposits. IAS 39 as issued by the IASB introduces limitations in this respect.

DESCRIPTION OF THE GROUP

Overview

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of total assets, net income, total equity, loan and deposit portfolios, number of customers and size of the distribution network, as well as the largest commercial bank in CEE and one of the 25 leading banks in Europe in terms of market capitalization as of the date of the Prospectus. Historically, the Group was focused mainly on providing banking products and services to individuals, but since 2004 the Group has also actively offered products and provided services to corporate clients. As of the date of the Prospectus, the Group is the Polish market leader in terms of the value of loans granted to business entities. The Group's share in the net profit, assets and equity of the Polish banking sector as of and for the year ended 31 December 2011 amounted to 24.4 per cent., 14.7 per cent. and 17.7 per cent., respectively (based on PFSA data).

As of 30 June 2012, the Bank serviced approximately 7.4 million retail banking customers (including 7.1 million individual customers, 306.1 thousand SME clients, and 46.2 thousand housing sector entities, excluding Inteligo clients), approximately 642.9 thousand customers of the Bank using the Inteligo electronic banking platform and 11.8 thousand corporate clients.

In addition to the products and services offered with regard to retail and corporate banking, the Group provides specialist financial services with regard to leasing, factoring, investment funds, pension funds, investment banking, electronic payment services and offers Internet banking products and services. The Bank also generates income from its investment operations by investing the Bank's excess liquidity in the inter-bank and Polish treasury securities markets.

The Group has also been offering banking products and services in Ukraine since 2004 through its subsidiary, Kredobank. As of the date of the Prospectus, the operations of Kredobank do not constitute a significant portion of the Group's operations.

With 1,197 branches, 1,218 agencies, 2,525 ATMs and 326 self-service terminals, as of 30 June 2012, the Bank has the largest and most extensive distribution network for banking products and services in Poland which enables it to attract and service clients throughout Poland. The Bank employed 25,437 full-time equivalent staff and employees as of 30 June 2012.

As of 30 June 2012, the Group had total assets of PLN 190,437.9 million, amounts due to customers of PLN 146,986.5 million and loans and advances to customers of PLN 141,331.2 million which equated to market shares in the Polish banking sector of 14.5 per cent., 16.1 per cent., 15.1 per cent., respectively (based on PFSA data). For the year ended 31 December 2010, the Group generated a net profit attributable to the equity holders of the parent company of PLN 3,216.9 million, and PLN 3,807.2 million for the year ended 31 December 2011, which, according to data from the PFSA, accounted for 28.2 per cent. and 24.4 per cent., respectively, of the net profit of the Polish banking sector over the same periods. For the six-month periods ended 30 June 2012 and 30 June 2011 the Group generated a net profit attributable to the equity holders of the parent company of PLN 1,953.4 million and PLN 1,838.3 million, respectively, which, according to the data from the PFSA, accounted for 24.6 and 23.6 per cent., respectively, of the net profit of the Polish banking sector over such six-month periods. The Group has a strong capital base, with a capital adequacy ratio of 13.01 per cent. and a Tier 1 ratio of 11.98 per cent. with Tier 1 capital of PLN 18,971.7 million as of 30 June 2012 and no hybrid capital on the Group's balance sheet.

History

PKO Bank Polski, which first operated under the name Pocztowa Kasa Oszczędnościowa, was established in 1919 and relied on a nationwide network of post offices, which it used as outlets for operating its business. As early as before World War II, Pocztowa Kasa Oszczędnościowa was the largest entity collecting the savings of Polish households. Following World War II, Pocztowa Kasa

Oszczędności re-commenced operations in 1948 and operated independently until 1975 when it was acquired by the NBP and together with its existing branch network was incorporated into the NBP. PKO was re-established as an independent legal entity in 1987 and designated by the Polish government as one of four national specialized banks to service a special sector of the centrally planned economy. PKO's focus was on retail deposits and mortgage and real estate, including financing housing associations. The systemic political transition and fundamental economic reforms initiated in Poland at the end of 1989 created new opportunities for the Bank and spurred the Bank's development.

In 1991, the Bank established its brokerage division, Bankowy Dom Maklerski (now DM PKO BP), a specialist organizational entity of the Bank. In the early 1990s the formation of the Group commenced; the Group consists of the Bank and its subsidiaries that supplement and support the fundamental business segments by rendering specialist financial and non-financial services. In 1997, the Bank sought to broaden its product offering beyond its traditional banking business and, jointly with Credit Suisse Group, established PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. (presently, PKO Towarzystwo Funduszy Inwestycyjnych S.A.), an asset management company. In the second half of 1998, the Bank, together with Bank Handlowy w Warszawie S.A. jointly established PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A. (now PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.), a universal pension fund company that manages an open pension fund. In 1999, the Bank established a leasing company under the name Bankowy Fundusz Leasingowy S.A. and established an electronic payment services center – CEUP eService. In 2002, the Bank acquired an existing online banking company, Inteligo, a leader on the Polish market. Since 2004, the Bank has been offering banking products and services in Ukraine through its subsidiary Kredobank. In the second half of 2009, the Group, through its indirect subsidiary PKO BP Faktoring S.A., started operational activity by offering factoring services in Poland.

In 2000, PKO Bank Polski was transformed from a state-owned bank into a joint stock company named "Powszechna Kasa Oszczędności Bank Polski SA" while it remained a wholly-owned subsidiary of the State Treasury.

The initial public offering of shares in the Bank was conducted within the scope of the privatization program and completed in November 2004, with the shares subsequently being listed on the WSE. In October 2009, the Bank completed a rights offering and increased its share capital by 250,000,000 shares. As of the date of the Prospectus, 740,000,000 shares of the Bank are listed on the main market of the WSE under the symbol "PKOBP".

Competitive Strengths

In the opinion of the Management Board, the Group has the following competitive strengths:

The Leader in a Large and Attractive Market

PKO Bank Polski is the market leader in Poland – the largest bank in the country, as measured by total equity, total assets, net income, loans and deposits, size of the customer base and breadth of geographic coverage. As of the date of the Prospectus, the Group's business is focused on the Polish market and as of 30 June 2012, 99.0 per cent. of the Group's total assets were located in Poland. Poland, the largest country in CEE with a population of approximately 38.2 million, is attractive in terms of demographics, with 31.2 per cent. of the population aged 20 to 39 (as compared to 27.3 per cent. in the EU). The performance of the Polish economy in 2011 was supported by investments (mainly public investments tied to the inflow of EU funds) with private consumption declining in the fourth quarter of 2011 as higher CPI inflation and fiscal consolidation depressed consumption growth to 2.0 per cent. on a year-on-year basis. However, consumption growth was still above the EU average in 2011 amounting to approximately 0.5 per cent. The support of EU funds makes a substantial difference to the Polish economy, as the public investment rate (as a percentage of GDP) is one of the highest in the EU. The whole-year performance of the economy improved as compared to 2010, as GDP growth accelerated to 4.3 per cent. (from 3.9 per cent. in 2010, according to the data from

GUS). The official forecasts of the NBP, the European Commission, and the IMF point at growth moderation in 2012. Nevertheless, Poland is expected to remain one of the leading economies in CEE as well as the EU with the European Commission estimating the 2012 growth rate to stand at 2.5 per cent., compared to 0.6 per cent. for the EU as a whole. Moreover, the Management Board believes that the Polish banking sector remains fragmented and significantly unpenetrated, and there is high potential for further growth of the banking industry in Poland. According to the NBP and GUS, the loans and deposits of the Polish banking sector amounted to 54 per cent. and 51 per cent., respectively, of Poland's GDP as of 31 December 2010 compared to an average in the Eurozone of 165 per cent. and 155 per cent., respectively, based on ECB data. The Management Board believes that the Group has withstood the recent economic and financial turmoil with greater financial strength than many of its local and foreign competitors. The Group also believes that its market leadership position in an attractive market, together with a comprehensive range of products and services, will provide the Group with a strong platform for sustained and profitable growth.

Strong Capital Base, Liquidity and Balance Sheet

The Group maintains a strong capital position with a Tier 1 ratio of 11.98 per cent. with Tier 1 capital at the level of PLN 18,971.7 million as of 30 June 2012 and no hybrid capital on the Group's balance sheet. The Group's capital adequacy ratio stood at 13.01 per cent. as of 30 June 2012. The Group's total equity of PLN 23,007.7 million as of 30 June 2012 was the largest among Polish banks (based on the reports of the banks for the six-month period ended 30 June 2012), and the Group maintains an effective balance sheet structure reflected by a loan-to-deposit ratio (calculated by dividing net loans and advances to customers by amounts due to customers) of 96.2 per cent. as of 30 June 2012. In July 2011 the Bank successfully passed the stress test, coordinated by the European Banking Authority ("**EBA**"), conducted on a bank-by-bank basis for a sample of 91 EU banks from 20 EU Member States. Moreover, the Group is almost entirely funded by deposits, with amounts due to customers representing 87.8 per cent. of the Group's total liabilities as of 30 June 2012, with 72.4 per cent. of the amounts due to customers being retail deposits that have traditionally proven to provide a more stable funding base than corporate deposits.

The Group's investment portfolio consists primarily of domestic treasury securities, and the Group has no exposure to high-risk assets, such as collateralized debt obligations, and has no direct exposure to sovereign debts of Greece, Ireland, Spain, Portugal or Italy. The Group believes that its strong capital base, liquidity and financial position create a solid foundation for the Group to retain existing customers and attract new ones and to grow its business.

Largest Customer Base and Distribution Network in Poland

As of 30 June 2012, the Bank serviced approximately 7.4 million retail customers (excluding Inteligo (the Bank's electronic banking platform) customers, but including 7.1 million private individual customers, 306.1 thousand SME clients, and 46.2 thousand housing sector entities), approximately 642.9 thousand customers using Inteligo, the Bank's electronic banking platform, and 11.8 thousand corporate clients. The Bank has an extensive distribution network that offers significant opportunities to attract additional customers and expand its range of products and services to existing customers. As of 30 June 2012, the Bank had 1,197 branches, 1,218 agencies, 2,525 ATMs and 326 self-service terminals, the most of any bank in Poland. Consequently, it can provide clients with convenient access to services throughout the country, and itself obtain access to a large number of prospective customers throughout Poland, representing a significant potential source of growth for deposits and loan portfolios. The Bank's distribution network is supported by iPKO, which provides customers with web-based access to their accounts, and Inteligo, an exclusively electronic banking platform with approximately 643 thousand customers. The Group believes it has significant potential to increase the size of its retail customer base by pursuing opportunities among affluent customers, students and young people at the beginning of their careers.

Integrated and Comprehensive Product and Service Offering

While historically the Group primarily focused on providing retail banking products and services, the Group has been actively providing dedicated corporate banking services since 2004 and, as of the date of the Prospectus, is the market leader in the banking corporate segment in terms of value of loans and advances to corporate customers. Moreover, the Group provides a wide range of complementary financial products and services, including specialized financial services such as leasing, factoring, investment funds, pension funds, investment banking, electronic payment services and online banking. The Group is able to capitalize on its diverse range of products and services to strengthen relationships by cross-selling such products and services to meet increasing customer needs. Moreover, the significant scale and range of the Group's distribution network ensures that current and potential clients have easy access to the Group's products and services and provides it with a competitive advantage in the development, distribution and cross-selling of new products and services.

Established Brand and Decisions Made Locally in Poland

Founded in 1919, the Bank is one of the oldest banks and among the most recognized brands in Poland. According to a study by Millward Brown SMG/KRC, an independent market research firm, PKO Bank Polski is the most recognized financial institution in Poland and for the past four years, PKO Bank Polski has been ranked as the strongest brand in the financial sector by the Polish daily, "Rzeczpospolita". In addition, the Management Board believes that the strength of the PKO Bank Polski brand provides a strong foundation for growth in electronic banking. The Bank believes that its strong brand provides a sense of security for current and prospective clients and employees, who view the Bank as a stable, reliable financial institution. Moreover, given the lack of a foreign majority shareholder, all of the key decisions regarding the Group's operations and development are made locally in Poland. As a result, the Group can quickly react to the needs of its customers and the local decision-making processes result in greater flexibility and efficiency, which the Group believes gives it a competitive advantage over many of its competitors with parent headquarters in jurisdictions outside of Poland.

Stable Financial Performance and Effective Cost Management

The Group's core banking activities have continued to generate consistent profits. As of 30 June 2012 and for years ended 31 December 2011, 2010 and 2009, the Group's ROE and ROA were 17.5 per cent., 17.5 per cent., 14.9 per cent. and 14.8 per cent. and 2.1 per cent., 2.1 per cent., 2.0 per cent. and 1.6 per cent., respectively. The Management Board believes that the Group's size, financial stability and liquidity position have enabled the Group to generate operating margins exceeding the operating margins of most of its competitors. Moreover, the Bank's NIM stood at 4.7 per cent. as of 30 June 2012 and 4.6 per cent. for the year ended 31 December 2011 and 4.3 per cent. for the year ended 31 December 2010, which was above the average market level of 3.10 per cent., 3.13 per cent. and 3.07 per cent., respectively, for the same periods (based on PFSA data) and created a sufficient buffer for loan losses. The Group has focused on enhancing its operating efficiencies and cost management, with a C/I ratio of 38.8 per cent. as of 30 June 2012 and 39.6 per cent. for the year ended 31 December 2011 compared to 41.7 per cent. for the year ended 31 December 2010, which was significantly below the average market level of 50.4 per cent., 50.9 per cent., and 52.4 per cent., respectively, for the same periods (based on PFSA data). The Group believes that it has the potential to continue to maintain its current efficiency level.

Prudent Risk Management

An integral part of the Bank's organization and culture is its prudent approach to risk management. The Bank's consistent focus on risk management has resulted in lower loan losses and sound asset quality relative to the average levels on the Polish banking market, even in the recent global economic crisis. The Bank has maintained its orientation towards core retail and corporate banking products, thereby enabling it to avoid material losses resulting from investments in structured credit instruments. The Bank's long-standing experience in risk management has enabled it to create the largest databases of risk profiles in Poland which was recently expanded to also cover SMEs. The Bank uses such databases to prepare detailed risk management models. In addition, the Bank recently completed the development and implementation of a centralized, integrated IT system, one of the largest information technology projects ever carried out in Poland. Among other benefits, the new system has enabled the Bank to improve its lending practices and actively manage its client exposures. The Bank continues to refine its risk management techniques, including the implementation of a behavioral scoring system that is based on a customer's risk profile, rather than risks associated with individual products.

Strategy

PKO Bank Polski's strategic vision is to achieve long-term sustainable growth and profitability through a secure, modern and universal banking model, as well as to maintain and enhance its leadership position in the Polish financial market.

This vision is underpinned by a loyal customer base, an efficient organization, a trained and skilled workforce, a robust funding and balance sheet profile and a prudent approach towards risk management for the benefit of all major Group stakeholders. The Group is strongly committed to its shareholders, customers, market institutions, employees, suppliers and the various local communities in which the Group operates.

The Group is primarily focused on the local market and its strategy of accelerated organic growth, taking full advantage of its strong national brand and the attractive long-term growth prospects of the Polish economy and the under-penetrated financial services sector. However, the Group continuously monitors financial sector acquisition opportunities, both in Poland and CEE, and does not rule out the possibility of long-term expansion through such acquisitions, consistent with its overall strategy.

The core objectives of the Group's strategic development comprise:

- market share growth in various segments to reinforce the Bank's leadership position;
- stable and continuous growth in profitability and efficiency; and
- maintenance of a robust capital adequacy ratio level and liquidity levels.

Many projects and investments implemented over the last years are starting to deliver their full potential:

- significant investments and commitment in corporate banking allowed the Group to achieve a leading position in this key market segment;
- improved operating efficiency and a material increase of net profit; and
- significant increases in efficiency and costs savings initiatives led the Group to achieve one of the lowest cost to income ratios ("**C/I**") among the Group's European peers.

The Group aims to diversify its business through the development of a universal banking model. In this context, the core components of the Group strategy comprise:

Building Customer Loyalty and Attracting New Clients

The Group believes that its current leadership position is attributable to its universal banking model, focus on retaining and enhancing the satisfaction of its existing clients, as well as its ability to attract new clients (affluent and young customers as well as SMEs). According to its strategy the Group will continue to be focused on product and service innovation at every level, with clear market segmentation, traditional and new distribution channels and brand revitalization. Key actions include:

- applying a behavioral segmentation process, broadening the product range so as to align better with retail customer needs, and increasing its corporate banking product range (transactional products and leasing) and the range of investment banking products (treasury products, brokerage services and structured finance);

- optimizing the branch network by closing branches in less attractive locations while pursuing further growth, mainly in large cities, to respond to the needs of customers and to optimize coverage in areas where the Group is currently underrepresented;

- standardizing the agency network and centralizing the Bank's co-operation with intermediaries;

- technological development of, and increasing the product range offered within, the Inteligo banking platform, as well as enhancing the functionality of the iPKO e-banking platform; and

- automating and centralizing business processes to improve customer service quality and efficiency, combined with staff training programs and quality assessment using a 'mystery shopper' scheme.

Increasing Business with Existing Customers

The Group's strategy is focused on increasing the product-per-client ratio in order to increase fee and commission income and diversify revenue sources. The expected closing of the penetration gap between the number of products purchased by the average customer in the Polish financial market, which is significantly below that of consumers in other European countries, represents an attractive business opportunity. Key focus areas include leasing, factoring, transactional services, credit cards, long-term savings products, bancassurance and investment banking services. The main strategic initiatives include:

- implementation of the direct campaigns system (operating CRM) and target group modeling system (analytical CRM);

- broadening the product base, especially with respect to savings, investment and insurance products, as well as transactional banking, leasing and investment banking products;

- development of sales skills with the support of product centers through a staff training program and new incentive-based remuneration systems taking into account the product-per-client ratio; and

- a new sales campaign management system.

Maintaining Operating and Cost Efficiency

It is the Group's strategic objective to continue to improve service levels, to maintain operating and cost efficiency and to optimize risk management by continued enhancement of operational processes, as set out below:

- implementing the new operational model, which envisages the centralization, automation and standardization of the number of business processes related to sales functions and support activities, including a reduction in back offices from over 100 to five as well as the reorganization of the head office and various functions within the capital group;

- developing advanced IT technologies, including primarily applications supporting the automation of business and sales processes, and the development of internal IT competencies to ensure improved flexibility and swiftness in implementing new technological solutions;

- simplifying internal processes and procedures and implementing the principle of end-to-end responsibility (responsibility for the entire business process across all levels) with a view to achieve better supervision over efficiency and safety of operational processes; and

- implementing new internal scoring models and using CRM in the credit risk management process.

Focusing on Core Activities and Streamlining the Group Structure

The Group's strategy is to focus on core banking activities supplemented by a range of complementary products and financial services. The Group intends to optimize and streamline its structure and to increase efficiency within the Group and consistency of its operational model. The key strategic initiatives in this respect include:

- integrating Group companies, primarily the 'product factories', within the Bank by, among other things, centralizing back-office functions or shifting the operations of the subsidiaries to the Bank;
- disposing of non-core assets;
- implementing a new development strategy for Kredobank to service predominantly retail and SME clients in Western Ukraine;
- strengthening the Group's market position in selected market segments, including through the acquisition of companies; and
- improving the Group's own real estate management efficiency.

Maintaining a Strong Capital Base and Liquidity Profile

The Group intends to maintain a strong capital base and liquidity profile by way of:

- optimization of sources and uses of capital based on a detailed strategic planning and budgeting process with a focus on capital allocation to units that improve the risk-return profile of the Group;
- diversifying the funding base by continuing commercial focus on retail customer deposits and placement of the Bank's bonds to Polish and foreign investors.

Attracting and Retaining Experienced Management and Staff, and Fostering a Dynamic Organizational Culture

Continued skills development, human resources management and fostering an organizational culture based on the Group's values are significant elements underpinning shareholder value creation and the implementation of the Group's strategy. The Group's objective is to employ the best-qualified, driven and motivated staff and, to this end, the Group is implementing a number of specific strategic initiatives, including:

- a comprehensive review of the Group's organizational structure, remuneration, training and recruitment systems;
- new firm-wide and incentive-based remuneration systems, a well-defined career path and succession system;
- attract and retain a highly-qualified senior management;
- a new training process, including the establishment of a competencies academy for top and mid-level managers of the Group, and introduction of e-learning tools; and
- improved internal communication, including a comprehensive employee involvement and satisfaction survey, to improve staff identification with the Group, impart the Group's values and strengthen its organizational culture.

The strategic plan of the Group set out above expires on 31 December 2012. In accordance with the Bank's Statute, the new strategy of the Bank will have to be adopted by the Management Board and approved by the Supervisory Board.

Operations

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of assets, net profit, total equity, loans and deposits portfolio, the number of customers and size of the distribution network. The Group offers a broad range of retail and commercial banking products and services to private individuals, SMEs, corporate and public sector entities as well as certain non-banking financial services products. Furthermore, Group is the largest bank in CEE by assets (as of 31 December 2011) and market capitalization (as of the date of this Prospectus). The Bank is the market leader in retail banking (based on NBP data and the reports of the banks for 2011) and enjoys a strong and improving market position in corporate banking.

In addition to products and services offered in its retail banking and corporate banking, the Group offers a range of products and services in respect of leasing, factoring, investment funds, pension funds, internet banking and servicing, as well as card payment settlement through the Bank's subsidiaries. For the six months ended 30 June 2012, as well as for the years ended 31 December 2011 and 2010 the net profit attributable to the equity holders of the parent company of the Bank's fully consolidated subsidiaries (before consolidation adjustments) accounted for 1.1 per cent., 0.8 per cent. and 1.5 per cent., respectively, of the Group's consolidated net profit attributable to the equity holders of the parent company.

The 2011 Consolidated Financial Statements and the 2010 Consolidated Financial Statements and the discussion of financial data in this section reflect the breakdown of the Group's operations into the following segments:

- *Retail Segment*. The Retail Segment comprises the Bank's transactions with · retail, SME and mortgage market clients, as well as the activities of: Kredobank, PTE BANKOWY, PKO TFI, the IFS Group, CEUP eService, Qualia Development Group and Fort Mokotów Inwestycje. This segment includes, inter alia, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for SMEs, and housing market customers.

- *Corporate Segment*. The Corporate Segment includes the Bank's transactions with large corporate clients as well as the activities of the Bankowy Fundusz Leasingowy group and of the Bankowe Towarzystwo Kapitalowe group. This segment includes, inter alia, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy-back and buy sell-back transactions, corporate loans, as well as leasing and factoring. Within the Corporate Segment the Bank also enters, on its own or in consortiums with other banks, into loan agreements to finance large investment projects.

- *Investment Segment*. The investment segment comprises the Bank's own account, such as investing activities and trusteeship services, brokerage activities, inter-bank transactions, transactions in derivative instruments and debt securities, as well as the activities of PKO Finance and Centrum Finansowe Pulawska. The results of this segment also comprise the results of the transfer centre, including any intracompany settlements of transfer prices of funds, the net income on sources of long-term finance and the results from items classified as hedge accounting. Internal transfer of funds is based on transfer rates related to market rates. Transactions between segments are carried out on standard, commercial terms. Long-term external financing includes issues of securities, subordinated debt and funds from issuance of notes under the Programme, and loans and advances received from financial institutions.

Since the beginning of 2012, the activities of all the Bank's subsidiaries have been presented in the investment segment. The main reason behind the change in the presentation of the Group's results by business segments was to more accurately reflect the business lines which influence and supervise the activities of the Bank's subsidiaries: such activities are managed and supervised largely by the business lines responsible for the investment segment rather than the retail and corporate segments. Consequently, as a result of the change, as of the date of this Prospectus, the Group conducts its operations through the following business segments:

- *Retail Segment*. The retail segment comprises transactions of the Bank with retail clients, SME clients and housing market clients. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market customers.

- *Corporate Segment*. The corporate segment includes transactions of the Bank with large corporate clients. This segment comprises, among others, the following products and services: current accounts, deposits securities, depositary services, currency and derivative products, sell buy back and buy sell back transactions, corporate loans, leases and factoring. Within the segment, the Bank also enters, individually or in a consortium with other banks, into loan agreements for the purposes of financing large investment projects.

- *Investment Segment*. The investment segment comprises transactions of the Bank with financial institutions and the Bank's portfolio activity on its own account, i.e. investing and brokerage activities, inter-bank transactions, derivative instruments and debt securities transactions and activities of the following of the Bank's subsidiaries: the KREDOBANK SA Group, the Inter-Risk Ukraina ALC Group, PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA, PKO BP Finat Sp. z o.o., Centrum Elektronicznych Usług Płatniczych eService SA, the Qualia Development Sp. z o.o. Group, Fort Mokotów Inwestycje Sp. z o.o., the Bankowy Fundusz Leasingowy SA Group, the Bankowe Towarzystwo Kapitałowe SA Group, PKO Finance AB and, until its liquidation which was completed in May 2012, Centrum Finansowe Puławska Sp. z .o.o – in liquidation. The net result of the segment comprises the net result of the transfer center, which includes internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing which is dependent on interest rates. The transactions between business segments are conducted on arm's length terms. Long-term external financing includes the issuance of bonds, subordinated liabilities and funds under the Programme as well as amounts due to financial institutions.

The changes described above, relating to presentation of segments of activities have been applied in the 2012 Consolidated Interim Financial Statements. However, the 2011 Consolidated Financial Statements and the 2010 Consolidated Financial Statements were not restated to reflect the changes retrospectively. As a result, comparability of data relating to segments of activities, included in the 2012 Consolidated Interim Financial Statements with the data presented in the 2011 Consolidated Financial Statements and the 2010 Consolidated Financial Statements, may be limited.

Detailed information on the Bank's material subsidiaries can be found in the section "*Investment Banking – Key Subsidiaries*" below.

The following table shows the Group's gross profit divided into the Group's business segments:

	For the Year Ended 31 December					
	2011		**2010**		**2009**	
	(PLN thousand) (audited)	*(%)*	*(PLN thousand) (audited)*	*(%)*	*(PLN thousand) (audited)*	*(%)*
Retail segment	3,012,117	63.0	2,840,939	69.6	2,545,321	86.5
Corporate segment	449,745	9.4	398,630	9.8	227,087	7.7
Investment segment, of which:	1,338,650	28.0	840,482	20.6	170,520	5.8
Own activities	289,413	6.1	411,705	10.1	482,812	16.4
Transfer center	1,049,237	21.9	428,777	10.5	(312,292)	(10.6)
Share of profit (loss) of associates and jointly controlled entities	(19,652)	(0.4)	(815)	0.0	342	0.0
Gross profit	**4,780,860**	**100.0**	**4,079,236**	**100.0**	**2,943,270**	**100.0**

Source: Consolidated Financial Statements

For the purposes of the discussion and presentation of the operations of the various business segments below, the segment reporting has been based on the stand-alone management accounts of the Bank only and thus differs from the segment reporting based on the Consolidated Financial Statements, as presented in the table above and in the "*Operating and Financial Review*".

Detailed information on the Bank's material subsidiaries can be found in the section "*Investment Banking – Key Subsidiaries*" below.

The following table shows the Bank's loans and advances to customers divided into the business segments and business lines:

	For the Year Ended 31 December	
	2011	**2010**
	(PLN thousand) *(audited)*	
Loans and advances granted gross, of which:	**145,041,439**	**133,198,613**
Retail segment	**110,124,118**	**102,122,214**
Mortgage banking	65,342,083	57,765,485
Retail and private banking	21,550,479	23,045,719
Small and medium enterprises	15,344,788	14,339,941
Housing market clients	7,886,768	6,971,069
Corporate segment	**33,636,213**	**28,702,880**
Corporate	33,636,213	28,702,880
Other receivables	**326,719**	**1,772,382**
Contributions to equity of subsidiaries	186,943	121,363
Receivables due from repurchase agreements	92,836	1,576,814
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**

Source: Stand-Alone Financial Statements

The following table shows the Bank's amounts due to customers divided into the business segments and business lines:

	For the Year Ended 31 December	
	2011	**2010**
	(PLN thousand) *(audited)*	
Amounts due to customers, of which:	**150,030,681**	**135,289,055**
Retail segment	**113,968,911**	**104,536,481**
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 segment	**28,873,527**	**25,153,687**
Corporate	28,873,527	25,153,687
Other liabilities	**7,188,243**	**5,598,887**
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**

Source: Stand-Alone Financial Statements

* *Including loans and advances from financial institutions and a loan received from PKO Finance AB in relation to the issue of notes under the Programme.*

Retail Banking

Overview

PKO Bank Polski is the leading retail banking institution in Poland. As of 30 June 2012, the Bank had the leading position in terms of total assets, loans, deposits, number of personal accounts maintained and bank cards serviced. As of 30 June 2012, the Bank also had 1,130 retail branches, which constitute the main distribution channel of the Bank's products and services, and 1,218 agencies, which offer cashier services and promote the Bank's products and services based on exclusive agency agreements. In addition, the Bank offers online banking services to its clients using the iPKO and Inteligo platforms.

On 30 June 2012 the Bank divided its retail banking customers into the following categories:

- private individual customers, subdivided into: (i) the mass segment (individuals who do not qualify as personal or private banking customers), and (ii) personal and private banking customers ("**PI customers**");
- SMEs, i.e. small and medium enterprises meeting the following criteria:
  - annual revenue not exceeding PLN 10 million (criterion applicable to customers acquired in the second quarter of 2012 and later),
  - newly established entities which have not achieved their normal production capacity and which apply for loans with a total value not exceeding PLN 10 million, and
  - credit commitments as at 30 November 2011 that did not exceed PLN 20 million;
- entities involved in the housing sector, including housing associations, real estate developers involved in the realization of co-sponsored projects with an individual value below PLN 50 million, real estate agents, housing communities and real estate managers ("**housing sector entities**"), whose total credit commitments as at 30 November 2011 did not exceed PLN 50 million.

By the end of 2011 the Bank had divided its SME customers and housing sector into:

- SMEs with annual revenue of up to PLN 5 million;
- entities involved in the housing sector, including housing associations and all real estate developers.

As of 30 June 2012, the Bank serviced approximately 7.4 million retail banking customers (including 7.1 million individual customers, 306.1 thousand SME clients, and 46.2 thousand housing sector entities, excluding Inteligo clients), approximately 642.9 thousand customers of the Bank using the Inteligo electronic banking platform and 11.8 thousand corporate clients.

The Bank's main retail banking products and services include current and saving accounts, term deposits, lending products (consumer loans, mortgage loans, and investment and working capital loans for SMEs and housing sector entities), payment cards, insurance and investment products.

Distribution Channels

PKO Bank Polski offers its products and services to retail banking customers through the largest network of branches and agencies in Poland. As of 30 June 2012, the Bank had 1,130 retail branches, which constitute the main distribution channel of the Bank's products and services, and 1,218 agencies, which offer cashier services and promote the Bank's products and services based on exclusive agency agreements. The Bank's branch network represented 16.5 per cent. of the total number of commercial bank branches in Poland as of 30 June 2012 (based on PFSA data). The Bank is also continuing to refurbish its existing branches to standardize its image throughout its branch network, refresh its branding, upgrade its branches to respond to changing client expectations and develop other distribution channels based on new technologies. The Bank's branch and agency network is complemented by non-exclusive financial intermediaries. As of 30 June 2012, the Bank was distributing products on the basis of 1,193 agreements with nonexclusive financial intermediaries. The Bank reviews the locations of its distribution channels on an ongoing basis to provide better access to its targeted customer base. As part of its strategy, the Bank will continue to optimize its network of branches and agencies to ensure a strong presence in all large cities.

As of 30 June 2012, the Bank operated 2,525 ATMs and 326 self-service terminals. As of 31 December 2011, the Bank had 14.0 per cent. of the total number of ATMs on the Polish market (according to NBP data). In addition, the Bank's customers can access their accounts and effect banking transactions through all non-Bank ATM networks in Poland as well as ATMs outside Poland that accept VISA, MasterCard and Diners Club. Customers use the Bank's ATMs for a variety of transactions, including cash withdrawals and ATM deposits and other services.

With the goal of expanding the reach of its distribution network and satisfying evolving client expectations in an increasingly competitive market, the Bank continues to develop and implement new technology-based distribution channels, including a call center, online banking, SMS, mobile banking and self-service terminals. The Bank offers online banking services to its clients using the iPKO platform and to customers that have an Inteligo account. The iPKO platform offers the Bank's clients the same products and services that are offered at the Bank's branches. Inteligo offers PI Customers and SME customers online access to bank accounts, term deposits and various other products. The Bank is in the process of adding further functionalities to its online distribution platforms, including lending and long-term savings products. As of 30 June 2012, approximately 4.2 million retail banking customers were using iPKO online banking services and in addition, the Bank maintained approximately 642.9 thousand Inteligo clients (PI and SME customers).

Products and Services

The Bank's main retail banking products and services include current and saving accounts, term deposits, loan products and investment and bancassurance products, which are cross-sold to customers primarily in connection with mortgage loans. The Bank offers a wide variety of loan products to its retail banking customers, including consumer loans (overdraft facilities, including credit lines, personal cash loans, and credit cards), housing mortgage loans, student loans, investment and working capital loans to SME customers and loans to housing sector entities. On the deposit side, the Bank focuses on term deposits, savings and current accounts.

Products and Services for PI Customers

Current Accounts

The current account product is the most important product offered by the Bank to its PI customers. The Bank's current account provides access to several other products and services such as various credit lines, overdraft facilities, life and non-life insurance products, wire transfers, direct debits, standing orders and debit cards. As of 30 June 2012, the Bank's customers held approximately 5.5 million current accounts maintained as part of the Superkonto offer and the new "PKO Konto" current account offer, and the Bank issued approximately 5.4 million debit cards in connection with such accounts.

The Bank also offers its PI customers a bank savings account and an Inteligo internet savings account.

In addition, as of 30 June 2012, the PI customers had approximately 143,7 thousand foreign currency current accounts denominated in USD, EUR, GBP and CHF and approximately 741,2 thousand Inteligo internet online current accounts.

In March 2011 the Bank launched a new range of current accounts for PI customers, which was supported by intensive marketing activities. Moreover, in May 2011, the Bank further developed its product range by offering certain additional types of current accounts for PI customers.

Personal and Private Banking

The Bank divides personal and private banking clients into the following subgroups:

- "**Personal banking clients**" – individuals with an average monthly inflow into their accounts of at least PLN 5,000 or whose deposits in the accounts maintained with the Bank or the Group exceed PLN 150,000;
- "**Private banking customers**" – individuals whose deposits in the accounts maintained with the Bank or the Group exceed PLN 1,000,000 and who have signed an agreement on the usage of dedicated services.

The Bank offers specialized products and services to such customer segment as part of its personal and private banking program, which provides customers with the services of a personal adviser, separate VIP teller areas at selected branch locations, the ability to negotiate terms of certain services as well as negotiated rate term deposit products, loan products with flexible approval procedures and payment schedules, foreign exchange products and services, bank cards for affluent customers, and various insurance products. As of 30 June 2012, the Bank had approximately 573.9 personal banking clients and 1.8 thousand private banking customers.

Deposit Products

The Bank offers its PI customers PLN denominated deposit products (including current accounts such as the current account and individual retirement accounts, Inteligo internet online banking accounts, a broad range of term deposits, saving accounts for housing purposes, and savings books in the form of current and term deposits), foreign currency denominated deposit products, and regular savings accounts in PLN, USD, EUR, CHF and GBP.

Loan Products

Consumer Loans

The Bank offers consumer loans to its PI customers in the form of overdraft facilities, including credit lines, cash loans and credit cards. Consumer loans (excluding accrued interest) amounted to 19.6 per cent. and 22.6 per cent. of the total loans to retail banking customers as of 31 December 2011 and 2010, respectively. As of 30 June 2012, the average tenor of a Consumer Loan equals 51 months (excluding early repayments).

The cash loan is the Bank's basic consumer finance product addressed to PI customers. The consumer finance offer for personal and private banking customers is complemented by "*Kredyt AURUM*" and "*Kredyt PLATINUM*". Such offers are addressed to the Bank's existing customers and to clients who have not dealt with the Bank before.

Payment Cards

The Bank offers its retail customers a comprehensive range of payment card products, issued by the Bank in conjunction with Visa, MasterCard and Diners Club programs. The Bank also offers VISA Infinite and Master Card Platinum credit cards to its private banking customers. As of 30 June 2012, the Bank had issued approximately 7.1 million payment cards, including 0.9 million credit cards for retail customers.

Mortgage Loans

The Bank holds a leading position in the Polish mortgage loan market and such loans (excluding accrued interest) amounted to 59.3 per cent. and 56.6 per cent. of total loans to retail banking customers as of 31 December 2011 and 2010 respectively. The Bank offers mortgage loans in PLN. The Bank also has a legacy portfolio of CHF denominated mortgage loans, the active selling of which has been materially restricted since the fourth quarter of 2008. As the sale of mortgage loans denominated in convertible currencies was ceased in December 2011, the share of foreign currency mortgage loans is decreasing. For the years ended 31 December 2011 and 2010 such figures stood at 10.2 per cent. and 13.5 per cent., respectively. As of 30 June 2012, the average tenor of a mortgage loan equals 24 years (excluding early repayments).

The Bank's primary home loan products consist of products offered under the brand "*Własny K t*" (consisting primarily of standard repayment mortgages for financing home or apartment purchases, renovations or refurbishments) and government-sponsored loans under the program "*Rodzina na Swoim*" in cooperation with BGK (a state-owned special purpose bank specializing in public sector financing). These loans are secured by mortgages on the property being acquired or other property. Until such mortgages are perfected and registered in the mortgage register, loans may be secured by credit insurance, promissory notes, guarantees or other forms of security.

Products and Services for SME Customers

The Bank was one of the first Polish banks to introduce a line of products and services specially designed for SME clients. The package for the SME customers includes, among others, current accounts, auxiliary and foreign currency negotiated term deposits, loan and credit facilities, bank cards (including the first credit card on the Polish market directed to SMEs) and other services. As of 30 June 2012, the Bank maintained approximately 254.6 thousand SME deposit accounts. In addition, SME customers had approximately 65.9 thousand Inteligo accounts.

The Bank offers investment and working capital loans to its SME customers. Investment loans amounted to PLN 10.7 billion and PLN 10.0 billion as of 31 December 2011 and 2010, respectively, whereas working capital loans amounted to PLN 4.6 billion and PLN 4.3 billion as of 31 December 2011 and 2010, respectively.

The Bank also offers its SME customers products for the co-financing of investment projects which have qualified for EU structural assistance programs. The Bank has created the product line "*Program Europejski*" for those SMEs that are beneficiaries of the EU structural pre- and post-accession loan programs. This SME product offering includes services such as project finance and bridge financing that are used to pre-finance redeemable investment expenses as well as guarantees and foreign exchange hedging instruments.

The Bank offers credit cards dedicated to its SME customers under the brands "PKO Euro Biznes" and the PKO debit card "Partner". As of 30 June 2012, the Bank had issued approximately 245 thousand of such cards.

Products and Services for Housing Sector Entities

The Bank offers a comprehensive line of products and services tailored to housing sector entities. These products are directed at housing associations, their management bodies and real estate agents.

The Bank's deposit products offered to this customer segment include current accounts, savings accounts, negotiated rate and overnight deposits, and e-banking. The Bank's main products dedicated especially to housing co-operatives include services under the brands "*Pakiet Nasza Wspólnota*", "*Nasza Mała Wspólnota*", "*Pakiet Wspólnota Premium*" and "*Pakiet Nasza Wspólnota Plus*", which was introduced in April 2011. The Bank's primary loan products for such clients are offered under the brand names "*Nowy Dom*" (new house) and "*Nasz Remont*" (our refurbishment). These products are intended for all types of residential property investments, including refurbishment.

Other Products and Services Offered to Retail Banking Customers

In addition to the above described loan and deposit banking products and services, the Group offers a wide array of additional products and services to its retail banking customers, including brokerage services (offered by DM PKO BP), internet banking accounts together with related online transaction services (offered by Inteligo), investment products such as funds and investment programs as well as individual retirement accounts (offered by PKO TFI), units of an open pension fund (managed by PTE

BANKOWY), and leasing services for SME customers as well as for selected PI customers (offered by Bankowy Fundusz Leasingowy group). For a more detailed description, please see "*Investment Banking – Brokerage House*" below.

In addition, in cooperation with various leading Polish and international insurance companies such as PZU S.A., PZU ycie S.A., and STU Ergo Hestia S.A., the Bank offers its retail banking customers various insurance products connected to its banking products, including property insurance, third-party liability insurance, loss of employment protection insurance and travel, health and life insurance. In addition, the Bank in cooperation with insurance companies uses insurance as collateral in connection with mortgage loans, investments and working capital loans granted to SME customers. For the six months ended 30 June 2012 the Bank generated net income from its loan insurance of PLN 148.0 million, compared with PLN 193.7 million generated for the six months ended 30 June 2011. For the years ended 31 December 2011 and 2010, the Bank generated net income from its loan insurance of PLN 382.0 million and PLN 502.7 million, respectively.

Corporate Banking

Overview

While historically the Bank primarily focused on providing retail banking products and services, the Group has been actively providing dedicated corporate banking products and services since 2004 and, as of the date of the Prospectus, is the market leader in the corporate banking segment in terms of value of loans outstanding. Since the second quarter of 2012 corporate banking customers ("**corporate banking customers**") include companies and corporate entities with an annual turnover of at least PLN 10 million and, also the SME clients with exposure exceeding PLN 20 million and real estate developers with exposure exceeding PLN 50 million (before only criterion of annual turnover of at least PLN 5 million applicable).

As at 30 June 2012, the Bank divided its corporate banking customers into the following categories:

- corporate companies meeting the following criteria:
  - annual revenue in excess of PLN 10 million (criterion applicable to customers acquired in the second quarter of 2012 and later. Until the end of 2011 criterion of annual revenue in excess of PLN 5 million was applicable),
  - newly established entities which have not achieved their normal production capacity and which apply for loans with a total value in excess of PLN 10 million (new criterion applicable to customers acquired in the second quarter of 2012 or later), and
  - credit exposure as at 30 November 2011 were in excess of PLN 20 million, and PLN 50 million with respect to real estate development companies (criterion applicable since the second quarter of 2012);
- strategic clients – selected group of the most important clients (most of them with an annual turnover of more than PLN 500 million);
- public sector entities – local government units ("**LGUs**"), central and local public administration and public institutions.

The Bank offers all of its corporate banking customers a comprehensive range of deposit products, including current and term deposit products, as well as loan products and transaction products.

In the year ended 31 December 2011, the Bank serviced a total of approximately 11.8 thousand corporate banking customers (of which mid-sized companies, large companies, strategic clients and public sector customers held a 46 per cent., 19 per cent., and 24 per cent. share, respectively).

The Bank's main corporate banking products and services include lending products, transaction banking (including trade finance), asset management, treasury products as well as structured lending, project finance and custody services. The corporate banking customers also have access to all products offered by the Bank's subsidiaries, including specialized lending products (such as leasing and factoring) and card services.

Distribution Channels

The Bank conducts its corporate banking business primarily through a nationwide sales network comprising 51 specialized corporate branches grouped in 13 Regional Corporate Units as of 30 June 2012. Relationship managers are based in the corporate branches. In addition, the Bank employs product specialists who work with relationship managers to develop products and services specifically tailored to customer needs.

Loan and Deposit Products

The Bank offers its corporate banking customers a comprehensive range of loan products. The Bank's offer includes: (i) PLN loans, including overdraft loans, working capital loans and investment loans; and (ii) foreign currency loans, including working capital loans and investment loans.

Entities financed from the State budget and local government entities constitute an important customer group for the Bank's loan products. The Bank offers several tailor-made products for these customers, such as loans to finance budgetary deficits, investment credit and bond issuance facilitation.

The Bank also offers its corporate banking customers products related to projects co-financed by the EU (under a separate program, "*Program Europejski*"), such as bridge financing, co-financing, guarantees and consulting services, which are individually tailored to meet the particular needs of the Bank's corporate banking customers.

The Bank also offers syndicated loan products both as an arranger and as a syndicate member.

The Bank offers its corporate banking customers a comprehensive range of deposit products, including current and term deposit products. The Bank's principal corporate banking customer deposit products offer includes PLN and foreign currency denominated deposits (standard and negotiable), overnight automated deposits as well as investment products (including treasury bills and bonds, and transactions involving treasury bills and bonds).

Transactional Products

In addition to various deposit and loan products, the Bank offers its corporate banking customers modern transaction products, which can facilitate the effective management of cash flows and liquidity of companies, capital groups and state-budget entities and may result in operational efficiencies and cost-savings. These products assist corporate banking customers with payables management, monitoring collection of receivables, cash collection, mass payments, trade finance and permit the Bank to optimize the costs of the customer transactions.

The transactional products of the Bank are divided into the following product categories:

- liquidity management (current account, cash pooling, consolidated account, escrow account, micro-accounts);
- payables and liquidity management products (domestic and foreign payments, mass collection products, direct debit);
- cash products (cash collection and withdrawals);
- card products (debit cards, charge cards, credit cards, pre-paid cards);
- electronic banking (internet banking, off-line banking systems); and

- trade finance products (bank guarantees, import and export letters of credit, documentary collection, discount products such as promissory notes and bills of exchange).

Other Corporate Banking Products and Services

Other products and services offered by the Bank to its corporate banking customers include financial services offered by companies in the Group and sold through the Bank's distribution network, including brokerage services, domestic and international settlement, insurance services and international services. For a description please see "*Investment Banking – Brokerage House*" and "*Investment Banking – Key Subsidiaries*".

Investment banking

While for financial reporting purposes treasury products and investments in corporate and municipal debt securities are part of the retail and corporate banking segments, such products are operationally a part of investment banking.

Overview

The treasury department is responsible for managing the Bank's surplus liquidity, currency risk, interest rate risk and the development of products (primarily hedging products) offered mostly to the Bank's corporate banking customers.

The Bank has conservatively managed its investment portfolio, thereby avoiding many of the pitfalls that have afflicted several financial institutions in the recent economic downturn. A significant portion of the Bank's investment portfolio consists of Treasury securities denominated in PLN, but in order to hedge against foreign exchange and interest rate risks, specifically with respect to mortgage loans denominated in foreign currency, the Bank enters into CIRS.

The Bank offers a wide range of financial products to its customers while adhering to a conservative trading strategy as far as investing in derivatives. The Bank primarily focuses on providing its customers with relatively simple foreign exchange derivatives and adheres to a strict risk policy. Throughout its other businesses, the Group provides brokerage services and specialized financial services, including factoring, leasing, investment funds, pension funds and electronic payment services, and focuses on new product development to meet its customers' requirements. Nevertheless, the Group expects that it will maintain its orientation towards core retail and corporate banking services for the foreseeable future.

Operations

As of 30 June 2012, the Bank's treasury asset portfolio amounted to PLN 30.3 billion, composed primarily of PLN-denominated treasury bonds and treasury bills.

The Bank enters into deposits on the inter-bank market and transactions in debt securities issued by the State Treasury or the NBP as part of its liquidity management. The Bank plays an important role on the PLN money market. Interest income derived from treasury assets significantly contribute to the Bank's revenues.

The Bank manages its foreign exchange and interest rate risks by entering into derivative transactions, such as forward rate agreements, interest rate swaps and basis (CIRS) swaps.

As of the date of the Prospectus, the Bank engages in very limited trading activities on its own behalf. Within its trading activities the Bank cooperates with non-financial institutions.

The Bank is certified as a primary money market dealer and as a primary government debt dealer. The Bank's certification as a primary government debt dealer allows it to participate directly in treasury bond and treasury bill auctions. The Bank is the only certified retail distributor of government bonds in Poland.

In addition, the Bank's standard offer for non-financial customers includes mostly foreign exchange spot or forward transactions, negotiated deposits, treasury bills, treasury bonds, municipal and corporate bonds, and derivative transactions such as swaps and various kinds of foreign exchange options. Treasury products are sold through the Bank's network of regional corporate branches or directly by a team of corporate dealers from the Bank's treasury department.

The following table shows details of the Bank's treasury asset portfolio as of the dates indicated below.

	As of 30 June	As of 31 December		
	2012	**2011**	**2010**	**2009**
			(PLN thousand)	
	(unaudited)		*(audited)*	
Securities	27,898,347	27,947,223	22,138,232	22,535,184
Trading book[1]	394,696	1,311,089	1,503,649	2,212,955
Banking book[2]	27,503,651	26,636,134	20,634,583	20,322,229
Deposits with banks	2,159,011	1,914,393	1,501,919	1,133,859
Receivables due from repurchase agreements	217,626	–	–	105,427

Source: Stand-Alone Financial Statements

1) Trading assets.

2) Financial assets designated upon initial recognition at fair value through profit and loss and investment securities available for sale.

The following table shows values of the Bank's open positions in derivative instruments as of the dates indicated below.

	As of 30 June	As of 31 December		
	2012	**2011**	**2010**	**2009**
			(PLN thousand)	
	(unaudited)		*(audited)*	
FRA (forward rate agreement)	114,821,000	158,002,000	92,420,000	37,118,000
IRS (interest rate swap)	403,601,156	390,954,272	304,834,350	228,547,768
FX swaps (including CIRS)	99,999,125	85,970,291	56,734,794	51,160,563
FX futures and FX forwards	7,697,507	8,038,977	7,422,251	5,987,841
FX options	10,057,050	13,289,349	8,754,074	9,855,172
Other	1,389,746	2,132,267	4,470,977	2,906,151

Source: Stand-Alone Financial Statements

Treasury Products

In addition, the Bank's standard offer for corporate banking customers includes negotiated deposits, treasury bills, treasury bonds, municipal and corporate bonds, forward rate agreements, interest rate swaps and CIRS as well as foreign exchange transactions (options, spots, swaps, foreign exchange forward transactions). Treasury products are sold by product specialists and directly by a team of corporate dealers from the Bank's treasury department.

Investment in Corporate and Municipal Debt Securities

The Bank makes investments as part of its corporate banking operations. These investments are made as a result of underwriting issues of debt securities for the Bank's corporate clients. During the first half of 2012, the Bank arranged four corporate bond issues (of which three were underwritten), as well as one amendment agreement regarding a corporate bond issue with an aggregate value of PLN 2.36 billion and 39 municipal bond issues with an aggregate value of PLN 0.34 billion. As of 30 June 2012, the total amount of corporate and municipal debt securities held by the Bank in connection with its underwriting activities was PLN 6.01 billion.

Brokerage House

DM PKO BP is a securities brokerage house that operates as an internal division within the Bank. DM PKO BP is one of the largest brokers in Poland and has operated as a broker in the Polish capital market since 1991. DM PKO BP offers its clients a wide range of brokerage services, including accepting and executing clients' orders, acting as a market-maker, conducting tender offers, offering financial instruments, investment advisory, asset management, financial analysis, equity research and corporate finance advisory services. As of 31 December 2011, DM PKO BP's services were offered through 37 brokerage outlets and approximately 967 of the Bank's branches that comprise the Bank's distribution network. DM PKO BP aims to further expand its stand-alone branch network.

DM PKO BP's customer base consists of both retail and institutional investors (including foreign institutional investors). As of 31 December 2011, customers of DM PKO BP held 155 thousand investment accounts and 153 thousand active registry accounts, to evidence securities that were bought on the primary market, with PLN 30.5 billion in equities, PLN 12.4 billion in debt securities and other instruments. DM PKO BP discontinued offering portfolio management services in the fourth quarter of 2011.

During 2011, DM PKO BP ranked 7th in the Polish market in equities trading with a 5.05 per cent. market share in equities trading (based on WSE data). DM PKO BP is one of the largest retail bond trading houses in Poland, trading 45.17 per cent. of all retail bonds for the year ended 31 December 2011. DM PKO BP also holds the leading market position in sale of retail treasury bonds and sold 21,821,301 bonds (total nominal value – PLN 2.2 billion) to customers during the year ended 31 December 2011 and 23,680,977 bonds (with a total nominal value of PLN 2.4 billion) for the year ended 31 December 2010. It also offers investment units of 162 investment funds managed by 12 investment fund managers, including PKO TFI. In addition to equities and retail bonds, DM PKO BP also trades derivatives and held a 3.66 per cent. futures and 14.92 per cent. index options local market share by volume for the year ended 31 December 2011. DM PKO BP aims to increase its institutional client base and product offer for such clients.

Key Subsidiaries

The Group also provides other specialized financial services through its wholly or partly owned subsidiaries. The contribution from the subsidiaries (before consolidation adjustments) to the Group's consolidated net profit attributable to the equity holders of the parent company was 0.8 per cent. for the year ended 31 December 2011 and 1.1 per cent. for the six months ended 30 June 2012. The Group is in the process of reorganization to increase efficiencies and may dispose of certain non-strategic Group companies. The key subsidiaries are described below.

PKO Towarzystwo Funduszy Inwestycyjnych S.A. – asset management

PKO TFI is an asset management company established in 1997. As of 30 June 2012, PKO TFI was the sixth largest asset management company in Poland by funds under management, managing 35 investment funds and sub-funds with total assets of PLN 8.37 billion and had a share of the Polish asset management market of approximately 6.52 per cent. based on publicly available financial reports of asset management companies. Since 1 January 2010 PKO TFI has managed the investment funds portfolios independently. The Bank provides PKO TFI with certain administrative services. These include the use of the Bank's extensive branch and distribution network to sell participation units in PKO TFI funds, the execution by the Bank's treasury department of PKO TFI's fixed-income transactions and the execution by DM PKO BP of PKO TFI's transactions on the WSE.

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A. – open pension fund management company

PTE BANKOWY manages the open pension fund PKO BP Bankowy and since 1 January 2012 also PKO Dobrowolny Fundusz Emerytalny. PTE BANKOWY was jointly founded in 1998. As of 30 June 2012, PTE BANKOWY held assets under management of PLN 8.4 billion and was ranked ninth on the Polish market in terms of total assets under management (based on data provided by the PFSA). Its management intends to focus on increasing PTE BANKOWY's current market position, its profitability and the Bank's return on investment.

Inteligo Financial Services S.A. – online banking service platform

Inteligo was established in 2000 by Bankgesellschaft Berlin AG and was wholly acquired by the Bank in 2002. Inteligo provides the Bank's customers with online banking services. In addition to servicing accounts through electronic access channels (including the establishment of an online banking platform for all of the Bank's customers), Inteligo also assists the Bank with the development and expansion of long-term strategic initiatives such as, *inter alia*, a Bank-wide call center as an additional distribution channel and the development of a remote client identification and authorization system. Inteligo also provides online banking technology for Kredobank and Bank Pocztowy S.A. The Bank's customers may use the Inteligo platform to purchase certain external services such as additional credit for mobile phones, participation units in investment funds, reports from Biuro Informacji Kredytowej S.A. as well as certain property insurance products offered by the PZU S.A. group. Since December 2008, the company had owned 80.33 per cent. of PKO BP Finat Sp. z o.o., whose core business activity is focused on providing settlement services as a clearing agent for both pension and investment funds. On 24 August 2011, Inteligo sold all the shares held in PKO BP Finat Sp. z o.o. to the Bank. The Bank intends to continue to utilize Inteligo's technological and IT solutions to augment its banking operations as well as to cross-sell new financial products.

Centrum Elektronicznych Usług Płatniczych eService S.A. – card payment settlement services

CEUP eService was founded in 1999 and became a wholly owned subsidiary of the Bank in 2001. CEUP eService provides card payment settlement services and is expanding the network (one of the largest in Poland) of merchants that accept debit, credit and charge cards issued by various banks and manages the Bank's point of sale ("**POS**") terminal network, the data flow in connection with the settlement of payment card businesses and certain cash flow operations in connection with POS terminal network stations. During 2011, CEUP eService serviced POS transactions (payment transactions and cash withdrawals) amounting to PLN 23.5 billion and held a market share of approximately 24.4 per cent. in terms of POS transactions value in Poland, while for the first half of 2012 it serviced POS transactions (comprising payments and cash withdrawals) with a total value of PLN 12.9 billion and held a significant market share of approximately 25.6% in terms of the value of POS transactions processed during that period in Poland (based on data provided by the company). The objective of the Bank's investment in CEUP eService is to develop the Bank's and CEUP eService's business relationships with its merchant network.

Bankowy Fundusz Leasingowy S.A. – leasing services

Bankowy Fundusz Leasingowy S.A. was established in 1999. Bankowy Fundusz Leasingowy S.A. and its subsidiary (Bankowy Leasing Sp. z o.o.) provide operational and financial leasing of tangible and real estate assets. As of 30 June 2012, Bankowy Fundusz Leasingowy (including subsidiaries) held a market share of approximately 6.6 per cent. by value of assets leased over the period (based on data provided by the Polish Leasing Association).

Kredobank S.A. – banking services in Ukraine

In August 2004, attracted by the high growth potential and the low saturation of banking products and services on the Ukrainian banking market, the Bank acquired an interest in Kredobank, a bank registered and operating in Ukraine. Following purchases of shares from non-controlling shareholders in 2005 and EBRD in 2007, and as a result of share capital increases, the Bank, as of the date of the Prospectus, owns 99.57 per cent. of the share capital of Kredobank.

Kredobank is a commercial bank providing basic banking services to both individual and corporate clients. As of 31 December 2011, Kredobank's distribution network comprised 130 outlets in 22 of the 24 regions of Ukraine and in the Autonomous Republic of Crimea. Kredobank's scope of operations in Ukraine includes deposit taking, lending activity, servicing bank accounts, foreign exchange transactions and offering securities brokerage services. According to data published by the NBU, Kredobank's market share (calculated as a percentage of the total assets of the banking sector of Ukraine) was 0.36 per cent. as of 31 December 2011.

During 2010 and 2011, the Ukrainian economy recorded a real GDP growth rate of 4.2 per cent. and 5.2 per cent., respectively (based on 2001 prices). The recession experienced by the Ukrainian economy was a result of domestic financial instability, a sharp drop in external demand and prices for steel, Ukraine's major export. From the beginning of the downturn, domestic banks continue to be adversely affected by the shortage of liquidity, reduced inflows of foreign capital, declines in household earnings and the depreciation of the Ukrainian currency against key currencies. The economic recovery started from 2010 and continued up to this date is driven mainly by strong private consumption and investment activity (amid easing price pressures) and strong investment activity (ahead of the European football championships held in 2012). In light of the weaker global economic situation and the drop in demand for Ukraine's exports resulting therefrom, as well as the negative base effects (due to, in part, the exceptionally strong harvest in 2011), GDP growth is expected to weaken in 2012 (the current IMF forecast indicates 4.8 per cent. real GDP growth). The expected moderate growth and relatively low inflation create tentative room for some monetary policy easing in 2012. The NBU began to ease monetary conditions in the first quarter of 2012 (including cuts in overnight borrowing rates, lower pressure on banking sector liquidity). In an environment of more accommodative monetary policy, heightened uncertainty, and current account imbalance, the Ukrainian currency appears vulnerable and at risk of gradual depreciation.

On 30 December 2010, the Bank deposited USD 4.8 million in Kredobank's account maintained by the Bank of New York Mellon, which was subsequently pledged for the benefit of Kredobank as a security for Kredobank's loan receivables. A successful debt collection carried out by Kredobank and the recovery of claims secured by deposits resulted in the reduction of the amount of the deposit to USD 2.9 million (PLN 9.8 million) as of 31 December 2011.

On 20 April 2011 Kredobank and the NBU signed another agreement, replacing the agreement between Kredobank and the NBU executed in February 2009, according to which the NBU adjusted its requirements to the existing conditions of Kredobank taking into account the support measures implemented by the Bank, comprising the guarantees and deposits securing selected loan receivables of Kredobank.

On 29 November 2011 the Bank acquired a 100 per cent. stake in the authorized Ukrainian factoring company "Private Investments" limited liability company to be used as the special purpose vehicle in a restructuring transaction regarding Kredobank's non-performing loans. In December 2011 this company acquired a dedicated portfolio of receivables from Kredobank amounting as of 31 December 2011 to UAH 1,645 million (PLN 700 million at the mid exchange rate of the NBP as of 31 December 2011). At the same time, the Bank granted to the company a loan in USD with the purpose of funding the purchase of the above portfolio of receivables in the amount of USD 63.07 million. The loan was disbursed on 14 December 2011. Its final repayment date is 29 February 2013 but it can be repaid earlier from the proceeds of the collection of receivables under non-performing loans purchased from Kredobank. On 9 February 2012 a portion of the loan amounting to USD 297 thousand was repaid; the balance of the loan as of the date of the Prospectus amounts to USD 62,773 thousand.

Following a sale of a portion of its capital interest and a subsequent increase of share capital by the new participant, as of the date of the Prospectus, the Bank directly holds 6.59 per cent. of the share capital of the factoring company. The remaining 93.41 per cent. of the shares in the factoring company are held by Inter-Risk Ukraina additional liability company, which is wholly owned by the Bank.

As of the date of this Prospectus, Kredobank is in compliance with major requirements of Ukrainian bank regulations. On 3 July 2012 Kredobank presented a plan to remove any other breaches of the NBU's guidelines. Such plan was accepted by the NBU and the agreement with the NBU was terminated as of 1 August 2012. Following the restructuring of the loan portfolio and termination of the NBU agreement, the Bank has closely supervised the implementation of various profit-oriented and risk management policies at Kredobank, especially credit risk management tools.

As of 31 December 2011, the equity of Kredobank amounted to UAH 650 million (PLN 277 million) – ranking 35th in the Ukrainian banking sector, based on the NBU's data. For 2011 the Kredobank reported a net loss of UAH 266 million (PLN 75 million). As of 31 December 2011, the loan portfolio (gross) of Kredobank was UAH 2,085 million (PLN 887 million). The coverage ratio for impaired loans and advances with impairment allowances in Kredobank as of 31 December 2011 amounted to 24.71 per cent. As of 31 December 2011, the total amounts due to customers of Kredobank amounted to UAH 2,630 million (PLN 1,119 million). Kredobank's capital adequacy ratio was 22.00 per cent. as of 31 December 2011 and was higher than the NBU's regulatory minimum of 10 per cent.

Under the current challenging market conditions, Kredobank intends to complete various restructuring and efficiency improvement initiatives with the aim to establish a solid platform for future growth. In 2011, the Bank developed and adopted a new strategy for Kredobank consisting of two stages: (i) restructuring and business reorganization; and (ii) the implementation of best practices with respect to its products, internal procedures and distribution chain, while focusing on selected geographical areas of the Ukrainian market. The implementation of the new strategy of Kredobank is aimed at improving capital adequacy, improving the profitability of assets, better risk management and a focus on strategic direction of Kredobank as a regional bank in Western Ukraine which also operates in certain selected larger cities in other regions in the country and is a niche player focused predominantly on retail and SME clients.

Ratings

*The following section contains information regarding ratings assigned by Moody's, Fitch, Capital Intelligence and Standard and Poor's. Moody's, Fitch, Capital Intelligence and Standard and Poor's, all of which are established in the European Union, have been registered as credit rating agencies under Regulation (EU) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**"). The ratings of Moody's, Fitch, Capital Intelligence and Standard and Poor's exclusively reflect the opinions and evaluations of such credit rating agencies. Such ratings do not constitute any recommendations to invest and should not be regarded as grounds for any investment decisions regarding the purchase or sale of any financial instruments. The ratings may be subject to review, adjustment, suspension or downgrading by the relevant agencies.*

*The list of credit rating agencies registered under the CRA Regulation is published by European Securities and Markets Authority (the "**ESMA**") in accordance with Article 18(3) of the CRA Regulation and is updated within five working days of the adoption of a registration or certification decision. The European Commission republishes the list in the Official Journal of the European Union within 30 days of any update thereof. There may therefore be differences between the list published by ESMA and the list available in the Official Journal during that period. The up-to-date list of credit rating agencies registered under the CRA Regulation is available at the websites of the ESMA at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs.*

The Bank has been assigned ratings by Fitch (on 18 December 1996 and maintained on 9 August 2010, and 4 August 2011, unsolicited), Moody's (on 14 January 2003, 24 February 2007 and 18 June 2009), Standard & Poor's (on 25 August 2004, in September 2010 and maintained on 10 May 2011, unsolicited; on 8 May 2012, solicited) and Capital Intelligence (on 30 November 2000, in December 2007, in January 2010 and on 30 May 2011, unsolicited) as set forth in the table below.

On 17 September 2012, Moody's changed its outlook on the Bank's long-term debt and deposits ratings from stable to negative.

Category	Fitch	Moody's	Standard & Poor's	Capital Intelligence
Long-term assessment of liabilities and deposits (foreign currencies/domestic currency)		A2/A2 with a negative outlook[1]	A-[2]	A-[3]
Short-term assessment of liabilities and deposits (foreign currencies/domestic currency)		Prime-1/Prime- 1 with a stable outlook[4]	A-2[5]	A2[6]
Support	2[7]			1[8]
Financial Strength		C- with a negative outlook[9]		BBB+[10]
Prospect of maintaining the assessment				Stable[11]

Notes:

1) *Liabilities rated A are considered upper-medium grade and are subject to low credit risk. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 2 indicates a mid-range ranking of that generic rating category. Moody's rating outlook is an opinion regarding the likely direction of a rating over the medium term.*

2) *"A" rated liabilities are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. Ratings from 'AA' to 'CCC' may be modified by the addition of a "+" or "-" sign to show the relative standing within the major rating categories.*

3) *High credit quality. Strong capacity for timely fulfillment of financial obligations. Possesses many favorable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions. Capital Intelligence appends "+" and "-" signs to foreign and local currency long-term rating in the categories from "AA" to "C" to indicate that the strength of a particular entity is, respectively, slightly greater or less than that of similarly rated peers.*

4) *Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.*

5) *A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.*

6) *Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.*

7) *Bank Support Rating of "2" denotes a bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of "BBB-".*

8) *The likelihood of a bank receiving support in the event of difficulties is extremely high. The characteristics of a bank with this support rating may include strong government ownership and/or clear legal guarantees on the part of the state. The bank may also be of such importance to the national economy that state intervention is virtually assured. The ability and willingness of potential supporters to provide sufficient and timely support is extremely strong.*

9) *Banks rated "C" possess adequate intrinsic financial strength. Typically, these will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals with a predictable and stable operating environment, or good financial fundamentals within a less predictable and stable operating environment. A "-" modifier is appended to distinguish those banks that fall in intermediate categories.*

10) *Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment. Capital Intelligence appends "+" and "-" signs to foreign and local currency long-term ratings in the categories from "AA" to "C" to indicate that the strength of a particular entity is, respectively, slightly greater or less than that of similarly rated peers.*

11) *Outlook – expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted "Positive", "Stable" or "Negative". The time horizon for a sovereign rating outlook is longer, at 12-24 months.*

Moreover, on 20 June 2012 Standard and Poor's granted a solicited rating of "A-" to the Programme, while on 3 September 2012 it granted a solicited rating at the same level to the CHF 500 million notes issued by the Issuer under the Programme (see "*– Material Contracts – Material Issues of Debt Securities – Programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank*"). On 4 September 2012, such notes were assigned an A2 rating by Moody's.

Intellectual Property

The Group uses a number of trademarks in its activities. As of the date of the Prospectus, the Group has been granted with rights of protection for 109 trademarks, including 52 trademarks of the Bank. The Group has filed motions for the rights of protection for an additional 40 trademarks with the Patent Office, including 30 trademarks of the Bank. The Group has obtained a right of protection for one trademark abroad under national procedure. It also filed motions to the Office for Harmonization in the Internal Market in respect of registration of five trademarks. One community design has been registered in the Office for Harmonization in the Internal Market.

As of the date of the Prospectus, the Bank is not dependent on any patents or licenses.

Licenses

License for the Bank to use the Inteligo logo

Under an agreement concluded with Inteligo, the Bank was granted a license to use Inteligo's logo to offer the Konto Inteligo product. In exchange, the Bank is required to pay a gross annual license fee of PLN 1,845,000. If the agreement is terminated, the Bank will have the right of first refusal with respect to the Inteligo trademark and to other economic rights under copyright and industrial property rights owned by Inteligo.

The above-described license has material importance for the activities carried out by the Group in respect of PKO's operation of the Inteligo account.

As of the date of the Prospectus, the Group does not depend on any patents or new technological processes to a degree that may be considered as significant to its business or profitability.

Website Domains

As of the date of the Prospectus, the Group uses 335 registered internet domains, including the www.pkobp.pl domain.

Information Technology

In 2008, the Bank completed the development and implementation of a centralized, integrated information technology ("**IT**") system (the "**Integrated IT System**") throughout its distribution network. Due to its scale and complexity, the Integrated IT System project has been one of the largest information technology projects ever carried out in Poland. The new IT system allows for a comprehensive view of client information and thus effectively strengthens the Group's distribution activities. In addition, the new system further improves the risk management capabilities of the Bank.

The Integrated IT System is designed to ensure that IT development and maintenance services are closely coordinated throughout the Bank's extensive distribution network. The Integrated IT System has been uniquely tailored to the specific scope and nature of the Bank's business. The Bank employs more than 150 employees to support and maintain its Integrated IT System.

The Bank has implemented security mechanisms to prevent physical or electronic intrusions, computer viruses or other attacks. The implemented solutions are in line with relevant ISO and BS standards and are regularly audited. Software development and implementation methodologies, including very strict, multi-level testing procedures, protect the Bank from risks related to programming errors and similar disruptive problems. The Bank's IT strategy is designed to support the overall strategy of the Bank, which in practice means supporting the distribution of the Bank's products and services across its distribution network as well as developing a scalable and flexible infrastructure to support the Bank's current and future operations.

The Integrated IT System has been designed to consolidate core banking systems within the Group and to deliver solutions to the customer-facing operations of the Bank. The Bank continuously develops its IT systems and implements IT solutions to ensure the consistent and efficient execution of the Bank's business processes. This allows the Bank to continue to provide the highest level of service to its retail and corporate clients.

The Bank's IT strategy also focuses on providing robust and consistent processing of investment transactions, securing the necessary scalability for future business growth and enabling large scale production of standardized products together with tailored, structured customer solutions. Efficient execution of these strategies is expected to reduce operational risk and to support more cost-efficient processing. In addition, the Bank continues to evaluate its internal credit risk rating systems for reporting and continues to implement a number of improvements in this area to ensure compliance with Basel II.

As of the date of the Prospectus, the Bank uses over 200 applications. Compared to other financial institutions of similar scale, the Bank has a relatively simple application environment which allows for effective management of operating costs and facilitates future development. All those systems have been specially tailored to the specific needs of the Bank's business. The Bank has concluded standard agreements with service providers for all IT systems which are material to its operations. These agreements give the Bank a license to use the systems and grant support services in case of system failure and the opportunity to receive updates and upgrades.

Material Contracts

The Bank believes that the contracts listed below, other than the agreements entered into in the ordinary course of business, are material to the Group given their value or significant influence on the key areas of the Group's operations and their financing. The financing agreements having a value of at least PLN 250 million and the material issues of debt securities discussed below have been deemed material based on the fact that they represent an external source of funding other than deposits. The Bank has deemed the IT agreements discussed below to be material contracts due to their special importance in relation to the management of the Group's information systems.

As of the date of the Prospectus, the Bank is not dependent on any commercial or financial contracts.

Financing Agreements

CHF 410,000,000 Credit Facility for the Bank

On 19 June 2012, the Bank as the borrower concluded a credit facility agreement with Bank Handlowy w Warszawie SA, BNP Paribas and ING Bank NV, as the arrangers, based on which the Bank was granted a term loan in the amount of CHF 410,000,000 for general funding purposes. Under the agreement, the Bank is required to pay interest at the rate of LIBOR plus 2 per cent. per annum. The final maturity date is the third anniversary of the date of the agreement. The drawdown under the credit facility agreement was made on 27 July 2012.

Pursuant to the terms of the agreement, the Bank is required to deliver to the facility agent information regarding a material change with respect to the number of shares held by the State Treasury in the Bank's share capital.

For the purposes of the agreement, loss of the State Treasury's control over the Bank constitutes an event of default. The agreement defines 'control' as the right to command (directly or indirectly) the entity's management process or policies on the basis of: (i) holding a relevant number of votes at the Bank's general meeting; (ii) contractual provisions; or (iii) other reasons. Under the agreement, also a change of rating (decrease of the long-term credit rating for the Bank assigned by recognized rating agencies below a certain level) constitutes an event of default. Once an event of default has occurred and is not redressed, the facility agent may (and upon receipt of relevant instructions from the majority lenders, must): (i) cancel all or some of the financing made available under the agreement; (ii) declare the receivables consisting of all or some of the financing paid under the agreement to be immediately due and payable; (iii) establish that all or some of the amounts paid under the agreement are payable at the request of the facility agent acting in accordance with the majority lenders' instructions.

In addition to the above-described change of control and change of rating clauses, the agreement contains clauses typical to facility agreements, including (i) a *pari passu* clause (the obligation of the borrower to ensure at least equal treatment to the liabilities under the loan agreement compared to any of its other, existing or future, obligations); and (ii) a negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder satisfaction of the lender's claims).

EUR 100,000,000 Finance Contract between the Bank and the EIB

On 29 April 2004, the Bank and the EIB entered into a finance contract, based on which the EIB made available to the Bank a credit facility of up to EUR 100,000,000 for the purpose of financing through loans small and medium-sized projects related to the environment and infrastructure, and development of knowledge-based economy, energy, health, education and industry projects. The terms of disbursement of each tranche, including, in particular, the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period proposed by the Bank in a disbursement request are subject to the EIB's consent in a disbursement notice. As of 30 June 2012 the balance of the credit facility was PLN 323,615,226.72 (EUR 75,942,840.62).

Under the agreement the Bank is required to immediately notify the EIB of any circumstances in which, in its opinion or according to its reasonable belief, a change of control over the Bank has occurred or there will be a change of control over the Bank. For the purposes of the agreement 'change of control' is understood as any material change of the ownership structure regarding the Bank's share capital in result of which the State Treasury (directly or indirectly, through a shareholding in the Bank's share capital, holding a relevant number of votes at the Bank's general meeting or otherwise): (i) will cease to hold more than 50 per cent. of the share capital or 50 per cent. of votes at the Bank's general meeting; or (ii) losing the right to appoint or dismiss the majority of members of the management or supervisory board of the Bank.

Pursuant to the agreement, if the Bank notifies the EIB of the occurrence of a 'change of control' event or notifies the EIB that there will probably occur a change of control event with respect to the Bank, or if the EIB has any reasonable grounds to claim that there has occurred a change of control over the Bank or a change of control over the Bank will in fact occur, the EIB may request that the Bank conduct consultations therewith. Once 30 days have lapsed from the date of the EIB's request or following a change of control over the Bank (whichever of those events occur earlier), the EIB will have the right to demand the Bank to make an early repayment of the loan, with accrued interest, **provided that**, in the reasonable opinion of the EIB, the change of control event has caused or will probably cause a material adverse effect on the future repayment of the loan.

In addition to the above-described change of control clause, the contract contains a loss of rating clause authorizing the EIB to demand additional security or to request the Bank to prepay the disbursed tranches with accrued interest if the long-term credit rating for the Bank assigned by recognized rating agencies decreases below a certain level.

EUR 150,000,000 Finance Contract between the Bank and the EIB

On 31 July 2009, the Bank and the EIB entered into a finance contract, based on which the EIB made available to the Bank a credit facility of EUR 150,000,000 for the purpose of financing through loans small and medium-sized projects promoted by SMEs or public sector entities in the field of environmental protection, energy savings, infrastructure (including health and education), industry, creative and cultural industries, services or tourism in Poland. The terms of disbursement of each tranche, including, in particular, the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period are to be proposed by the Bank in a disbursement request and subject to acceptance by the EIB in a disbursement notice. As of 30 June 2012, the balance of the credit facility was CHF 227,490,940.21 (PLN 807,069,608.58).

Under the agreement the Bank is required to notify the EIB of any circumstances: (i) of any person or group of persons acting, formally or informally, in concert to secure the control over the Bank; or (ii) of the State Treasury's loss, directly or indirectly, through its 100 per cent. owned subsidiary, of the holding of more than 50 per cent. of the Bank's share capital. For the purposes of the agreement 'control' is understood as the authority to direct an entity's management process or policies resulting from: (i) holding a relevant number of votes at the Bank's general meeting; (ii) contractual provisions; or (iii) other reasons.

The agreement provides that the Bank will be subject to a reporting requirement also in the event of a probable change of control event regarding the Bank. In such circumstances, or if the EIB has any reasonable grounds to claim that there has occurred a change of control over the Bank or a change of control over the Bank will occur, the EIB may request that the Bank conduct consultations therewith. Once 30 days have lapsed from the date of the EIB's request or following a change of control over the Bank (whichever of those events occurs earlier), the EIB will have the right to demand the Bank to make an early repayment of the loan, with accrued interest, **provided that**, in the opinion of the EIB, the change of control event has caused or will probably cause a material adverse change as defined in the agreement.

EUR 100,000,000 Framework Loan Agreement between the Bank and the CEB

On 31 July 2008, the Bank and the CEB entered into a framework loan agreement, based on which the CEB made available to the Bank a loan of EUR 100,000,000 for the partial financing of investment projects aimed at job creation and preservation in SMEs in Poland. For each tranche, the terms of disbursement, including, in particular, the amount of the loan, the disbursement date, the interest rate and the repayment period are to be determined jointly by the Bank and the CEB and specified in each disbursement agreement. As of 30 June 2012, the balance of the loan was CHF 75,793,035.33 (PLN 268,890,951.44) and EUR 49,825,055.18 (PLN 212,319,507.64).

Under the agreement the Bank is required to immediately notify the CEB about any material change regarding its financial condition or shareholding structure. Any material change in the Bank's shareholding structure will result in an event of default as provided in the CEB Loan Regulations that constitute an integral part of the agreement between the CEB and the Bank, and may also constitute grounds for suspending any payments of advances under the loan, termination of the loan agreement or acceleration of the loan in accordance with the CEB Loan Regulations. On 28 July 2011 the Bank received confirmation from the CEB that the proposed sale of the Bank's shares by the State Treasury and Bank Gospodarstwa Krajowego will not constitute an event of default under the loan agreement.

EUR 150,000,000 Framework Loan Agreement between the Bank and the CEB

On 6 December 2010, the Bank and the CEB entered into a framework loan agreement, based on which the CEB made available to the Bank a loan of EUR 150,000,000 for the partial financing of investment projects aimed at job creation and preservation in the SME sector in Poland. For each tranche the terms of disbursement, including, in particular, the amount of the loan, the disbursement date, the interest and the repayment period are to be determined jointly by the Bank and the CEB and specified in each disbursement agreement. No disbursement may be made after 31 December 2012. As of 30 June 2012, the balance of the loan was EUR 75,015,828.65 (PLN 319,664,950.63).

Under the agreement the Bank is required to immediately notify the CEB about any material change regarding its financial condition or shareholding structure. Any material change in the Bank's shareholding structure will result in an event of default as provided in the CEB Loan Regulations that constitute an integral part of the agreement between the CEB and the Bank, and may also constitute grounds for suspending any payments of advances under the loan, termination of the loan agreement or acceleration of the loan in accordance with the CEB Loan Regulations. On 28 July 2011 the Bank received confirmation from the CEB that the proposed sale of the Bank's shares by the State Treasury and Bank Gospodarstwa Krajowego will not constitute an event of default under the loan agreement.

In addition to the above-described change of control clauses, the above-referenced loan agreements contain clauses typical to facility agreements, including (i) a *pari passu* clause (the obligation of the borrower to ensure at least equal treatment to the liabilities under the loan agreement compared to any of its other, existing or future, obligations); (ii) a negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder satisfaction of the lender's claims); and (iii) a loss of rating clause authorizing the lender to demand additional security or to terminate and accelerate the loan if the long-term credit rating for the borrower assigned by recognized rating agencies decreased below a certain level, **provided that** such decrease may adversely impact the performance of the borrower under the loan agreement.

Agreement for a credit facility to finance leasing transactions of up to PLN 400,000,000 between Bankowy Fundusz Leasingowy and Bank Polska Kasa Opieki S.A.

On 5 July 2011, Bankowy Fundusz Leasingowy and Bank Polska Kasa Opieki S.A. executed a credit facility agreement whereunder Bankowy Fundusz Leasingowy was granted a loan of no more than PLN 400 million for financing or refinancing leasing agreements executed by Bankowy Fundusz Leasingowy, **provided that** the maximum value of financing of any single leasing agreement cannot exceed the net value of the subject of the leasing less the initial payment (in case of financing) or the outstanding net value under a leasing agreement (in case of refinancing). Pursuant to the terms of the agreement, the amount of financing was made available in tranches. The tranches may be made available during the term of the facility, i.e. until 31 March 2012. The repayment of the facility should be made by 31 March 2017. The facility accrues interest established on the basis of WIBOR 1M increased by a margin as stated in the agreement. As of 30 June 2012, the indebtedness under this agreement amounted to PLN 337,886,634.22.

Material Issues of Debt Securities

*Programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank (the "**Programme**")*

The terms and conditions of the issuance of the notes under the Programme are set out in the Trust Deeds executed on 23 April 2010 and on 15 April 2011 (including the relevant supplements to those trust deeds) by and between PKO Finance and Citicorp Trustee Company Limited as a trustee which acts in its own name and for the benefit of holders of the notes issued under the Programme (the "**Programme Trust Deeds**").

The terms and conditions of extending senior loans by PKO Finance to the Bank, financed from the issuance of the notes under the Programme, are set out in a senior loan facility executed on 23 April 2010 by and between PKO Finance and the Bank (the "**Senior Loan Facility**") and in the relevant supplements to the Senior Loan Facility executed by and between PKO Finance and the Bank on the date of the issuance of a give tranche of the notes. The terms and conditions of extending subordinated loans by PKO Finance to the Bank, financed from the issuance of the notes under the Programme, will be set out in a subordinated loan facility to be executed by and between PKO Finance and the Bank (the "**Subordinated Loan Facility**") and in the relevant supplements to the Subordinated Loan Facility to be executed by and between PKO Finance and the Bank before or on the date of the issuance of a given tranche of the notes.

On 21 October 2010, PKO Finance issued the first series of notes under the Programme, with a total nominal value of EUR 800,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 21 October 2010. The issued notes bear interest at a fixed rate of 3.733 per cent. per annum, paid annually and have a maturity of five years. The notes are listed on the Luxembourg Stock Exchange and, since 22 November 2011, on Catalyst – an alternative trading scheme operated by the Warsaw Stock Exchange (retail market) and BondSpot S.A., its subsidiary (wholesale market). In connection with the issuance, on 21 October 2010, the Bank borrowed from PKO Finance funds representing the proceeds from the issuance of the notes, to be earmarked for the general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the notes issued. The loan is unsecured and was extended for a term of five years.

On 7 July 2011, PKO Finance issued the second series of notes under the Programme, with a total nominal value of CHF 250,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 5 July 2011. The issued notes bear interest at a fixed rate of 3.538 per cent. per annum, paid annually and have a maturity of five years. The notes are listed on the SIX Swiss Exchange. In connection with the issuance, on 7 July 2011 the Bank borrowed from PKO Finance funds representing the proceeds from the issuance of the notes, to be earmarked for the general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the notes issued. The loan is unsecured and was extended for a term of five years.

On 25 July 2012, PKO Finance issued a third series of notes under the Programme, with a total nominal value of EUR 50,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 25 July 2012. The issued notes bear interest at a fixed rate of 4.00 per cent. per annum, paid annually and have a maturity of ten years. The notes are listed on the Luxembourg Stock Exchange. In connection with the issuance, on 25 July 2012, the Bank borrowed from PKO Finance funds representing the proceeds from the issuance of the notes, to be earmarked for the general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the notes issued. The loan is unsecured and was extended for a term of ten years.

The loans extended to the Bank by PKO Finance on 21 October 2010, 7 July 2011 and on 25 July 2012 were senior loans.

Moreover, on 13 August 2012, PKO Finance priced a fourth series of the notes under the Programme, with a total nominal value of CHF 400,000,000. The issue is expected be settled on 21 September 2012. The notes will bear interest at the rate of 2.536 per cent. per annum and will mature on 21 December 2015. The notes are to be listed on the SIX Swiss Exchange. On 22 August 2012, the total nominal value of the issuance was increased to CHF 500,000,000. In September 2012, such notes were assigned ratings of A2 by Moody's and A- by Standard & Poor's.

If a certain event defined in the Programme Trust Deeds occurs and continues, the trustee may, subject to the provisions of the Programme Trust Deeds, seek to enforce the security interests pledged by PKO Finance under the Programme Trust Deeds in favor of holders of the notes issued under the Programme.

If an event of default defined in the Senior Loan Facility occurs and continues, the trustee may, subject to the provisions of the Programme Trust Deeds, declare all amounts disbursed by PKO Finance to the Bank under a senior loan immediately due and payable. Once the senior loan has been repaid, as a result of the event of default defined in the Senior Loan Facility, the notes issued under the Programme will be redeemed or repaid.

In accordance with the Programme Trust Deeds, as long as any notes issued under the Programme remain unrepaid or unredeemed, PKO Finance will not, without obtaining prior written approval from the trustee, consent to any amendment to or modification or waiver of any terms, conditions or rights provided for in the Senior Loan Facility or in the Subordinated Loan Facility, nor will it grant any authorization to violate or to attempt to violate the terms and conditions of the Senior Loan Facility or of the Subordinated Loan Facility, subject to the exceptions expressly provided for in the Programme Trust Deeds or in the Senior Loan Facility or in the Subordinated Loan Facility. Under the Senior Loan Facility, the Bank is bound by additional covenants, such as those set out in the negative pledge clause and in the *pari passu* clause.

On 26 April 2011, Moody's confirmed the rating for the Programme to be at the level of A2 for unsecured debt and A3 for secured debt (A-rated debt is characterized by higher than average reliability and low credit risk level, and Moody's adds figures 1, 2 and 3 to each of the ratings, thus designating their position in the relevant group) and Prime-1 for long-term debt (issuers who are assigned such rating have the greatest ability to repay short-term financial obligations). On 20 June 2012 Standard & Poor's Ratings Services assigned a credit rating of "A-" for senior notes to be issued under the Programme. On 28 June 2012, Moody's announced that Moody's Investors Service has downgraded to Baa3 from A3 the provisional subordinated debt rating of PKO Bank Polski's MTN programme, following Moody's removal of its assumptions for systemic support from this debt class. The rating of subordinated debt by Moody's withdrawn on 3 August 2012.

Issue of Subordinated Bonds by the Bank

On 30 October 2007, the Bank issued 16,007 subordinated bonds of PLN 100,000 nominal value each. The issue price of each bond equaled its nominal value. The aggregate nominal value of the issue was PLN 1,600.7 million. The final redemption date of the bonds, at the nominal value thereof, is 30 October 2017 with the Bank's option of early redemption on 30 October 2012. The subordinated bonds were issued in order to recognize the proceeds from the issue (subordinated liabilities), and as a consequence, to increase the capital base of the Bank.

In accordance with the terms and conditions of the issue of subordinated bonds, the bonds do not have the form of a document and are registered in the records kept by the Bank. The bonds bear variable interest based on the 6-month WIBOR rate plus 100 basis points. However, in the case of interest paid out in the interest periods after 30 October 2012 (the early redemption date) and unless the Bank fails to use the early redemption option, the interest will be increased by the relevant margin and 25 basis points. Interest on the bonds is payable semi-annually until the date of their redemption. The bonds are unsecured. On 17 July 2012, the Management Board adopted a resolution on an intended premature redemption of all subordinated bonds (a call option) for the total nominal value of PLN 1,600.7 million issued by the Bank on 30 October 2007. Exercising the call option is dependent upon the Bank's receipt of the permission required therefor from the PFSA. Also on 17 July 2012, the Management Board on adopted a resolution approving an issue of subordinated bonds with a maturity of ten years (the "**New Issue**"), whereby the Bank has the right to redeem prematurely all the notes in the New Issue (the "call option") within five years from the issue date, pending approval from the PFSA. The total nominal value of the shares issued under the New Issue will not exceed PLN 1,600.7 million. The bonds will be issued under Polish Law, while the proceeds from the New Issue will, pending approval from the PFSA, be used to augment the Bank's supplementary funds under the Polish Banking Law. The Bank intends the proceeds from the New Issue to replace the proceeds earned by the Bank from the 2007 Issue in connection with the intended call option regarding the 2007 Issue. Subject to prior approval from the PFSA, the call option regarding the 2007 Issue will be exercised following the completion of the New Issue. During the period between the New Issue and the exercising of the call option regarding the 2007 Issue, the Bank's total liabilities under the 2007 Issue and New Issue will amount to PLN 3,201.4 million.

Issue of Bonds by Bankowy Fundusz Leasingowy

On 10 November 2011, Bankowy Fundusz Leasingowy entered into an agreement with the Bank (as the arranger) for organizing, carrying out and arranging a bond issue program. Within the framework of the program Bankowy Fundusz Leasingowy agreed to issue, in private offerings by 9 November 2016, bonds in several series and the total value of the program of up to PLN 600 million. The bonds have been issued as bearer, dematerialized and unsecured bonds. The program provides that the bonds issued in one series must have a total nominal value of not less than PLN 10 million. As of 30 June 2012 Bankowy Fundusz Leasingowy has issued bonds with the total nominal value of PLN 280 million of which PLN 156 million was held by the Bank. Pursuant to the program, Bankowy Fundusz Leasingowy undertook to redeem all of the issued bonds at their nominal value by 9 November 2016. The Bank agreed to underwrite each series of the bonds not subscribed for by the bondholders. The agreement governing the program provides for certain standard events of default following the occurrence of which the Bank may terminate the agreement with 7 days' notice and is waived of its obligation to underwrite any portion of the bonds in issue.

Programme for the Issuance on the Domestic Market of Bonds of up to PLN 5,000,000,000

On 21 June 2011, the Management Board adopted a resolution regarding granting its consent to the opening of a program for the issuance of bonds on the domestic market (the "**Domestic Market Programme**"). The Domestic Market Programme has a maximum value of PLN 5,000,000,000 or the equivalent thereof in EUR, USD or CHF. The proceeds from the bonds issued under the Domestic Market Programme shall be designated for the purposes of financing the Bank. The term of the Domestic Market Programme has not been determined.

On 8 July 2011, the Bank entered into a contract of mandate with BRE Bank S.A. On 11 August 2011, the parties concluded an agreement concerning the programme for the issuance of bonds of up to PLN 5,000,000,000. Pursuant to the agreement, BRE Bank S.A. acts as an arranger and dealer. The programme established by the Bank (the issuer) under the agreement provides for multiple issues of bonds by the issuer under the terms of the agreement thereof. The total nominal value of bonds issued under the programme at any time during the programme may not exceed the amount of PLN 5,000,000,000. The bonds issued under the programme are bearer, dematerialized and unsecured bonds. In the event of a material change in the financial or legal situation of the Bank, BRE Bank S.A. may suspend the performance of the contract of mandate or terminate it with immediate effect, provided that, such change, in the reasonable opinion of BRE Bank S.A., may adversely impact the issuer's ability to perform obligations under the bonds.

As of the date of this Prospectus, the total nominal value of the bonds outstanding under the Domestic Market Programme amounts to PLN 1,564,000 thousand. The tenor of each tranche under the Domestic Market Programme is 3 months.

Programme for the Issuance of Bank Securities of the Bank having the nominal value of no more than PLN 10,000,0000,000

Bank securities ("**BPWs**") are issued to procure financing for the general operations of the Bank in accordance with the terms and conditions of the issue of BPWs, which constitute an integral part of the purchase proposal for BPWs. BPWs are issued pursuant to Articles 89-90 of the Polish Banking Law and the resolution of the Management Board dated 14 December 2010.

A structured BPW is an unsecured security issued to a bearer. Structured BPWs do not bear interest. The redemption amount for structured BPWs is established on the basis of the terms and conditions of the issue thereof. The redemption amount is equal to the nominal value of the structured BPWs and a premium calculated in accordance with the formula provided in the terms and conditions of the issue of the BPWs.

As of 30 June 2012, the Bank has issued five tranches of structured BPWs within the scope of the programme with a balance sheet value of PLN 312,236 thousand and maturity in April 2013, September 2013, November 2013, February 2014 and May 2014.

IT Agreements

Agreement for the Delivery and Implementation of the Integrated IT System

On 18 August 2003, the Bank entered into an agreement for delivery and implementation of the Integrated IT System with Accenture Sp. z o.o., Alnova Technologies Corporation S.L. and Softbank S.A. (now Asseco Poland S.A.).

The agreement covers the development, delivery and implementation of the Integrated IT System at the Bank and the granting of a license for the software that runs the Integrated IT System as well as certain other additional services, including in particular maintenance services. Moreover, under the agreement the Bank acquired complete author's economic rights to the Integrated IT System.

Due to the completion of the core system roll-out, the agreement was completed and a new agreement for the development, modification and servicing of the Integrated IT System (the "**New Integrated IT System Agreement**") was signed on 25 February 2010, with an objective to:

- enable further development of the Integrated IT System to fit Bank's future business needs and related to development of information technology;

- ensure continuous efforts to increase availability and security of the Integrated IT System; and
- build internal Bank competencies to maintain and develop the Integrated IT System through Bank's participation in the supplier development team.

The New Integrated IT System Agreement confirms the terms on which the Bank was granted the license for the Integrated IT System and sets new advantageous rules for cooperation with the consortium, more favorable than under the previous contract. The agreement has a character of a framework agreement and also specifies a minimum pool of orders for development work.

On 12 September 2011 the second annex to the New Integrated IT System Agreement was signed, which was aimed at continuing development projects and supporting continuity of the operations of the Integrated IT System for the next 33 months and increasing the Bank's flexibility with respect to development in other areas correlated with the Integrated IT System.

The agreement provides for contractual penalties. The liability of the parties is limited to actual damages. Except for any personal injuries, the liability of the parties is limited PLN 27,375,000. The restriction also does not apply to any obligation to pay the due fee and to redress any injuries caused in result of failure to pay the fee.

The net annual fee for the services stated as of the date of execution of the agreement amounted to PLN 22,572,000. Moreover, the New Integrated IT System Agreement provides for a variable fee that depends on the pool of orders for development work.

The New Integrated IT System Agreement was concluded for a term of 33 months, but it is subject to automatic extension for an unspecified term, **provided that** 12 months prior to the end of the above term none of the parties delivers a representation that it does not wish to extend the term of the agreement.

As of the date of the Prospectus, the Bank uses over 200 applications. Compared to other financial institutions of a similar scale, the Bank has a relatively simple application environment which allows for the effective management of operating costs and facilitates potential future development. All such systems have been tailored to the specific needs of the Bank's business. The Bank has concluded standard agreements with service providers for all IT systems which are material to its operations. Such agreements grant the Bank licenses to use the relevant systems and ensure the provision of support services in cases of system failures, as well as the opportunity to receive updates and upgrades.

Insurance Coverage

The Group maintains insurance coverage particularly against risks related to the elements (such as fire, lightning, hurricane, hail, flood, earthquake and others), theft and burglary, plunder, acts of vandalism, riots, strikes, group layoffs, acts of terror and building damage. Moreover, the Bank has insurance coverage against civil liability against third parties for any personal injuries or property damage resulting from any prohibited acts committed in relation to any activities conducted by the Bank or any of its property. The members of the Management Board and the Supervisory Board as well as the authorities of the Group's subsidiaries have Directors' and officers' liability insurance (D&O). All insurance policies are renewed annually. Currently, the insurance coverage is provided, *inter alia*, by PZU S.A., STU Ergo Hestia S.A., and TUiR WARTA S.A., Generali TU S.A., Lloyd's Polska. The Bank believes that its insurance coverage is in line with the standard adopted for banks in Poland.

Significant Tangible Fixed Assets

Significant Tangible Fixed Assets

The table below shows the various categories of the Group's tangible fixed assets existing as of the indicated dates.

	As of 30 June	As of 31 December		
	2012	2011	2010	2009
		(PLN thousand)		
	(unaudited)	(audited)		
Land and buildings	1,694,845	1,691,339	1,722,797	1,749,813
Machinery and equipment	514,235	559,727	603,388	651,577
Means of transport	62,981	62,344	47,703	44,832
Assets under construction	137,900	144,776	96,022	207,251
Investment properties	243	248	259	322
Other	84,584	82,883	106,276	123,899
Total	**2,494,788**	**2,541,317**	**2,576,445**	**2,777,694**

Source: Consolidated Financial Statements

As of the date of the Prospectus, the most important fixed assets of the Group are real estate properties.

As of the date of the Prospectus, the Bank does not plan to acquire any significant tangible fixed assets in the near future.

The Bank's Properties

As of the date of the Prospectus, the Bank has 747 plots of land which are either owned by the Bank, held under usufruct or occupied under lease agreements. Moreover, the Bank holds 11 pieces of real estate without legal titles. As of 31 December 2011, the total book gross value of the properties held by the Bank was PLN 4,490.1 million, including that presented in the "land and buildings" item of PLN 2,081.1 million and in the "investment property" item of PLN 0.8 million.

The Bank holds as the owner or holder of a cooperative member's ownership right to 794 buildings or premises with a total area of 725,562.46 m2. Furthermore, the Bank utilizes 11 pieces of real estate including 35 facilities with the total area of 27,847.33 m2, without legal titles. The Bank, under lease agreements, occupies 1,831 buildings and premises with a total usable area of approximately 216,955.48 m2. Leases are usually made for 5 years or unspecified term periods.

The Bank believes that the building situated in Warsaw at Puławska 15, where the headquarters of the Bank are situated, is significant to the Bank's operations. On 1 July 2011 the Bank, acting as the sole shareholder of Centrum Finansowe Puławska, who was the perpetual usufructuary of the land on which the building is situated and the owner of the building, adopted a resolution on the dissolution and liquidation of such company, the main business of which was the management of the building situated in Warsaw at ul. Puławska 15. Following the completion of such dissolution and liquidation, the transfer of the ownership title to the building in favor of the Bank took place on 1 March 2012; the Bank currently holds the perpetual usufruct right to the land together with the building situated thereon located in Warsaw, at ul. Puławska 15.

The Bank leases parts of its buildings and premises which are not used by the Bank for its operation to third parties. As of 31 December 2011, the total area leased by the Bank is approximately 45,108.72 m2.

Material Intangible Assets

The most significant item of capital expenditure of the Group relates to outlays on the Integrated IT System. The cumulative capital expenditure incurred for the Integrated IT System between 2003 and 2011 amounted to PLN 1,134.9 million. As of 31 December 2011, the net book value of the Integrated IT System was PLN 707.9 million.

Environmental Protection

The Bank believes that environmental matters are not of material importance to the activities of the Group, its financial situation or for exploitation by it of tangible fixed assets.

Regulatory Issues

The operations of the Group carried out in the financial services sector (banking sector, investment funds association and the investment funds managed thereby, pension fund society and the pension fund managed thereby, and brokerage activities) are regulated activities.

Except for the Bank, within the Group, regulated activities are also carried out by:

- Kredobank;
- PKO TFI; and
- PTE BANKOWY.

Furthermore, the Bank runs brokerage activities in the form of a separate organizational unit of the Bank (DM PKO BP) and trust activities.

The aforementioned operations of the Group are subject to strict supervision of the Polish and foreign regulatory authorities, including the PFSA and the NBU, and must be carried out in compliance with community regulations and the provisions of Polish law and other countries in which the Group operates, as well as with specific recommendations, instructions, guidelines and operational and equity-related requirements (see "*Banking Regulations in Poland*"). In the course of its business the Group is subject to numerous inspections, controls, audits and investigations carried out by different regulatory authorities supervising the financial services sector and the other areas of activities of the Group. None of such inspections have, however, identified any breaches of operational requirements and guidelines or internal regulations, which could have a material effect on the Group's business, financial condition or results.

The Group timely implements the guidelines of the regulatory authorities presented in the course of inspections.

Legal, Administrative and Arbitration Proceedings

The Group in the ordinary course of business is routinely involved in legal proceedings concerning its operational activities. To the Bank's best knowledge, as of 30 June 2012, with respect to suits involving claims of at least PLN 2 million each, the Bank was (i) a plaintiff or a claimant in 15 proceedings; and (ii) a defendant or participant in 26 proceedings.

According to the Bank's best knowledge, as of 30 June 2012, the total value of claims subject to court disputes where: (i) the Bank acts as a defendant amounted to PLN 374.8 million, while the total value of claims brought by the Bank as a plaintiff had a value of PLN 173.6 million. As of 30 June 2012, the total value of the provisions created in the companies of the Group (excluding the Bank) as a result of the court disputes amounted to PLN 1.1 million. With respect to the Bank, such figure amounted to PLN 2.3 million. As at 31 December 2011, the total value of the impairment allowances recognized in the companies of the Group (excluding the Bank) in connection with proceedings over PLN 5 million, amounted to PLN 122 million, including PLN 121.5 million in connection with the civil proceedings concerning debt collection related to the enforcement of loans extended by Kredobank.

According to the information held by the Bank as of the date of the Prospectus, within the 12 months preceding the date of the Prospectus there were no administrative proceedings, proceedings before administrative courts or civil, criminal or arbitration proceedings pending or instituted against the Group which could significantly affect or have recently affected the financial standing or operations of the Group. To the best knowledge of the Bank, there are no legal, administrative proceedings,

proceedings before administrative courts, arbitration or criminal proceedings pending or threatened which could significantly affect the financial standing or operational activity of the Group other than those described in this section.

With respect to business-related litigation other than regulatory proceedings pending before the President of the Antimonopoly Office or the Antimonopoly Court, for the purposes of the Prospectus, it was assumed that any court proceedings were material if there was a possibility that they were related to an obligation of any Group entities to pay or to grant any other form of benefit having the value in excess of PLN 150 million.

Administrative proceedings regarding the Warsaw real property at ul. Puławska and ul. Chocimska

Centrum Finansowe Puławska was party to proceedings commenced at the request dated 7 May 2010 of the heirs of the owners of a part of the real property situated at ul. Puławska and ul. Chocimska in Warsaw where the Bank's registered seat is currently located, to establish that the decision of the Local-Government Court of Appeal (Samorządowe Kolegium Odwoławcze, the "**SKO**") dated 10 April 2001 declaring the administrative decision of the Presidium of the National Council for the Capital City of Warsaw (Prezydium Rady Narodowej m. st. Warszawy) dated 1 March 1954 was issued in gross breach of law but that it was impossible to find such decision invalid on account of the irrevocable legal consequences thereof. Centrum Finansowe Puławska filed for an administrative decision refusing to declare the invalidity of the SKO's decision dated 10 April 2001 on account that the applicants do not qualify as parties and because of the irrevocable legal consequences of the said decision of SKO. Additionally, Centrum Finansowe Puławska stated that the motion dated 7 May 2010 was filed by the same entities at whose request the Voivodship Administrative Court in Warsaw had already issued a judgment in the past in the same matter. By judgment of the Voivodship Administrative Court dated 30 May 2005 the complaint against the SKO decision dated 23 June 2003 regarding refusal to re-commence proceedings in a case ended by a final SKO decision dated 26 January 1998, was dismissed. The SKO, by decision dated 26 January 1998, upheld the SKO's decision dated 2 December 1997 whereby it was established that the decision of the Head of the Department of Survey and Municipal Management of the Office of the District of Warsaw Mokotów dated 14 May 1990 regarding delivery of the land located at ul. Puławska and Chocimska for management for an unlimited term, was issued in gross breach of law, but, on account of the irrevocable legal consequences thereof, it declined to find such decision invalid. Neither of the decisions of the SKO have been appealed. Additionally, the Supreme Administrative Court, by decision dated 22 November 2006, dismissed the final appeal (skarga kasacyjna) against the above-referenced judgment of the Voivodship Administrative Court. By decision dated 4 April 2011 the SKO found that the decision of the SKO dated 10 April 2001 was issued in gross breach of law. By letter dated 9 May 2011 Centrum Finansowe Puławska requested another review of the case and finding that the SKO's decision dated 4 April 2011 was invalid because it related to a matter that had been already settled by another final decision, or the revocation of the SKO's decision dated 4 April 2011 on account of the irrevocable legal consequences resulting from the decision of the SKO dated 10 April 2001. The SKO, under a decision dated 23 January 2012, upheld the SKO's decision dated 4 April 2011. The SKO decision of 23 January 2012 was challenged before the Voivodship Administrative Court in Warsaw. The complaint was lodged with the SKO on 27 February 2012. The SKO shall remand the case to the court along with the files and response to the complaint within 30 days of filing. The SKO may, within its jurisdiction, acknowledge a complaint up to the date of a hearing that is set by the court for 10 October 2012. As of the date of this Prospectus, Centrum Finansowe Puławska has been liquidated. On 23 May 2012 the Bank filed a motion to the Voivodship Administrative Court in order to assume all the rights and obligations of the liquidated company by way of proceedings. The deletion of Centrum Finansowe Puławska from the Register of Business Entities became effective as of 28 May 2012.

Proceedings before the President of the Antimonopoly Office or the Antimonopoly Court for Infringement of Mutual Consumer rights

Proceedings Related to Applying "Interchange" Fees for Transactions Made Using Visa and Europay/Eurocard/Mastercard Cards

The Bank is a party to the proceedings initiated by the President of the Antimonopoly Office against operators of Visa and Europay systems and banks issuing Visa and Europay/Eurocard/Mastercard credit cards. The claims under these proceedings relate to the practices restricting competition on the market of banking card payments in Poland and consist of alleged participation in an illegal price fixing arrangement under which parties to the arrangement fixed interchange fees on transactions using Visa and Europay/Eurocard/Mastercard cards as well as limited the access of external entities to this market. On 29 December 2006, the Antimonopoly Office decided that the practices consisting of the illegal price fixing arrangement under which the parties to the arrangement fixed "interchange" fees restricted market competition and consequently ordered the banks to cease these practices, and imposed a fine, *inter alia*, on the Bank in the amount of PLN 16.6 million against which the Bank recognized a provision at the full value thereof. On 19 January 2007 the Bank appealed the decision of the President of the Antimonopoly Office to the Regional Court in Warsaw – the Court of Competition and Consumer Protection (the "**Antimonopoly Court**"). On 21 January 2008, the Antimonopoly Court suspended the execution of the challenged decision of the President of the Antimonopoly Office regarding the price fixing arrangement under which the parties to the arrangement allegedly fixed "interchange" fees. In its decision dated 12 November 2008, the Antimonopoly Court found that the banks involved in the proceedings, including the Bank, had not participated in an illegal price fixing arrangement. On 12 January 2009, the President of the Antimonopoly Office appealed this decision. The Bank replied to the appeal on 13 February 2009. On 22 April 2010, the Appeal Court in Warsaw overturned the Antimonopoly Court's judgment and remanded the case to the Antimonopoly Court for further proceedings. MasterCard Europe s.p.r.l. ("**MasterCard**") submitted a motion dated 20 May 2011 for the suspension of the proceeding, because of the proceeding pending before the General Court of the European Union (formerly known as the Court of First Instance) initiated by MasterCard. On 7 June 2011 an attorney representing some of the banks involved in the proceedings, including the Bank, applied for the dismissal of the motion for the suspension of the proceeding filed by MasterCard arguing that the proceedings before the General Court of the European Union were not of a preliminary character with respect to the proceedings in question. On 20 December 2011 a hearing was held during which no resolution of the appeals was reached. The Antimonopoly Court requested MasterCard to submit, by 31 January 2012, further documents and explanations with respect to MasterCard's motion for the suspension of the proceeding, with the next date of the hearing to be set by the court. The date of the hearing was initially set for 9 February 2012, however, following a motion filed by the Bank this date was postponed and the hearing of the Antimonopoly Court was set for 24 April 2012. Following multilateral discussions, on 30 March 2012 the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards in which it recommended that multilateral arrangements be concluded between the banks and the payment card organizations, with the aim of reducing the levels of interchange fees. On 13 April 2012, several banks that are parties to the proceeding, including the Bank, filed a motion for the postponement of the hearing until the end of September 2012. The applicants indicated that the Polish Payment System Council has decided to request that the operators of Visa and Europay systems make, by no later than 30 May 2012, a binding declaration according to which the interchange fees charged by such organizations will be reduced no later than September 2012. On 24 April 2012 the Antimonopoly Court dismissed the motion for the postponement of the hearing until the end of September 2012 and postponed to 8 May 2012 the announcement of the court's decision on the suspension of the proceedings requested by MasterCard. On 8 May 2012, the Antimonopoly Court suspended the proceedings until a binding judgment is issued in the pending proceedings before the General Court of the European Union, initiated by MasterCard, as mentioned above. On 24 May 2012 the General Court of the European Union upheld the European Commission's decision prohibiting the multilaterally agreed interchange fees applied by MasterCard. On 28 May 2012 Visa Europe Ltd and on 29 May 2012 the plaintiff's attorney (including the Bank) lodged complaints regarding the court's decision dated 8 May 2012. MasterCard responded to such complaints and requested their dismissal.

Proceedings before the Antimonopoly Office regarding the use by the Bank of prohibited clauses in the standard forms of contract.

As of the date of this Prospectus, the Bank is involved in six proceedings before the branches of the Antimonopoly Office in Pozna , Warsaw, Wrocław and Łód . Such proceedings are related to potential prohibited clauses used by the Bank in its standard forms and contracts. As of the date of the Prospectus, these proceeding are pending.

Proceedings regarding terminal applications

On 19 November 2003, CEUP eService executed a cooperation agreement with a supplier of POS software (the "**Contractor**") regarding the use of software for the POS terminals (the "**POS Verifone Agreement**") and a license agreement for the use of POS software designed for electronic distribution of prepaid services (the "**Prepaid Agreement**"). Subsequently, in the years 2006 – 2008, CEUP eService and the Contractor executed certain other agreements: a license agreement and a maintenance of loyalty application software service agreement (the "**Loyalty Application Agreement**"), a license agreement and a maintenance of PIN PAD Ingenico application software service agreement (the "**PIN PAD Agreement**") as well as a license and a maintenance of POS terminals software service agreement (the "**POS Ingenico Agreement**"). On 14 January 2011, the Contractor delivered to CEUP eService a notice of the termination of the above-mentioned agreements. In the opinion of CEUP eService, the above-mentioned actions of the Contractor were in breach of the understanding reached between the parties and, thus, such terminations should be considered ineffective. On 19 April 2011 CEUP eService filed a suit against the Contractor to establish, *inter alia*, that CEUP eService held the author's economic rights to the terminal application (arguing in favor thereof, *inter alia*, by noting that the employees of CEUP eService had made material creative contributions to the development of the terminal applications) and to establish that the Contractor was required to deliver to CEUP eService the existing source codes to the applications. If the court failed to grant those requests, CEUP eService demanded the establishment of the fact that: (i) the licenses granted to CEUP eService under the Prepaid Agreement and the POS Verifone Agreement will expire by operation of law on 31 December 2012, because the termination deadlines stated in those agreements do not apply to the license agreements; and (ii) the termination of the Loyalty Application Agreement, the PIN PAD Ingenico Agreement and the POS Ingenico Agreement were ineffective, because any licenses granted for more than five years (in this case for 99 years) are regarded as licenses granted for an unspecified time only after five years and that only after such time may they be terminated by the licensor. The first trial date was set for 13 December 2012 and the amount in dispute is PLN 940,000. Additionally, CEUP eService applied for the creation of a security interest against the claim for finding as ineffective the Contractor's termination of the POS Ingenico Agreement, the Loyalty Application Agreement and the PIN PAD Ingenico Agreement by: (i) granting CEUP eService the right to use the applications that were the subjects of the above agreements until the completion of the proceedings; (ii) demanding that the Contractor delivering the existing source codes to the above-referenced applications be at the discretion of the Regional Court in Warsaw; and (iii) by prohibiting the Contractor, until the completion of the proceedings, to dispose of the rights to the above applications without the consent of CEUP eService. Since the relevant motion for the establishment of security interest against the claim was not immediately reviewed by the court, CEUP eService withdrew the motion. No subsequent motion demanding the creation of security for CEUP eService's claims was filed. In response to the statement of claim, dated 13 June 2011, the Contractor challenged all the demands made in the statement of claim and requested the establishment of a security interest for its claims by: (i) requesting CEUP eService to remove the Verifone payment application and the prepaid application from the POS terminals and all other devices; and (ii) requiring CEUP eService to stop installing such applications until completion of the proceedings. By a decision dated 14 July 2011, the Regional Court in Warsaw dismissed the Contractor's motion for the establishment of a security interest. The Contractor filed a complaint against this decision;

however, it was dismissed by the court on 21 September 2011. On 14 November 2011, the Contractor filed a motion with the Regional Court in Cracow demanding that CEUP eService be required to supply it with information on the scope of the use of the software being the subject of the POS Verifone Agreement and Prepaid Agreement and to prepare documentation confirming the type and number of POS terminals installed on the date of: (i) termination of the agreements; (ii) the filing of the motion by the Contractor; and (iii) the execution of the court's decision. The Regional Court in Cracow referred this matter to the Regional Court in Warsaw declaring itself incompetent to hear the case. In its decision issued on 6 March 2012, the Regional Court in Warsaw accepted the Contractor's motion. CEUP eService filed a complaint against the above-mentioned decision of the Warsaw court on 23 May 2012. The matter is currently pending.

Other Proceedings

Claim brought by a shareholder of Warimex sp. z o.o. in bankruptcy for damages

On 15 May 2009, one of the shareholders of Warimex sp. z o.o., acting on behalf of the company, filed a suit in the Regional Court in Warsaw against Bank Amerykanski w Polsce S.A. (transformed into DZ Bank Polska S.A.) and the Bank requesting adjudication in favor of Warimex sp. z o.o. in bankruptcy the sum of PLN 163,971,852 as damages related with the defective representation on termination of the loan agreement dated 1 July 1997 executed between Warimex sp. z o.o. and the syndicate of Bank Ameryka ski w Polsce S.A., and the Bank. In response to the statement of claim dated 21 October 2010, the Bank requested the dismissal of the claim, based on the plaintiff's lack of authorization to file the claim and the authority of a judged case, or the dismissal of the suit based on the claim being barred by the Bank's Statute of limitation and on such suit being unjustified by merit. The hearing in the above-referenced matter was set for 6 September 2011. At a court session on 6 September 2011, the parties maintained their current positions. The Court urged the parties to reach a settlement, which was ultimately not concluded. The case was adjourned until 17 January 2012. At the hearing on 17 January 2012 the Court decided to postpone the hearing to 20 April 2012 due to the fact that the Prosecutor's Office was not properly notified before the hearing. On 20 April 2012 a court hearing was held before the Regional Court in Warsaw at which the first witnesses gave their testimonies. The next hearing was scheduled to take place on 30 October 2012. The court decided to call other witnesses requested by the plaintiff.

Request to conclude a settlement filed by a natural person

The Bank received a request to conclude a settlement dated 19 December 2011 filed with the District Court in Warsaw by a natural person who is seeking, in particular, the reimbursement of PLN 200,000,000 as compensation for, as he alleges, loss of remuneration and other losses of a personal nature. No relevant documents supporting such claim were attached to the request. On 27 March 2012 a court hearing took place at which the settlement was not concluded.

Employees

The table below presents the number of employees employed, expressed as a number of full-time equivalents, by PKO Bank Polski and in other companies within the Group as of the indicated dates.

Employees (full-time equivalent)	As of 30 June	As of 31 December		
	2012	2011	2010	2009
PKO Bank Polski	25,437	25,908	26,770	27,846
Other companies in the Group	3,115	3,015	3,010	3,252
Total	**28,552**	**28,923**	**29,780**	**31,098**

Source: The Bank

The table below presents the number of employees employed with the Group as of the indicated dates, by main geographical regions in which the Group operates.

Employees (full-time equivalent)	As of 30 June	As of 31 December		
	2012	2011	2010	2009
Poland	26,455	26,907	27,732	28,789
Ukraine	2,089	2,008	2,040	2,301
UK	8	8	8	8
Total	**28,552**	**28,923**	**29,780**	**31,098**

Source: The Bank

As of 30 June 2012, approximately 63 per cent. of the employees of the Bank held higher education qualifications, and approximately 36 per cent. have secondary and post-secondary education.

The average monthly basic salary paid to the Bank's employees increased to PLN 4,189, PLN 4,353, PLN 4,997 and PLN 5,094 in the years ended 31 December 2009, 2010, 2011 and 30 June 2012, respectively.

The provisions against pension and retirements benefits or any jubilee awards for the Group employees as of 30 June 2012 stood at PLN 428.3 million.

The number of redundancies in the Bank due to reasons not attributable to employees was 1,327, 985 and 1,253 jobs for the years ended 31 December 2009, 2010, 2011 and 501 as of 30 June 2012, respectively.

Training programs offered to the Bank's employees are aimed at creating loyal personnel capable of performing in difficult economic conditions and guaranteeing a high level of customer service. The training policy is focused specifically on the improvement of the qualifications and skills of key employees, providing training in introducing new technologies and developing techniques aimed at increasing sales effectiveness. These objectives are supported by unifying the rules on the eligibility of employees for specialist training and inventing solutions to improve internal communication.

The Bank adopted an internal regulation under which all the employees are entitled to additional medical services under medical care packages tailored for different job groups. The Bank's employees are also awarded cash for disclosing and preventing actions to the detriment of the Bank.

The Bank uses two types of non-compete agreements – non-compete agreements during the employment period and after the termination of the employment (with the Bank's employees given access to specifically important information, which, if disclosed, could result in harm to the Bank) and non-compete agreements exclusively for the duration of employment (with other employees of the Bank, to protect the Bank's interests from their competitive activities). The duration of the non-compete obligation after the termination of employment is up to six months. Compensation paid to employees for observing the non-compete obligation after the termination of employment usually amounts up to 100 per cent. of the base salary and is payable each month of the duration of the non-compete obligation.

Trade Unions and Collective Labor Agreements

As of the date of the Prospectus, there were three trade unions operating at the Bank which hold special status:

- Niezależny Samorządny Związek Zawodowy "Solidarność" Pracowników PKO BP S.A. with 2,051 members;
- Krajowy Związek Zawodowy Pracowników PKO BP S.A. with 3,380 members; and
- Związek Zawodowy Pracowników Banku PKO BP S.A. with 70 members,

of which only the first two are representative.

On 28 March 1994 the Bank and trade unions operating at the Bank concluded a Collective Labor Agreement effective as of 1 April 1994. This agreement covers all the Bank's employees, except for members of the Management Board and individuals with whom the Bank has concluded managerial contracts and other civil-law agreements.

Under the Collective Labor Agreement, the Bank's employees, apart from base salary, are entitled to bonuses, jubilee awards, performance bonuses and severance payments upon retirement or becoming disabled.

The Collective Labor Agreement was entered into for an unspecified term and may be terminated by mutual agreement or by either party giving a three-month notice in writing. In the event of the termination of the current Collective Labor Agreement, it will remain binding until a subsequent agreement is adopted.

On 21 December 2011 the Bank and the representative trade unions operating at the Bank executed an understanding regarding the rules applicable for terminating employment relationships with the employees of PKO Bank Polski for reasons other than caused by employees in 2012. The understanding specifically regulates the selection rules for layoffs, the principles of granting benefits and the employer's duties within the scope required to settle other employee-related issues with respect to the employees subject to layoffs in 2012. The understanding has been executed for the period between 1 January 2012 and 31 December 2012. The understanding provides:

- all the employees subject to the group layoffs with cash severance pay provided by generally applicable laws;
- the majority of employees subject to the layoffs – additional cash severance pay and earlier payments of jubilee benefits or retirement payments in the amounts as provided in the Collective Labour Agreement and certain additional benefits depending on the benefits package to which they are entitled.

In 2011 the value of severance pay and damages paid by the Bank to the employees subject to the group layoffs amounted to PLN 49 million. The value of such payments paid for the period between 1 January 2012 and 30 June 2012 amounted to PLN 28.5 million.

In the period covered by the Consolidated Financial Statements and as of the date of the Prospectus there were no strikes at PKO Bank Polski or its subsidiaries, and PKO Bank Polski or its subsidiaries were not a party to any collective labor dispute.

Employee Shareholding

In November 2004, by virtue of the Act on Commercialization and Privatization dated 30 August 1996 and § 14 section 1 of the Regulation of the Minister of the State Treasury dated 29 January 2003 on the detailed rules for dividing the eligible employees into groups, determining the number of the shares allocated to each of such groups and the procedures for acquiring shares by eligible employees, employee shares in the Bank were granted to its employees. As a result of the allotment, the employees received 105,000,000 shares, which, as of the date of the Prospectus, represent a 8.4 per cent. interest in the Bank's share capital. As of the date of completion of transfer of the shares in the Bank, 12 February 2010, the employees (and their heirs) had acquired 104,567,344 shares.

As of 30 June 2012, the employees do not participate in the Bank's share capital or in the profit distribution.

Risk management

Risk management is one the most important internal processes at the Bank. 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 and 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 subject to a special control due to the specific characteristics of these instruments. The risk level is an important factor in the planning process.

Risk management at the Bank is based in particular 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 organizationally independent of business activities;
- risk management is integrated with the planning and controlling systems.

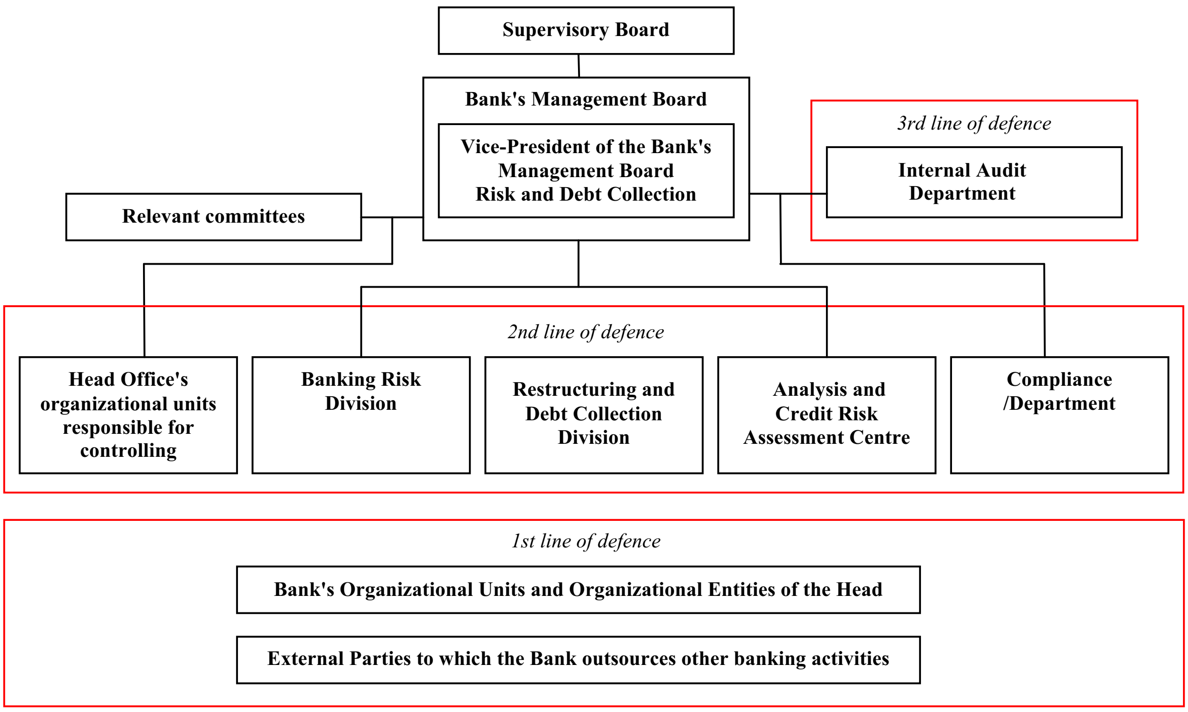
The Bank's risk management process consists of the following steps:

- risk identification by analyzing the sources of existing and potential risks which can result from the Bank's current or planned activities or assessing the significance of the potential impact of these types of risk on the Bank's financial situation;
- risk measurement and assessment by determining the risk measures adequate to the type and materiality of the risk and availability of data, the quantification of risk using predetermined measures, and determining the degree or scope of risk from the point of view of the realization of risk management goals as part of the risk measurement stress testing is carried out to assess the potential losses in the event of non-standard conditions on the market;

- forecasting and monitoring the risk incurred by the Bank by preparing forecasts of risk levels and monitoring discrepancies between actual data and forecasts or benchmarks (e.g. limits, thresholds, planned values, recommendations);
- reporting risk by periodically informing the Supervisory and Management Boards and other persons in managerial positions within the Bank about the results of risk measurements, actions taken and recommended actions;
- management actions specifically realized by issuing internal regulations which form the risk management process, determining the risk tolerance level, determining the limit levels and threshold values, issuing recommendations and taking decisions about the use of tools which support risk management.

Risk Management Organization

The chart below illustrates the structure of the principal elements of the Bank's risk management organization.



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

The Bank's Management Board is responsible for risk management, including supervising and monitoring the activities undertaken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting level of risk 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 defense:

- the first line of defense, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws;
- the second line of defense, which is the risk management system, including risk management methods, tools, process and organization of risk management; and

- the third line of defense, which is an internal audit.

Independence of the lines of defense consists of maintaining organizational independence in the following areas:

- the functioning of the second line of defense in respect of developing systemic solutions is independent of the functioning of the first line of defense;
- the functioning of the third line of defense is independent of the first and second line of defense; and
- the compliance risk function is overseen by the President of the Management Board.

The first line of defense is, in particular, effected in the organizational units of the Bank, the organizational units of the Bank's Head Office, the companies in the Group and the external entities which the Bank commissioned to carry out the activities related to banking activities 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 defense.

The second line of defense is effected, in particular, in the Risk and Debt Collection Area, the specialist organizational units of the Bank responsible for analyses of loan applications of the Bank's clients, in the organizational unit of the Bank's Head Office managing compliance risk, as well as the organizational units of the Bank's Head Office responsible for controlling.

The third line of defense 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 organizational units of the Bank's Head Office of the Bank that are grouped within the Banking Risk Division, the Restructuring and Debt Collection Division, and the Centre of Analysis and Credit Risk Assessment manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible for the preparation and implementation of systemic solutions with respect to the management of credit, operational, market (including liquidity) and strategic risks as well as capital adequacy management. The most important tasks of this Division include:

- identification of risk factors and the sources of risk;
- risk measurement and periodical monitoring and reporting with regard to the risk level (material risk);
- measurement and assessment of capital adequacy;
- making recommendations to the Assets and Liabilities Committee and the Management Board with regard to acceptable risk levels;
- the creation of internal provisions with regard to risk and capital adequacy management; and
- the development of IT systems which support 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 Recommendation T by the Bank, the Analysis and Credit Risk Assessment Centre takes lending decisions in respect of individual clients and SME clients covered by rating methods.

Risk Management Committees

Market risk management and portfolio credit risk management in the Bank are supported by the following committees:

- the Risk Committee (the "**RC**");
- the Assets and Liabilities Committee (the "**ALCO**");
- the Operational Risk Committee (the "**ORC**");
- the Bank's Credit Committee (the "**BCC**");
- the Central Credit Committee (the "**CCC**"); and
- regional credit committees in retail and corporate branches (the "**RCC**").

The RC:

- monitors the adequacy and effectiveness of the risk management system, capital adequacy and implementation of the Bank's risk management policy realized according to the Bank's Strategy; and
- analyzes and assesses the use of strategic risk limits defined in the Banking Risk Management Strategy.

The RC supports the Supervisory and Management Boards in the process of managing banking risk by making recommendations and taking decisions on capital adequacy and assessing the effectiveness of the banking risk control system.

The ALCO takes decisions within the scope of its authorizations and recommends actions to the Management Board with regard to market and liquidity risk management, management of portfolio credit risk, and management of the Bank's assets and liabilities.

ORC supports the Management Board in the operational risk management processes through:

- issuing recommendations, for instance as regards the Management Board's acceptance of the operational risk tolerance levels, operational risk limits reserved for the competence of the Management Board, capital requirement volume and management adjustment, stress test scenarios of operational risk and other activities related to systemic management of operational risk,
- taking decisions concerning: threshold and critical values of key risk indicators (KRI), operational risk limits reserved for the competence of ORC, values of key parameters used for calculating value at risk for operational risk and individual approach to outliers.

The BCC takes credit decisions in respect of significant individual credit exposure or issues recommendations in this respect to the Management Board.

The CCC supports the respective managing directors of the Head Office and Board Members by making recommendations during their decision-making processes.

Credit Risk

"**Credit risk**" is defined as the risk of incurring financial loss due to a counterparty's failure to meet its financial obligations to the Bank or as the risk of the decreasing economic value of the Bank's receivables as a result of a counterparty's deteriorating ability to service its liabilities.

The credit risk management process is based on the following principles:

- a credit transaction requires a comprehensive credit risk analysis which results in a credit score or an internal credit rating;
- credit risk in respect of credit transactions is measured at the stage of investigating a loan application and by periodically taking into consideration changing macroeconomic factors and changes in the financial position of the borrowers;
- for exposures significant for reasons of their risk level or value, credit risk assessments are subject to additional verification by independent internal credit risk assessment units, independent of business units;
- the terms and conditions of a transaction offered to a customer depend on the assessment of the level of credit risk associated with such transaction;
- credit decisions may be made only by authorized persons;
- credit risk is diversified in terms of geographical area, business sector, products and clients; and
- the expected level of credit risk is hedged by the Bank by accepting collateral, credit margins charged to the customers and by impairment allowances in respect of credit exposures.

Carrying out the above-mentioned policies ensures that the Bank uses advanced credit risk management methods, both at the level of single loan exposure as well as within the Bank's entire credit portfolio. The methods are verified and developed for compliance with the requirements of the internal ratings-based (IRB) approach, which is an advanced method of measuring credit risk which may be used to calculate the capital requirement for credit risk following the obtaining by the Bank of the Polish Financial Supervision Authority's approval.

Currently, the Bank is implementing an advanced credit risk management method that is fully compliant with the IRB method.

Rating and Scoring Methods

The risk associated with single loan transactions is assessed by the Bank through the use of scoring and rating methods which are created, developed and supervised by the Banking Risk Division.

These methods are supported by specialist central IT applications. The manner of credit risk assessment is defined in the Bank's internal regulations, whose main purpose is to ensure uniform and objective credit risk assessment in the lending process. These regulations determine the manner in which the level of credit risk associated with single credit exposure should be assessed and secured by collateral, as well as criteria for granting or refusing loans.

Retail

The Bank assesses the credit risk for individual clients based on the client's borrowing capacity and their creditworthiness. A client's borrowing capacity assessment consists of verifying their current financial standing (especially net disposable income), while the creditworthiness assessment covers the client score and credit history obtained from the Bank's internal records and from external databases.

Corporate

Credit risk assessment for institutional clients is conducted at the level of the client and at the level of the transaction (except for certain types of transactions that involve SME customers which are assessed according to a scoring approach). The assessment is expressed in a rating of the client and a rating of the transaction. The synthetic measure of credit risk, which reflects both risk factors, is a joint rating.

The rating and scoring information is used widely by the Bank in the process of risk management in the area of credit decisions and within the system for credit risk measurement and reporting. With a view to the early identification of potential increases in credit risk or risk associated with the impairment of the collateral of loans granted to institutional clients, the Bank implemented an Early Warning System (the "**EWS**").

Credit Evaluation and Approval Process

The Bank has a tiered system for dividing competencies within the credit approval process. The so-called competence limit depends on the position of the decision maker within the Bank's organizational hierarchy: the higher the level, the greater the limit. The competence limit also depends on the loan amount, the Bank's exposure to the borrower (or group of borrowers), the term of the loan, the results of the evaluation based on the scoring methodology (negative or positive) and the client segment.

The following bodies are authorized to grant credit approvals, on a scale running from the largest approval limit to the smallest approval limit: the Management Board, the BCC, individual members of the Management Board supervising appropriate business areas, the directors of the Bank's organizational entities, branch directors, directors of regional corporate branches, the director of the Credit Analysis Center and the director of the Analysis Center and Credit Risk Assessment – in respect of individual customers. In addition, employees of certain regional branches have credit approval authority within approved limits.

Recommendations of the credit committees support the credit approval decision-making process. Depending on the amount of the proposed credit facility or loan, the BCC may issue recommendations. The credit committees participate in decisions regarding approvals of applications that involve significant loan amounts or a higher degree of risk.

A negative opinion of the credit committee is binding for the person who makes a credit approval decision, except that for the BCC which issues recommendations to the Management Board. A negative recommendation of a credit committee may be appealed by the decision maker to a higher level of the decision making ladder.

Collateral Policy

The collateral policy followed by the Bank is to appropriately secure the interests of the Bank and to establish collateral that offers the best possible level of debt recovery if a recovery procedure proves necessary.

The specific types of collateral that are established depend on the nature and term of a loan and the customer's standing.

In connection with housing loans the principal and mandatory collateral is a mortgage on the financed real property and an assignment of receivables under the insurance agreement covering such property. Until a mortgage can be established effectively, depending on the amount of the loan and its type, the Bank accepts temporary collateral in the form of a blank promissory note, guarantee or insurance.

When granting consumer loans to individual clients, the Bank usually accepts personal collateral (a guarantee under civil law or an aval) or establishes collateral on the client's current account, car or securities.

To secure loans which finance SMEs, as well as corporate clients, the following forms of collateral, among others, are used: bank guarantees, transfers of dues as collateral, transfers (payment) of cash to the Bank's account within the meaning of Art. 102 of the Polish Banking Law, transfers of ownership rights to movables (repossession) as collateral, contractual pledges on movables on general terms and conditions (ordinary pledge), registered pledges, pledges over rights, in particular pledges over participation units in open-ended investment funds, mortgages on real estate, repossession of securities as collateral, pledges and registered pledges on securities and irrevocable blocks on securities admitted to public trading and held in a securities account.

In accepting legal collateral for loans, the Bank applies the following policies:

- in the case of substantial loans, several types of collateral are established, combining personal and tangible collateral whenever possible;
- liquid collateral is preferred, such as property collateral, for which there is a high probability that the Bank will quickly satisfy its debt by achieving prices approximating the value of the assets determined at the time of accepting the collateral;
- in the case of the acceptance of property collateral, the Bank accepts as additional security the transfer of the rights from the insurance policy for the subject of the collateral, or an insurance policy issued in favor of the Bank; and
- effective establishment of collateral in accordance with the agreement is a condition for the release of the loan funds.

Established collateral is subject to periodic monitoring in order to determine the current credit risk level of the transaction. The Bank monitors the property and financial standing of the entity that issues personal collateral, the condition and value of the object serving as property collateral, and other circumstances affecting the possibility of debt recovery by the Bank.

Collateral in the form of a mortgage is subject to special assessment. The Bank performs periodic monitoring of real properties accepted as collateral (the loan to value ("**LtV**") ratio is taken into account) and monitors the prices on the real estate market. If this analysis shows a significant drop in prices on the real estate market, the Bank activates emergency procedures.

Portfolio Risk Measurement

In order to assess the level of credit risk and credit portfolio profitability, the Bank uses various credit risk measurement and assessment methods, including probability of default, expected loss, credit value at risk, accuracy ratio, the share and structure of impaired loans, the share and structure of exposures meeting the criteria of individual impairment, the ratio of covering loans with recognized impairment, the ratio of covering non-performing loans and the cost of portfolio credit risk.

The portfolio credit risk measurement methods allow, among other things, the inclusion of credit risk in the price of the product offer, the determination of the optimum amount of so-called cut-off points, and the determination of rates for making impairment allowances.

Impairment of Credit Exposure

The Bank periodically reviews its credit exposures to identify which loans are threatened with impairment, measures the impairment of its credit exposure and establishes write-offs and provisions. The process of establishing write-offs and provisions comprises the following stages:

- identification of the objective evidence of impairment and of events material for such identification;

- recording events material for the identification of the objective evidence of impairment of credit exposure in the Bank's IT systems;
- definition of the method for impairment measurement;
- measuring the impairment and determining an impairment charge or provision;
- verification and aggregation of the impairment measurement findings; and
- recording of the impairment measurement findings.

The method for defining the amount of the impairment allowance depends on the type of objective evidence of impairment identified and the individual significance of the credit exposure concerned. In particular, any delay in the loan repayment of at least three months, a significant deterioration in a client's internal rating, and the conclusion of a restructuring agreement or a debt relief scheme are each treated as objective evidence of individual impairment.

The Bank uses three methods for impairment assessment:

- the individual method for individually significant credit exposures for which objective evidence of impairment on an individual basis was stated;
- the portfolio method, which is applied in the case of credit exposures which are not individually significant but for which objective evidence of individual impairment has been found; and
- the group method (IBNR), which is used in the case of credit exposures where no objective evidence of individual impairment have been identified but there are conditions indicating the possibility of the occurrence of incurred but not identified losses.

The write-down for impairment of the carrying amount of a credit exposure is the difference between the carrying amount of that exposure and the present value of the expected future cash flow from that exposure. When defining a write-off under the individual method, future cash flows are assessed for each credit exposure individually and the possible performance scenarios of the agreement are taken into account and weighed with the probability of their fulfillment. The write-down for credit exposure impairment defined under the portfolio or collective method is the difference between the carrying amount of such exposure and the present value of the expected future cash flow, assessed with statistical methods on the basis of historical monitoring of exposures from homogenous portfolios. Calculations of portfolio parameters (probability of default and recovery rates) are performed on a quarterly basis. Recovery rates are calculated with the use of transition matrices and vectors of payments. Every single projected payment of principal, interest and collateral is taken into account. Estimates of payments are based on historical observations and they are discounted using the current average effective interest rate for the portfolio.

When defining the provision for off-balance sheet credit exposure with respect to individually significant credit exposure for which objective evidence of impairment on an individual basis was stated or pertains to debtors whose other types of exposure meet such conditions, the Bank uses the individual method; the provision for off-balance sheet credit exposure, defined under the individual method, is set as the difference between the expected value of the balance sheet exposure set to arise from the off-balance sheet liability awarded (from the assessment date to the date of the occurrence of the overdue debt which has been identified as objective evidence of individual impairment) and the present value of the expected future cash flow generated from the balance sheet exposure arising from the awarded liability in excess of the current value of the balance sheet exposure concerned.

With respect to other types of credit exposure and in accordance with the methodology applied by the Bank, the need to establish provisions depends on the relation between the level of using the off balance sheet liabilities granted as of the date of review and the average level of using the liability until the default day (understood as a delay in loan repayment of at least three months), assessed on the basis of the historical observations for the exposure group with similar risk characteristics.

Recoveries on overdue loans are initially handled by the Restructuring and Debt Collection Division, which as of 31 December 2011 employed 473 persons, which is split into sub-teams depending on the type of loan. Depending on the type of liability, overdue status of the loan and, if applicable, the financial standing of the borrower or the status of the collateral, the collection team takes various actions, including, among others, restructuring, instituting legal proceedings against the borrower and foreclosing on the collateral. The Bank cooperates with third-party collection agencies selected following tender proceedings.

Risk Management Tools

The main credit risk management tools used by the Bank are as follows:

- threshold levels determining the availability of credit for clients, including cut-off points, the minimum number of points awarded during the course of client creditworthiness assessments made using the scoring system for individual clients or the rating class and joint rating for institutional clients, from which a loan transaction can be made with a given client;
- the loan transaction credit risk terms and conditions defined for a given type of transaction (the minimum value of the LtV ratio, the maximum LtV, the maximum credit amount and the required collateral);
- the minimum credit spread – credit risk spreads related to the Bank's specific credit transaction concluded with an institutional client, with the provision that the client may not be offered an interest rate lower than that resulting from the reference rate increased by the credit risk spread; and
- limits specifying the risk appetite, including the following limits:
- concentration limits – the limits defined in Article 71.1 of the Polish Banking Law;
- industry limits – limits of the risk level related to financing institutional clients from industries characterized by high credit risk levels,
- limits resulting from Recommendation S and Recommendation T related to the credit exposure of the Bank's clients,
- transaction limits – limits in respect of activities on the inter-bank market and on the institutional clients' market in the area of derivatives; and
- competence limits – which define the maximum level of authority required to take credit decisions with respect to the Bank's clients, the limits depend mainly on the Bank's amount of credit exposure towards a given client (or a group of related clients) and the period of the credit transaction; competence limits also depend on credit decision making levels within the Bank's organizational structure.

Risk Concentration

The Bank monitors credit risk concentration in respect of types of exposure to individual clients (or groups of related clients) and the types of exposure to groups of clients or credit portfolios exposed to a common risk factor.

In particular, the Bank monitors credit portfolios by geographical regions, loan currency, industry sector, and loans secured by real property.

The risk of a concentration of exposure to individual clients (or groups of related clients) is monitored pursuant to Article 71 of the Polish Banking Law in respect of the exposure concentration limit (the total amount of individual exposure may not exceed 25 per cent. of the Bank's own funds).

Risk Reporting

The Bank prepares monthly and quarterly credit risk reports for *inter alia*: ALCO, RC, BCC, the Management Board and the Supervisory Board. The reporting of credit risk covers cyclical information on the scale of risk exposure of the loan portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for Group subsidiaries (inter alia the KREDOBANK SA group and the BFL SA group), which have significant credit risk levels.

Financial Institutions and Derivatives

In the course of its business activities, the Bank uses various types of derivatives to manage the risk resulting from the business activities conducted. The main types of risk relating to derivatives include market and credit risk.

The derivates used by the Bank within risk management and offered to its clients are mostly IRS, FRA, FX swap, CIRS, FX forward, and FX options.

In order to limit credit risk relating to derivatives, the Bank enters into framework agreements which are aimed at collateralizing the Bank's claims towards counterparties resulting from derivative transactions by netting due and payable liabilities (e.g., mitigation of settlement risk) and liabilities which are not due and payable (e.g., mitigation of pre-settlement risk).

Framework agreements with foreign counterparties are made in accordance with standards developed by the International Swaps and Derivatives Association and the International Securities Market Association, while those made with Polish counterparties are made in accordance with the standards developed by the Polish Bank Association (*Zwi zek Banków Polskich*). Framework agreements with Polish financial institutions for debt securities are made based on the Bank's internal standards. To mitigate credit risk in the case of a planned increase in the scale of operations of a financial institution which has entered into a framework agreement with the Bank, the parties enter into a collateral Credit Support Annex ("**CSA**") agreement. Based on the CSA agreement, each of the parties, after meeting certain criteria specified in the agreement, undertakes to establish appropriate collateral along with the right to set such off.

The Bank has developed a standard policy with respect to signing ISDA master agreements which defines the protocol for negotiating, signing and administering such framework agreements and collateral agreements made with Polish banks and financial institutions, as well as for framework agreements and credit support annexes with foreign banks and credit institutions.

The ISMA and CSA agreements signed by the Bank contain provisions defining the permitted difference between credit exposure and collateral value. The CSA agreements, which are annexes to the ISDA agreements, provide that cash and securities may constitute collateral.

Entering into a master agreement with a counterparty is the basis for the verification of the internal limit per counterparty and of the length of the period of the Bank's engagement in derivative transactions. The client limit is based on an internal assessment (internal rating), as well as on the amount of own funds of the Bank and the client.

The net exposure to the derivatives risk on the inter-bank market for the 10 largest counterparties (excluding exposure to the State Treasury and the NBP) as of 30 June 2012 is presented in the table below.

Counterparty	**30 June 2012**
	(in PLN thousand) *(unaudited)*
Counterparty 1	138,773
Counterparty 2	96,799
Counterparty 3	77,254
Counterparty 4	71,327
Counterparty 5	63,728
Counterparty 6	48,424
Counterparty 7	41,781
Counterparty 8	36,624
Counterparty 9	20,110
Counterparty 10	18,195

Source: the Bank

The net exposure to the derivatives risk on the inter-bank market for the 10 largest counterparties (excluding exposure to the State Treasury and the NBP) as of 31 December 2011 is presented in the table below.

Counterparty	**31 December 2011**
	(in PLN thousand) *(audited)*
Counterparty 1	112,015
Counterparty 2	104,000
Counterparty 3	93,667
Counterparty 4	91,009
Counterparty 5	68,449
Counterparty 6	57,548
Counterparty 7	54,471
Counterparty 8	47,737
Counterparty 9	41,021
Counterparty 10	33,652

Source: Stand-Alone Financial Statements

When a credit transaction is made with a financial institution which has its registered office outside of Poland, the international standards of loan agreements of the Loan Market Association are applied.

The Bank co-operates on the wholesale market with financial institutions whose registered offices are located in the territories of nearly 50 countries. Within the limits set, the Bank may enter into transactions with over 200 counterparties, including Polish and foreign banks, insurance companies and pension and investment funds. The transactions made include loan and deposit transactions, securities transactions, foreign exchange operations and derivative transactions.

The Bank monitors the financial standing of its counterparties on a regular basis and sets exposure limits adequate to the risk incurred for pre-settlement and settlement exposure of individual counterparties. The exposure to financial institutions on the wholesale market is of a high quality and generates low credit risk, as confirmed by external ratings granted by rating agencies and also by internal ratings granted to the counterparties by the Bank.

Market Risk

"**Market risk**" is defined as the risk of incurring a financial loss due to adverse changes in market parameters, such as interest rates and foreign exchange rates or their volatility.

The Bank applies the following market risk management policies:

- activities are undertaken with a view to maintaining the level of risk within the accepted risk profile;
- the foreign exchange and interest rate positions must be kept within the accepted limits; and
- the financial results of the Bank are optimized while observing an accepted level of market risk.

In order to assess the level of market risk the Bank uses different risk measurement and assessment methods, including:

- setting general risk tolerance limit by market risk types;
- for interest rate risk – the VaR model, stress tests, basis point value (BPV) measure, interest rate gap and interest income sensitivity measurements;
- for foreign exchange risk – FX positions, the VaR model as well as stress tests.

The market risk management tools used by the Bank include:

- setting limits and threshold values by individual market risk types; and
- defining the allowed types of transactions which are exposed to specific market risks.

Interest Rate Risk

The interest rate risk is the 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.

Interest rate risk is the most significant market risk faced by the Bank. In an effort to mitigate interest rate risk, the Bank defines limits and threshold values with regard to, among other things, the degree of price sensitivity and interest income sensitivity, the maximum amount of losses and allowed derivatives sensitive to interest rate fluctuations. Limits have been set for individual portfolios of the Bank.

In order to determine the level of interest rate risk, the VaR measure is applied with a 99 per cent. confidence level and a 10-day time horizon. Stress tests are also used to supplement the VaR method. The following scenarios are applied at the Bank:

- hypothetical scenarios:
  - parallel fluctuation (up or down) in interest rates of various currencies at the level of plus or minus 50, 100 and 200 bp ;
  - a peak-type bending of the yield curve, where maximum interest rate sensitivity vertex is assumed to change by the value of the 80 bp and 20 per cent. of interest rate for this vertex (up or down); for other vertices the change is faded out by applying proper multipliers;
  - a twist-type bending of the yield curve, where the longest and the shortest vertices are assumed to change by 80 bp and 20 per cent. of interest rates for these vertices (up or

down) and one of the vertices between them is assumed not to change, in order to generate most pessimistic scenario;

- historical – assuming changes in yield curves based on the past movements of interest rates. Such scenarios used by the Bank include:
  - an extreme event, where the most substantial one-month change which occurred since June 2008 is calculated; in order to determine such change, the sum of the absolute values of the changes at all of the vertices is used; and
  - a basis risk between yield curves: this scenario assumes a loss which may potentially be realized in connection with a change of the spread between yield curves which arises from imperfect correlation between the benchmark yield curve used for treasury bond valuation and the swap yield curve used for the valuation of bond risk hedging instruments.

The VaR of the Bank and stress tests regarding the Group's interest rate risk sensitivity as at 30 June 2012 and as at 31 December 2011, 2010 and 2009 are presented in the table below.

Name of the sensitivity measure	As of 30 June	As of 31 December		
	2012	2011	2010	2009
		(PLN thousand) (unaudited)		
10-day VaR*	58,487	62,661	39,004	17,086
Parallel movement of the interest rate curves by 200 bp	516,362	530,726	522,641	233,304

Source: Consolidated Financial Statements

Notes:

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market in which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. Kredobank uses the 10-day VaR, which amounted to PLN 22,323 thousand as at 30 June 2012 and PLN 29,673 thousand as at 31 December 2011, respectively.

As at 30 June 2012, the interest rate 10-day VaR ("**IR VaR**") was PLN 58.5 million, 0.30% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totaled PLN 19,816 million.

The interest rate risk was determined mostly by the risk of mismatch between the repricing dates of assets and liabilities. Interest rate risk is managed by the whole Bank within the limits determined by the Bank for interest rate risk. In addition, the Bank applies a separate limit on interest rate risk in connection with the operations of the brokerage house only.

The Group's exposure to interest rate risk as at 30 June 2012 consisted mostly of the Bank's exposure. The interest rate risk for PLN, EUR and CHF generated by the other Group companies did not have a material impact on the interest rate risk for the entire Group and thus did not significantly change its risk profile. The interest rate risk for USD was materially changed through exposure of the Group's subsidiaries with the greatest role played by the exposure of Kredobank.

Foreign Exchange Risk

The Bank offers its customers a number of foreign exchange products and services (especially loans and deposits in foreign currencies) and, to a limited extent, trades in foreign exchange markets to realize additional returns. Consequently the Bank faces foreign exchange risk, which is defined as the risk of incurring losses due to unfavorable changes in foreign exchange rates.

The Bank enters into FX forward transactions and FX options (FX vanilla options, FX binary options, FX barrier options). The Bank has not, however, entered into any agreements with foreign banks for the sale of ready-made option strategies, as all of the option strategies that it offers are tailored to the specific needs and requirements of a particular client or a group of clients. The Bank also offers deposit products with various embedded options in order to potentially increase clients' returns, which are usually hedged back-to-back on the market.

In accordance with the requirements of the PFSA, for the purposes of calculating the regulatory capital requirements, exposures in options, for which the Bank has not obtained approval for the application of its own valuation models, are hedged back-to-back with the same tenor and amount on the inter-bank market with counterparties who offer the best prices. FX options for which the Bank has obtained approval from the supervisory authority to apply its own valuation models are managed under delta-hedging strategy, whereas open risk positions are kept within the internal limits determined by the Bank. As at 30 June 2012, the Bank completed:

- 639 European plain vanilla option transactions, whereas the open delta position without hedge (gross in foreign currencies) was PLN 318.2 million;
- 285 European binary options transactions, while the open delta position without hedge (gross in foreign currencies) was approximately PLN 29.1 million;
- 29 European barrier options transactions, whereas the open delta position without hedge (gross in foreign currencies) was approximately PLN 14.2 million.

The Bank monitors open foreign exchange positions and measures the risk with the use of a VaR model. Stress tests are used to assess potential losses on FX positions where market situations occur which cannot be described using statistical measurements. The scenarios which are applied at the Bank are based on historical scenarios as well as on hypothetical scenarios. The following scenarios are applied at the Bank:

- 20 per cent. decrease or increase of foreign exchange rates in relation to PLN depending on which of these two market changes would cause larger loss on the portfolio of foreign currencies held in the Bank;
- 20 per cent. decrease or increase of USD, EUR, CHF in relation to PLN, respectively, depending on which of these two market changes would cause larger loss;
- scenario of changes of foreign exchange rates observed in October 2008; in this scenario PLN decreases in relation to USD at 18.78 per cent., EUR 10.55 per cent., CHF 16.11 per cent., other currencies 10.10 per cent.; and
- scenario of changes of foreign exchange rates observed in October 2008; in this scenario PLN increases in relation to USD at 11.43 per cent., EUR 6.90 per cent., CHF 8.78 per cent., other currencies 7.69 per cent.

With respect to foreign exchange risk mitigation, the Bank defines limits with regard to, among other things, the value of FX position, Value at Risk for a 10-day time horizon at 99 per cent. confidence level and daily loss from trading transactions on the foreign exchange market.

The VaR of the Bank and stress tests regarding the Group's exposure to foreign exchange risk, for all currencies jointly, as at 30 June 2012 and as at 31 December 2011, 2010 and 2009 are presented in the table below.

Name of the sensitivity measure	**As of 30 June**	**As of 31 December**		
	2012	**2011**	**2010**	**2009**
		(PLN thousand) *(unaudited)*		
10-day VaR*	2,012	1,470	3,171	1,092
Change of exchange rates CUR/PLN by 20%	25,551	17,210	8,109	929

Source: Consolidated Financial Statements

Notes:

* *Due to the nature of the activities carried out by the other Group entities generating significant foreign exchange risk as well as the specific nature of the market in which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the foreign exchange risk management. Kredobank uses the 10-day VaR, which amounted to PLN 519 thousand as at 30 June 2012 and PLN 467 thousand as at 31 December 2011, respectively.*

As at 30 June 2012, the 10-day VaR at a 99% confidence level resulting from foreign exchange operations ("**FX VaR**") was PLN 2.0 million, 0.01% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totaled PLN 19,816 million.

The foreign exchange positions in the Group as at 30 June 2012 and as at 31 December 2011, 2010 and 2009 are presented in the table below.

	As of 30 June	**As of 31 December**		
	2012	**2011**	**2010**	**2009**
		(in PLN thousand) *(unaudited)*		
EUR	101,148	83,153	(4,035)	26,489
USD	(225,776)	(180,781)	(78,916)	(31,811)
CHF	(54,715)	(37,266)	(18,820)	(3,634)
GBP	35	50	48,073	1,501
Other (Global Net)	17,784	11,630	11,257	12,101

Source: Consolidated Financial Statements

Market Risk Attributable to the Operations of DM PKO BP

The brokerage house also generates equity price risk primarily due to its function as a market-maker on the WSE and, if relevant agreements are entered into, risk involved in acting as underwriter. The equity price risk is managed within the limits regarding DM PKO BP's operations as a market-maker and an issuer of securities on the WSE, separately for the position in equity securities and equity derivatives and for the position in derivatives on the WSE index. The average equity portfolio position during 2011 was PLN 5.4 million. The average equity portfolio position during the first half of 2012 was PLN 4.4 million. The average absolute net position in the portfolio of derivatives on the WIG20 index in the first half of 2012 was PLN 1.4 million.

Liquidity Risk

"**Liquidity risk**" is defined as the risk that the Bank may be unable to meet its obligations on a timely basis due to a lack of liquid funds.

The Bank applies the following liquidity risk management policies:

- activities are undertaken with a view to maintaining the level of risk within the accepted risk profile;
- an acceptable level of liquidity is maintained, which depends on keeping the appropriate level of liquid assets; and
- the main sources of financing of the Bank's assets are stable sources, first of all a stable deposit base.

In order to assess the level of liquidity risk the Bank uses different risk measurement and assessment methods, including the contractual and real-term liquidity gap method, the liquidity reserve method, verification of the stability of the deposit base and loan portfolio and shock analyses.

The Bank has a highly diversified deposit base and a large portion of liquid assets on its books. The liquidity risk management tools used by the Bank include entering into transactions ensuring long-term financing of credit activities.

The methods for measuring liquidity risk are based on the evaluation of contractual and adjusted liquidity gaps. The contractual liquidity gap is a list of all balance positions by their maturity, whereas the adjusted liquidity gap is a list of individual balance categories by their assumed actual maturity. The liquidity reserve is the difference between the most liquid assets and the expected and potential liabilities that mature in a given period. The most liquid assets include lockable treasury papers both in PLN as well as in major foreign currencies, money bills, Treasury bills, Treasury bonds and inter-bank loans less the inter-bank deposits (denominated in PLN, USD, EUR and CHF) which, as at 29 June 2012, amounted to PLN 21.7 billion and accounted for approximately 72 per cent. of these assets. Additionally, the most liquid assets are funds in the current account kept with the NBP for PLN, the cash in the Bank's cash registers and the funds in the nostro accounts for major foreign currencies (in USD, EUR and CHF). As at 29 June 2012 these assets accounted for approximately 20 per cent., 7 per cent. and below 1 per cent. of the most liquid assets, respectively.

The table below presents the adjusted liquidity gap as at 30 June 2012 and as at 31 December 2011 and 2010. The adjustments relate to, among others: transfer of core deposits and loans to adequate periods to reflect their actual maturity terms and transfer of liquid securities to the period up to one month.

	a'vista	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**12-36 months**	**36-60 months**	**over 60 months**
				(in PLN thousand) *(unaudited)*				
				As at 30 June 2012				
Group adjusted liquidity gap	8,784,896	7,557,355	876,336	1,565,087	3,068,291	8,675,372	13,883,869	(44,411,206)
Group adjusted cumulative liquidity gap	8,784,896	16,342,251	17,218,588	18,783,674	21,851,965	30,527,337	44,411,206	–
				As at 31 December 2011				
Group adjusted liquidity gap	7,299,484	12,094,029	(1,599,805)	1,399,996	(1,169,611)	10,276,571	16,150,066	(44,450,730)
Group adjusted cumulative liquidity gap	7,299,484	19,393,513	17,793,708	19,193,704	18,024,093	28,300,664	44,450,730	–
				As at 31 December 2010				
Group adjusted liquidity gap	3,207,473	14,102,549	(949,842)	(106,638)	3,800,570	5,160,414	(1,014,208)	(24,200,318)
Group adjusted cumulative liquidity gap	3,207,473	17,310,022	16,360,180	16,253,542	20,054,112	25,214,526	24,200,318	–

Source: Consolidated Financial Statements

In all time bands the adjusted cumulative liquidity gap is positive, which reflects a net surplus of maturing assets over maturing liabilities. As at 30 June 2012, cumulative liquidity gap for up to a one-month horizon was PLN 16.3 billion.

The Bank reduces funding mismatch in exchangeable currencies (EUR, USD and CHF) with the use of derivative transactions such as CIRS and FX swaps, acquiring long term funds in EUR and in CHF, or issuing notes. The Bank also offers savings accounts in exchangeable currencies (EUR, USD and CHF) in order to overcome its funding mismatch in foreign currencies. This product allows customers to manage their own FX risk resulting from loans drawn by them in foreign currencies (by providing them with the opportunity for earlier purchase of foreign currencies and repayment of outstanding loans with the funds from such account).

Risk Reporting

The Market Risk Department of the Bank prepares reports on the level of market risk for operating purposes on a daily and weekly basis. Reports on the level of market and liquidity risk for management purposes, which are presented to ALCO and the Management and Supervisory Boards, are prepared on a monthly and quarterly basis.

Operational Risk Management

"**Operational risk**" is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, however it excludes the strategic risk and the risk of detriment to the Bank reputation.

The Bank's internal regulations clearly define the distribution of duties and competencies in the area of operational risk management. In accordance with these regulations, all the issues related to operational risk management are supervised by the Management Board, which sets the objectives for operational risk management, defines policies for operational risk, sets the operational risk tolerance level and limits and accepts reports relating to operational risk.

Operational risk management is performed both through systemic solutions and regular ongoing management of risk.

Systemic operational risk management consists of developing internal regulations and other solutions relating to operational risk and concerning, *inter alia*, human resources, the organization of the Bank, the accounting system, IT, security, internal processes, client service processes, and outsourcing certain banking and other activities.

Systemic operational risk management is centralized at the level of the Bank's headquarters. Each business and support line has a dedicated unit which is responsible for the identification and monitoring of operational risk associated with the products or internal processes which they supervise and for taking appropriate steps to ensure an acceptable level of operational risk.

Day-to-day operational risk management involves preventing operational risk from arising within internal processes and systems or during the course of product realization, undertaking activities aimed at limiting the number and scale of threats (operational risk events), eliminating the negative effects of operational risk events, and collecting data on operational risk events.

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

Moreover, a significant role in operational risk management is performed by the Banking Risk Division, which co-ordinates the identification, measurement, monitoring and reporting of operational risk in the entire Group.

The Bank obtained the approval of the PFSA for using the Advanced Measurement Approach ("**AMA**") for calculating the capital requirements relating to operating risk as of 30 June 2011. After it meets the additional terms and conditions posed by the PFSA, the Bank will be able to lower the capital requirement related to operating risk to a level lower than 75 per cent. of the value calculated in accordance with the Standardized Approach. As of the date of this Prospectus, the Bank is waiting for the verification by the PFSA of important conditions imposed by the PFSA.

In order to limit exposure to operational risk the Bank applies different solutions, such as audit and control systems, human resources management (appropriate staff selection, enhancement of the professional qualifications of its employees, and motivational packages), operational risk map implementation, determination of setting threshold values of KRIs, tolerance level and limits for operational risk, contingency plans, insurance coverage, and outsourcing.

The selection of instruments used to mitigate operational risk is chosen depending on, among other factors, the availability and adequacy of instruments mitigating the risk, the nature of the business or process in which the operational risk has been identified, risk materiality, and the cost of using an instrument.

In addition, the internal regulations of the Bank provide for the obligation not to undertake any business activity which is subject to excessive risk, and if such business activity is conducted, the internal regulations state that the Bank must either withdraw from or limit such business activity. The level of operational risk is considered to be excessive if the potential benefits from conducting such business activity are lower than the potential operational losses from engagement in such operations.

If the risk level is considered to be high in a given area, a systemic unit supervising conducts an analysis of relevance of taking corrective actions and gives its respective recommendations to the vice-president in charge of this area.

If the risk level is considered to be moderately increased, a systemic unit supervising the stated area conducts an analysis of reasons for reaching the above mentioned risk level, and prepares an action plan.

Operational risk assessment is conducted using data collected on operational risk events, internal audit results, results of internal functional control, results of operational risk self-assessment and KRIs.

The Bank regularly monitors use of tolerance and KRI levels, use of limits for operational risk and operational risk events exceeding threshold value defined for operational risk.

Risk reporting

The Bank prepares quarterly reports on the operational risk of the Bank and the subsidiaries in the Group for the ORC, Management and Supervisory Boards. The reports contain information relating to the Bank's operational risk profile resulting from the process of identification and assessment of threats, the results of operational risk assessment and monitoring, limits and tolerance, operational risk map, operational events and their financial effects, and the most significant projects and undertakings regarding operational risk management. Assessment of internal capital for operational risk, which comply with the requirements of the AMA, is also included. In addition short summary of operational risk is provided to the senior management monthly.

Compliance Risk

"**Compliance risk**" is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct (including ethics), applicable to its banking activities.

The objective of compliance risk management is the strengthening of the Group companies' image as entities acting legally and according to the adopted standards and which are reliable, fair and honest by eliminating compliance risk, counteracting the potential loss of the Group's reputation for reliability and counteracting the risk of financial losses or legal sanctions which could be the result of violating regulations and operating standards. Compliance risk management specifically relates to the following issues:

- preventing the Group from becoming involved in operations which are non-compliant with the law;

- ensuring the protection of information;
- promoting ethical standards and monitoring their implementation;
- managing conflicts of interest;
- preventing situations in which the Group's employees could be seen as acting in their own self-interest with respect to business matters of the Group;
- professional, fair and clear phrasing of product offers and of advertising and marketing communications;
- immediate, fair and professional investigation of claims and complaints made by clients.

The Group adopted a zero tolerance policy in respect of lack of compliance, meaning that in its operations it seeks to eliminate compliance risk. Reports on compliance risk are prepared for the Management and Supervisory Boards on a quarterly basis.

The reports include, among other things, information on the identification and assessment of the compliance risk process, compliance risk monitoring, the Group's adaptation to new regulations, adopting post-inspection recommendations of the PFSA and correspondence with the PFSA.

Reputational Risk

"**Reputational risk**" is understood as risk related to the possibility of negative variations from the Bank's planned results due to a deterioration in the Bank's image.

The objective of managing reputational risk is to protect the Bank's image and limit the probability of the occurrence and amount of reputation-related losses. Reputational risk ratios are calculated based on an annual assessment of particular negative image-related events identified in a given calendar year for particular types of image-related events. The main tools used to determine the Bank's reputational 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 Bank's internal and external channels of communication with the environment in terms of the identification of the negative effects of image-related events;
- gathering and analyzing information relating to the occurrence or potential occurrence of an image-related event; and
- registering data on the identified negative effects of image-related events.

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

Management of reputational risk in the Bank mainly comprises preventative activities aimed at reducing or minimizing the scale and the scope of image-related events, as well as selecting effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavorable effect of negative image-related events on the Bank's image.

Strategic Risk

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

Managing 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 the impact of selected types of factors, identified by the activity and by 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; and
- factors related to the organization'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 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.

The information contained in this section has been extracted from publicly available documents and information. The source of any external information is always given if such information is used in this section. Such information has been accurately reproduced, and as far as the Issuer and the Bank are aware and are able to ascertain from information published by the relevant third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources such as PFSA or government publications, no independent verification of such was carried out by the Issuer, the Bank, or the Managers or any of their affiliates or advisors in connection with the Offering. The Bank does not intend to and does not warrant to update the data concerning the market or the industry as presented in this section, subject to the duties resulting from generally binding regulations.

The Polish Economy

The Polish economy is one of the fastest developing economies in the EU. Poland, with its 38.5 million residents, remains the largest accession member of the EU and the sixth largest EU country by population. With a GDP of EUR 370 billion in 2011 (according to Eurostat), it is the eighth largest EU economy and the 20th largest economy globally. The Polish economy has expanded consistently, with real GDP growing at a CAGR of 4.3 per cent. over the five years to 31 December 2011. In 2009, Poland was the only European country to record positive GDP growth, 1.6 per cent., which increased to 3.9 per cent. in 2010 and to 4.3 per cent. in 2011. European Commission projects Polish GDP growth at 2.7 per cent. in 2012 and 2.6 per cent. in 2013 compared to 0.0 per cent. and 1.3 per cent. respectively for the EU.

The following table shows GDP, population and GDP growth rate for 2011 for the 20 largest countries in the EU by GDP.

Rank[1]	Country	GDP	Population	2001 real GDP Growth Rate
		(EUR billion)	*(in million)*	*(%)*
1	Germany	2,592.6	81.8	3.0
2	France	1,996.6	65.0	1.7
3	United Kingdom	1,747.0	62.4	0.8
4	Italy	1,580.2	60.6	0.4
5	Spain	1,073.4	46.2	0.7
6	Netherlands	602.0	16.7	1.2
7	Sweden	386.8	9.4	3.9
8	Poland	370.0	38.5	4.3
9	Belgium	369.8	11.0	1.8
10	Austria	300.7	8.4	2.7
11	Denmark	239.2	5.6	0.8
12	Greece	215.1[2]	11.3[2]	(6.9)
13	Finland	189.4	5.4	2.7
14	Portugal	170.9	10.72	(1.6)
15	Ireland	156.4	4.5	0.7
16	Czech Republic	154.9	10.5	1.7
17	Romania	136.5	21.3[2]	2.5
18	Hungary	100.5	10.0	1.6
19	Slovakia	69.1	5.4	3.3
20	Luxembourg	42.8	0.5	1.6

Source: Eurostat

1 Rank by GDP

2 Provisional data

No single sector of the Polish economy accounted for more than 25 per cent. of Poland's total GDP in 2010. Industry, trade and repair, manufacturing and leasing of real estate are the greatest contributors to Poland's GDP. Small and medium-sized enterprises (defined as an enterprise with less than 250 employees, yearly sales of less than EUR 50 million and/or total assets less than EUR 43 million) are also significant contributors to the Polish economy. According to data from the Polish Agency for Enterprise Development small and medium-sized enterprises represented 99.8 per cent. of the total number of enterprises in Poland in 2008, contributed 46.9 per cent. of GDP and employed 77.7 per cent. of total employees in Poland.

Furthermore, Poland has maintained a stable "A-" sovereign rating from Standard & Poor's. The Polish government is tightening its structured fiscal balance and decreasing its public debt through various initiatives, which include the reform of the pension system, a privatization program and the implementation of rules for public spending. The goal of these activities is to ensure that the ratio of national debt to GDP stays below 60 per cent., which is required under the Constitution of the Republic of Poland and is one of the eligibility criteria for accession to the Eurozone.

The following table sets forth key economic indicators for Poland for the periods indicated.

	For the year ended 31 December		
	2011	**2010**	**2009**
Real GDP growth (%)	4.3	3.9	1.6
Individual consumption growth (%)	3.1	3.2	2.1
Public sector spending growth (%)	(1,3)	4.1	2.1
Investment expenditures growth (%)	8.1	(0.4)	(1.2)
Inflation rate y/y (%)	4.3	2.6	3.5
Average wage growth (%)	5.0*	4.0	5.5
Unemployment (%)	12.5	12.4	12.1
Exports growth (%)	7.5	12.1	(6.8)
Imports growth (%)	5.8	13.9	(12.4)
Budget deficit / GDP (%)	1.6	1.7	1.8
Government debt / GDP (%)	53.5	52.8	49.9
PLN / EUR (average)	4.12	3.99	4.33

Source: GUS, NBP

* estimated figure

Poland's key economic indicators remained stable in the first half of 2012 in spite of the fiscal crisis in the eurozone peripheries. GDP growth decreased slightly to 3.5 per cent. in the first quarter of 2012 on a year-on-year basis (from 4.3 per cent. in the fourth quarter of 2011 on a year-on-year basis) and was supported by private consumption and investment (mostly public spending on infrastructure) and net exports (supported by PLN depreciation). Business confidence indicators suggest further growth moderation for the remainder of 2012, which is a result of weaker external demand and gradual phasing out of public investment.

The Polish banking sector, characterized by relatively strong capitalization and a solid deposit base, remained resilient throughout the crisis and continued to provide funding to Polish companies and consumers.

Forecasts of Macroeconomic Indicators

Although the official forecasts of the NBP, the European Commission and the IMF point at growth moderation in 2012, Poland is expected to remain one of the fastest growing countries in the CEE and in the EU, with GDP growth remaining higher than the averages for both the CEE region and EU countries. It is expected that the primary drivers of this continued economic growth will be public infrastructure spending, net exports and weaker but stable household spending. The extent of corporate investments remains uncertain in spite of very good financial conditions of enterprises (corporate sector bank deposits are at a record high). The improvement in the overall business outlook is a factor that could potentially change the attitude of enterprises to increasing output. Public consumption spending will be curbed through the implemented fiscal austerity measures. Public investment should gradually slow down after the Euro 2012 championships as the EU's 2007-2013 funds gradually decrease.

According to the European Commission's forecasts, real GDP growth rate in Poland will be 2.7 per cent. and 2.6 per cent. in 2012 and 2013, respectively, compared to 0.0 per cent. and 1.3 per cent. in the EU. The EC also projects that the annual rate of HICP inflation will remain close to 2.6 per cent. in the EU in 2012 and ease to approximately 1.9 per cent. in 2013, as compared to 3.7 per cent. and 2.9 per cent., respectively, in Poland.

The Polish Banking Sector

Structure of the Polish Banking Sector

The Polish banking market is still operating as a two-tiered system. According to the PFSA, as of 31 December 2011, there were 47 commercial banks in Poland, 19 branches of credit institutions and 574 relatively small co-operative banks (according to the PFSA, as of 30 June 2012, there were 46 commercial banks in Poland, 20 branches of credit institutions and 573 relatively small cooperative banks).

The Polish banking sector is also characterized by the large number of banks in which foreign owners hold majority stakes. As of 31 December 2011, the number of banks and branches of credit institutions with majority foreign share in the Polish banking sector was 56. The following table shows the share in the banking sector's total assets of the various categories of Polish banks (based on the type of majority shareholder), for the years indicated.

	As of 31 December		
	2011	2010	2009
		(%)	
Domestic investors	35.0	33.8	31.9
The State Treasury	22.5	21.5	20.8
Co-operative banks	6.1	6.1	5.8
Other	6.4	6.2	5.3
Foreign investors	65.0	66.2	68.1
Commercial banks	No data	61.5	62.8
Branches of foreign credit institutions	No data	4.7	5.3

Source: PFSA

In the period from 2009 to 2011, the number of bank branches in Poland increased from 6,985 to 7,091 (according to the PFSA).

According to the PFSA, as of 30 June 2012, the share of the five largest Polish banks in total deposits and loans of the banking sector was 45.3 per cent. and 39.1 per cent., respectively. These shares have progressively decreased, as shown in the table below, which sets forth the share of the five largest banks in Poland in deposits, loans and total assets as of the dates indicated.

	As of 30 June	**As of 31 December**		
	2012	**2011**	**2005**	**2000**
		(%)		
Deposits from non-financial institutions	45.3	45.4	55.8	54.7
Loans to non-financial institutions	39.1	39.1	45.0	46.1
Total assets	44.8	44.3	48.6	46.5

Source: PFSA

The concentration ratios of the five largest banks in Poland are relatively low compared to those in most EU Member States, indicating relatively high competitive pressure in the Polish banking sector and the potential for market consolidation. As of 30 June 2012 the assets of the five largest banks in Poland accounted for 44.8 per cent. of the total assets of the Polish banking sector. The condition of the ten largest banks has a crucial impact on the banking sector. According to the PFSA, as of 31 December 2011 their share in the total assets of the banking sector was 63.4 per cent.

Competitive Landscape of the Polish Banking Sector

The level of competition on the Polish banking sector is relatively high due to its low level of concentration. Among the other factors having an impact on competition are the recent mergers of major Polish banks, e.g. the merger of BPH S.A. and GE Money Bank S.A. in 2009, the acquisition of AIG Bank Polska S.A. by Santander Consumer Bank in 2009, the acquisition of GMAC Bank Polska by Getin Bank in 2010, the finalizing of the purchase of the Bank Zachodni WBK S.A. by Banco Santander in 2011, the finalizing of the purchase of Allianz Bank Polska by Getin Noble Bank (currently operates as Get Bank S.A.) in 2011, the transformation of the Polish branch of EFG Eurobank Ergasias into Polbank EFG in 2011, and the merger of ING Bank l ski with ING Bank Hipoteczny in 2011. In the first half of 2012, Raiffeisen Bank Polska purchased Polbank EFG, Getin Noble Bank S.A. purchased Get Bank S.A. and Kredyt Bank S.A. and Bank Zachodni WBK S.A. commenced a merger proceeding.

Furthermore, in 2008 a new bank, Alior Bank S.A., was established in the Polish banking market.

During the financial crisis in 2008 and 2009, Polish banks were forced to seek alternatives to foreign funding sources to enable them to continue their lending activity. In conjunction with the erosion of trust caused by the financial crisis, which restricted the availability of funding from the Polish inter-bank market, this development led to an increased focus of banks on gaining access to funding from deposits. This trend resulted in strong competition on the savings product market (what is referred to as the 'deposit war'). During 2010, banks' competition for deposits become less fierce as banks had built considerable liquidity buffers, credit activity slowed down and financial market conditions eased

In 2011, competition between banks on the credit market generally increased. Due to greater credit risk caused by worsening macroeconomic conditions, the majority of the banks maintained restrictive credit policies. Banks slightly loosened their lending policies to enterprises, which was aimed at improving the financial condition of enterprises and improving the quality of the credit portfolios of this customer segment. Banks tightened their criteria for consumer and housing loans in connection with the new regulatory requirements and the deteriorating financial condition of consumers. In the second half of 2011 competition has increased in the deposit market as a result of the decline in the attractiveness of the capital market and following the announced amendments to the tax regulations regarding the taxation of deposits with daily interest capitalization. Retail lending growth in 2011 was negatively impacted by a change of the criteria for the "*Rodzina na swoim*" program, as well as the implementation of the PFSA's Recommendations S and T.

Between the second half of 2011 and the first half of 2012, the growth rate of retail loans decreased due to a lower growth in housing loans and a decline in consumer loans. An additional reason for lower growth was also the elevated uncertainty of consumers with regard to their future financial condition.

Financial Situation of the Polish Banking Sector

In 2011, the Polish banking sector grew despite the continued international economic crisis and the economic difficulties of some euro area countries. The Polish banking sector was negatively affected by the sovereign debt and public finance crisis in some of the EU economies. The banks needed to adjust their activities to the changes in the macroeconomic and regulatory environment, as well as to improve their capital base, in particular retain their earnings and refrain from paying out dividends, as was recommended by the PFSA. The amount of own funds played a vital role in the resilience of the Polish banking sector, its resistance to the phases of the business cycle and to both external and internal negative factors.

The following table sets forth Polish banks' aggregate assets, deposits from the non-financial sector and loans to the non-financial sector.

	As of 30 June	**As of 31 December**		
	2012	**2011**	**2005**	**2000**
	(in PLN billion)			
Polish banks' aggregate assets	1,314.4	1,294.7	1,159.4	1,057.4
Deposits from non-financial sector	693.8	698.6	620.4	567.2
Loans to non-financial sector	811.1	800.7	698.5	641.2

Source: PFSA

The main structural driver for significant growth before the global financial crisis, both in the value of deposits as well as customer loans, was the low level of banking intermediation in Poland compared to other EU Member States. The banks' aggregate assets in the Polish banking sector as of 31 December 2011 amounted to 82.0 per cent. of Poland's GDP for the year as compared to the average in Eurozone of 350 per cent. The proportion of total assets held by banks in Poland to GDP has progressively increased over the last 15 years, as shown in the table below.

	As of 31 December				
	2011	**2010**	**2005**	**2000**	**1995**
Assets (PLN billion)	1,294.7	1,159.4	587.0	428.5	149.3
GDP (PLN billion)	1,524.7	1,415.4	983.3	744.4	337.2
Assets to GDP (%)	82.0	81.9	59.7	57.6	44.3

Source: PFSA, GUS

Given the favorable economic situation in Poland in the period during 2007 and 2008, the significant investments of banks in the region and the general increase of corporate and household incomes, the difference in banking intermediation between Poland and Eurozone narrowed significantly, resulting in the development of new loan and deposit business. As of the fourth quarter of 2008 this development of new loan and deposit business came to an end.

During 2009 and 2010, the loan growth slowed significantly in comparison to the period of 2007 to 2008. Loan growth was mainly generated by mortgage loans to households. Due to deterioration in credit quality as labor market conditions worsened, banks significantly restricted the supply of consumer loans. The volume of loans to corporates decreased during both 2009 and 2010, due to a drop in demand for loans as companies scaled back their investment projects as well as further tightening of the credit policies of banks. The only sector where there was a visible increase in loan volume from 2009 to 2010 in comparison to 2007 to 2008 was local authorities, due to the fact that they continued with public infrastructure projects (co-funded by EU funds) and have had good credit standing.

In 2011 the conditions on the market for loans to institutional customers improved, and after a period of decreases the value of loans started to rise once again. The recovery of the economy is gradually being reflected through increased demand for loans by institutional customers, and the stabilization of the quality of credit portfolio in the increased supply on the part of the banks.

The following tables set forth the value of loans extended to the non-financial sector in Poland.

	As of 31 December			Change	
	2011	2010	2009	2011-2010	2010-2009
	(in PLN billion, except percentages)			*(%)*	
Households	532.0	475.4	416.4	11.9	14.2
In % of total	66,4%	68.1%	64.9%	–	–
Non-financial corporations	264.5	219.7	222.1	20.4	(1.1)
In % of total	33.0%	31.5%	34.6%	–	–
Non-profit institutions	4.2	3.4	2.7	23.3	25.9
In % of total	0.5%	0.4%	0.5%	–	–
Total	**800.8**	**698.5**	**641.2**	**14.6**	**8.9**

Source: PFSA

	As of 30 June		
	2012	2011	2012-2011
	(in PLN billion, except percentages)		*(%)*
Households	535.4	497.6	7.6
In % of total	66.0%	67.4%	–
Non-financial corporations	271.4	236.8	14.6
In % of total	33.5%	32.1%	–
Non-profit institutions	4.3	3.6	19.5
In % of total	0.5%	0.5%	–
Total	**811.1**	**738.0**	9.9

Source: PFSA

In 2011, the lending market saw an increase in the volume of corporate loans, a decrease in the average mortgage loan rates, as well as restrictions in the volume of consumer loans. These lending volume changes, specifically in terms of housing loans denominated in foreign currencies, were significantly affected by foreign exchange rate fluctuations, including the depreciation of the PLN against CHF and EUR, which on the other hand increased the value of loans in PLN.

During the first half of 2012, corporate loan growth was lower as the effect of lower economic growth resulting in lower investment growth. The other reason behind this included lower demand, which resulted from the clients being required to contribute a larger share of their own funds towards the costs the costs of any investment for which they seek a loan.

Increased household deposit volumes during 2009, 2010 and 2011 were driven by the result of attractive deposit offers from banks, limited funding from the inter-bank market and in 2011 additionally a decrease in the attractiveness of the capital market and funding by parent companies.

During 2010, as the 'deposit war' abated, slowdown in households income and increased competition from alternative forms of saving resulted in slower growth in households deposits. Corporate deposit growth was stable, supported by gradual improvement in financial results and the accumulation of liquidity by the corporate sector.

In the first half of 2011 the trend involving the limited growth rate of deposits was maintained. The reasons behind this included term deposits being less attractive combined with the relative improvement of the condition of the economy, which induced some to increase spending or make investments. On the other hand, some households experienced decreased income and some businesses increased self-financing, thus decreasing the balance of their deposits.

The following table sets forth the deposits from the non-financial sector collected in the banking sector in Poland.

The following tables set forth the value of loans extended to the non-financial sector in Poland.

	As of 31 December			**Change**	
	2011	**2010**	**2009**	**2011-2010**	**2010-2009**
	(in PLN billion, except percentages)			*(%)*	
Households	477.4	422.4	387.7	13.0	8.9
In % of total	68.3%	68.1%	68.4%	–	–
Corporates	205.9	182.8	165.1	12.6	10.7
In % of total	29.5%	29.5%	29.1%	–	–
Non-profit institutions serving households	15.3	15.2	14.4	0.3	6.0
In % of total	2.2%	2.4%	2.5%	–	–
Total	**698.6**	**620.4**	**567.2**	**12.6**	**9.4**

Source: PFSA

	As of 30 June		**Change**
	2012	**2011**	**2012-2011**
	(in PLN billion, except percentages)		*(%)*
Households	492.2	435.8	12.9
In % of total	70.9%	69.5%	-
Corporates	185.1	176.2	5.1
In % of total	26.7%	28.1%	-
Non-profit institutions serving households	16.5	15.2	8.6
In % of total	2.4%	2.4%	-
Total	**693.8**	**627.2**	**10.6**

Source: PFSA

In 2011 the trend involving the limited growth rate of deposits was maintained as the slowdown in household income and increased competition on the banking market resulted in slower growth in household deposits. Corporate deposits increased, supported by gradual improvement in the financial results and the increase in liquidity by the corporate sector. During the first half of 2012 corporate deposits growth was lower and households deposits growth was stable.

The financial results for the banking sector in 2011 increased by 37.0 per cent. to PLN 19.5 billion gross (PLN 15.6 billion net), compared to PLN 14.2 billion gross (PLN 11.4 billion net) for 2010.

The positive financial performance of banks in 2011 resulted from lower write-offs resulting from the improvement of the financial condition of certain borrowers, as well as an increase in interest income and maintaining a stable increase in operating costs.

The financial results for the banking sector in the first half 2012 increased by 2.6 per cent. to PLN 9.8 billion gross (PLN 7.9 billion net), compared to PLN 9.6 billion gross (PLN 7.8 billion net) for the first half 2011.

The following tables presents the financial results of the Polish banking sector as well as the cost to income ratio and return on equity.

	As of and for the six months ended 30 June		As of and for the year ended 31 December		
	2012	2011	2011	2010	2009
	(in PLN billion except percentages)				
Net profit	7.9	7.8	15.6	11.4	8.3
Cost to income ratio	50.4%	51.0%	50.9%	52.4%	54.2%
Return on equity	No data	No data	No data	8.9%	8.6%
Deposits from non-financial sector	693.8	627.2	698.6	620.4	567.2

Source: PFSA

Key Trends in the Polish Banking Sector

Convergence in the Polish Banking Sector

There is strong potential for further growth of the banking industry in Poland. According to the PFSA and GUS, the banks' aggregate assets in the Polish banking sector as of 31 December 2011 amounted to 82.0 per cent. of Poland's GDP for the year as compared to the average in the Eurozone, which was 356 per cent. according to the ECB. Despite the current unfavorable market conditions, this circumstance is likely to be a significant factor in the future asset and income growth of the banking sector.

Impact of the Financial Crisis on Polish Banks

The financial crisis had a significant impact on the Polish banking market, impacting the quality of the loan portfolios and the level of earnings in the Polish banking sector, as well as putting pressure on funding for banks. However thanks to the limited involvement of banks with 'toxic assets', no speculative asset bubbles in Poland, deposits being the main source of banks' funding (with only limited reliance on funding from financial markets), the high capital adequacy ratios of banks (with high share of high quality capital – Tier 1 capital) and the stable macroeconomic situation (no recession), the Polish banking sector went through the global financial crisis well and in 2010 demonstrated improved financial results, which continued into 2011.

The inflow of funds from abroad declined and the availability of funding on the inter-bank market was reduced following a lack of trust in the market. As a result, the banks sought alternative sources of funding which significantly increased competition on the deposit market.

In 2011, the ratio of loans to deposits deteriorated to 112.6 per cent. as of 31 December 2011 as compared from 108.7 per cent. as of 31 December 2010, mainly due to the depreciation of the PLN against foreign currencies (see "*Exchange Rates*").

Growing Importance of Alternative Distribution Channels and Products

In recent years alternative distribution channels, in particular internet banking, are becoming of increasing importance. Moreover, new products, such as markets for financial advisory services, wealth management, insurance products and various investment funds in Poland have seen significant growth and is likely to be a significant driver for profitability in the future.

Capital Adequacy

Over the course of the past three years, Polish banks have strengthened their capital base. The following table shows the capital adequacy ratios and own equity of the Polish banking sector as of the dates indicated, as reported by the PFSA:

	30 June 2012	31 December 2011	30 June 2011	31 December 2010	30 June 2010	31 December 2009	30 June 2009	31 December 2008
Capital adequacy ratio (in %)	13.6	13.1	13.7	13.8	13.3	13.3	12.4	11.2
Own equity for capital adequacy (in PLN billion)	123.3	110.7	105.2	100.6	95.7	90.1	87.0	77.6

Source: PFSA

Two key factors have contributed to the strengthening capital base of the Polish banking sector: capital accumulation and equity issuances.

Capital accumulation has been driven by a reduction of dividend payments in response to the PFSA's policies, especially its recommendation to banks during June 2009 to revise their dividend policies in order to accumulate capital.

In addition, several Polish banks undertook rights issues in 2011. The trend was initiated by the Bank in 2009 and was continued in 2010. The Bank's offering was followed by those of Millennium Bank S.A., which raised PLN 1.1 billion through a rights issue in January 2010, and BRE Bank S.A., which raised PLN 2.0 billion through a rights issue in May 2010.

The implementation of Basel III will affect the situation for the Polish banking sector; but is expected to have a limited impact on the capital needs of the Polish banking sector given the current relatively high capitalization levels and high quality of capital as compared to levels in other EU countries.

Asset Quality

In 2010, the rate of decline began to slow substantially and the decline in the quality of corporate portfolios slowed down considerably in the second half of 2010, in 2011 the quality of the portfolio improved. Notably, the credit quality of large corporate clients is materially better than that of SMEs.

Since the end of 2008, the asset quality in the household segment has been deteriorating, primarily in the consumer loan portfolio and since 2011 in the mortgage loan sector.

The NPL ratio in the mortgage loan portfolio has not grown significantly, which is in part due to the fact that a large part of the portfolio has not yet been sufficiently seasoned (which is expected to take place in several years). The overall level of non-performing loans is currently relatively high compared to recent historical levels, but the pace of growth in NPL ratios has leveled off. The table below sets out the NPL ratios of various types of client segments in Poland, as of the dates indicated.

	June 2012	December 2011	June 2011	December 2010	June 2010	December 2009	June 2009	December 2008
				%				
NPL ratio of corporate clients	11.1	10.3	11.0	12.4	12.3	11.6	9.6	6.5
NPL ratio of households	7.3	7.2	7.2	7.2	6.7	6.0	4.8	3.5
Total NPL ratio	8.6	8.2	8.4	8.8	8.5	7.9	6.5	4.4

Source: PFSA

Inflation Rate and Interest Rates

Inflation in Poland (as measured by the consumer price index ("**CPI**") remains relatively elevated and above the NBP inflation target of 2.5 per cent. plus or minus 1 percentage point – it increased to 4.3 per cent. in 2011 (from 2.6 per cent. in 2010 and 3.5 per cent. in 2009), according to GUS. The rise in inflation is due in part to rising commodity prices globally (notably food, energy and fuel), and in part to moderate underlying inflation pressure domestically. In the wake of the 2008-2009 global crisis, the Monetary Policy Council decreased the NBP's interest rates to a record low of 3.5 per cent. in the middle of 2009. As inflation entered the uptrend in 2010-2011, exceeding the upper band of the inflation target of 3.5 per cent. at the end of 2010 and rising above 4.0 per cent. year-on-year in 2011, the NBP started to normalize monetary policy and increased interest rates by a cumulative 100 bps, to 4.50 per cent. in the first half of 2011 and further by 25 bps, to 4.75 per cent., in May 2012. Solid economic growth in Poland may lead to a gradual rise in wages and inflationary pressure in the medium-term. In the short-term, inflation should decline in the coming quarters (due to weaker growth momentum), but there are some upside risks stemming from high and rising commodity prices and the adoption of the EU energy and climate package. Despite CPI inflation rate remaining above 4 per cent., policy interest rates are likely to remain stable as the NBP has been focused on growth risks stemming from the Eurozone crisis. The NBP's interest rates are currently as follows: reference rate, 4.75 per cent.; Lombard rate, 6.25 per cent.; deposit rate, 3.25 per cent.; and rediscount rate, 5.00 per cent.

As a result of tightening the monetary policy, the three-month inter-bank rate (3M WIBOR) climbed from 3.94 per cent. in the beginning of 2011 to 4.99 per cent. as of the end of the year. After a 25 bps reference rate hike by the Monetary Policy Council in May 2012, 3M WIBOR rose again to 5.13 per cent. and stabilized near this level. For most of the first half of 2012 the spread between 3M WIBOR and the NBP's reference rate remained relatively stable around 46 bps on average, falling to around 35 bps after the NBP rates increase in May.

Margins

High levels of competition for deposits during the financial crisis, when liquidity was relatively scarce and expensive, resulted in negative deposit margins in 2009. Banks needed to subsidize interest paid to depositors, as deposit rates were higher than the relevant inter-bank market rates. Household and corporate deposit margins were positive in 2011.

	June 2012	December 2011	June 2011	December 2010	June 2010	December 2009	June 2009	December 2008
				%				
Average interest on new corporate deposits in zlotys	4.6	4.3	4.0	3.1	3.1	3.0	3.3	5.6
Average interest on new household deposits in zlotys	4.7	4.7	4.1	3.6	3.7	4.0	4.4	6.5
3M WIBID......................	4.9	4.8	4.5	3.8	3.7	4.1	4.2	5.7

Source: PFSA

Margins on household loans have decreased to the lowest levels since the first half of 2010 as banks seek to employ excess liquidity. Corporate loan margins have also decreased and are now below financial crisis levels.

	June 2012	December 2011	June 2011	December 2010	June 2010	December 2009	June 2009	December 2008
				%				
Average interest on new corporate loans in zlotys	6.8	6.6	6.6	5.9	6.2	6.5	7.0	8.3
Average interest on new household loans in zlotys	10.8	11.0	10.8	10.0	11.1	12.5	13.4	13.6
3M WIBOR	5.1	5.0	4.7	4.0	3.9	4.3	4.4	5.9

Source: PFSA

The Bank's Share in the Loans and Deposits of the Polish Banking Sector

The following table presents the Bank's share in the loans and deposits of the Polish banking sector, as reported by the PFSA, as of and for the six months ended 30 June 2012, as well as of and for the years ended 31 December 2011, 2010, 2009 and 2008.

	As of and for the six months ended 30 June	As of and for the year ended 31 December			
	2012	2011	2010	2009	2008
			%		
Loans					
Loans to private individuals	18.9	19.2	20.0	19.5	19.2
Loans to institutional entities	13.0	13.1	14.1	13.8	12.8
Total loans	16.0	16.2	17.2	16.6	16.0
Deposits					
Deposits of private individuals	22.0	22.3	23.2	23.4	23.5
Deposits of institutional entities	11.5	12.1	11.7	12.9	10.6
Total deposits	17.4	17.8	17.9	18.5	17.3

Source: PFSA, the Bank

BANKING REGULATIONS IN POLAND

Regulatory Environment

EU and Polish laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. Among the most important regulations are capital requirements, capital adequacy requirements and consumer protection-related regulations. In particular, a further tightening of consumer protection rights might have a significant influence on the operations of banks in Poland.

Banking Regulations in Poland

The conduct of banking activity in Poland requires a permit and is subject to a range of regulatory requirements. Banks are also required to protect banking secrets; the regulations concerning personal data protection are especially important in the retail operations of banks.

The agreements signed by banks with their clients are subject to detailed regulations. The relevant provisions protecting consumer rights impose on banks numerous obligations connected with the signing of agreements with clients (i.e. with natural persons who enters into an agreement which is not directly related to the business or professional activity of that person.

A bank must also comply at all times with the regulations on combating money laundering and financing terrorism.

Certain restrictions also apply to intermediary dealings of third parties in performing banking activities for and on behalf of a bank or to engaging in any activities related to banking operations (i.e. outsourcing).

Banks also enjoy several privileges related to the conduct of their business.

Banking Supervision

Banking supervision in Poland is exercised by the PFSA. It has extensive competencies and legal instruments at its disposal to exercise supervision over banks.

The competencies of the PFSA include, in particular:

- granting permits for:
    - the establishment of a bank and starting its operational activity,
    - amendments to its statute, and
    - appointment of two members to a bank's management board, including the president;
- issuing an objection to the purchase of or subscription for shares or rights to shares or becoming a domestic bank's parent company in case of exceeding or reaching certain percentage thresholds of total voting rights;
- supervision of banks as far as compliance with the law (including, in particular, with banking regulations) and the regulations stated in the banks' statutes;
- monitoring the financial condition of banks and the establishment of liquidity ratios and other standards of permitted risk in the banks' operations which are binding on the banks;
- issuance of recommendations concerning best practices in terms of the prudent and stable management of banks;
- issuance of guidelines to the banks concerning the taking of or refraining from any specific actions;

- imposing penalties and designating recovery measures in case of a breach of any banking regulations, including cash penalties, suspension of management board members from their duties, restriction of the bank's business or revocation of banking permits; and

- appointment of trustee management (*zarz d komisaryczny*) for banks.

Other Authorities which Exercise Material Supervision over the Activities of Banks

Specific areas of banking operations are also subject to the supervision of other administrative authorities, including in particular:

- the President of the Antimonopoly Office, within the scope of the law of competition and consumer rights laws;

- the General Inspector for the Protection of Personal Data, within the scope of the collecting, processing, administration and protection of personal data; and

- the Minister competent to oversee issues related to financial institutions and the General Inspector of Financial Information, within the scope of counteracting money laundering and the financing of terrorism.

Capital Adequacy and Risk Management Requirements

Banks must comply with a number of regulatory requirements related to their operations. The crucial ones include the requirement for banks to manage their finances in a strictly regulated fashion and all the requirements concerning equity, capital adequacy ratio, concentration of exposures, liquidity and risk management systems.

Polish Law Requirements

All the resolutions, decrees and recommendations issued by the PFSA are of material importance for banks.

In February 2010, the PFSA issued Recommendation T which is intended to improve risk management at banks, including preventing retail borrowers from becoming excessively indebted. The PFSA stated that the maximum ratio of debt servicing expense to the average income generated by debtors should not be greater than 50 per cent. for retail customers with income lower than or equal to the average remuneration in the industry and for other customers not greater than 65 per cent. of their remuneration.

In January 2011, the PFSA amended Recommendation S, which imposed limitations on Polish banks in respect of granting foreign currency loans. According to detailed recommendations concerning the financing of mortgage-secured loan exposures: (i) banks should aim at limiting the borrower's exposure to currency risks, specifically by ensuring that the exposure is in the same currency as the income; (ii) when assessing the creditworthiness of a borrower, banks should assume a maximum repayment term of 25 years; (iii) in the assessment of creditworthiness, banks should take into account the likely change in the borrower's income after retirement, if the repayment term goes past the age of retirement; (iv) in the case of foreign currency retail real-estate-financing loan exposures and foreign currency retail mortgage-secured loan exposures, the maximum ratio of loan service expenditure to average net income earned by individuals required to repay the debt should not exceed 42 per cent.

Moreover, in June 2011, the PFSA adopted Recommendation R under which the PFSA introduced rules regarding depreciated balance sheet credit exposures, selecting write-downs for balance sheet credit exposure and provisions for off-balance sheet credit exposure. Pursuant to this recommendation, banks are required to implement certain procedures to identify and manage the risk referred to above, the aim of which is to limit the discrepancies in the previous practice of banks in the presentation of credit exposures which have lost value, write-downs in view of the lost value of balance credit exposure and reserves for off-balance credit exposure in their financial statements.

In April 2011, the Polish legislator adopted an act amending the Polish Act on Trading in Financial Instruments which came into force on 12 July 2011 and increased the capital adequacy requirements for brokerage houses and the regulatory powers vested in the PFSA.

In June 2011, the PFSA increased the risk weighting of retail and mortgage loans denominated in foreign currencies from 75 per cent. to 100 per cent. (Resolution 76/2010). Risk weighting applies to the calculation of the value of risk-weighted assets which are the basis for the calculation of banks' capital adequacy ratios. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of such type. This change came into force on 30 June 2012.

In October 2011, the PFSA adopted resolutions No. 258/2011 and No. 259/2011 regarding the detailed principles of the operation of the risk management system and the internal control system, and the detailed conditions for the estimation of internal capital by banks and for reviews of the internal capital retention and estimation process and the principles of determining the policy of the variable components of the remuneration of persons in managerial positions at banks.

In addition, in January 2012 the PFSA in its letter addressed to Polish banks expressed its expectation that Polish banks should maintain a minimum capital adequacy ratio of at least 12 per cent. and a Tier 1 ratio of at least 9 per cent.

European Law Requirements

On 24 November 2010, Directive 2010/76/EU of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitizations, and the supervisory review of remuneration policies was adopted ("**CRD 3**"). With regard to capital adequacy regulations, CRD 3 increased capital requirements for certain assets that banks hold in trading books and for re-securitization instruments. It also increased disclosure obligations in several areas, such as securitization exposures in the trading book and sponsorship of off-balance-sheet vehicles. CRD 3 imposed a requirement whereby the remuneration policies need to be consistent with sound and effective risk management and are therefore subject to supervisory oversight. As a result, supervisory authorities have to monitor the implications of remuneration policies for the risk management of financial institutions. Member States were required to implement some of the provisions of CRD 3 by 1 January 2011 and the remaining provisions by 31 December 2011.

In November 2010, at the G-20 summit in Seoul the Basel Committee on Banking Supervision approved the Basel III Accord ("**Basel III**"), which provides for the tightening of the capital and liquidity requirements applicable to banks with a view to strengthening the resilience of the banking sector entities. The implementation of the Basel III reforms will begin on 1 January 2013. However, the requirements will be phased in over a period of time, being fully effective by 2019.

On 20 July 2011, the European Commission initiated a European legislative procedure in connection with the adoption of two European acts which, if adopted, will influence the banking sector. These acts are: (i) a new directive on access to the activity of credit institutions and prudential supervision of credit institutions and investment firms which amends Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate; and (ii) a new regulation on prudential requirements for credit institutions and investment firms (jointly, "**CRD 4**"). The aim of these proposals is to implement further possible changes to the capital requirements directives aimed at strengthening the resilience of the banking sector and the financial system as a whole.

The changes proposed under Basel III and CRD 4 include, among others: (i) the strengthening of capital requirements for credit risk exposures arising from derivatives, repos and securities financing activities; (ii) the introduction of a minimum liquidity standard for banks that are active internationally; (iii) the promotion of more forward-looking provisioning based on expected losses; and (iv) reducing procyclicality and promoting countercyclical buffers.

Other Law Requirements in the Banking Sector

In August 2011, the Polish legislator adopted an act amending the Polish Banking Law, which came into force on 27 October 2011. Under this amendment, changes to the provisions governing the outsourcing of banking services were introduced. The aim of the act was to broaden the scope of services that may be subject to outsourcing without the approval of the PFSA. Moreover, the act regulated the sub-outsourcing institution and the liability for actions conducted by sub-outsourcing entities.

In February 2012, the PFSA published a letter addressed to the presidents of banks in which the PFSA presented its position with regard to the necessary changes to the rules of co-operation between banks and insurance companies. The letter referred to a situation where a bank offering its products acts both as the insuring party and as the insurance broker. In respect of such products, the PFSA recommends that a clear division of roles assigned to specific entities which participate in bancassurance be introduced in each bank offering bancassurance products. In practice, this means that a bank should act either as an insurance agent and collect commission due thereto on account of procuring customers for the insurance company, or as an insuring party, whose role is simply to organize insurance coverage, while the benefits, if any, result from the fact of the borrowers having such coverage. According to the PFSA, such approach will allow for the elimination of the risk of a conflict of interest arising.

The letter of the PFSA also mentions: (i) the commission received by banks for such insurance services amounting to several dozen percent, which according to the PFSA is grossly contradictory to the need to build customer confidence in the financial markets, specifically as such commission is greatly different from the commission usually collected by insurance brokers; (ii) the inability of the insured parties or their heirs to prosecute their claims directly against the insurance company; (iii) the restricted right of choice of insurance company; and (iv) situations where the insurance company, having paid damages to the bank, files a recourse claim against the borrower.

Moreover, in March 2012 the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards. It has been recommended that multilateral arrangements be concluded between banks and the payment card organizations, with the aim of reducing the levels of interchange fees.

In addition, the Polish Parliament was also working on legislation concerning the imposition of additional financial burdens on banks. As of the date of this Prospectus, no details regarding the proposed legislation have been published, in particular there is no clear information relating to the rate of such tax (fee), the entities which will be subject to such obligation or the rules relating to the payment of such additional financial burdens.

Bank Guarantee Fund

The cash deposited in individual Polish bank accounts and any cash due under receivables confirmed by documents issued by banks in favor of specific persons is covered by a guarantee system, the Bank Guarantee Fund. The banks pay mandatory annual fees to the Bank Guarantee Fund. If a bank becomes insolvent, the means of the Bank Guarantee Fund are used to cover the claims of the banks' clients, if any. On 17 November 2010 the Bank Guarantee Fund materially increased the level of the mandatory annual fees (which are calculated as a fraction of a bank's regulatory capital requirement multiplied by 12.5 and adjusted in accordance with the Act dated 14 December 1994 on the Bank Guarantee Fund) from 0.045 per cent. to 0.099 per cent. The new fee applies to contributions starting from 1 January 2011.

Payment services

On 19 August 2011, the Act on Payment Services, which influences the banking sector, was adopted. The act regulates, inter alia, the terms and conditions of providing payment services, including specifically those concerning the transparency of contractual provisions and requirements in respect of information about payment services, the rights and obligations of the parties under payment services agreements, the scope of liability of the providers for the provision of payment services, as well as the regulatory, organizational, capital and reporting obligations imposed on the providers of payment services. Under the transitional provisions of this Act parties who are engaged in payment services at the date of the entry into force of the Act are required to adapt their services in order to meet the proposed obligations to provide information to the customers as well as the rights and obligations regarding the provision and use of payment services before 24 October 2012.

Consumer Protection

The Polish Consumer Credit Act dated 12 May 2011 (the "**Polish Consumer Credit Act**")(the purpose of which is to implement Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers of 23 April 2008), the regulations of the Polish Act dated 23 April 1964 – the Civil Code and other consumer protection laws impose on banks several obligations related to agreements signed with natural persons who perform actions that are not directly related to their business or professional activities (consumers). The most important of these are the requirements to inform the consumer about the cost of extended credit and loans and the prohibition to include specific clauses which are unfavorable to consumers in agreements. In particular, the Polish Consumer Credit Act introduces the Standard European Consumer Credit Information form, which requires a creditor to quote the total cost of a loan, comprising all the costs, including interest, commissions, taxes, fees for credit intermediaries and any other fees which the consumer has to pay in connection with a credit agreement, except for notarial costs.

The Polish Consumer Credit Act applies to all consumer loans of less than PLN 255,550 and in limited scope applies to mortgage loans. The Polish Consumer Credit Act applies to all institutions granting consumer loans, not just to banks, as well as to all intermediaries. Where a decision to reject an application for credit is based on the consultation of a database, the creditor is required to inform the consumer of this fact.

On 26 August 2011, amendments to the Polish Consumer Credit Act were introduced which consisted of granting to the borrower in the case of a loan denominated or indexed to any currency other than PLN, the right to make the principal and the interest repayments directly in that currency whereby the exercise of such right can not involve any additional cost to the borrower and whereby the lender cannot make the borrower's exercise of such right conditional on the introduction of any additional restrictions. Specifically, it must not obligate the borrower to buy the currency to be used for the repayment of the loan installments, whether in whole or in part, from a given entity.

Changes in the "Rodzina na swoim" Program

In July 2011 the law amending the terms for the implementation of the program of preferential housing loans "*Rodzina na swoim*" was adopted and entered into force on 31 August 2011, whereunder a new definition of preferential loan was made to exclusively include loans taken to satisfy the personal housing requirements of the target borrower who benefits from the financial support. The subsidies for the credit facilities will apply if a borrower files a request no later than by the end of the calendar year in which such borrower turns 35. The state aid in the repayment of a loan taken to purchase an apartment will be available not only to married couples and to persons who bring up at least one child as a single parent, but also to persons who are not married or those who do not have children. The ratio applicable to the price of one square meter of the usable floor area of real estate was decreased which constitutes an element of the attempts that have been made to discontinue this credit incentive and to decrease the State budget expense by limiting the group of apartments that would satisfy the statutory requirements, as well as decreasing the number of preferential loans covered by the application of the subsidies to their interest. Applications for preferential loans under the "*Rodzina na swoim*" program will be accepted until 31 December 2012, provided that all acquired rights will be duly observed.

Class Action Lawsuits

The possibility of bringing class action lawsuits was introduced into Polish law in July 2010. Class action suits may be brought by at least ten persons whose claims are of the same type and which are based on identical or similar factual summaries. Class action suits are used specifically in matters regarding claims for the protection of consumers, liability for damages caused by any harmful product and on account of any acts in tort. Since claims raised by customers against banks are, in principle, often of the same type and based on the same factual basis, the introduction of class action lawsuits creates the possibility of customers demanding their claims jointly (which greatly decreases the unit cost of legal services). In December 2010 a group of customers filed the ever first class action suit in Poland against one Polish bank.

Personal Data Protection

In light of the large number of individuals serviced by banks, all the regulations concerning personal data protection are of particular importance to banking operations. Personal data may be processed exclusively in compliance with specific regulations. Any operations performed with the use of personal data, such as collecting, recording, storing, editing, changing, making available or removing data (collectively, personal data processing) can only take place in a manner specified by the relevant regulations. A personal data administrator (including a bank) is required to implement technical and organizational measures ensuring the protection of the data being processed, in particular against such data being disclosed to unauthorized persons or removed by an unauthorized person, as well as against loss, damage or destruction. Additionally, the persons whom the data concerns should be able to access and correct their data.

Bank Privileges

Polish banks benefit from certain privileges related to their business. In particular, the law provides for simplified procedures for taking security interests and enforcing the payment of a bank's claims. These include the elimination of requirements of a specific form of establishing collateral. Additionally, banks have the right to transfer their receivables to another entity, which may issue securities collateralized by the transferred receivables (securitization of bank receivables). Banks are authorized to apply simplified procedures for prosecuting claims through the issuance of bank enforcement titles (*bankowy tytuł wykonawczy*). Moreover, documents issued by banks have, in general, the same status as documents issued by public officials. In this respect, however, the judgment of the Polish Constitutional Court (*Trybunał Konstytucyjny*) (Judgment of 15 March 2011, Ref. act P 7/09) declared Article 95 section 1 of the Polish Banking Law, pursuant to which the accounting books of and extracts from the accounting books of banks have the same status as official documents in civil proceedings against a consumer, to be incompatible with the constitutional principles of the democratic state (*zasada demokratycznego pa stwa prawnego*), equality and justice and the principle of consumer protection, because such would mean the statutory superiority of a professional entity (the bank) over the consumer.

GENERAL INFORMATION ON THE BANK

Basic Information

Name and legal form:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Registered office:	ul. Puławska 15, 02-515 Warsaw, Poland
Telephone number:	(+48 22) 521 91 82
Fax number:	(+48 22) 521 91 83
Website:	www.pkobp.pl
Email address:	ir@pkobp.pl
KRS (company registration number):	0000026438
REGON:	016298263
NIP:	525-000-77-38

The Bank in the form of a joint stock company was formed by virtue of the Regulation of the Council of Ministers dated 18 January 2000 on the transformation of Powszechna Kasa Oszczędności – Bank Państwowy into a wholly state-owned joint stock company operating under the business name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna issued under Article 44 of the Polish Banking Law. On 28 March 2000, under the aforementioned Regulation, the act on transformation of the state-owned bank into a wholly state-owned joint stock company was executed.

The Bank was entered in the commercial register under a court decision dated 12 April 2000. On 12 July 2001, the Bank was entered in the National Court Register kept by the District Court for the Capital City of Warsaw, XVI Registry Division. At present the competent registry court is the District Court for the Capital City of Warsaw, XIII Business Division of the National Court Register.

The Bank has been established for an unspecified period of time. The Bank operates in accordance with the Polish Commercial Companies Code, the Polish Banking Law and other rules and regulations governing banks and commercial companies as well as the provisions of the Bank's Statute and other internal regulations.

Object of Activities

The Bank's object of activities is set forth in § 4 of the Statute.

PKO Bank Polski is a universal deposit and lending bank providing services to individuals, legal entities, small, medium and large enterprises as well as to state and local government institutions and other domestic and foreign entities. The Bank is also active in the areas of treasury and investment. The Bank may hold foreign exchange values and trade in them, carry out currency and foreign exchange operations as well as open and hold accounts in foreign banks and deposit funds in accounts.

Share Capital

As of the date of the Prospectus, the Bank's share capital is PLN 1,250,000,000 and is divided into 1,250,000,000 shares with a nominal value of PLN 1 each, including 510,000,000 series A shares, including 312,500,000 registered series A shares and 197,500,000 bearer series A shares, 105,000,000 series B bearer shares, 385,000,000 series C bearer shares and 250,000,000 series D bearer shares. The conversion of series A shares into bearer shares and the transfer of these shares shall require consent expressed in a resolution of the Council of Ministers. Pursuant to § 6 section 2 of the Bank's Statute, the conversion into bearer shares or transfer of series A shares upon obtaining such consent shall result in the expiration of the restrictions provided for in the preceding sentence in respect of the shares that are subject to such conversion into bearer shares or transfer, to the extent such consent was granted.

The registered series A shares (510,000,000) issued by the Bank and owned by the State Treasury were admitted to public trading, dematerialized and registered in the depository and settlement system maintained by the Polish National Depositary for Securities (*Krajowy Depozyt Papierów Wartościowych*, the "**NDS**") in 2004, but they were not included in a motion for the admission and introduction to trading on the regulated market maintained by the WSE. Under a resolution of 7 April 2011, the Council of Ministers granted consent to the conversion of 197,500,000 registered series A shares owned by the State Treasury into bearer shares which, pursuant to §6.2 of the Bank's Statute, is necessary to convert such shares into bearer shares. On 22 November 2011, the management board of the Polish National Depositary for Securities decided to assign ISIN code PLPKO0000073 to 197,500,000 ordinary bearer shares in the Bank, following the conversion of such shares from registered shares (assigned ISIN code PLPKO0000024) to bearer shares, which was effected on 24 November 2011 at the request of the State Treasury as the Bank's shareholder. On 19 July 2012, such shares were admitted to trading on the WSE and assimilated by the NDS with the remaining 740,000,000 shares in the Bank traded on the WSE and assigned the code PLPKO0000016. The remaining 312,500,000 registered series A shares in the Bank continue to have ISIN code PLPKO0000024.

Furthermore, registered series A shares may be converted into bearer shares only in the case where they have been dematerialized within the meaning of the Polish Act of 29 July 2005 on Trading in Financial Instruments. Series A share, series B shares, series C shares and series D shares were registered in the depositary system maintained by the NDS.

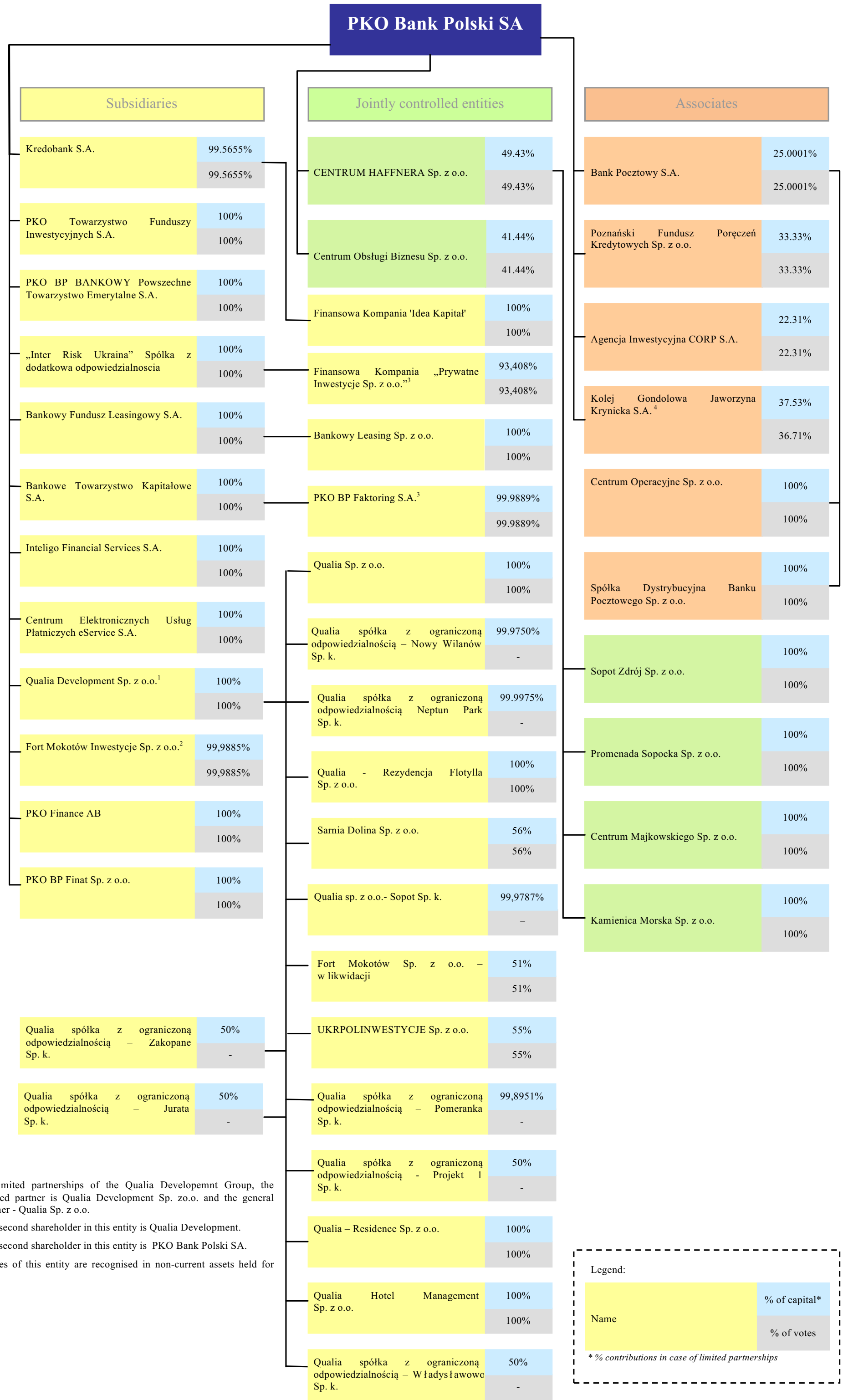
The same rights and obligations are attached to all shares. None of the shares entitle the holders to any preference, specifically as to voting rights or dividends. However, while the Bank's Statute limits the voting rights of shareholders holding over 10 per cent. of the votes at the General Meeting, such limitation does not apply to: (i) shareholders that on the date of the adoption of the resolution of the General Meeting imposing such restrictions already had rights attached to shares representing more than 10 per cent. of the total number of votes in the Bank (the State Treasury and BGK); (ii) the holders of series A registered shares (the State Treasury); and (iii) shareholders acting jointly with the shareholders mentioned in (ii) on the basis of agreements with regard to the joint exercise of the voting rights attached to their shares.

Moreover, the moment the share held by the State Treasury in the share capital of the Bank falls below five percent, the voting right limitations will expire.

PKO Bank Polski Group

As of the date of the Prospectus, the Group consists of the Bank and 31 entities directly or indirectly controlled by the Bank. These Group companies support the Bank by performing sales functions and supplementing the product range that the Bank offers. They allow the Group to provide wider scope of services and to sell a larger number of products as well as to solicit new clients through cross-selling. Furthermore, some Group entities provide services to the Bank (such as Inteligo).

The chart below presents the structure of the Group and the Bank's subordinated companies as of the date of the Prospectus:



1 In limited partnerships of the Qualia Developemnt Group, the limited partner is Qualia Development Sp. zo.o. and the general partner - Qualia Sp. z o.o.

2 The second shareholder in this entity is Qualia Development.

3 The second shareholder in this entity is PKO Bank Polski SA.

4 Shares of this entity are recognised in non-current assets held for sale.

The Bank's Principal Subsidiaries

General information on the Bank's principal subsidiaries is presented below.

Kredobank S.A.

The Bank holds 99.57 per cent. of the shares in the share capital of Kredobank, which entitles it to exercise 99.57 per cent. of the votes at the general meeting of the shareholders.

Name and legal form:	Public Joint Stock Company "Kredobank"
Registered office:	Sacharowa 78A, 79026 Lviv, Ukraine
Share capital:..	UAH 1,972,976,633
Principal object of the company:............	Banking activity.

PKO Towarzystwo Funduszy Inwestycyjnych S.A.

The Bank holds 100 per cent. of the shares in the share capital of PKO TFI, which entitles it to exercise 100 per cent. of the votes at the general meeting of shareholders.

Name and legal form:	PKO Towarzystwo Funduszy Inwestycyjnych S.A.
Registered office:	Puławska 15, 02-515 Warsaw, Poland
Share capital:..	PLN 18,000,000
Principal object of the company:............	Creation and management of investment funds.

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.

The Bank holds 100 per cent. of the shares in the share capital of PTE BANKOWY, which entitles it to exercise 100 per cent. of the votes at the general meeting of shareholders.

Name and legal form:	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.
Registered office:	Puławska 15, 02-515 Warsaw, Poland
Share capital:..	PLN 260,000,000
Principal object of the company:............	Management of an open-end pension fund.

Bankowy Fundusz Leasingowy S.A.

The Bank holds 100 per cent. of the shares in the share capital of Bankowy Fundusz Leasingowy S.A., which entitles it to exercise 100 per cent. of the votes at the general meeting of shareholders.

Name and legal form:	Bankowy Fundusz Leasingowy S.A.
Registered office:	Al. Marszałka Edwarda Śmigłego-Rydza 20, 93-281 Łód , Poland
Share capital:..	PLN 70,000,000
Principal object of the company:............	Operational and financial leasing of tangible and real estate assets; the special services provided by Bankowy Fundusz Leasingowy are: BanCar Leasing (leasing of cars), BanMasz Leasing (leasing of construction equipment and building machinery) and Bankowy Wynajem (long-term lease of cars and car fleet management).

Bankowe Towarzystwo Kapitałowe S.A.

The Bank holds 100 per cent. of the shares in the share capital of Bankowe Towarzystwo Kapitałowe S.A., which entitles it to exercise 100 per cent. of the votes at the general meeting of shareholders.

Name and legal form:	Bankowe Towarzystwo Kapitałowe S.A.
Registered office:	Bitwy Warszawskiej 1920 r. 7, 02-366 Warsaw, Poland
Share capital:..	PLN 24,243,900
Principal object of the company:............	Rendering services in favor of other Group entities, including payroll, human resources and accounting services; factoring services through its subsidiary, PKO BP Faktoring S.A.

Inteligo Financial Services S.A.

The Bank holds 100 per cent. of the shares in the share capital of Inteligo, which entitles it to exercise 100 per cent. of the votes at the general meeting of shareholders.

Name and legal form:	Inteligo Financial Services S.A.
Registered office:	Al. Armii Ludowej 26, 00-609 Warsaw, Poland
Share capital:..	PLN 99,528,069
Principal object of the company:............	Electronic banking services; the company creates a platform for the development of PKO Bank Polski's e-services, including the service of bank accounts and the sale of other products via interactive communication channels.

Centrum Elektronicznych Usług Płatniczych eService S.A.

The Bank holds 100 per cent. of the shares in the share capital of CEUP eService, which entitles it to exercise 100 per cent. of the votes at the general meeting of shareholders.

Name and legal form:	Centrum Elektronicznych Usług Płatniczych eService S.A.
Registered office:	Jana Olbrachta 94, 01-102 Warsaw, Poland
Share capital:..	PLN 56,000,000
Principal object of the company:............	Processing of information regarding payment transactions at retail and service outlets and management of the debit and credit card acceptance network, development and implementation of additional services offered on the basis of POS terminals.

Qualia Development Sp. z o.o.

The Bank holds 100 per cent. of the shares in the share capital of Qualia Development Sp. z o.o., which entitles it to exercise 100 per cent. of the votes at the meeting of shareholders.

Name and legal form:	Qualia Development Sp. z o.o.
Registered office:	Mokotowska 1, 00-640 Warsaw, Poland
Share capital:..	PLN 4,500,000
Principal object of the company:............	Construction and real estate development activity.

Fort Mokotów Inwestycje Sp. z o.o.

The Bank holds 99.99 per cent. of the shares in the share capital of Fort Mokotów Inwestycje Sp. z o.o., which entitles it to exercise 99.99 per cent. of the votes at the meeting of shareholders. The remaining shares in Fort Mokotów Inwestycje Sp. z o.o. are held by Qualia Development Sp. z o.o.

Name and legal form:	Fort Mokotów Inwestycje Sp. z o.o.
Registered office:	Mokotowska 1, 00-640 Warsaw, Poland
Share capital:...	PLN 43,551,000
Principal object of the company:	Development of mixed residential and office projects in city center of Warsaw.

PKO Finance AB (publ)

The Bank holds 100 per cent. of the shares in the share capital of PKO Finance AB (publ), which entitles it to exercise 100 per cent. of the votes at the meeting of the shareholders.

Name and legal form:	PKO Finance AB (publ)
Registered office:	c/o AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden
Share capital:...	EUR 55,474 (until 31 December 2010: SEK 500,000)
Principal object of the company:	Special purpose vehicle established in order to raise funds for Bank deriving from the issue of notes. The first tranche of the notes (in EUR) under the programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank (the "**Programme**") was issued on 12 October 2010. The second tranche of the notes (in CHF) under the Programme was issued on 7 July 2011. The third tranche of the notes (in EUR) under the Programme was issued on 25 July 2012.

PKO BP Finat Sp. z o.o.

The Bank holds 100 per cent. of the shares in the share capital of PKO BP Finat Sp. z o.o., which entitles it to exercise 100 per cent. of the votes at the meeting of the shareholders.

Name and legal form:	PKO BP Finat Sp. z o.o.
Registered office:	Grójecka 5, 02-019 Warsaw, Poland
Share capital:...	PLN 9,461,000
Principal object of the company:	Transfer agent services

Inter-Risk Ukraina additional liability company

The Bank holds 100 per cent. of the shares in the share capital of Inter-Risk Ukraina additional liability company, which entitles it to exercise 100 per cent. of the votes at the meeting of the shareholders.

Name and legal form:	Inter-Risk Ukraina additional liability company
Registered office:	Artema 52A Office 147, 04053 Kiev, Ukraine
Share capital:...	UAH 43,275,000
Principal object of the company:	Debt collection of the impaired loans portfolio of Kredobank and the impaired loans portfolio purchased by Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.

Significant associates of the Bank

General information on the Bank's significant associate – Bank Pocztowy S.A. – is presented below.

The Bank holds 25 per cent. plus one share in the share capital of Bank Pocztowy S.A., which entitles it to exercise 25 per cent. plus one vote at the general meeting.

Name and legal form:	Bank Pocztowy S.A.
Registered office:	Jagiellońska 17, 85-959 Bydgoszcz, Poland
Share capital:...	PLN 97,290,400
Principal object of the company:............	Banking activity.

MANAGEMENT AND CORPORATE GOVERNANCE

In accordance with the Polish Commercial Companies Code and the Polish Banking Law, the Bank is managed and supervised by the Management Board and the Supervisory Board. The description of the Management Board and the Supervisory Board herein has been prepared based on the Polish Commercial Companies Code, the Polish Banking Law, the Bank's Statute and the By-Laws of the Management Board and Supervisory Board as of the date of the Prospectus.

Management Board

The governing body of the Bank is the Management Board.

Composition

Pursuant to the Bank's Statute, the Management Board consists of three to nine members, including the president of the Management Board, the vice-president of the Management Board and other members.

Members of the Management Board are appointed for a joint three-year term. The Supervisory Board appoints and dismisses, by secret vote, the president of the Management Board, and at the request of the president of the Management Board, the vice-presidents of the Management Board and other members of the Management Board. A member of the Management Board may be dismissed only for an important reason. The appointment of two members of the Management Board, including the president of the Management Board, requires the consent of the PFSA. The Supervisory Board applies to the PFSA for consent for the appointment of the two members, including the president of the Management Board. Furthermore, the Supervisory Board notifies the PFSA about the composition of the Management Board and any changes thereto immediately after an appointment or change to its composition. The Supervisory Board also informs the PFSA which members of the Management Board are specifically responsible for the management of credit risk and the internal audit unit. Currently, the consent of the PFSA for the performance of the functions of the Management Board has been granted to the president of the Management Board, Zbigniew Jagiełło.

The Supervisory Board has the right to suspend, for important reasons, either all or selected members of the Management Board from the performance of their duties, and may delegate authority, for up to three months, to the members of the Supervisory Board to temporarily perform the duties of the members of the Management Board who were dismissed, have resigned or are unable for other reasons to perform their duties.

A member of the Management Board may also be dismissed or suspended from his duties by virtue of a resolution of the General Meeting.

Powers of the Management Board

The Management Board manages the Bank's affairs and represents the Bank. The authority of the Management Board include all matters not reserved by the provisions of law or the Bank's Statute for the authority of other governing bodies of the Bank.

Resolutions of the Management Board shall be required for all matters that go beyond the scope of the ordinary activities of the Bank. The Management Board shall adopt resolutions, in particular to: (i) define the strategy of the Bank, taking into consideration the risk involved in the activities of the Bank as well as the principles of prudential and stable management of the Bank; (ii) define the annual financial plans, including the conditions of their implementation; (iii) adopt organizational regulations and the principles of the division of authority; (iv) create and close permanent committees of the Bank and define their authority; (v) adopt the by-laws of the Management Board; (vi) adopt regulations concerning the management of special funds created from net profits; (vii) set the dates of dividend payments within the deadlines set by the General Meeting; (viii) appoint commercial proxies; (ix) define banking products and other banking and financial services; (x) define the principles of participation of the Bank in companies and other organizations, taking into account § 15 section 1.12.c of the Bank's Statute; (xi) define systems for effective risk management, internal control and estimating the Bank's internal capital; (xii) define the principles and functions of the internal audit system and the annual internal audit plans; and (xiii) create, transform and dissolve organizational units of the Bank in Poland and abroad.

The Polish Commercial Companies Code prohibits the General Meeting and the Supervisory Board from issuing binding instructions to the Management Board as to the conduct of the Bank's affairs. Furthermore, Management and Supervisory Board members are liable to the Bank for damage caused through negligence or an action which is against the law or in breach of the Bank's Statute.

Powers of the President of the Management Board

The powers of the president of the Management Board include, specifically: (i) managing the work of the Management Board; (ii) convening and presiding over meetings of the Management Board; (iii) presenting the position of the Management Board to the governing bodies of the Bank and in external relations; (iv) determining the assignment of the individual areas of the Bank's operations to the members of the Management Board; (v) ensuring implementation of the resolutions of the Management Board; (vi) issuing instructions; (vii) presenting motions to the Supervisory Board for the appointment and dismissal of the vice-presidents and other members of the Management Board; and (viii) making decisions concerning the staffing of the positions reserved for his competence.

In particular the president of the Management Board is responsible for the matters related to supervision over the functions supporting the operation of the Bank's governing bodies and the matters related to supervision over the functions supporting the operation of the standing committees of the Bank and the matters related to internal audits, communication and promotion and legal matters.

During the absence of the president of the Management Board, his duties will be fulfilled by a member of the Management Board appointed by the president of the Management Board.

Functioning

The Management Board operates under its by-laws adopted by its resolution and approved by the Supervisory Board.

The Management Board makes decisions by way of resolutions. Resolutions of the Management Board are passed by an absolute majority of votes cast by those present at the meeting of the Management Board, except for a resolution on appointing a commercial proxy, which requires all members of the Management Board to vote in favor of the resolution. In case of a tie, the president of the Management Board casts the deciding vote.

Representations on behalf of the Bank are made by: (i) the president of the Management Board acting individually; (ii) two members of the Management Board acting jointly, or one member of the Management Board acting jointly with a commercial proxy; or (iii) attorneys acting individually or jointly, to the extent of the power of attorney granted.

Members of the Management Board

As of the date of the Prospectus, the Management Board consists of six members.

The table below presents a list of the members of the Management Board, their age, position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date the current term began	Expiration of term of office
Zbigniew Jagiełło	47	President of the Management Board	30 June 2011	30 June 2014
Piotr Alicki	47	Vice-President of the Management Board in charge of IT and Services	30 June 2011	30 June 2014
Bartosz Drabikowski	41	Vice-President of the Management Board in charge of Finance and Accounting Acting as the Vice-President of the Management Board in charge of Risk and Debt Recovery	30 June 2011	30 June 2014
Jarosław Myjak	56	Vice-President of the Management Board in charge of Corporate Banking	30 June 2011	30 June 2014
Jacek Obłękowski	46	Vice-President of the Management Board in charge of Retail Banking	30 June 2011	30 June 2014
Jakub Papierski	38	Vice-President of the Management Board in charge of Investment Banking	30 June 2011	30 June 2014

A brief description of the qualifications and professional experience of the members of the Management Board is presented below.

Zbigniew Jagiełło

Zbigniew Jagiełło graduated from the Faculty of Information Technology and Management of Wrocław University of Technology and completed post-graduate studies organized by *Gdańska Fundacja Kształcenia Menedżerów* (Gdańsk Foundation for Education of Managers) and the University of Gdańsk where he obtained an Executive MBA title certified by the Rotterdam School of Management, Erasmus University. From 1995 he was engaged with Pioneer Pierwsze Polskie Towarzystwo Funduszy Inwestycyjnych S.A. and was subsequently one of the co-founders of PKO/Credit Suisse TFI S.A. In July 2000 he took the position of the president of the management board of Pioneer Pekao TFI S.A. Since 2005 he held the position of the president of the management board of Pioneer Pekao Investment Management S.A. In the years 1991-1994, he served as director general and president of the management board of Reventia Sp. z o.o. In the global structure of Pioneer Investments, he had the function of the Head of Distribution in CEE. He headed the Board of the Chamber of Funds and Assets Managers. Zbigniew Jagiełło has also been awarded by the President of the Republic of Poland with a Bachelor's Cross of the Order of the Revival of Poland and awarded with a Social Solidarity Medal for promoting the idea of corporate social responsibility. He is also Vice-President of the Program Council of the Foundation of PKO Bank Polski, which was established in 2010 on his own initiative. Zbigniew Jagiełło was chosen CEO of the year for 2011 by the Warsaw Stock Exchange publication "Parkiet". He is also a laureate of Wektor 2011, granted by the Employers of Poland organisation, and the Golden Banker award in the category of personality of the year 2011. Moreover, he was recognised as Manager of the Year 2011 in a contest organised by "Gazeta Bankowa" and in 2012 as one of the top 20 Managers in times of crisis by Bloomberg Businessweek Polska.

Piotr Alicki

Piotr Alicki is a graduate of the Mathematics and Physics Faculty of Adam Mickiewicz University in Poznań. He has many years of experience in the management of IT project in the banking sector. In 1990-1998, he worked for Pomorski Bank Kredytowy S.A. in Szczecin in the Information Science Department – since 1997 as its Director, where he was responsible for the design, development, implementation and operation of the bank's transaction systems. In 1999-2010, he worked for Pekao S.A. – at first as the vice-director and then the director of the IT Systems Maintenance and Development Department, and during the last five years he managed the Information Technology Department. He was responsible, among others, for the execution of the IT merger of four banks (Pekao S.A., PBKS S.A., BDK S.A. and PBG S.A.), he implemented the Integrated Information System and managed the IT business analyses area in Pekao S.A. He also managed the IT integration and migration from BPH S.A. systems to Pekao S.A. systems and participated in the work of the team responsible for the preparation of the entire integration process. In 1999-2010, Piotr Alicki participated in the works of the Polish Banks Association: in its Steering Committee for the Development of Bank Infrastructure, the Payments System Committee, the Problem Committee for Banking and the Bank Financial Services and the Electronic Banking Council. Since 2000 he has been a member of the Supervisory Council of Krajowa Izba Rozliczeniowa S.A. (National Clearing Chamber), and since 2005 to 2010 he has been its President. In the years 2002-2010, he represented Pekao S.A. in the Payments System Council operating under the auspices of the National Bank of Poland (NBP). He also served on the supervisory boards of companies belonging to the Bank Pekao S.A. Group. He was awarded a distinction by the Chairman of NBP "For Services for the Banking System of the Republic of Poland" and he is the winner of the "IT Leader 1997" competition. Piotr Alicki is also a member of the boards of directors of Visa Europe Services Inc. and Visa Europe Limited. Since December 2010 he has been a member of the supervisory board of Inteligo.

Bartosz Drabikowski

Bartosz Drabikowski graduated from the Technical University of Łódź , the Polish National School of Public Administration, the Warsaw School of Economics, the Polish Institute of International Affairs and the Executive MBA Program at the University of Illinois at Urbana – Champaign. He attended numerous academic training programs, including at Deutsche Bundesbank, Deutsche Börse AG, Deutsche Ausgleichsbank, Rheinische Hypothekenbank, the European Commission and the International Monetary Fund.

He received a scholarship from the German Marshall Fund of the United States. In 1998 he started his professional career at the Ministry of Finance, where (until 2005) he held the positions of advisor to the Minister, deputy director and director of the Financial Institutions Department, respectively. In the years 2006-2008, he served as a Member of the Management Board of the National Clearing House. Moreover, he served as a member of the Commission for Banking Supervision (2004-2005), member of the Polish Securities and Exchange Commission (2004-2005), deputy member of the

Payment System Board at the National Bank of Poland S.A. (2002-2005), member of the supervisory board of the National Depositary for Securities S.A. (2002-2004), member of the Board of the Bank Guarantee Fund (2004-2007) and member of the Supervisory Board of the Polish Security Printing Works (1998-2006). In the years 2003-2005 he also served as a member of some institutions of the European Union, including the Financial Services Committee, the European Banking Committee and the European Securities Committee. Currently, he also performs the function of a member of the supervisory boards of Inteligo and of the Association of Stock Exchange Issuers.

Jarosław Myjak

Jarosław Myjak graduated from the Faculty of American Studies (1978) and from the Faculty of Law and Administration (1981) at Adam Mickiewicz University in Poznań. He also studied Economics at the University of Toronto. Jarosław Myjak has also completed post-graduate management programs: C.E.D.E.P./General Management Program (1998-1999), Fontainebleau (1997-1999), Leadership for the Future at Columbia Business School, the University of Columbia, New York (2002-2003). He worked as a legal adviser for the law offices of Altheimer & Gray and Dewey & LeBoeuf and is a member of the Warsaw Bar Council and the Warsaw Chamber of Legal Advisers. He was responsible for establishing and developing the Commercial Union Group in Poland and Lithuania. He served in the following capacities in the Commercial Union Poland Group: in the years 1994-1998 as member of the management board, vice-president of the management board, first vice-president of the management board and, finally, president of the management board of Commercial Union Polska Towarzystwo Ubezpieczeń na Życie SA. In the years 1996-2000 he served as a member of the management board and as first vice-president of the management board of Commercial Union Polska Spółka z o.o. In the years 1997-1998 Jarosław Myjak served as first vice-president of the management board, and in the years 2001-2004 as president of the Management Board. Simultaneously, in the years 1998-2004, he served as a member and chairman of the supervisory boards of companies from the Commercial Union Group in Poland and Lithuania, such as CU PTE, CU TFI, Asset Management, Transfer Agent and CU Lithuania. Moreover, he served as a member of the supervisory board and the Strategic Committee of Bank Handlowy w Warszawie S.A., the supervisory board of BGŻ S.A. and was the chairman of the supervisory board of PKO BP Finat Sp. z o.o., as well as the vice-chairman of the supervisory board of PZU Życie S.A. (which is a counterparty to the Bank). Currently, he is the chairman of the supervisory board of Bankowy Fundusz Leasingowy and of PKO BP Faktoring S.A. In 2006 and since 2008 he has been the Vice-President of the Management Board in charge of corporate banking. He was a member of the Polish Business Roundtable and Vice-President of PIU and PKPP "Lewiatan". He was also the "Manager of the Year 2002" and was awarded the "Golden Cross of Merit of the Republic of Poland".

Jacek Obłękowski

Jacek Obłękowski graduated from the Higher School of Pedagogy (Wyższa Szkoła Pedagogiczna) in Olsztyn, specializing in history and diplomacy. He completed a brokerage course and also graduated from the University of Navara – AMP. He started his professional career at Powszechny Bank Gospodarczy S.A. in 1991 and worked there until 1998, initially as a trainee and, following several promotions, as a director of the network management department. In the years 1998-2007 he worked at the Bank as the director of the Retail Banking Division, director of the Marketing and Sales Department, acting director of the Office for Servicing Compensation Payments and most recently as managing director of the Network Division. Between December 2000 and June 2002 he acted as the director responsible for supervision of the business aspects of implementing the central IT platform at the Bank. Until 2004, Jacek Obłękowski was the President of the supervisory board of Kredobank. Between 2002 and 2007, he was a Vice-President of the Management Board responsible for the retail market area and marketing. He was also the Chairman of the Bank's Credit Committee, a member of the council of directors of VISA EUROPE and was responsible for the acquisition of Inteligo by the Bank. From 2007, Jacek Obłękowski was the President of the management board of Dominet Bank S.A. and between 2009 and 2011, following the merger, in BNP Paribas/Fortis Bank Polska S.A. he was the Vice-President of the management board responsible for the division of servicing small enterprises and individual clients. He is currently the vice-chairman of the supervisory board of PKO Towarzystwo Funduszy Inwestycyjnych S.A. and is also a member of the supervisory board of Zakłady Azotowe w Tarnowie-Mościcach S.A.

Jakub Papierski

Jakub Papierski is a graduate of the Warsaw School of Economics and a holder of a Chartered Financial Analyst (CFA) license. He commenced his professional career in 1993 in Pro-Invest International, a consulting company. In 1995-1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started working for Deutsche Morgan Grenfell / Deutsche Bank Research dealing with the banking sector in CEE. From November 2001 to September 2003, he worked for Bank Pekao S.A. as executive director of the Financial Division directly supervising the financial and fiscal policy of the bank, the managerial information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Asset and Liability Management Committee in the Bank. He accepted the position of the president of the management board of Centralny Dom Maklerski Pekao S.A. in October 2003. In September 2006, he also took the position of deputy chairman of the supervisory board of Pioneer Pekao TFI S.A. Since May 2009 Jakub Papierski served as acting president of the management board of Allianz Bank Polska S.A. and in October 2009 was appointed the president of the management board of Allianz Bank Polska S.A. From 2005 to 2009, Jakub Papierski was chairman of the Program Council of the Capital Market Leaders Academy (Akademia Liderów Rynku Kapitałowego) established at the Lesław Paga Foundation; at present, he is a member of the Academy's Program Council. Moreover, since 2011 he has been the chairman of the supervisory boards of Kredobank S.A., Qualia Development Sp. z o.o., PKO TFI S.A. and PKO BP Bankowy PTE S.A., as well as the vice-chairman of the supervisory board of Bank Pocztowy S.A.

The business address of all the Management Board members is: Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, ul. Puławska 15, 02-515 Warszawa, Poland.

Supervisory Board

The Supervisory Board exercises regular supervision over the Bank's operations.

Composition

In accordance with the Bank's Statute, the Supervisory Board consists of five to thirteen members appointed for a joint three-year term. Pursuant to § 11, section 1 of the Bank's Statute, the number of members of the Supervisory Board should be set by the Eligible Shareholder, including when a motion for the election of the Supervisory Board by voting in separate groups is presented, in which case five members of the Supervisory Board should be elected.

Members of the Supervisory Board are appointed and dismissed by the General Meeting. The detailed rules for appointing candidates to the Supervisory Board and the election of the members of the Supervisory Board are set forth in § 11 of the Bank's Statute. The Chairman and the Deputy Chairman of the Supervisory Board shall be appointed by the Eligible Shareholder from among the elected members of the Supervisory Board, including in the case where the Supervisory Board is elected by voting through separate groups. The Supervisory Board may elect a Secretary from among its members.

Powers

The Supervisory Board exercises regular supervision over the Bank's operations in all areas of its activity. The responsibilities of the Supervisory Board include an assessment of the Management Board report on the operations of the Bank and an assessment of the financial statements of the Bank for the previous financial year with regard to their compliance with the books of account and other documents, as well as their actual status. The Supervisory Board is also responsible for an assessment of the Management Board motions on the distribution of profit or coverage of loss and the submission to the General Meeting of an annual written report on the results of such assessment. The Supervisory Board represents the Bank in agreements and disputes with members of the Management Board, unless these powers are entrusted to an attorney-in-fact appointed by a resolution of the General Meeting.

Pursuant to the Bank's Statute, the powers of the Supervisory Board also include, in addition to the powers and duties provided for in the applicable laws and the provisions of the Bank's Statute, the adoption of resolutions related in particular to the following matters: (i) approving the strategy of the Bank adopted by the Management Board; (ii) approving the Bank's general risk level; (iii) approving the annual financial plan adopted by the Management Board; (iv) appointing an entity to audit or review the consolidated and stand-alone financial statements of the Bank; (v) adopting the Rules and Regulations of the Supervisory Board; (vi) adopting the regulations that set out the principles of granting credit facilities, loans, bank guarantees and sureties to members of the Management Board or the Supervisory Board and persons holding managerial positions at the Bank, as well as to entities linked by participation or control with members of the Management Board or the Supervisory Board and persons holding managerial positions at the Bank, in accordance with Article 79a of the Polish Banking Law; (vii) adopting the by-laws concerning the use of the reserves; (viii) appointing and dismissing the president of the Management Board by secret vote; (ix) appointing and dismissing by secret vote the vice-presidents and other members of the Management Board upon a motion of the president of the Management Board; (x) suspending, for important reasons, all of or selected members of the Management Board in the performance of their duties, and delegating members of the Supervisory Board, for up to three months, to temporarily perform the duties of the members of the Management Board who were dismissed, resigned or are unable, for other reasons, to perform their duties; (xi) granting consent to opening or closing branches abroad; (xii) approving the rules and regulations adopted by the Management Board and concerning the Management Board, the management of special funds created from net profits, and the organization of the Bank, as well as resolutions concerning the principles of information policy regarding capital adequacy, the principles of compliance risk management policy, the principles of operational risk management, estimates of the internal capital, management and capital planning and the principles of functioning of the internal audit system; (xiii) approving the periodical reports of the Management Board on risk management, capital adequacy and the internal audit system; and (xiv) applying to the PFSA for its consent to appoint two members of the Management Board, including the president of the Management Board.

In addition, the Supervisory Board grants its consent to: (i) the acquisition and disposal of fixed assets with a value exceeding one-tenth of the equity of the Bank, excluding real property and rights of perpetual usufruct; (ii) except for the acts referred to in § 9 section 1.5 of the Bank's Statute, the acquisition and disposal of real property, an interest in real property or the right of perpetual usufruct, or their encumbrance with a limited property right or making it available for use by a third party, if the value of the real property or the right that is the subject of such act exceeds one-fiftieth of the share capital of the Bank; such consent is not required if the acquisition of real property, an interest in real property or a right of perpetual usufruct takes place as a part of enforcement, bankruptcy or arrangement proceedings or any other agreement with a debtor of the Bank, as well as in the event of legal transactions concerning the real property or rights acquired by the Bank in the manner described above; in such cases the Management Board shall only be required to notify the Supervisory Board of the performed act; (iii) the establishment of a company, the subscription for or the acquisition of shares, bonds convertible into shares or other instruments entitling it to acquire or subscribe for shares if the financial commitment of the Bank resulting from such act exceeds one-tenth of the equity of the Bank; (iv) any transaction to be entered into between the Bank and an affiliated entity if the value of such transaction exceeds one-tenth of the share capital, except for typical and routine transactions concluded on an arm's length basis between affiliated entities when the nature and terms of such transactions are determined by the current operations of the Bank; (v) the performance of any act by the Bank as a result of which the sum of receivables of the Bank and the off-balance sheet commitments exposed to the risk of a state-owned legal person or a company with the State Treasury as the majority shareholder and entities linked by participation or control with such legal person or company would exceed 5 per cent. of the equity of the Bank.

Functioning

The Supervisory Board operates under the Rules and Regulations of the Supervisory Board which have been approved by the General Meeting.

Meetings are convened when necessary, however at least once a quarter. The Supervisory Board shall adopt resolutions in an open vote. A secret vote shall be ordered in personnel matters and at the request of at least one member of the Supervisory Board. The Supervisory Board takes resolutions by an absolute majority of votes when at least half of the members of the Supervisory Board are present, including the Chairman or the Deputy Chairman of the Supervisory Board, except for resolutions on the matters referred to in § 15 section 1 items 1-3, 5, 7-9 and 12 of the Bank's Statute, for which, except for the above quorum, a qualified majority of votes of two thirds is required. The members of the Supervisory Board who are concerned by the matter that is subject to the vote shall be excluded from the vote.

Committees of the Supervisory Board

In accordance with the Bank's Statute, the Supervisory Board establishes the Supervisory Board Audit Committee and may establish other permanent committees, the members of which shall perform their functions as members of the Supervisory Board delegated to perform the specific supervisory functions at the Bank. The detailed scope of activity of the given committee shall be set forth in the rules adopted by the Supervisory Board.

Audit Committee

Ordinary Audit Committee meetings are convened by the chairman of the Audit Committee either on his own initiative or at the request of an Audit Committee member or the Chairman of the Supervisory Board. Extraordinary Audit Committee meetings are convened by the Chairman of the Supervisory Board either on his own initiative or at the request of a member of the Supervisory Board or a member of the Management Board.

As of the date of the Prospectus, the Supervisory Board Audit Committee operated within the scope of the Supervisory Board.

The Supervisory Board Audit Committee was established on 30 November 2006 under resolutions of the Supervisory Board in order to perform regular supervision over the financial audit of the Bank and the Group. The duties of the Audit Committee include, in particular:

- monitoring the process of financial reporting, including the review of interim and annual financial statements of the Bank and the Group (stand-alone and consolidated);
- monitoring the efficiency of the systems of internal control, internal audit and risk management, in particular:
- assessment of the Bank's activities related to the implementation of the management system, including risk management and internal control and assessment of its adequacy and efficiency, among others, by means of:
    - opining on resolutions of the Management Board of the Bank to be approved by the Supervisory Board on the prudent and stable management of the Bank and on the acceptable level of risk in particular areas of the Bank's operations;
    - opining on resolutions of the Management Board of the Bank to be approved by the Supervisory Board on risk management, capital adequacy and the internal control system;

  - opining on periodic reports on risk management, capital adequacy and the internal control system submitted to the Supervisory Board;
  - assessing the Bank's activities aimed at risk mitigation through property insurance and civil liability insurance for members of the Bank's governing bodies and its proxies;
- cooperation with an internal auditor, including:
  - opining on plans related to internal audits in the Bank and the internal regulations of the Internal Audit Department;
  - performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating activities of the Internal Audit Department in light of the resources at its disposal;
  - opining, for the benefit of the Supervisory Board, on motions for the appointment and dismissal of the head of the Internal Audit Department;
- monitoring the execution of financial audit activities, in particular by means of:
  - recommending to the Supervisory Board a registered audit company to perform a financial audit of the Bank, proposing the remuneration for such audit company, and supervising and evaluating the work performed by the audit company;
  - examining written information submitted by the registered audit company concerning relevant issues regarding the financial audit, including, in particular, information concerning material irregularities in the Bank's internal control system as regards financial reporting;
- monitoring the independence of a registered auditor and a registered audit company with respect to the services referred to in par. 48, clause 2 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (the "**Auditors Act**"), in particular through obtaining:
  - statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities; and
  - information on the services referred to in par. 48, clause 2 of the Auditors Act provided to the Bank.

As of the date of the Prospectus the composition of the Supervisory Board Audit Committee was as follows: Mirosław Czekaj (Chairman of the Committee), Jan Bossak (Vice-Chairman of the Committee) and Ryszard Wierzba (Member of the Committee).

As of the date of the Prospectus, there are three members of the Supervisory Board Audit Committee, all of whom satisfy the requirements set forth in Article 86, section 4 of the Auditors Act. The Chairman of the Audit Committee, Mirosław Czekaj, in accordance with the relevant declaration, also holds qualifications in accounting and auditing.

Remuneration Committee

The Supervisory Board established the Supervisory Board Remuneration Committee on 2 November 2011.

As of the date of the Prospectus the composition of the Supervisory Board Remuneration Committee was as follows: Krzysztof Kilian (Chairman of the Remuneration Committee), Cezary Banasiński, Jan Bossak, Marek Mroczkowski and Tomasz Zganiacz (Members of the Remuneration Committee).

Meetings of the Remuneration Committee are convened on an ordinary basis by the Chairman of the Remuneration Committee not less than twice a year.

The duties of the Remuneration Committee include in particular:

- Opining the general rules of policy regarding variable elements of the remuneration of persons in management positions, which are subject to approval by the Supervisory Board;
- Performing periodic reviews of general policy rules regarding variable elements of the remuneration of persons performing management duties in the Bank and presenting the results to the supervisory Board;
- Presenting proposals to the Supervisory Board regarding respective forms of agreements with the Members of the Management Board;
- Opining motions regarding approval for a member of the Management Board to perform competitive activities or to act on behalf of a concurrent commercial company or other entity as a member of its authority;
- Opining the report conducted by the Internal Audit Department regarding the review of the implementation of the policy of variable elements of remuneration.

Members of the Supervisory Board

As of the date of the Prospectus, the Supervisory Board consists of nine members.

The current term of office of the Supervisory Board members commenced on 30 June 2011. Their appointments (terms of office) expire at the latest on the date of the General Meeting that approves the financial statements for the financial year ended 31 December 2013.

The table below presents a list of the current members of the Supervisory Board, their age and position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date the current term began	Expiration of term of office
Cezary Banasiński	56	Chairman of the Supervisory Board	30 June 2011	30 June 2014
Tomasz Zganiacz	45	Deputy Chairman of the Supervisory Board	30 June 2011	30 June 2014
Jan Bossak	66	Member of the Supervisory Board	30 June 2011	30 June 2014
Mirosław Czekaj	49	Secretary of the Supervisory Board	30 June 2011 (the Secretary from 6 July 2011)	30 June 2014
Zofia Dzik	42	Member of the Supervisory Board	6 June 2012	30 June 2014
Krzysztof Kilian	53	Member of the Supervisory Board	30 June 2011	30 June 2014
Piotr Marczak	47	Member of the Supervisory Board	30 June 2011	30 June 2014
Marek Mroczkowski	56	Member of the Supervisory Board	30 June 2011	30 June 2014
Ryszard Wierzba	70	Member of the Supervisory Board	30 June 2011	30 June 2014

A brief description of the qualifications and professional experience of the current members of the Supervisory Board is presented below.

Cezary Banasiński

Cezary Banasiński graduated from the University of Warsaw from the Faculty of Management in 1977 and the Faculty of Law and Administration in 1980 and earned a Master's degree in Management & Organization and in Law. Moreover, in 1987 he was awarded a PhD by the University of Warsaw, the Faculty of Law and Administration, where he has been a member of the academic staff since 1980. In the years 1999-2001, he held the position of the undersecretary of state at the Office of the Committee for European Integration and from 2001 to 2007 he was the president of the Office of Competition and Consumer Protection. Moreover, from 2005 to 2006 he was a member of the Securities and Exchange Commission and of the Insurance and Pension Fund Supervisory Commission. Between 2006 and 2007 Cezary Banasiński was a member of Coordination Committee for Financial Conglomerates. Cezary Banasiński is a member of the supervisory board of PKN Orlen S.A. Since November 2011, he has been a member of the Remuneration Committee of the Bank.

The business address of Cezary Banasiński is Uniwersytet Warszawski, ul. Krakowskie Przedmieście 26/28, 00-927 Warsaw, Poland.

Tomasz Zganiacz

Tomasz Zganiacz graduated from the Warsaw University of Technology, the Faculty of Automotive and Construction Machinery Engineering (earning in 1989 a Master's degree in Mechanical Engineering) and the Mechanical Faculty of Technology and Automation (in 1991 earning a Master's degree in Engineering of Industrial Organization). Moreover, in 1993 he obtained a Master of Science in Business (equivalent to an MBA) degree from the Business School (joint venture of the Warsaw University of Technology, London Business School, HEC School of Management Paris and the Norwegian School of Economics and Business Administration).

From 1991 to 1998, he was a member of the academic and teaching staff of the Institute of Production Systems Organization at the Warsaw University of Technology. He also worked as an assistant of the President of the Management Board of Mesat S.A. (1991-1992), Chief Executive Officer at Aster City S.A. (1994), Manager of the Loans Department in Société Générale Succursale de Varsovie (1995-1996) and assistant of the President of the Management Board in Eurofund Management Polska Sp. z o.o. From 1999 to 2006, he worked for 7bulls.com S.A. and held the following positions: Research & Development Director (1999), Chief Financial Officer (2001-2002) and Financial Advisor of the Management Board (2002-2006). From 1999, he worked for Pekpol S.A. where he held the position of Chief Financial Officer (1999-2002), Vice-President of the Management Board – Chief Financial Officer (2002-2003) and liquidator – Chief Financial Officer of Pekpol S.A. in liquidation (2003). From 2004 to 2006 he was a Member of the Management Board of Arksteel S.A. (until 31 December 2003 – Pekpol S.A.). From 2003 to 2006 he was also a liquidator of Pekpol-bis S.A. (on 8 June 2006 the general meeting of Pekpol-bis S.A. adopted a resolution on reversing the decision on the liquidation of the company) and from 2006 to 2009 he was the President of the Management Board of Triton Development S.A. (formerly 7bulls.com S.A.). Since 2009, he has worked for the Ministry of the State Treasury, currently as the Head of the Capital Markets Department. Since November 2011, Tomasz Zganiacz has been a member of the Remuneration Committee of the Bank and since May 2012 he has been a member of the supervisory board of PZU S.A.

The business address of Tomasz Zganiacz is Ministerstwo Skarbu Państwa, ul. Krucza 36/Wspólna 6, 00-522 Warsaw, Poland.

Jan Bossak

Jan Bossak graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics in Warsaw (now the Warsaw School of Economics), earning a Master's degree in Economics in 1968. He was awarded a scholarship from the government of Japan and took his Ph.D. course at the University of Osaka in the years 1972-1974. In 1975, he was awarded a PhD in International Economic Relations, and in 1984 he obtained a habilitation at the Faculty of Foreign Trade at the Main School of Planning and Statistics. In order to improve his occupational qualifications he has taken part in numerous finance and management training programs. In 1992, Jan Bossak started work as Professor of Economics at the Warsaw School of Economics. In 1991-1992, he acted as Chairman of the Polish-American Enterprise Fund. Moreover, from 1994 to 1996 he was Chairman of Hevelius Management International Sp. z o.o. and from 1995 to 1997 he acted as President of the Second National Investment Fund S.A. From 1999 to 2003, he acted as President of Erste Securities Polska S.A. (investment bank). From 1997 to 1999, he also acted as an advisor for Petrochemia Płock S.A. and he served as Chairman of the supervisory boards of companies such as Stilon S.A., FAMUR S.A., Tarbud S.A. and Milmet S.A. Moreover, he cooperated with the International Monetary Fund and the World Bank and organized international economics conferences. He has conducted lectures on international economic relations at many foreign universities, among others in Japan, United Kingdom and the USA. Since November 2011, Jan Bossak has been a member of the Remuneration Committee of the Bank and, since June 2011, a member of the Audit Committee of the Supervisory Board of the current term.

The business address of Jan Bossak is Szkoła Główna Handlowa, Katedra Międzynarodowych Studiów Porównawczych, Al. Niepodległości 162, 02-554 Warsaw, Poland.

Mirosław Czekaj

Mirosław Czekaj began his professional career in 1988 in BISP Co-operative Work Agency in Grudziądz where he served as the chief accountant until 1990. Between 1990 and 1992, he served as the deputy director for economic and commercial relations in the Military Armament Works in Grudziądz, and from 1992 to 2004 he was the city treasurer of the Szczecin City Hall. Between 1990 and 1992 he was also the chairman of the supervisory board of Remondis – Szczecin Sp. z o.o., Szczecin Economic Growth Support Fund (*Fundusz Wspierania Rozwoju Gospodarczego Miasta Szczecina*), Szczecińskie Centrum Renowacji sp. z o.o. Mirosław Czekaj also served as vice-president of the management board of BGK (2004-2006) and president of the management board of Euro Fund Advisors Sp. z o.o., a company from the BGŻ S.A. Group (2006-2007). Euro Fund Advisors Sp. z o.o. underwent liquidation after the end of Miroslaw Czekaj's term of office. The liquidation was connected with a change of the organizational structure within the BGŻ S.A. group. Mirosław Czekaj does not know any details of the liquidation as the procedure took place after the end of his term of office at that company. From 2005 to 2008, he was a member of the council of FIRE Fundacja Rozwoju Innowacji. Mirosław Czekaj was also a member of the supervisory board of Pomorski Bank Kredytowy S.A. Since 2007, he has served as the city treasurer in the Warsaw City Hall. Furthermore, Mirosław Czekaj is a member of the management board and the treasurer of the Union of Polish Metropolises, the chairman of the supervisory board of MPT Sp. z o.o. and is also a member of the supervisory board of the National Fund for Environmental Protection and Water Management. Since July 2011, Mirosław Czekaj has been the chairman of the Audit Committee of the Supervisory Board of the current term.

Mirosław Czekaj graduated from the Nicolaus Copernicus University in Toruń, where he earned a Magister degree in Economics in 1988. In 1992, he completed a training program for auditors organized by the Accountants Association in Poland. In 1998, Mirosław Czekaj received the title of Doctor of Economics from the University of Szczecin. Furthermore, since 2007 he has attended training courses for auditors organized annually by the Accountants Association in Poland.

The business address of Mirosław Czekaj is Urząd Miasta st. Warszawy, ul. Kredytowa 3, 00-056 Warsaw, Poland.

Zofia Dzik

Zofia Dzik graduated from the Kraków University of Economics, the University of Illinois in Chicago and the University of Social Sciences and Humanities in Warsaw. She also completed an executive program organized by the INSEAD Business School and received an MBA from the Manchester Business School. She is a certified member of the Association for Project Management (APMP).

Between 1995 and 2003 she worked as a consultant for Andersen Business Consulting. Beginning in 2003 she worked for Intouch Insurance Group (now: RSA), where in the years 2004–2007 she was the chairman of the management board of TU LINK4 S.A., whereas in the years 2007–2009 she was a member of the board of directors of Intouch Insurance B.V. in the Netherlands and the CEO for East-Central Europe of Intouch Insurance Group. She was in charge of developing new markets and was the chairman of the supervisory boards of the following companies: TU Link4 S.A., Direct Insurance Shared Services Center in Poland, Intouch Strachowanie in Russia and Direct Pojistovna in the Czech Republic. She was also the deputy chairman of the supervisory board of TU na Życie Link4 Life S.A.

In the years 2006–2008 she served as a member of the board of directors of the Polish Insurance Association (*Polska Izba Ubezpieczeń*). Between 2007 and 2010 she was a member of the supervisory board of the Polish Insurance Guarantee Fund (*Ubezpieczeniowy Fundusz Gwarancyjny*).

At present, Zofia Dzik is the president of the Board of Directors of Fundacja Humanites – Sztuka Wychowania and is a member of the supervisory boards of the following companies: TU Link4 S.A., ERBUD S.A., Polish Energy Partners S.A. and KOPEX S.A.

The business address of Zofia Dzik is Fundacja Humanites – Sztuka Wychowania, ul. Nowogrodzka 56/7, 00-695 Warsaw, Poland.

Krzysztof Kilian

Krzysztof Kilian graduated from the Gdansk University of Technology where he obtained a higher technical education and a master's degree in mechanics. He started his professional career in the "Wisla" Shipyard in Gdansk. In 1991 he held the position of the head of the Minister's Office in the Ministry of Privatization, and later he held the post of director at the Office of the Prime Minister and the Minister of Telecommunications. Krzysztof Kilian then served as an advisor to the chairman at Bank Handlowy w Warszawie S.A. and as a senior advisor at Morgan Stanley (in London). Between 1999 and 2008 he worked for his own consulting company cooperating with TDA Capital, Prokom Software and Asseco. Krzysztof Kilian was also the first executive vice-president and the chief marketing officer at Polkomtel S.A. He has experience in the activities of supervisory bodies – he has served as a member of the supervisory boards of: PL 2012 Sp. z o.o., PKO Bank Polski S.A., TFI PZU S.A., PGF S.A., Poczta Polska S.A., the Foundation for Banking Education (*Fundacja Edukacji Bankowej*), the Privatization Fund at the Ministry of Privatization, KGHM S.A. and BPH S.A. Since March 2012, Krzysztof Kilian has been the president of the Management Board of Polska Grupa Energetyczna S.A. He is also the Chairman of the Remuneration Committee of the Supervisory Board.

The business address of Krzysztof Kilian is PGE Polska Grupa Energetyczna S.A., ul. Mysia 2, 00-496 Warsaw, Poland.

Piotr Marczak

Piotr Marczak graduated from the Warsaw School of Economics (formerly the Main School of Planning and Statistics). Since 1992, he has been involved with the Ministry of Finance where he started his career in the Financial Politics and Analyses Department. At present, he is the Head of the Public Debt Department responsible, among others, for the preparation and execution of the strategy of public debt management, the State Treasury's risk and debt management, consolidation of the management of public sector liquidity and management of the State Treasury's currency liquidity. He is an author of dozens of working papers and articles on public debt and the Treasury securities market in Poland. He was a lecturer in Banking School in Lower Silesia (*Dolnośląska Szkoła Bankowa*) and a member of the supervisory board of BGK, Huta Będzin S.A., Huta Stalowa Wola S.A., and Stomil Poznań S.A. Piotr Marczak is a member of the supervisory board of Polskie Koleje Linowe S.A.

The business address of Piotr Marczak is Ministerstwo Finansów, ul. Świętokrzyska 12, 00-916 Warsaw, Poland.

Marek Mroczkowski

Marek Mroczkowski graduated from the Warsaw School of Economics (formerly the Main School of Planning and Statistics) and completed postgraduate studies at the Faculty of Law and Administration of the University of Wrocław as well as postgraduate studies at the Advanced Management Program in INSEAD Fontainebleau in France. Since 2009 he has been providing services in the field of consultancy and management at MRM Finance. Between 2007 and 2009 he was the president of the management board and general director of MAŻEIKIU NAFTA AB in Lithuania. Between 2005 and 2006 Marek Mroczkowski was the vice-president of the management board as well as the financial director of UNIPETROL A.S. in the Czech Republic (from September 2005 to April 2006 he was also the president of the management board and the general director). Between 2003 and 2004 he was the president of the management board and the general director of ELANA S.A. in Toruń, Poland. Between 2001 and 2002 he was the president of the management board and the general director of Polkomtel S.A., and from 1994 to 2001 he was the vice-president of the management board and the financial director of PKN Orlen S.A. Marek Mroczkowski also served as a member of the management board and as the financial director of Eda Poniatowa S.A. (between 1986 and 1994). Marek Mroczkowski has experience in the field of supervisory body activities – he was a member of the supervisory boards of the following companies: Impexmetal S.A., Energomontaż Północ S.A., Polkomtel S.A., Anwil S.A., Mostostal Kraków S.A. and ZCH Police S.A. He currently serves as a member of the supervisory board of Zakłady Azotowe w Tarnowie-Mościcach S.A. Since November

2011, Marek Mroczkowski has been a member of the Remuneration Committee within the Supervisory Board.

The business address of Marek Mroczkowski is "Marek Mroczkowski MRM Finance", ul. Bielawska 6/40, 02-511 Warsaw, Poland.

Ryszard Wierzba

Ryszard Wierzba holds the title of dr hab. (Ph.D.) and graduated from the Faculty of Finance and Statistics at the Warsaw School of Economics (formerly the Main School of Planning and Statistics). In 1973 Ryszard Wierzba obtained his Ph.D. in economics from the Department of Production Economics at the University of Gdańsk, and in 1981 he received a habilitation in economics from the Faculty of Finance and Statistics at the Warsaw School of Economics. In 1991 he became a professor of economics. He started his professional career in 1966 in Bank Inwestycyjny (Branch in Gdańsk), where he worked until 1969 as an inspector. In the years 1970–1972 he pursued doctoral studies at the University of Gdańsk, and since 1972 he has been working as a research fellow at the university, where he completed consecutive stages of his academic career: first as a senior assistant in the years 1972–1973, then as an adjunct in the years 1973–1982, a docent (academic appointment below that of a professor) in the years 1982–1991, an associate professor in the years 1991–1999, and finally as a full professor and the head of Department of Finance from 1999 to the present. Moreover, since 1993 he has been a deputy director of the Gdańsk Academy of Banking at the Institute of Market Economy Research in Gdańsk. He is an author of more than 180 academic publications, a member of several academic organizations, and has also completed numerous international traineeships. Since 1991 he has been a member of the supervisory boards of several large companies, including Bank Gdański S.A. (1991–1996), Bank Handlowy w Warszawie S.A. (1998–2002), Polskie Sieci Elektro-Energetyczne S.A. in Warsaw (2005–2007), and PKO Bank Polski S.A. (2008–2009). Since June 2012, Ryszard Wierzba has performed the function of a member of the Audit Committee of the Supervisory Board of the current term.

The business address of Ryszard Wierzba is Uniwersytet Gdański, ul. Armii Krajowej 101, 81-824 Sopot, Poland.

Shares in the Bank or Stock Options Owned by Members of the Management Board and the Supervisory Board

As of the date of the Prospectus, from among the members of the Management Board or the Supervisory Board, shares in the Bank are held by Zbigniew Jagiełło, who holds 9,000 shares, Piotr Alicki, who holds 2,627 shares, Jacek Obłękowski, who holds 512 shares, and Jakub Papierski, who holds 3,000 shares. As of 7 July 2011, Ryszard Wierzba, held 2,570 Shares. On 7 July 2011 Ryszard Wierzba instructed a brokerage house to manage his financial instruments portfolio in a manner that excluded any interference on his part with regard to investment decisions. Consequently, it is not possible to establish the number of shares in the Bank held by Ryszard Wierzba as of the date of the Prospectus.

Except for Zbigniew Jagiełło, Piotr Alicki, Jacek Obłękowski, Jakub Papierski and Ryszard Wierzba, no other member of the Management Board or the Supervisory Board owns any shares in the Bank or the Bank's stock options.

As of the date of the Prospectus, there are no restrictions on the disposal of the shares in the Bank held by members of the Management Board and the Supervisory Board.

Conflict of Interest

The Vice-President of the Management Board, Jacek Obłękowski, is a member of the supervisory board of Zakłady Azotowe w Tarnowie-Mościcach S.A., Supervisory Board member Krzysztof Kilian is the president of the management board of PGE Polska Grupa Energetyczna S.A. and Supervisory Board member Marek Mroczkowski is a member of the supervisory board of Zakłady Azotowe w

Tarnowie-Mościcach S.A. Also, Supervisory Board member Cezary Banasińki is a member of the supervisory board of PKN Orlen S.A. and Supervisory Board member Zofia Dzik is a member of the supervisory boards of ERBUD S.A. and KOPEX S.A.

In accordance with the represenations made by Jacek Obłękowski, Krzysztof Kilian, Marek Mroczkowski, Cezary Banasiński and Zofia Dzik, there is a risk of there being a potential conflict of interest if future decisions regarding cooperation between the above-mentioned entities and the Bank are the subject of the Supervisory Board's decisions and deliberations or as such entities are clients of the Bank.

Other than the conflicts of interest described above, with respect to all the members of the Management Board and the Supervisory Board, there are no actual or potential conflicts of interest arising from their personal interests or duties and obligations towards the Bank.

Independence of the members of the Supervisory Board

As stated in the representations submitted by Supervisory Board members, Cezary Banasiński, Jan Bossak, Mirosław Czekaj, Zofia Dzik, Krzysztof Kilian, Marek Mroczkowski and Ryszard Wierzba meet the criteria required of independent members listed in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of a beneficial ownership interest in a Rule 144A Notes, by accepting delivery of this Prospectus and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

1. it is (a) QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acting for its own account, or for the account of a QIB that is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A;

2. it will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than US$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees; in addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book entry depositories;

3. it understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP, or (b) to a non-US person (as defined in Regulation S) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any state or another jurisdiction of the United States;

4. it understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is a US person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honor the transfer of an interest in the Rule 144A Notes to a US person who is not a QIB and also a QP;

5. it understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

   THIS NOTE AND THE SENIOR LOAN IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940 (A "**QP**") THAT (A) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS, (B) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN, (C) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OF THIS NOTE, (D) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN US$200,000, (E) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (F) WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, OR (2) IN AN

OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") TO A NON-US PERSON (AS DEFINED IN REGULATION S), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. THE ISSUER HAS THE RIGHT UNDER THE TRUST DEED TO COMPEL ANY BENEFICIAL OWNER THAT IS A US PERSON AND IS NOT A QIB AND ALSO A QP TO SELL ITS INTEREST IN THIS NOTE, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH BENEFICIAL OWNER.

THE ISSUER HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THIS NOTE TO A US PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, BUT RATHER INTENDS TO RELY ON AN EXEMPTION FROM REGISTRATION THEREUNDER WHICH LIMITS THE TYPE OF INVESTORS THAT MAY BE PERMITTED TO PURCHASE AN INTEREST IN THIS NOTE TO THOSE WHO ARE "QUALIFIED PURCHASERS" AS DEFINED IN SECTION 2(A) (51) OF THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT, AND IT IS NOT USING THE ASSETS OF, A BENEFIT PLAN INVESTOR (AS DEFINED IN SECTION 3(42) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")), (2) IT IS NOT AND IS NOT USING THE ASSETS OF A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA), OR NON-US PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) SUBJECT TO LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, UNLESS THE PURCHASE AND HOLDING OF THIS NOTE WILL NOT VIOLATE SUCH SIMILAR LAW, AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON;

6. it understands and acknowledges that its purchase and holding of such Rule 144A Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Rule 144A Notes or any interest therein (a) it is not a benefit plan investor (as defined in Section 3(42) of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")), (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-US plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, unless the purchase and holding of such Rule 144A Notes will not violate such similar law, and (c) it will not sell or otherwise transfer any such Rule 144A Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.

7. it acknowledges that the Issuer, the Borrower, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Borrower, and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account;

8. it understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note Certificate. Before any interest in the Rule 144A Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the foregoing acknowledgements, representations and agreements and applicable securities laws; and

9. it is relying on the information contained in this Prospectus in making its investment decision with respect to the Rule 144A Notes. It acknowledges that none of the Issuer, the Borrower or the Managers has made any representation to it with respect to the Issuer or the Borrower or the offering or sale of the Rule 144A Notes, other than the information contained in this Prospectus which has been delivered to it and upon which it is relying in making its investment decision with respect to the Rule 144A Notes. It has had access to such financial and other information concerning the Issuer and the Borrower and the Rule 144A Notes as it has deemed necessary in connection with its decision to purchase the Rule 144A Notes, including an opportunity to ask questions of and request information from the Issuer, the Borrower and the Managers.

   Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Regulation S Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

1. it is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a US person and it is not acting for the account or benefit of a US person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Borrower or a person acting on behalf of such an affiliate;

2. it understands that such Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP or (b) to a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;

3. it understands that the Regulation S Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

   THE SECURITIES COVERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (II) OTHERWISE UNTIL 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE OF THE OFFERING, EXCEPT IN EITHER CASE IN ACCORDANCE WITH (A) REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A US PERSON OR (B) RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES

ACT) THAT IS ALSO A QUALIFIED PURCHASER (AS DEFINED IN SECTION 2(A)(51) OF THE US INVESTMENT COMPANY ACT OF 1940). TERMS USED ABOVE WHICH ARE NOT OTHERWISE DEFINED HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

4. it understands and acknowledges that its purchase and holding of such Regulation S Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Regulation S Notes or any interest therein (a) it is not a benefit plan investor (as defined in Section 3(42) of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")), (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-US plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, unless the purchase and holding of such Regulation S Notes will not violate such similar law, and (c) it will not sell or otherwise transfer any such Regulation S Note or interest to any person without first obtaining the same foregoing representations and warranties from that person;

5. the Issuer, the Borrower, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements; and

6. it understands that the Regulation S Notes offered in reliance on Regulation S will be represented by the Regulation S Global Note Certificate. Prior to the expiration of the distribution compliance period, before any interest in a Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

TAXATION

The following is a general description of certain Swedish, Polish and Luxembourg tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the laws of Sweden, Poland and Luxembourg as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information contained within this section is limited to taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

The Kingdom of Sweden

Noteholders not resident in Sweden

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to the Noteholder should not be subject to Swedish income tax, **provided that** such Noteholder is not resident in Sweden for Swedish tax purposes and **provided that** such Noteholder does not have a permanent establishment in Sweden to which the Notes are effectively connected.

Swedish withholding tax, or Swedish tax deduction, is not imposed on payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a Noteholder, except for certain payments of interest and other yield on the Notes (if any, not including capital gains) paid at the same time as interest to a private individual (or an estate of a deceased individual) with residence in Sweden for Swedish tax purposes.

Interest received by Noteholders being tax residents of countries other than Sweden may be taxed according to the domestic law of the countries of their tax residency. Accordingly, interest received by Polish Noteholders (individuals and legal persons) should be subject to 19 per cent. income tax in Poland.

Noteholders resident in Sweden

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) with residence in Sweden for Swedish tax purposes, all capital income (e.g. income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable. Specific tax consequences, however, may be applicable to certain categories of corporations, for example life insurance companies.

If the Notes are held by a Swedish nominee in accordance with the Swedish Financial Instruments Accounts Act (SFS 1998:1479), Swedish preliminary taxes are withheld by the nominee on payments of amounts that are considered to be interest for Swedish tax purposes and other yield on the Notes (if any, not including capital gains) paid at the same time as interest to a private individual (or an estate of a deceased individual) with residence in Sweden for Swedish tax purposes.

The Republic of Poland

Polish withholding tax on interest paid by the Bank to the Issuer

Payments of interest on borrowed funds by a Polish entity to a non-resident legal person are, as a rule, subject to Polish withholding income tax at the rate of 20%, subject to reduction or exemption pursuant to the terms of the applicable double tax treaty if it contains an exchange of information clause. Therefore, under Polish Law, interest derived on the territory of Poland by the Issuer, being a corporate entity resident in Sweden, is as a rule subject to 20 per cent. withholding tax in Poland. However, it is possible to decrease the tax rate on the basis of:

- a relevant treaty on the avoidance of double taxation (the "**DTT**"); or
- regulations of Polish corporate income tax act implementing the EU Directive on royalties and interest ("**EU Directive on Royalties and Interest**") is currently applying the transitional period of implementation of the above-mentioned EU Directive. During the period from 1 July 2009 to 30 June 2013, the applicable withholding tax rate is reduced to 5 per cent. Full implementation of the EU Directive on Royalties and Interest, and therefore an exemption of interest from withholding tax, will come into force starting from 1 July 2013.

The application of preferences resulting from the Poland-Sweden DTT (the treaty reduced the withholding tax rate to 0 per cent.) to the interest payments between the Bank and the Issuer is applicable only if:

(i) interest is at arm's length (the excessive interest paid between related parties does not benefit from treaty protection and withholding tax at the standard rate may apply to such excessive amounts);

(ii) the Bank is provided with a certificate of tax residency issued by the Swedish tax authorities, documenting the tax residency of the Issuer as at the time of the given interest payment;

(iii) the limitation of benefits clause under the Poland-Sweden DTT does not apply; and

(iv) the Issuer can be treated as the beneficial owner of interest received from the Bank under the Poland-Sweden DTT. There are significant controversies relating to the existence of the beneficial owner clause in the Poland-Sweden DTT. However, the Supreme Administrative Court recently issued an important judgment in that respect in which it stated that such clause is in fact present in the above-mentioned DTT and as a consequence, in order to apply the 0 per cent. withholding tax rate, it should be determined whether the recipient of the interest (the Issuer) is the beneficial owner.

In general, payments of interest on borrowed funds by a Polish entity to a non-resident legal person are subject to Polish withholding income tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received.

The Borrower believes that payments of interest on the Senior Loan made by the Borrower to the Issuer will, more likely than not, not be subject to withholding taxes under the terms of the DTT concluded between Poland and Sweden, provided the Polish tax documentation requirements (confirmation of the Issuer's tax residency in the form of a certificate of tax residency) are satisfied. In order to secure the Borrower's position, such certificate of tax residency should be renewed annually. However, as the interpretation or the wording of the DTT concluded between Poland and Sweden may be changed in the future, there can be no assurance that such double tax relief will continue to be available.

If the payments under the Senior Loan Agreement are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), the Borrower is obliged to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. In the event that the Borrower fails to increase the payments, such failure would constitute an Event of Default under the Senior Loan Agreement. If the Borrower is obliged to increase payments, it may prepay the Senior Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Currently the Polish Corporate Income Tax Law requires the tax remitter to document the tax residency status of the recipient (here: the Issuer) as at the payment date, without imposing any specific timeframe for documentation. The Bank, as the Polish withholding tax remitter is responsible for any tax arrears resulting from application of the incorrect tax rate or non-withholding the tax (unless the tax has not been withheld or withheld in a wrong amount due to the fault of the taxpayer). Therefore, if the Issuer as the recipient of interest under the Senior Loan does not provide a valid tax residency certificate, the Polish tax remitter should withhold the tax at the standard domestic 20 per cent. rate. The same would apply if interest recipient is not entitled to protection under the applicable double taxation treaty or the Polish domestic regulations implementing the EU Directive on Royalties and Interest.

Withholding tax collection and reporting requirements in Poland

If applicable, withholding tax should be withheld by the Bank at the moment of payment and transferred to the relevant Tax Office by the seventh day of the month following the month in which the tax was withheld. Additionally, a tax remitter is obliged to send the respective information on the payments made and on the tax withheld to the taxpayer and to the Polish tax office by the end of the third month of the year following the tax year in which the interest payments were made.

Upon a written request the taxpayer is entitled to obtain from the tax remitter information on the interest payments made and on the tax withheld (within 14 days from the date of the submission of the written request).

The remitter is obliged to submit to the Polish tax office, an annual tax return regarding withholding tax by the end of the first month of the year following the tax year in which the obligation to pay the tax arises.

Refund of overpaid Polish withholding tax

If withholding tax is overpaid or unduly withheld by the Bank as the tax remitter, then generally, pursuant to Polish regulations, the interest recipient/legal owner of the interest can claim the refund of the overpaid tax within five years after the tax is deducted. The application for a refund requires the submission of an application for a statement of tax overpayment to a relevant tax office.

Payments made to the Trustee after enforcement of the security

In the case of interest and fee payments made to the Trustee following any enforcement of security, due to the lack of clear and unanimous definitions of the termsrecipient and/or beneficial owner of interest, the Trustee or the Noteholders may come to be deemed to be the recipient and/or the beneficial owner of the interest in accordance with the tax treaty between Poland and the country where the Trustee or Noteholders are residents for tax purposes. As a result, the taxation of interest and other fees constituting remuneration for making capital available should be subject to the treaty between Poland and the country where the Trustee or Noteholders are residents, if any, and the provisions of such treaty, subject to compliance with treaty clearance formalities (such as the delivery of a tax residency certificate to the Bank).

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details regarding interest payments within the meaning of the EU Savings Directive or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in such other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments by deducting tax at rates rising over time to 35 per cent., unless in the case of Luxembourg the beneficial owner of the interest payments opts for one of the two information exchange procedures available. The transitional period is to terminate at the end of the first full fiscal year following the entry into an agreement by certain non-EU countries regarding the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of information exchange with the Member State of residence as of 1 January 2010.

A number of non-EU countries, including Switzerland and certain dependent or associated territories of certain Member States, have adopted similar measures (either the provision of information or transitional withholding) in relation to payments made by a person within their jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entities established in one of those territories.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

Luxembourg

All payments of interest and principal by the Issuer in the context of the holding, disposal, redemption or repurchase of the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

(i) the application of the Luxembourg laws of 21 June 2005 implementing the EU Savings Directive and several agreements concluded with certain dependent or associated territories and providing for the possible application of a withholding tax (20 per cent. from 1 July 2008 to 30 June 2011 and 35 per cent. from 1 July 2011) on interest paid to certain non-Luxembourg resident investors (individuals and certain types of entities called "**residual entities**") in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the EU Savings Directive (see, paragraph "*EU Savings Directive*" above) and agreements; and

(ii) the application as regards Luxembourg resident individuals (acting in the context of the management of their private wealth) of the Luxembourg law of 23 December 2005, as amended by law of 17 July 2008, which has introduced a 10 per cent. final withholding tax on savings income paid by a Luxembourg paying agent (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive). The law applies to savings income accrued as from 1 July 2005 and paid as from 1 January 2006. In addition, an optional and final 10 per cent. tax can be applied by Luxembourg resident individuals on savings income that is being paid by a paying agent that is established outside Luxembourg but within the EU or in a country that is member to the EEA agreement. The 10 per cent. tax would not be final in the case of savings income received by an individual in the course of his business activity, agricultural or forestry activity or in the course of a liberal profession.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 (as amended) is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer. As an exception to this rule, Luxembourg resident individuals who have opted for taxation through withholding on savings income paid by a paying agent established outside Luxembourg will be required to meet the withholding tax obligations themselves.

United States

This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the transaction. This tax disclosure was written in connection with the promotion or marketing by the

Borrower, the Issuer and the Managers, and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code. Holders should seek advice based on their particular circumstances from an independent tax advisor.

This section summarizes certain U.S. federal income tax consequences relevant to the purchase, ownership and disposition of the Notes by a U.S. Holder (as such term is defined below). This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), regulations issued under the Code, judicial authority and administrative rulings and practice, changes to any of which subsequent to the date of this Prospectus may affect the tax considerations described herein, possibly with retroactive effect. We have not sought any rulings from the Internal Revenue Service (the "IRS") or an opinion of counsel with respect to the U.S. federal income tax considerations discussed below. The discussion below is not binding on the IRS or the courts. Accordingly, there can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

This summary generally applies only to investors that purchase the Notes pursuant to this offering at the offer price set forth on the front cover hereof, and hold the Notes as "capital assets" (generally, for investment). This discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a particular holder in light of the holder's circumstances, including, without limitation, financial institutions, dealers in securities, commodities or currencies, traders in securities that elect to use a mark-to-market method of accounting, partnerships (including other entities or arrangements treated as partnerships for U.S. federal income tax purposes), regulated investment companies, real estate investment trusts, S-corporations or other pass-through entities, insurance companies, tax-exempt entities, tax-deferred or other retirement accounts, persons that actively or constructively own 10% or more of our voting shares, persons subject to the alternative minimum tax provisions of the Code, person subject to the 3.8% Medicare tax on interest and gain on the disposition of Notes, expatriates and certain former citizens or long-term residents of the United States, "controlled foreign corporations" and "passive foreign investment companies," as defined in the Code, persons holding Notes as part of a hedging or conversion transaction or a straddle, or persons deemed to sell Notes under the constructive sale provisions of the Code. Finally, this summary does not describe the effect of the U.S. federal estate and gift tax laws or the effects of any applicable non-U.S., state or local laws.

Persons considering the purchase of Notes should consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

For purposes of this discussion, a "U.S. Holder" means a beneficial owner that is, for U.S. federal income tax purposes:

(i) a citizen or individual resident of the United States;

(ii) a corporation or other business entity treated as a corporation created or organized in or under the laws of the United States or any State or the District of Columbia;

(iii) an estate whose income is subject to U.S. federal income taxation regardless of its source; or

(iv) a trust, if it has validly elected to be treated as a U.S. person or if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions.

If a partnership (including for this purpose any entity or arrangement treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a note, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partners of partnerships that are considering the purchase of Notes should consult their own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes.

The Borrower believes that the Notes should be treated as debt for U.S. federal income tax purposes. Because the Issuer has limited equity capital, however, it is possible that the IRS might take the position that the Notes represent equity in the Issuer, in which case, the Issuer likely would be a "passive foreign investment company" or "PFIC" for U.S. federal income tax purposes and the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes may be substantially different and materially adverse to U.S. Holders from those summarized below. U.S. holders should consult their tax advisors regarding the tax consequences of the Notes being treated as equity. The remainder of this discussion assumes that the Notes are treated as debt for U.S. federal income tax purposes.

U.S. Holders

Taxation of Interest

The gross amount of interest on a Note will generally be taxable to a U.S. Holder as ordinary income when received or accrued by you in accordance with your regular method of accounting for U.S. federal income tax purposes. Interest on the Notes should constitute foreign source interest income for U.S. federal income tax purposes.

Taxation of Dispositions of Notes

If you are a U.S. Holder, upon the sale, exchange, retirement or other taxable disposition of a note, you generally will recognize a gain or loss equal to the difference between the amount received on such disposition (other than amounts representing accrued and unpaid interest, which will be treated as interest income to the extent not previously included in income) and your tax basis in the note. Your tax basis in the note will be, in general, the cost of the note. Gain or loss realized on the sale, exchange, retirement or other disposition of the Notes generally will be treated as U.S. source income or loss. Gain or loss realized on the sale, exchange or retirement of a note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such sale, exchange or retirement, the note has been held for more than one year. Net long-term capital gain recognized by a non-corporate U.S. Holder generally is subject to U.S. federal income tax at a preferential rate. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

When required, we or our paying agent will report to the holders of the Notes and the IRS amounts paid on or with respect to the Notes and the amount of any tax withheld from such payments. Certain U.S. Holders may be subject to backup withholding on payments made on or with respect to the Notes and on payment of the proceeds from the disposition of a note. If you do not establish, if required, that you are an exempt recipient, backup withholding will apply to you only if you:

- fail to furnish your Taxpayer Identification Number, or TIN, which for an individual is your Social Security Number;
- furnish an incorrect TIN;
- are notified by the IRS that you have failed to properly report payments of interest; or
- under certain circumstances, fail to certify, under penalties of perjury, that you have furnished a correct TIN and have not been notified by the IRS that you are subject to backup withholding for failure to report interest payments.

You will be eligible for an exemption from backup withholding upon providing a properly completed IRS Form W-9 (or substitute form) to us or our paying agent. Backup withholding is not an additional tax and may be refunded or credited against your U.S. federal income tax liability, provided you timely furnish the required information to the IRS. The information reporting requirements may apply regardless of whether withholding is required.

New IRS Reporting Requirements With Respect to Notes

New legislation generally imposes new U.S. return disclosure obligations (and related penalties for failure to disclose) on certain U.S. Holders that hold certain specified foreign financial assets in excess of USD 50,000. Such U.S. Holders are required to file such information on IRS Form 8938 with their U.S. federal income tax returns. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Notes are held in an account at a domestic financial institution. U.S. Holders are urged to consult their own tax advisors regarding the possible implications of this recently enacted legislation (including the filing of IRS Form 8938) on their investment in the Notes.

U.S. Foreign Account Tax Comliance Withholding

For a discussion of the possible imposition of withholding under Code sections 1471-1474 ("**FATCA**") on payments made on or with respect to the Notes, see "*Risk Factors – Risks Related to the Notes – Risk Related to U.S. Foreign Account Tax Compliance Withholding*." Each holder of Notes should consult its own tax adviser to obtain an explanation of FATCA and to learn how it might affect such holder in its particular circumstance.

The U.S. federal tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their own tax advisors with respect to the tax consequences to them of the purchase of Notes and the beneficial ownership and disposition of the Notes, including the tax consequences under state, local, non-U.S. and other tax laws and the possible effects of changes in U.S. federal or other tax laws.

SUBSCRIPTION AND SALE

Goldman Sachs International and J.P. Morgan Securities plc (the "**Joint Lead Managers**") and Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Manager**" and together with the Joint Lead Managers, the "**Managers**") have, in a subscription agreement dated 20 September 2012(the "**Subscription Agreement**") and made between the Issuer, the Borrower and the Managers upon the terms and subject to the conditions contained therein, severally (not jointly or jointly and severally) agreed to subscribe for the Notes at their issue price of 100.0 per cent. of their principal amount less a combined management and underwriting commission of 0.25 per cent. of their principal amount. The Borrower has also agreed to reimburse the Joint Lead Managers for certain of its expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United Kingdom

Each Joint Lead Manager has further represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorized person apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

Regulation S Notes

The Notes and the Senior Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has severally, and not jointly nor jointly and severally, represented that it has offered and sold the Notes, and has agreed that it will offer and sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S or Rule 144A as set forth below. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Joint Lead Manager has severally, and not jointly nor jointly and severally, agreed that, at or prior to confirmation of a sale of Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph and not otherwise defined have the meanings given to them by Regulation S.

Regulation 144A Notes

Each Joint Lead Manager has severally, and not jointly, nor jointly and severally, represented, warranted and undertaken that neither it nor any of its affiliates (as defined by Rule 501(b) of Regulation D under the Securities Act), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Notes in the United States.

Each Joint Lead Manager has severally, and not jointly nor jointly and severally, represented, warranted and undertaken that it has offered and sold and will offer and sell the Notes only to persons whom it reasonably believes are QIBs and QPs who can represent that (A) they are QIBs who are also QPs; (B) they are not broker-dealers who own and invest on a discretionary basis less than US$25 million in securities of unaffiliated issuers; (C) they are not participant-directed employee plans, such as a 401(k) plan; (D) they are acting for their own account, or the account of one or more QIBs each of which is a QP; (E) they are not formed for the purpose of investing in the Notes or the Issuer; (F) they will, and each account for which they are purchasing will hold and transfer at least US$ 200,000 in principal amount of Notes at any time; (G) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (H) they will provide notice of the transfer restrictions set forth in the Prospectus to any subsequent transferees.

In addition, until 40 days after commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer that is not participating in the offering of the Notes may violate the registration requirements of the Securities Act, if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section and not otherwise defined herein have the meanings given to them by Regulation S.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States and for the listing of Notes on the Luxembourg Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any US person other than any QIB that is also a QP and to whom an offer has been made directly by one of the Managers or its US broker-affiliate. Distribution of this Prospectus by any non-US person outside the United States or by any QIB that is also a QP in the United States to any US person or to any other person within the United States, other than any QIB that is also a QP and those persons, if any, retained to advise such non-US person or QIB that is also a QP with respect thereto, is unauthorized and any disclosure without the prior written consent of the Issuer of any of its contents to any such US person or other person within the United States, other than any QIB that is also a QP and those persons, if any, retained to advise such non-US person or QIB that is also a QP, is prohibited.

Poland

Unless the Prospectus for the Notes has been approved by either the Polish competent authority for the approval of prospectuses for the public offering of securities in Poland or the admission of securities to trading on a regulated market in Poland or the relevant competent authority in an EU member state, and Poland has received a certificate of such approval with a copy of the Prospectus and Polish translation of its summary as required under the Polish Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (Journal of Laws of 2005, No. 184 item 1539) (the "**Polish Act on Public Offering**"), the Notes may not be publicly offered in Poland or admitted to trading on a regulated market in Poland. Pursuant to Art. 3 of the Act on Public Offering, "**public offering**" means "communication in any form and by any means, made within the Republic of Poland and addressed to at least 100 persons, or to an unspecified addressee, which contains sufficient information on the securities to be offered and the terms and conditions of their acquisition, so as to enable an investor to decide to purchase securities".

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Joint Lead Manager has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

General

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any offering material, in all cases at its own expense. Other persons into whose hands this Prospectus comes are required by the Issuer, the Borrower and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any offering material relating to the Notes, in all cases at their own expense.

New Issue of Securities

Prior to this offering, there has been no established market for the Notes. Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market. The Bank and the Joint Lead Managers whereby the Joint Lead Managers have agreed to make a market in the Notes as permitted by applicable laws and regulations. The Joint Lead Managers are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Bank cannot assure you as to the liquidity of, or the development or continuation of trading markets for, the Notes.

GENERAL INFORMATION

Authorization

1. The issuance of the Notes and the execution of the Senior Loan Agreement have been authorized by the resolution of the Supervisory Board of the Borrower dated 4 April 2012 and the resolutions of the Management Board of the Borrower dated 20 March 2012 and 18 September 2012, as amended on 19 September 2012, as well as the resolution of the board of directors of the Issuer dated 20 September 2012.

Legal and Arbitration Proceedings

2. Except as disclosed in "*Business of the Group – Legal, Administrative and Arbitration Proceedings*", there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Borrower is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Borrower and its subsidiaries.

Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer or any significant change in the financial or trading position of the Issuer since 31 December 2011. There has been no material adverse change in the prospects of the Borrower and its subsidiaries since 31 December 2012 nor has there been any significant change in the financial or trading position of the Borrower and its subsidiaries since 30 June 2012.

Independent Certified Auditors

4. PricewaterhouseCoopers Sp. z o.o., with its registered office in Warsaw (00-638 Warszawa, Al. Armii Ludowej 14), audited the consolidated financial statements of the Group for the year ended 31 December 2011 and the consolidated financial statements of the Group for the year ended 31 December 2010 and issued unqualified auditor's opinions on the aforementioned financial statements. PricewaterhouseCoopers Sp. z o.o. audited the stand-alone financial statements of the Bank for the year ended 31 December 2011 and the stand-alone financial statements of the Bank for the year ended 31 December 2010 and issued unqualified auditor's opinions on the aforementioned financial statements. The stand-alone financial statements of the Bank audited by PricewaterhouseCoopers Sp. z o.o. are not included in this Prospectus nor incorporated into this Prospectus by reference.

   Furthermore, PricewaterhouseCoopers Sp. z o.o. conducted a review of the Consolidated Interim Financial Statements and issued an unqualified review report. According to the relevant auditing standards, PricewaterhouseCoopers Sp. z o.o. planned and performed its review in order to obtain moderate assurance that the Consolidated Interim Financial Statements are free of any material misstatements. The scope and methodology of the review of the Consolidated Interim Financial Statements differs significantly from the scope of an audit that constitutes a basis for expressing an opinion on compliance with the applicable accounting principles and policies and the fairness and clarity of the financial statements. Accordingly, PricewaterhouseCoopers Sp. z o.o. did not express an opinion on the Consolidated Interim Financial Statements and therefore the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied.

   PricewaterhouseCoopers Sp. z o.o. is registered in the register of auditors held by the National Chamber of Statutory Auditors under No. 144. On behalf of PricewaterhouseCoopers Sp. z o.o., the consolidated financial statements of the Group for the years ended 31 December 2011 and 2010 were audited by Antoni F. Reczek (certified auditor, license No. 90011).

Öhrlings PricewaterhouseCoopers AB, with its registered office in Stockholm (Torsgatan 21, 113 97 Stockholm, Sweden), audited the stand-alone financial statements of the Issuer for the year ended 31 December 2011 and the stand-alone financial statements of the Issuer for the year ended 31 December 2010 and issued unqualified auditor's opinions on the aforementioned financial statements.

On behalf of Öhrlings PricewaterhouseCoopers AB, the stand-alone financial statements of the Issuer for the year ended 31 December 2011 and the stand-alone financial statements of the Issuer for the year ended 31 December 2010 were audited by Sussanne Sundvall who is a member of FAR in Sweden.

There were no events of resignation or dismissal of a certified auditor appointed to audit the financial statements of the Bank or the Group in the period covered by the Consolidated Financial Statements included in this Prospectus.

In accordance with the Bank's Statute, an auditor authorized to audit the financial statements of the Bank and the consolidated financial statements of the Group is appointed by the Supervisory Board.

On 17 April 2008, the Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. as the auditor authorized to audit the annual financial statements of the Bank and the annual consolidated financial statements of the Group and to review the interim semi-annual financial statements of the Bank and the interim semi-annual consolidated financial statements of the Group for the years 2008-2010.

On 27 June 2008, the Issuer appointed Öhrlings PricewaterhouseCoopers AB as the auditor authorized to audit the annual stand-alone financial statements of the Issuer for the years ended 31 December 2008, 2009, 2010 and 2011.

On 28 March 2010, the Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. as the auditor authorized to audit the annual financial statements of the Bank and the annual consolidated financial statements of the Group and to review the interim semi-annual financial statements of the Bank and the interim semi-annual consolidated financial statements of the Group for the years 2011-2013.

Services provided by the Managers

5. Certain of the Managers have been and may be currently, directly or indirectly through affiliates, providing investment and commercial banking, financial advisory and other services to the Borrower and its affiliates from time to time, for which they have or will receive monetary compensation. Certain of the Managers may from time to time also enter into swap and other derivative transactions with the Borrower and its affiliates. In addition, certain of the Managers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Borrower or its affiliates.

Listing

6. Application has been made to the Luxembourg Commission de Surveillance du Secteur Financier (the "CSSF") in Luxembourg, which is the Luxembourg competent authority under the Prospectus Act 2005 for the purpose of the Prospectus Directive to approve this document as a Prospectus. Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the Luxembourg stock exchange's regulated market.

7. The total fees and expenses in connection with the admission of the Notes to trading on the Luxembourg stock exchange's registered market are expected to be approximately EUR 20,000.

8. This Prospectus will be published on the Luxembourg Stock Exchange's website (www.bourse.lu).

Documents on Display

9. Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the offices of The Principal Paying Agent at One Canada Square, 40th Floor, London E14 5AL, United Kingdom for from the date of this Prospectus:

   (a) a copy of this Prospectus along with any supplement to this Prospectus;

   (b) the Articles of Association and Certificate of Registration of the Issuer;

   (c) the By-laws (*Statut*) of the Borrower;

   (d) the audited consolidated financial statements of the Group for the years ended 31 December 2010 and 2011;

   (e) the auditors' reports in respect of the audited consolidated financial statements of the Group for the years ended 31 December 2010 and 2011;

   (f) the audited stand-alone financial statements of the Issuer for the years ended 31 December 2010 and 2011;

   (g) the auditors' report in respect of the audited stand-alone financial statements of the Issuer for the years ended 31 December 2010 and 2011;

   (h) the Agency Agreement;

   (i) the Trust Deed;

   (j) the Senior Loan Agreement; and

   (k) the Account Bank Agreement.

Clearing of the Notes

10. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Indication of Yield

11. On the basis of the issue price of the Notes of 100 per cent. of their principal amount, the gross real yield of the Notes is 4.630 per cent. on an annual basis and is equal to the gross real yield of the Senior Loan.

ISIN and Common Code

12. Application has been made for acceptance of the Restricted Global Certificates into DTC's book-entry settlement system. The Global Note Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The relevant ISIN, common code and CUSIP numbers are set out below:

	Restricted Notes	Unrestricted Notes
ISIN	US69342NAA90	XS0783934085
Common Code	061917179	078393408
CUSIP	69342NAA9	

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

CONTENTS

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.

Bank Polski

Condensed Interim Consolidated Financial Statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group

for the six-month period ended 30 June 2012

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2012 to 30.06.2012	period from 01.01.2011 to 30.06.2011	period from 01.01.2012 to 30.06.2012	period from 01.01.2011 to 30.06.2011
Net interest income	4 042 245	3 574 546	956 835	901 002
Net fee and commission income	1 502 699	1 541 403	355 702	388 527
Operating profit	2 443 226	2 311 028	578 333	582 519
Profit before income tax	2 449 254	2 307 231	579 760	581 562
Net profit (including non-controlling shareholders)	1 952 805	1 837 147	462 246	463 072
Net profit attributable to the parent company	1 953 361	1 838 314	462 378	463 367
Earnings per share for the period – basic (in PLN/EUR)	1.56	1.47	0.37	0.37
Earnings per share for the period – diluted (in PLN/EUR)	1.56	1.47	0.37	0.37
Net comprehensive income	1 773 245	1 757 367	419 743	442 963
Net cash flow from / used in operating activities	(82 984)	2 089 581	(19 643)	526 701
Net cash flow from / used in investing activities	2 280 924	(482 189)	539 915	(121 541)
Net cash flow from / used in financing activities	(2 109 884)	(160 920)	(499 428)	(40 562)
Total net cash flows	88 056	1 446 472	20 844	364 600

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.06.2012	as at 31.12.2011	as at 30.06.2012	as at 31.12.2011
Total assets	190 437 871	190 748 037	44 690 088	43 186 931
Total equity	23 007 729	22 821 984	5 399 228	5 167 086
Capital and reserves attributable to equity holders of the parent company	23 009 657	22 823 274	5 399 680	5 167 378
Share capital	1 250 000	1 250 000	293 338	283 010
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	18.41	18.26	4.32	4.13
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)	18.41	18.26	4.32	4.13
Capital adequacy ratio	13.01%	12.37%	13.01%	12.37%
Basic funds (tier 1)	18 971 668	16 664 233	4 452 085	3 772 920
Supplementary funds (tier 2)	1 569 066	1 545 549	368 213	349 925
Short-term equity (tier 3)	59 979	133 134	14 075	30 143

The selected consolidated financial statements positions were translated into EUR using the following exchange rates:

- income statement, statement of comprehensive income and statement of cash flows items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of the six-month period ended 30 June 2012 and 2011, respectively: EUR 1 = PLN 4.2246 and EUR 1 = PLN 3.9673,
- statement of financial position items – average NBP exchange rate as at 30 June 2012: EUR 1 = PLN 4.2613 and as at 31 December 2011: EUR 1 = PLN 4.4168.

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CONSOLIDATED INCOME STATEMENT

for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

	Note	01.01-30.06.2012	01.01-30.06.2011
Continuing operations			
Interest and similar income	4	6 487 257	5 602 314
Interest expense and similar charges	4	(2 445 012)	(2 027 768)
Net interest income		**4 042 245**	**3 574 546**
Fee and commission income	5	1 853 696	1 899 854
Fee and commission expense	5	(350 997)	(358 451)
Net fee and commission income		**1 502 699**	**1 541 403**
Dividend income		6 077	6 537
Net income from financial instruments designated at fair value	6	15 385	(35 276)
Gains less losses from investment securities		4 642	15 937
Net foreign exchange gains		144 655	132 385
Other operating income	7	237 646	230 109
Other operating expense	7	(162 497)	(150 042)
Net other operating income and expense		**75 149**	**80 067**
Net impairment allowance and write-downs	8	(1 101 285)	(881 400)
Administrative expenses	9	(2 246 341)	(2 123 171)
Operating profit		**2 443 226**	**2 311 028**
Share of profit (loss) of associates and jointly controlled entities		6 028	(3 797)
Profit before income tax		**2 449 254**	**2 307 231**
Income tax expense	10	(496 449)	(470 084)
Net profit (including non-controlling shareholders)		**1 952 805**	**1 837 147**
Profit (loss) attributable to non-controlling shareholders		(556)	(1 167)
Net profit attributable to equity holders of the parent company		**1 953 361**	**1 838 314**
Earnings per share	11		
– basic earnings per share for the period (PLN)		1.56	1.47
– diluted earnings per share for the period (PLN)		1.56	1.47
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 the first half of 2012 and in the first half of 2011 the PKO Bank Polski SA Group did not carry out discontinued operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

	Note	01.01-30.06.2012	01.01-30.06.2011
Net profit (including non-controlling shareholders)		**1 952 805**	**1 837 147**
Other comprehensive income		**(179 560)**	**(79 780)**
Cash flow hedges (gross)	16	(241 976)	(94 406)
Deferred tax on cash flow hedges	10	45 975	17 937
Cash flow hedges (net)		(196 001)	(76 469)
Unrealised net gains on financial assets available for sale (gross)		21 811	28 856
Deferred tax on unrealised net gains on financial assets available for sale	10	(4 108)	(5 482)
Unrealised net gains on financial assets available for sale (net)		17 703	23 374
Currency translation differences from foreign operations		(2 443)	(26 318)
Share in other comprehensive income of an associate		1 181	(367)
Total net comprehensive income		**1 773 245**	**1 757 367**
Total net comprehensive income, of which attributable to:		**1 773 245**	**1 757 367**
equity holders of PKO Bank Polski SA		1 773 883	1 758 261
non-controlling shareholders		(638)	(894)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2012 and as at 31 December 2011

	Note	30.06.2012	31.12.2011
ASSETS			
Cash and balances with the central bank		8 837 388	9 142 168
Amounts due from banks	13	2 761 316	2 396 227
Trading assets	14	389 610	1 311 089
Derivative financial instruments	15	2 857 209	3 064 733
Financial assets designated upon initial recognition at fair value through profit and loss	17	14 946 799	12 467 201
Loans and advances to customers	18	141 331 155	141 634 494
Investment securities available for sale	19	12 741 997	14 393 276
Investments in associates and jointly controlled entities	20	124 555	123 119
Non-current assets held for sale		20 401	20 410
Inventories		586 039	566 846
Intangible assets	21	1 770 959	1 800 008
Tangible fixed assets, of which:	21	2 494 788	2 541 317
investment properties		243	248
Current income tax receivables		2 387	5 957
Deferred income tax asset	10	615 651	543 922
Other assets		957 617	737 270
TOTAL ASSETS		**190 437 871**	**190 748 037**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank		2 868	3 454
Amounts due to banks	22	5 740 840	6 239 164
Derivative financial instruments	15	2 759 720	2 645 281
Amounts due to customers	23	146 986 505	146 473 897
Debt securities in issue	24	7 303 275	7 771 779
Subordinated liabilities		1 614 369	1 614 377
Other liabilities	25	2 294 797	2 450 763
Current income tax liabilities		75 382	78 810
Deferred income tax liability		33 673	29 364
Provisions	26	618 713	619 164
TOTAL LIABILITIES		**167 430 142**	**167 926 053**
Equity			
Share capital		1 250 000	1 250 000
Other capital		20 004 020	17 881 264
Currency translation differences from foreign operations		(94 384)	(92 023)
Unappropriated profits		(103 340)	(23 162)
Net profit for the year		1 953 361	3 807 195
Capital and reserves attributable to equity holders of the parent company		**23 009 657**	**22 823 274**
Non-controlling interest		(1 928)	(1 290)
TOTAL EQUITY		**23 007 729**	**22 821 984**
TOTAL LIABILITIES AND EQUITY		**190 437 871**	**190 748 037**
Capital adequacy ratio	38.1.2	13.01%	12.37%
Book value (in PLN thousand)		23 007 729	22 821 984
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		18.41	18.26
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		18.41	18.26

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

for the six-month period ended 30 June 2012	Share capital	Other capital							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
As at 1 January 2012	**1 250 000**	**13 041 390**	**1 070 000**	**3 460 368**	**(257)**	**(52 422)**	**362 185**	**17 881 264**	**(92 023)**	**(23 162)**	**3 807 195**	**22 823 274**	**(1 290)**	**22 821 984**
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 807 195	(3 807 195)	-	-	-
Total comprehensive income, of which:	-	-	-	-	**1 181**	**17 703**	**(196 001)**	**(177 117)**	**(2 361)**	-	**1 953 361**	**1 773 883**	**(638)**	**1 773 245**
Net profit	-	-	-	-	-	-	-	-	-	-	1 953 361	**1 953 361**	(556)	**1 952 805**
Other comprehensive income	-	-	-	-	1 181	17 703	(196 001)	(177 117)	(2 361)	-	-	**(179 478)**	(82)	**(179 560)**
Transfer from unappropriated profits	-	2 322 284	-	66 122	-	-	-	2 388 406	-	(2 388 406)	-	-	-	-
The effect of the takeover of subsidiary's assets and liabilities by the parent company	-	-	-	(88 533)	-	-	-	**(88 533)**	-	88 533	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(1 587 500)	-	**(1 587 500)**	-	(1 587 500)
As at 30 June 2012	**1 250 000**	**15 363 674**	**1 070 000**	**3 437 957**	**924**	**(34 719)**	**166 184**	**20 004 020**	**(94 384)**	**(103 340)**	**1 953 361**	**23 009 657**	**(1 928)**	**23 007 729**

for the six-month period ended 30 June 2011	Share capital	Other capital							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
As at 1 January 2011	**1 250 000**	**12 212 177**	**1 070 000**	**3 412 239**	**976**	**(25 171)**	**217 924**	**16 888 145**	**(109 747)**	**112 297**	**3 216 883**	**21 357 578**	**1 990**	**21 359 568**
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 216 883	(3 216 883)	-	-	-
Total comprehensive income, of which:	-	-	-	-	**(367)**	**23 374**	**(76 469)**	**(53 462)**	**(26 591)**	-	**1 838 314**	**1 758 261**	**(894)**	**1 757 367**
Net profit	-	-	-	-	-	-	-	-	-	-	1 838 314	1 838 314	(1 167)	1 837 147
Other comprehensive income	-	-	-	-	(367)	23 374	(76 469)	(53 462)	(26 591)	-	-	(80 053)	273	(79 780)
Transfer from unappropriated profits	-	830 200	-	48 129	-	-	-	878 329	-	(878 329)	-	-	-	-
Dividends declared	-	-	-	-	-	-	-	-	-	(2 475 000)	-	(2 475 000)	-	(2 475 000)
As at 30 June 2011	**1 250 000**	**13 042 377**	**1 070 000**	**3 460 368**	**609**	**(1 797)**	**141 455**	**17 713 012**	**(136 338)**	**(24 149)**	**1 838 314**	**20 640 839**	**1 096**	**20 641 935**

(in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six-month periods ended 30 June 2012 and 30 June 2011 respectively

	Note	01.01-30.06.2012	01.01-30.06.2011
Net cash flow from operating activities			
Profit before income tax		2 449 254	2 307 231
Adjustments:		(2 532 238)	(217 650)
Amortisation and depreciation		269 622	251 381
(Gains) losses from investing activities		1 657	(11 007)
Interest and dividends		(427 516)	(157 146)
Change in amounts due from banks		28 401	68 643
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(1 558 119)	(1 687 797)
Change in derivative financial instruments (asset)		207 524	23 770
Change in loans and advances to customers		(55 483)	(5 445 687)
Change in other assets		(239 531)	(267 371)
Change in amounts due to banks		(525 071)	1 151 870
Change in derivative financial instruments (liability)		114 439	(145 983)
Change in amounts due to customers		512 618	6 114 189
Change in debt securities in issue		(66 195)	34 172
Change in impairment allowances and provisions		315 850	439 296
Change in other liabilities		(17 897)	112 648
Income tax paid		(521 120)	(439 977)
Other adjustments		(571 417)	(258 651)
Net cash from / used in operating activities		**(82 984)**	**2 089 581**
Net cash flow from investing activities			
Inflows from investing activities		**9 568 978**	**2 112 307**
Proceeds from sale of investment securities		9 564 992	2 097 580
Proceeds from sale of intangible assets and tangible fixed assets		2 149	13 288
Other investing inflows (dividends)		1 837	1 439
Outflows from investing activities		**(7 288 054)**	**(2 594 496)**
Purchase of a subsidiary, net of cash acquired		(2 500)	-
Purchase of investment securities available for sale		(7 072 160)	(2 409 010)
Purchase of intangible assets and tangible fixed assets		(213 394)	(185 486)
Net cash from / used in investing activities		**2 280 924**	**(482 189)**
Net cash flow from financing activities			
Proceeds from debt securities in issue		4 462 910	44 482
Redemption of debt securities in issue		(4 853 501)	(119)
Dividends paid		(1 587 500)	-
Repayment of interest from issued debt securities		(111 010)	(40 307)
Long-term borrowings		362 087	232 493
Repayment of long-term borrowings		(382 870)	(397 469)
Net cash generated from financing activities		**(2 109 884)**	**(160 920)**
Net cash inflow/ (outflow)		**88 056**	**1 446 472**
of which currency translation differences on cash and cash equivalents		(58 722)	5 128
Cash and cash equivalents at the beginning of the period		11 422 970	8 438 681
Cash and cash equivalents at the end of the period	**29**	**11 511 026**	**9 885 153**
of which restricted		4 041	5 447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in PLN thousand)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The condensed interim consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Group') have been prepared for the six-month period ended 30 June 2012 and include comparative data for the six-month period ended 30 June 2011 (as regards consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows) and include comparative data as at 31 December 2011 (as regards consolidated statement of financial position). Financial data has been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

The parent company of the Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank').

The Bank was established in 1919 as the 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 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 registered and 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 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 1 250 000 000.

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 30 June 2012				
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 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**

On 26 July 2012 PKO Bank Polski SA received a notification from the Minister of State Treasury of selling off a considerable block of Bank's shares by the State Treasury as a result of which the number of total votes held by the State Treasury in the Bank has changed.

According to the notification received by the Bank on 24 July 2012, 95 000 000 Bank's shares held by the State Treasury were sold off in block transactions. Prior to the sell-off transaction conducted, the State Treasury held the total number of 512 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 40.99% of the share capital and the same share in the total number of votes in the Bank.

As a result of the above mentioned sell-off transaction on 24 July 2012 the State Treasury holds 417 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 33.39% of the share capital and the same share in the total number of votes in the Bank.

Moreover, Bank Gospodarstwa Krajowego ('BGK'), wholly controlled by the State Treasury, holds the total number of 128 102 731 bearer shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 10.25% of the Bank's share capital and the same share in the total number of votes in the Bank.

Prior to the above mentioned shares' sell-off transaction, the State Treasury and BGK held the total number of 640 509 008 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 51.24% of the Bank's share capital and the same share in the total number of votes in the Bank.

After the above mentioned shares' sell-off transaction, the State Treasury and BGK hold the total number of 545 509 008 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 43.64% of the Bank's share capital and the same share in the total number of votes in the Bank.

The Bank received a notification dated 27 July 2012 from ING Otwarty Fundusz Emerytalny about increasing the stake in PKO Bank Polski SA shares exceeding the threshold 5% of total number of votes at the General Shareholders' Meeting of the Bank. As a result of the acquisition of the PKO Bank Polski SA shares, cleared on 24 July, ING Otwarty Fundusz Emerytalny increased its stake in the Bank's shares to 64 594 448, representing 5.17% of share capital and of total number of votes at the General Shareholders' Meeting of the Bank. Prior to the purchase transaction ING Otwarty Fundusz Emerytalny held 53 631 448 shares of PKO Bank Polski SA, representing 4.29% of share capital and of total number of votes at the General Shareholders' Meeting of the Bank.

Business activities of the Group

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

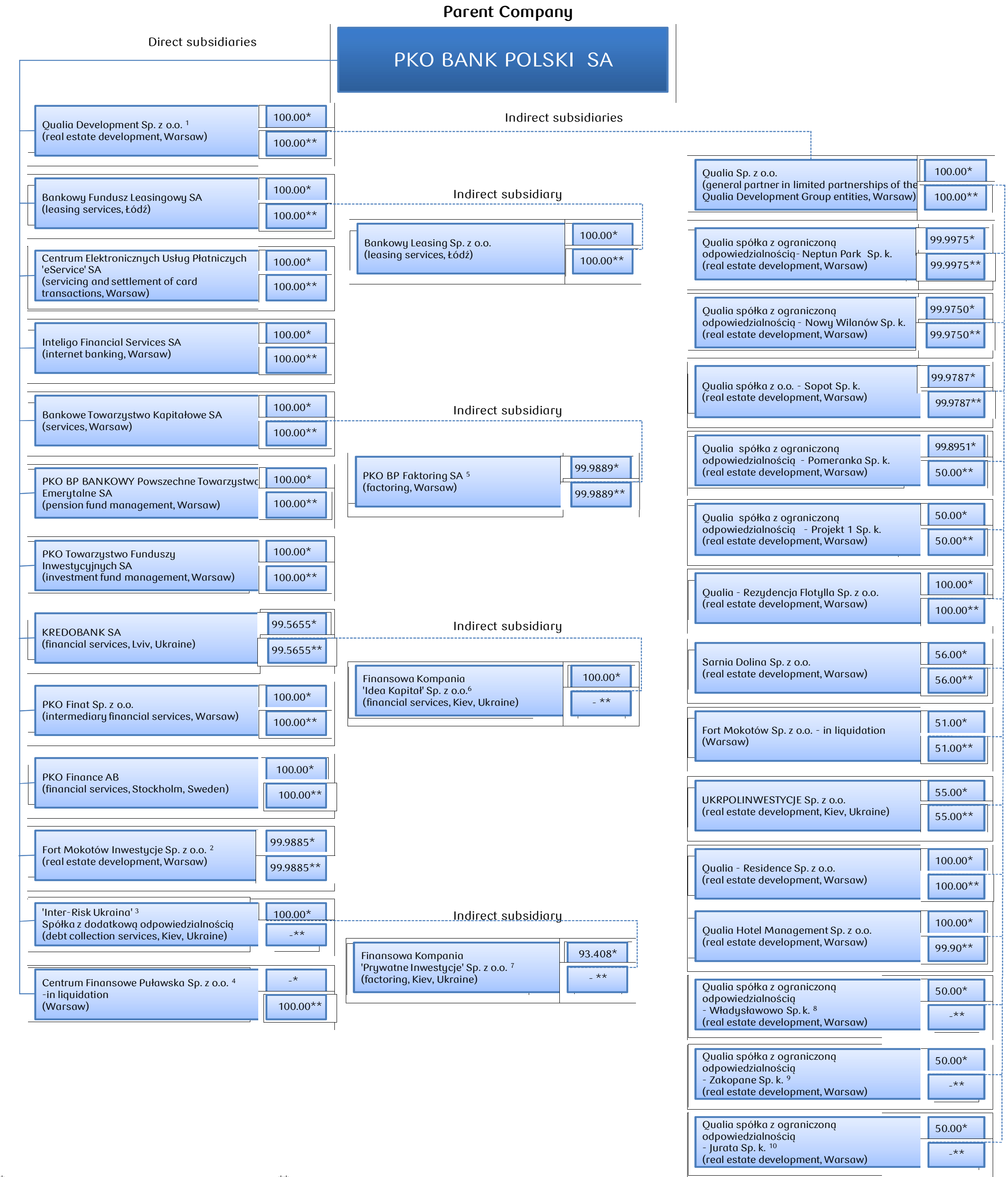
In addition, through its subsidiaries, the Group conducts banking activities in Ukraine and activities relating to leasing, factoring, investment funds, pension funds, Internet banking as well as servicing and settlement of card transactions and real estate development.

The scope of activities of each of the Group entities is set out in the position 'Structure of the PKO Bank Polski SA Group'.

The PKO Bank Polski SA Group operates in the Republic of Poland and through its subsidiaries: KREDOBANK SA, 'Inter-Risk Ukraina' Additional Liability Company, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., Finansowa Kompania 'Idea Kapitał' Sp. z o.o. and UKRPOLINWESTYCJE Sp. z o.o. – in Ukraine as well as through its subsidiary PKO Finance AB in Sweden.

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group consists of the following entities:

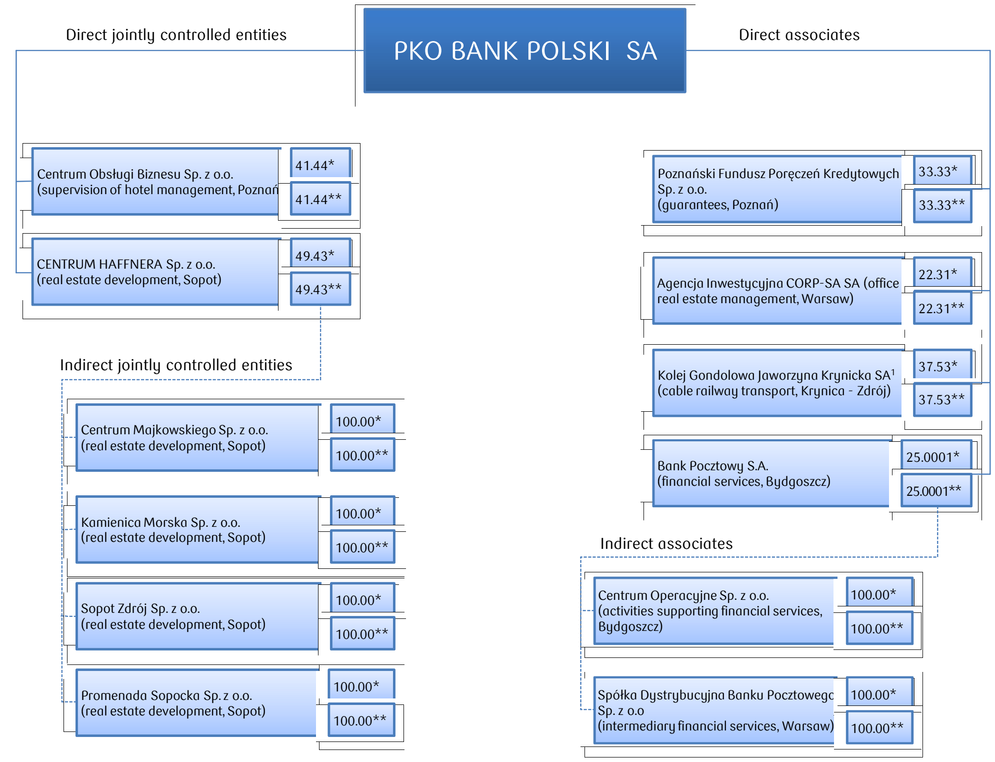


* % share in equity as at 30.06.2012   **% share in equity as at 31.12.2011

1) 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/declared by the limited partner is presented
2) the second shareholder of the Entity is Qualia Development Sp. z o.o.
3) acquiring of the Company by PKO Bank Polski SA was registered with the Ukrainian Register of Businesses on 16 January 2012; the additional liability means that the shareholder is responsible for the company's liabilities up to 103% of its share in the Company's share capital
4) the Company was removed from the National Court Register effective on 28 May 2012, on the basis of a decision dated 7 May 2012
5) PKO Bank Polski SA holds 1 share in the Entity
6) acquiring of the Company by KREDOBANK SA was registerd with the Ukrainian Register of Businesses on 23 March 2012
7) until 26 February 2012 the Company was a direct subsidiary of PKO Bank Polski SA
8) the Company was registered with the National Court Register on 14 February 2012
9) the Company was registered with the National Court Register on 15 March 2012
10) the Company was registered with the National Court Register on 27 March 2012

(in PLN thousand)

Jointly controlled entities and associates included in the consolidated financial statements:



* % share in equity as at 30.06.2012 ** % share in equity as at 31.12.2011

1) In the first half of 2012 and 2011, 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 34 'Changes to the entities of the Group'.

Seasonality or cyclicality in the interim period

The Group's activities are not subject to significant seasonality or cyclicality.

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

1. As at 30 June 2012, 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

On 13 July 2012 Mr Andrzej Kołatkowski resigned from performing a function of Vice-President of the Management Board of PKO Bank Polski SA as of 13 July 2012.

2. As at 30 June 2012, the Bank's Supervisory Board consisted of:

• Cezary Banasiński	Chairman of the Supervisory Board
• Tomasz Zganiacz	Deputy-Chairman of the Supervisory Board
• Mirosław Czekaj	Secretary of the Supervisory Board

- Jan Bossak — Member of the Supervisory Board
- Zofia Dzik — Member of the Supervisory Board
- Krzysztof Kilian — Member of the Supervisory Board
- Piotr Marczak — Member of the Supervisory Board
- Marek Mroczkowski — Member of the Supervisory Board
- Ryszard Wierzba — Member of the Supervisory Board

On 6 June 2012 the General Shareholders' Meeting of PKO Bank Polski SA dismissed the member of the Supervisory Board – Ms Ewa Miklaszewska from the Supervisory Board of PKO Bank Polski SA and appointed Ms Zofia Dzik.

Approval of financial statements

These condensed interim consolidated financial statements, reviewed by the Supervisory Board's Audit Committee of the Bank on 1 August 2012, have been approved for issue by the Management Board of the Bank on 31 July 2012.

These condensed interim consolidated financial statements of the Group are published together with condensed interim financial statements of PKO Bank Polski SA for the six-month period ended 30 June 2012.

2. Summary of significant accounting policies and estimates and judgements

2.1. Summary of significant accounting policies

These condensed interim consolidated financial statements of the PKO Bank Polski SA Group have been prepared in accordance with requirements of the International Accounting Standard 34 'Interim Financial Reporting' approved by the European Union.

The accounting policies and calculations applied in these condensed consolidated financial statements are consistent to those, which were applied in these consolidated financial statements of the Group for the year ended 31 December 2011.

These condensed consolidated financial statements for the first half of 2012 should be read together with consolidated financial statements of the PKO Bank Polski SA Group for 2011, prepared in accordance with International Financial Reporting Standards, as approved by the European Union.

2.1.1. Standards and interpretations issued and approved in 2012 after the date of publishing financial statements for the year 2011

In 2012, after the publication date of the annual financial statements, i.e. after 5 March 2012, the European Union endorsed amendments to IAS 1 'Presentation of financial statements' and amendments to IAS 19 'Employee benefits' by the Decree of the European Union Commission No. 475/2012 dated 5 June 2012.

The revised IAS 1 introduces an option to present profit or loss and other comprehensive income as one or two separate statements, changing the name of 'statement of comprehensive income' into 'statement of profit or loss and other comprehensive income'. Use of new terminology is not mandatory. The amendments are effective retrospectively for financial years starting on or after 1 July 2012, with permission to earlier application. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Amendments in IAS 19 introduce new requirements of the recognition and measurement of defined benefit pension expense and termination benefits, as well as change the require disclosures for all employee benefits. The amendments are effective retrospectively for financial years starting on or after 1 January 2013, with permission to earlier application. If an entity applies the amendments for an earlier period, it shall disclose that fact.

The above mentioned amendments in IAS 1 and IAS 19 will be applied for the first time to the financial statements of the Group for the year 2013.

2.2. Critical estimates and judgements

While preparing financial statements, the PKO Bank Polski SA Group makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements. The principles for making critical estimates and judgements are consistent with those used in preparing the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2011.

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

Estimates and assumptions made by the Group are subject to periodic reviews. Adjustments to estimates are recognised in the period in which the estimates were adjusted, provided that these adjustments affect only the given period. However, 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 Group performs critical estimates are presented below:

2.2.1. 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'), and when the event 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 Group on the basis of estimates based on historical parameters.

The adopted methodology used for estimating impairment allowances will be developed in line with the increasing possibilities of acquiring information indicating impairment from the existing and implemented IT systems and applications. As a consequence, acquiring new data could affect the level of impairment allowances in the future. The methodology and assumptions used by the Bank 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 loans and advances portfolio individually determined to be impaired, the estimated impairment allowances on loans and advances would increase by PLN 454 million or decrease by PLN 244 million respectively. This estimate was made for the loans and advances portfolio assessed for impairment on an individual analysis of future cash flows arising both from own repayments and recoveries from the collateral, i.e. the exposures for which an individual method is applied.

2.2.2. Valuation of derivatives and non-listed 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. In the valuation of non-listed debt securities 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 financial instruments.

Options are valued on the basis of the data derived from regulated market, on the basis of the data received from counterparties of the Bank or using option pricing models. The variables used in the valuation are derived from available market data.

The valuation techniques used by the Group for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS transactions quotations). The Group conducted a simulation to assess the potential influence of change of the yield curve on the transaction valuation. Upwards movements of yield curve by 50 b.p. would result in decrease in non-option derivative instruments valuation by PLN 50 million. A similar downwards movement would result in valuation increase by PLN 51 million (including financial instruments covered by hedge accounting: decrease by

PLN 72 million for upward movement of the yield curve and increase by PLN 73.6 million for downward movement of the yield curve).

2.2.3. Calculation of provisions for employee benefits

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed periodically by an independent actuarial consulting company. The basis for calculation of provisions for employee benefits are internal regulations, and, in particular, the Collective Labour Agreements ('Zakładowe Układy Zbiorowe Pracy') being in force at the Group entities. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all anniversary bonuses and retirement and pension benefits expected to be paid in the future. The provision was created on the basis of a list of people including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated are equal to discounted future payments, taking into account staff turnover. Gains and losses resulting from actuarial calculations are recognised in the income statement.

The PKO Bank Polski SA Group creates provisions for future liabilities arising from unused holiday leave, taking into account all outstanding unused holiday days as well as 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.

2.2.4. 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 following factors are considered:

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 these contract terms. If, however, the estimated useful life is shorter than the period defined in the contract terms, 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 14 million or an increase in depreciation costs by PLN 150 million respectively.

3. Information on the segments of activities

The PKO Bank Polski SA Group's segment reporting scheme is primarily based on the criteria of the groups of clients – recipients of the products and services offered by the parent company and the PKO Bank Polski SA Group entities. Every operating business segment comprises activities of providing products and services that are characterised by similar risk and income – different from other business segments. The segment note below is recognised in an internal reporting system, i.e. information presented to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources.

The segment report below presents an internal organisational structure of the PKO Bank Polski SA Group. At present, the PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment segment:

1. The retail segment comprises transactions of the parent company with retail clients, clients of small and medium enterprises and housing market clients. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market customers.

2. The corporate segment includes transactions of the parent company with large corporate clients. This segment comprises, among others, the following products and services: current accounts, deposits securities, depositary services, currency and derivative products, sell buy back and buy sell back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects.

3. The investment segment comprises transactions of the parent company with financial institutions' clients and the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions and activities of PKO Bank Polski SA's subsidiaries: the KREDOBANK SA Group, the Inter-Risk Ukraina ALC Group, PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA, PKO BP Finat Sp. z o.o., Centrum Elektronicznych Usług Płatniczych eService SA, the Qualia Development Sp. z o.o. Group, Fort Mokotów Inwestycje Sp. z o.o., the Bankowy Fundusz Leasingowy SA Group, the Bankowe Towarzystwo Kapitałowe SA Group, PKO Finance AB and Centrum Finansowe Puławska Sp. z .o.o. – in liquidation (own activities). In the net result of the segment, the net result of transfer centre, which comprises internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting is presented. Internal funds transfer is based on transfer pricing dependant on interest rates. The transactions between business segments are conducted on arm's length. Long-term external financing includes the issuance of bonds, subordinated liabilities and funds under the EMTN programme issuance as well as amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted on arm's length.

Accounting policies applied in the segment report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by operating activities segment. Values of assets, liabilities, income and expenses of a particular segment are based on internal management information. To particular segments there are assigned assets and liabilities as well as income and costs related to the assets and liabilities.

The current income tax expense was presented only on the Group level.

The tables below present data relating to income and results of individual operational segments of the PKO Bank Polski SA Group for the six-month periods ended 30 June 2012 and 30 June 2011 and assets and liabilities as at 30 June 2012 and as at 31 December 2011.

(in PLN thousand)

For the six-month period ended 30 June 2012	Continuing operations				
	Retail segment	Corporate segment	Investment segment		Total activity of the PKO Bank Polski SA Group
			Own activities	Transfer centre	
Net interest income	2 856 775	334 491	84 033	766 946	4 042 245
Net fee and commission income	1 168 046	148 023	186 630	-	1 502 699
Other net income	86 418	25 922	185 189	(51 621)	245 908
Net result from financial operations	12 616	7 121	28 241	(27 951)	20 027
Net foreign exchange gains	60 771	31 453	76 101	(23 670)	144 655
Dividend income	-	-	6 077	-	6 077
Net other operating income and expense	12	367	74 770	-	75 149
Income/expenses relating to internal customers	13 019	(13 019)	-	-	-
Net impairment allowance and write-downs	(813 209)	(243 659)	(44 417)	-	(1 101 285)
Administrative expenses, of which:	(1 832 196)	(123 993)	(290 152)	-	(2 246 341)
amortisation and depreciation	(220 032)	(12 812)	(36 778)	-	(269 622)
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	6 028
Segment gross profit	**1 465 834**	**140 784**	**121 283**	**715 325**	**2 449 254**
Income tax expense (tax burden)	-	-	-	-	(496 449)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(556)
Net profit attributable to the equity holders of the parent company	**1 465 834**	**140 784**	**121 283**	**715 325**	**1 953 361**

As at 30 June 2012	Continuing operations				
	Retail segment	Corporate segment	Investment segment		Total activity of the PKO Bank Polski SA Group
			Own activities	Transfer centre	
Assets	115 053 252	42 966 594	32 418 025	-	**190 437 871**
Liabilities	119 316 111	29 027 104	19 086 927	-	**167 430 142**

For the six-month period ended 30 June 2011	Continuing operations*				
	Retail segment	Corporate segment	Investment segment		Total activity of the PKO Bank Polski SA Group
			Own activities	Transfer centre	
Net interest income	2 683 932	288 989	112 301	489 324	3 574 546
Net fee and commission income	1 261 719	125 868	153 816	-	1 541 403
Other net income	70 997	24 774	155 709	(51 830)	199 650
Net result from financial operations	5 677	7 400	(6 072)	(26 344)	(19 339)
Net foreign exchange gains	50 597	30 376	76 898	(25 486)	132 385
Dividend income	-	-	6 537	-	6 537
Net other operating income and expense	1 708	13	78 346	-	80 067
Income/expenses relating to internal customers	13 015	(13 015)	-	-	-
Net impairment allowance and write-downs	(784 724)	(84 467)	(12 209)	-	(881 400)
Administrative expenses, of which:	(1 789 484)	(110 555)	(223 132)	-	(2 123 171)
amortisation and depreciation	(203 379)	(11 055)	(36 947)	-	(251 381)
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	(3 797)
Segment gross profit	**1 442 440**	**244 609**	**186 485**	**437 494**	**2 307 231**
Income tax expense (tax burden)	-	-	-	-	(470 084)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-	(1 167)
Net profit attributable to the equity holders of the parent company	**1 442 440**	**244 609**	**186 485**	**437 494**	**1 838 314**

*Change in presentation consisting of including the results of all Group entities in the Own activities of the Investment Segment.

As at 31 December 2011	Continuing operations				
	Retail segment	Corporate segment	Investment segment		Total activity of the PKO Bank Polski SA Group
			Own activities	Transfer centre	
Assets	118 360 801	42 227 310	30 159 926	-	**190 748 037**
Liabilities	116 336 341	32 045 191	19 544 521	-	**167 926 053**

(in PLN thousand)

As an additional reporting scheme, the PKO Bank Polski SA Group uses geographical areas. The PKO Bank Polski SA Group conducts its activities in Ukraine – through the KREDOBANK SA Group, the Inter-Risk Ukraina ALC Group and UKRPOLINWESTYCJE Sp. z o.o.

For the six-month period ended 30 June 2012	Poland	Ukraine	Total
Net interest income	4 013 394	28 851	4 042 245
Net fee and commission income	1 478 930	23 769	1 502 699
Other net income	230 451	15 457	245 908
Administrative expenses	(2 184 873)	(61 468)	(2 246 341)
Net impairment allowance and write-downs	(1 074 250)	(27 035)	(1 101 285)
Share of profit (loss) of associates and jointly controlled entities	-	-	6 028
Segment gross profit	**2 463 652**	**(20 426)**	**2 449 254**
Income tax expense (tax burden)	-	-	(496 449)
Profit (loss) attributable to non-controlling shareholders	-	-	(556)
Net profit (loss)	**2 463 652**	**(20 426)**	**1 953 361**

As at 30 June 2012	Poland	Ukraine	Total
Assets of the segment	188 612 912	1 824 959	**190 437 871**
Liabilities of the segment	166 330 684	1 099 458	**167 430 142**

For the six-month period ended 30 June 2011	Poland	Ukraine	Total
Net interest income	3 550 809	23 737	3 574 546
Net fee and commission income	1 524 086	17 317	1 541 403
Other net income	196 099	3 551	199 650
Administrative expenses	(2 075 659)	(47 512)	(2 123 171)
Net impairment allowance and write-downs	(892 847)	11 447	(881 400)
Share of profit (loss) of associates and jointly controlled entities	-	-	(3 797)
Segment gross profit	**2 302 488**	**8 540**	**2 307 231**
Income tax expense (tax burden)	-	-	(470 084)
Profit (loss) attributable to non-controlling shareholders	-	-	(1 167)
Net profit (loss)	**2 302 488**	**8 540**	**1 838 314**

As at 31 December 2011	Poland	Ukraine	Total
Assets of the segment	189 196 560	1 551 477	**190 748 037**
Liabilities of the segment	166 763 390	1 162 663	**167 926 053**

(in PLN thousand)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. Interest income and expense

Interest and similar income

	01.01-30.06.2012	01.01-30.06.2011
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:	**5 629 284**	**4 949 549**
Income from loans and advances to customers	5 129 789	4 601 737
Income from investment securities available for sale	376 903	247 738
Income from placements with banks	119 322	96 958
Other	3 270	3 116
Other income, of which:	**857 973**	**652 765**
Income from derivative hedging instruments	466 217	351 145
Income from financial assets designated upon initial recognition at fair value through profit and loss	359 288	256 316
Income from trading assets	32 468	45 304
Total	**6 487 257**	**5 602 314**

In the 'Income from derivative hedging instruments', the Group presents interest income from derivative instruments designated for hedge accounting that are effective hedging instruments in respect of cash flow hedges. Details of hedging relationships applied by the Group are included in Note 16 of condensed interim consolidated financial statements of the Group 'Derivative hedging instruments'.

In the six-month period ended 30 June 2012, the value of interest income from impaired loans amounted to PLN 224 030 thousand (in the six-month period ended 30 June 2011, it amounted to PLN 176 902 thousand). This income has been included in the position 'Income from loans and advances to customers'.

Interest expense and similar charges

	01.01-30.06.2012	01.01-30.06.2011
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:	**(2 444 179)**	**(2 026 081)**
Interest expense on amounts due to customers	(2 231 607)	(1 902 444)
Interest expense on debt securities in issue	(193 697)	(104 015)
Interest expense on deposits from banks	(13 883)	(19 399)
Premium expense on debt securities available for sale	(4 992)	(223)
Other expense	**(833)**	**(1 687)**
Total	**(2 445 012)**	**(2 027 768)**

(in PLN thousand)

5. Fee and commission income and expense

Fee and commission income

	01.01-30.06.2012	01.01-30.06.2011
Income from financial assets, which are not designated at fair value through profit and loss, of which:	**285 577**	**278 295**
Income from loans and advances granted	285 577	278 295
Other commissions	**1 566 299**	**1 620 352**
Income from payment cards	552 059	501 426
Income from maintenance of bank accounts	449 005	462 630
Income from loan insurance	202 821	262 157
Income from maintenance of investment and open pension funds (including management fees)	152 032	186 799
Income from cash transactions	68 317	82 376
Income from securities transactions	35 277	32 652
Income from servicing foreign mass transactions	24 124	23 393
Income from sale and distribution of court fee stamps	10 267	10 618
Other*	72 397	58 301
Income from fiduciary activities	**1 820**	**1 207**
Total	**1 853 696**	**1 899 854**

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

Fee and commission expense

	01.01-30.06.2012	01.01-30.06.2011
Expenses on payment cards	(180 611)	(145 231)
Expenses on loan insurance	(54 820)	(68 464)
Expenses on acquisition services	(54 233)	(69 789)
Expenses on settlement services	(11 026)	(11 875)
Expenses on asset management fees	(6 952)	(18 416)
Expenses on fee and commissions for operating services rendered by banks	(5 095)	(5 476)
Other*	(38 260)	(39 200)
Total	**(350 997)**	**(358 451)**

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

6. Net income from financial instruments designated at fair value

	01.01-30.06.2012	01.01-30.06.2011
Debt securities	17 331	(3 319)
Equity instruments	190	1 390
Structured bank securities designated at fair value through profit and loss[1)]	(523)	952
Derivative instruments[1)]	(1 613)	(34 298)
Other[1)]	-	(1)
Total	**15 385**	**(35 276)**

In the net income from financial instruments designated at fair value, position 'Derivative instruments', in the period ended 30 June 2012, an ineffective portion related to cash flow hedges was recognised and it amounted to PLN (12 187) thousand (in the period ended 30 June 2011, an ineffective portion related to cash flow hedges was recognised and it amounted to PLN (26 066) thousand).

(in PLN thousand)

01.01-30.06.2012	Gains	Losses	Net result
Trading assets	8 304 289	(8 303 179)	1 110
Financial assets designated upon initial recognition at fair value through profit and loss	81 407	(67 132)	14 275
Total	**8 385 696**	**(8 370 311)**	**15 385**

01.01-30.06.2011	Gains	Losses	Net result
Trading assets	6 350 737	(6 381 789)	(31 052)
Financial assets designated upon initial recognition at fair value through profit and loss	48 861	(53 085)	(4 224)
Total	**6 399 598**	**(6 434 874)**	**(35 276)**

The total change in fair values of financial instruments designated at fair value through profit and loss determined with use of valuation models (where no quotations from active market are available) in the period ended 30 June 2012 amounted to PLN (2 136)[*)] thousand (in the period ended 30 June 2011: PLN (33 347)[*)] thousand).

7. Other operating income and expense

	01.01-30.06.2012	01.01-30.06.2011
Other operating income		
Net income from sale of products and services	127 252	133 019
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	36 303	41 918
Recovery of expired and written-off receivables	16 032	449
Damages, penalties and fines received	14 892	11 090
Sundry income	9 440	8 530
Other	33 727	35 103
Total	**237 646**	**230 109**

	01.01-30.06.2012	01.01-30.06.2011
Other operating expense		
Costs of sale of products and services	(83 810)	(95 640)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(37 878)	(30 509)
Donations	(7 981)	(6 289)
Sundry expenses	(2 673)	(2 259)
Other	(30 155)	(15 345)
Total	**(162 497)**	**(150 042)**

*Comprises the total amount of the items marked with [1)] in Note 6 'Net income from financial instruments designated at fair value'.

(in PLN thousand)

8. Net impairment allowance and write-downs

For the six-month period ended 30 June 2012	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Currency translation differences	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	**19**	**20 563**	**9 696**	**-**	**-**	**10 598**	**1 564**	**247**	**-**	**17 850**	**(8 132)**
Debt securities available for sale		17 944	-			10 598	1 564	246	-	5 536	1 564
Equity securities not admitted to public trading		2 619	9 696	-	-	-	-	1	-	12 314	(9 696)
Amounts due from banks	**13**	**32 812**	**409**	**-**	**-**	**-**	**676**	**-**	**387**	**32 158**	**267**
Loans and advances to customers measured at amortised cost	**18**	**5 658 243**	**2 945 544**	**-**	**31 397**	**662 280**	**1 915 512**	**7 198**	**33 129**	**6 017 065**	**(1 030 032)**
Non-financial sector		5 497 033	2 920 340	-	30 932	660 348	1 893 563	6 883	32 678	5 854 833	(1 026 777)
corporate loans		2 709 360	1 184 420	-	8 612	209 345	688 757	5 836	17 144	2 981 310	(495 663)
consumer loans		1 463 843	1 225 011	-	19 151	432 319	899 890	77	2 585	1 373 134	(325 121)
mortgage loans		1 323 830	510 909	-	3 169	18 684	304 916	970	12 949	1 500 389	(205 993)
Financial sector		37 058	2 666	-	160	1 714	9 126	315	451	28 278	6 460
corporate loans		37 058	2 666	-	160	1 714	9 126	315	451	28 278	6 460
Budget sector		15 779	1 348	-	305	-	961	-	-	16 471	(387)
corporate loans		15 779	1 348	-	305	-	961	-	-	16 471	(387)
Finance lease receivables		108 373	21 190	-	-	218	11 862	-	-	117 483	(9 328)
Non-current assets held for sale		**2 958**	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**2 955**	**-**
Tangible fixed assets		**6 388**	**11 531**	**313**	**-**	**-**	**305**	**-**	**-**	**17 927**	**(11 226)**
Intangible assets		**135 295**	**4 542**	**-**	**237**	**-**	**-**	**-**	**-**	**140 074**	**(4 542)**
Investments in associates and jointly controlled entities	**20**	**88 953**	**5 526**	**-**	**-**	**-**	**-**	**-**	**-**	**94 479**	**(5 526)**
Other, of which:		**336 751**	**113 599**	**659**	**6 990**	**34 253**	**71 505**	**4**	**305**	**351 932**	**(42 094)**
inventories		33 088	7 313	-	-	7 897	944	-	-	31 560	(6 369)
provisions for legal claims and liabilities and guarantees granted	26	115 608	87 723	-	-	61	59 923	4	220	143 123	(27 800)
Total		**6 281 963**	**3 090 847**	**972**	**38 624**	**707 134**	**1 989 562**	**7 449**	**33 821**	**6 674 440**	**(1 101 285)**

(in PLN thousand)

For the six-month period ended 30 June 2011	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
		Recognised during the period	Currency translation differences	Other	Decrease due to derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	**21 909**	**306**	**-**	**-**	**16**	**296**	**622**	**-**	**21 281**	**(10)**
Debt securities available for sale	21 259	306		-	-	296	614	-	20 655	(10)
Equity securities not admitted to public trading	650	-	-	-	16	-	8	-	626	-
Amounts due from banks	**28 925**	**1 454**	**-**	**-**	**-**	**1 505**	**-**	**2 015**	**26 859**	**51**
Loans and advances to customers measured at amortised cost	**4 856 670**	**1 912 151**	**-**	**14 768**	**400 672**	**1 068 374**	**24 505**	**-**	**5 290 038**	**(843 777)**
Non-financial sector	4 726 693	1 871 539	-	14 768	400 242	1 046 706	23 760	-	5 142 292	(824 833)
corporate loans	2 229 665	471 766	-	784	71 108	316 758	18 141	-	2 296 208	(155 008)
consumer loans	1 513 717	845 422	-	3 032	252 884	478 268	976	-	1 630 043	(367 154)
mortgage loans	983 311	554 351	-	10 952	76 250	251 680	4 643	-	1 216 041	(302 671)
Financial sector	26 938	5 507	-	-	65	1 269	745	-	30 366	(4 238)
corporate loans	26 938	5 507	-	-	65	1 269	745	-	30 366	(4 238)
Budget sector	13 134	1 425	-	-	-	2 903	-	-	11 656	1 478
corporate loans	13 134	1 425	-	-	-	2 903	-	-	11 656	1 478
Finance lease receivables	89 905	33 680	-	-	365	17 496	-	-	105 724	(16 184)
Non-current assets held for sale	**2 961**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2 961**	**-**
Tangible fixed assets	**18 434**	**36**	**-**	**-**	**17 254**	**-**	**-**	**-**	**1 216**	**(36)**
Intangible assets	**132 972**	**2 076**	**-**	**-**	**-**	**-**	**-**	**-**	**135 048**	**(2 076)**
Investments in associates and jointly controlled entities	**60 138**	**643**	**-**	**-**	**-**	**-**	**-**	**-**	**60 781**	**(643)**
Other, of which:	**314 214**	**131 653**	**-**	**7**	**10 198**	**96 744**	**508**	**-**	**338 424**	**(34 909)**
inventories	34 858	4 728	-	-	5 293	32	-	-	34 261	(4 696)
provisions for legal claims and liabilities and guarantees granted	89 799	102 786	-	-	22	83 431	26	-	109 106	(19 355)
Total	**5 436 223**	**2 048 319**	**-**	**14 775**	**428 140**	**1 166 919**	**25 635**	**2 015**	**5 876 608**	**(881 400)**

(in PLN thousand)

9. Administrative expenses

	01.01-30.06.2012	01.01-30.06.2011
Staff costs	(1 213 338)	(1 145 184)
Overheads	(655 077)	(622 803)
Amortisation and depreciation	(269 622)	(251 381)
Taxes and other charges	(36 310)	(35 435)
Contribution and payments to the Bank Guarantee Fund	(71 994)	(68 368)
Total	**(2 246 341)**	**(2 123 171)**

Wages and salaries / Employee benefits

	01.01-30.06.2012	01.01-30.06.2011
Wages and salaries	(998 851)	(956 808)
Social Security, of which:	(178 710)	(155 772)
contributions for retirement pay and pensions*	(149 383)	(117 360)
Other employee benefits	(35 777)	(32 604)
Total	**(1 213 338)**	**(1 145 184)**

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

10. Income tax expense

	01.01-30.06.2012	01.01-30.06.2011
Consolidated income statement		
Current income tax expense	(522 002)	(519 389)
Deferred income tax related to temporary differences	25 553	49 305
Tax expense in the consolidated income statement	**(496 449)**	**(470 084)**
Tax expense in other comprehensive income related to temporary differences	41 867	12 455
Total	**(454 582)**	**(457 629)**

Deferred tax asset/liability

	01.01-30.06.2012	01.01-31.12.2011
Deferred tax asset	615 651	543 922
Deferred tax liability	33 673	29 364
Total	**581 978**	**514 558**

Due to the equivocal interpretation of the Ukraine Tax Code regulations, KREDOBANK SA remains in dispute with the tax authorities in Ukraine concerning recognition of the loss from previous years (2008-2010) as tax deductible expenses in the amount of UAH 771 437 thousand (i.e. PLN 325 624 thousand at the average NBP exchange rate prevailing as at 30 June 2012).
The case was reviewed by the court of the first instance, which on 7 May 2012 took into consideration the petition of KREDOBANK SA. The sentence had no legal force, because on 14 June 2012 the tax authority appealed to the court of the second instance. In case the verdict of the court of superior instance is unfavourable for KREDOBANK SA the deferred tax asset will be reduced by 16% of the above mentioned loss, i.e. by UAH 123 430 thousand (PLN 52 100 thousand).

11. Earnings per share

Basic earnings per share

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

Earnings per share

	01.01-30.06.2012	01.01-30.06.2011
Profit per ordinary shareholder (in PLN thousand)	1 953 361	1 838 314
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	1.56	1.47

Earnings per share from discontinued operations

In the periods ended 30 June 2012 and 30 June 2011, the Group did not report any material expenses or income from discontinued operations.

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 first half of 2012 as well as in the first half of 2011.

Diluted earnings per share from discontinued operations

In the periods ended 30 June 2012 and 30 June 2011 the Group did not report any material expenses or income from discontinued operations.

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

In accordance with the Resolution No. 8/2012 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna dated 6 June 2012, the dividend for 2011 was set at a level of PLN 1 587 500 thousand, i.e. PLN 1.27 per share.

The list of shareholders eligible to receive dividend for 2011 was determined as at 12 June 2012, and the payment was made on 27 June 2012.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13. Amounts due from banks

	30.06.2012	31.12.2011
Deposits with banks	2 155 308	1 912 647
Current accounts	351 342	405 724
Receivables due from repurchase agreements	217 626	-
Loans and advances granted	66 993	108 868
Cash in transit	2 205	1 800
Total	**2 793 474**	**2 429 039**
Impairment allowances on receivables, of which:	(32 158)	(32 812)
impairment allowances on exposure to a foreign bank	(32 111)	(32 385)
Net total	**2 761 316**	**2 396 227**

(in PLN thousand)

14. Trading assets

	30.06.2012	31.12.2011
Debt securities	**378 069**	**1 300 164**
issued by the State Treasury, of which:	327 956	1 268 471
Treasury bonds	327 713	1 219 069
Treasury bills	243	49 402
issued by non-financial institutions, corporate bonds	19 388	14 947
issued by local government bodies, municipal bonds	14 809	14 783
issued by other financial institutions, of which:	12 998	239
bonds issued by WSE	12 866	-
corporate bonds	132	239
issued by banks, BGK bonds	2 918	1 724
Shares in other entities – listed on stock exchange	**10 083**	**10 925**
Investment certificates	**816**	**-**
Rights issues	**642**	**-**
Total	**389 610**	**1 311 089**

As at 30 June 2012, in the trading assets portfolio, the carrying amount of assets pledged as collateral for liabilities due to sell-buy-back transactions was PLN 119 060 thousand (as at 31 December 2011 it was PLN 643 483 thousand respectively).

15. Derivative financial instruments

The Bank and the other PKO Bank Polski SA Group entities use various types of derivatives in order to manage risk involved in its business activities. As at 30 June 2012 and 31 December 2011, the PKO Bank Polski SA Group held the following derivative instruments:

	30.06.2012		31.12.2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging instruments	534 180	352 009	516 925	342 598
Other derivative instruments	2 323 029	2 407 711	2 547 808	2 302 683
Total	**2 857 209**	**2 759 720**	**3 064 733**	**2 645 281**

Type of contract	30.06.2012		31.12.2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
IRS	2 072 072	1 874 517	1 941 309	1 925 161
CIRS	373 417	496 015	419 640	421 039
FX Swap	251 148	261 793	438 331	139 720
Options	77 950	50 109	106 492	70 112
Forward	44 959	41 823	119 293	56 271
FRA	37 608	34 915	38 117	31 965
Other	55	548	1 551	1 013
Total	**2 857 209**	**2 759 720**	**3 064 733**	**2 645 281**

The most frequently used types of derivatives in the Group's activities are: IRS, CIRS, FX Swap, Options, Forward, FRA.

16. Derivative hedging instruments

As at 30 June 2012, the Group 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.

The characteristics of the cash flow hedges applied by the Group 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**
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 rate, and receives coupons based on 3M WIBOR rate 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 negotiated 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.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2012 to October 2026

Hedging strategy:	**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**
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating interest rate PLN 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 WIBOR rate, 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.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2012 to October 2014

Hedging strategy:	**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**
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 rate, 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.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 2012 to June 2016

Hedging strategy:	**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**
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 rate, 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.
Periods in which cash flows are expected and in which they should have an impact on the financial result	July 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 30 June 2012 and 31 December 2011 amounted respectively to:

Type of instrument:	Carrying amount/fair value					
	30.06.2012			31.12.2011		
	Assets	Liabilities	Total	Assets	Liabilities	Total
IRS	289 278	-	**289 278**	175 566	1 643	**173 923**
CIRS	244 902	352 009	**(107 107)**	341 359	340 955	**404**
Total	**534 180**	**352 009**	**182 171**	**516 925**	**342 598**	**174 327**

The nominal value of hedging instruments by maturity as at 30 June 2012 and as at 31 December 2011:

Type of instrument:	Nominal value as at 30 June 2012					
	up to 1 month	1 - 3 months	3 months – 1 year	1 – 5 years	over 5 years	Total
IRS in PLN thousand	-	500 000	5 956 000	520 000	-	**6 976 000**
IRS						
in PLN thousand	-	-	-	2 011 334	-	**2 011 334**
in EUR thousand	-	-	-	472 000	-	**472 000**
IRS						
in PLN thousand	-	-	-	886 925	-	**886 925**
in CHF thousand	-	-	-	250 000	-	**250 000**
CIRS						
in PLN thousand	532 155	1 064 310	4 079 855	12 683 028	1 685 157	**20 044 505**
in CHF thousand	150 000	300 000	1 150 000	3 575 000	475 000	**5 650 000**

Type of instrument:	Nominal value as at 31 December 2011					
	up to 1 month	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**

(in PLN thousand)

Other comprehensive income as regards cash flow hedges	01.01-30.06.2012	01.01-30.06.2011
Other comprehensive income at the beginning of the period, gross	447 142	269 042
Gains/losses transferred to other comprehensive income in the period	47 656	253 257
Amount transferred from other comprehensive income to profit and loss, of which:	(289 632)	(347 663)
- interest income	(466 217)	(351 145)
- net foreign exchange gains	176 585	3 482
Other comprehensive income at the end of the period, gross	**205 166**	**174 636**
Tax effect	**(38 982)**	**(33 181)**
Other comprehensive income at the end of the period, net	**166 184**	**141 455**
Ineffective part of cash flow hedges recognised through profit and loss	**(12 187)**	**(26 066)**
Effect on other comprehensive income in the period, gross	**(241 976)**	**(94 406)**
Deferred tax on cash flow hedges	**45 975**	**17 937**
Effect on other comprehensive income in the period, net	**(196 001)**	**(76 469)**

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

	30.06.2012	31.12.2011
Debt securities	**14 946 799**	**12 467 201**
issued by central banks, of which:	11 189 539	8 593 791
NBP money market bills	11 189 539	8 593 791
issued by the State Treasury, of which:	3 509 427	3 620 515
Treasury bonds PLN	2 543 161	1 318 278
Treasury bonds UAH	16 675	-
Treasury bonds EUR	-	122 089
Treasury bills	949 591	2 180 148
issued by local government bodies, of which:	247 833	252 895
municipal bonds EUR	142 164	143 973
municipal bonds PLN	105 669	108 922
Total	**14 946 799**	**12 467 201**

18. Loans and advances to customers

	30.06.2012	31.12.2011
Gross loans and advances to customers, of which:	**147 348 220**	**147 292 737**
financial sector	1 005 385	1 241 461
corporate, of which:	1 005 385	1 241 461
receivables due from repurchase agreements	9 876	93 899
deposits of the Brokerage House in the Stock Exchange Guarantee Fund and initial deposit	5 729	6 891
non-financial sector	139 971 834	139 926 701
corporate, of which:	46 307 375	45 051 202
receivables due from repurchase agreements	108 446	11 341
mortgage	70 805 066	70 808 365
consumer	22 859 393	24 067 134
public sector	5 221 534	5 043 786
corporate	5 221 534	5 043 786
Interest	1 149 467	1 080 789
Impairment allowances on loans and advances to customers	(6 017 065)	(5 658 243)
Loans and advances to customers - net	**141 331 155**	**141 634 494**

(in PLN thousand)

	30.06.2012	31.12.2011
Loans and advances to customers		
Valued with the individual method	7 164 746	6 549 383
Impaired, of which:	6 266 202	5 701 547
receivables from finance leases	*152 783*	*142 150*
Not impaired, of which:	898 544	847 836
receivables from finance leases	*144 364*	*89 493*
Valued with the portfolio method	6 522 873	6 095 685
Impaired, of which:	6 522 873	6 095 685
receivables from finance leases	*119 106*	*107 903*
Valued with the group method (IBNR), of which:	133 660 601	134 647 669
receivables from finance leases	*2 911 607*	*2 656 595*
Loans and advances to customers, gross	**147 348 220**	**147 292 737**
Allowances on exposures valued with the individual method	(2 247 560)	(2 079 621)
Impaired, of which:	(2 247 560)	(2 079 621)
allowances on lease receivables	*(39 039)*	*(36 180)*
Allowances on exposures valued with the portfolio method, of which:	(3 077 063)	(2 910 042)
allowances on lease receivables	*(65 853)*	*(60 091)*
Allowances on exposures valued with the group method (IBNR), of which:	(692 442)	(668 580)
allowances on lease receivables	*(12 591)*	*(12 102)*
Allowances – total	**(6 017 065)**	**(5 658 243)**
Loans and advances to customers, net	**141 331 155**	**141 634 494**

	30.06.2012	31.12.2011
Loans and advances granted – gross, of which:	**147 348 220**	**147 292 737**
mortgage banking	65 560 032	65 614 374
corporate	36 755 221	33 654 831
retail and private banking	20 489 684	21 635 864
small and medium enterprises	16 595 919	17 245 213
housing market clients	6 632 089	7 897 963
receivables due from repurchase agreements	118 322	105 240
other receivables	47 486	58 463
Interests	1 149 467	1 080 789
Impairment allowances on loans and advances	(6 017 065)	(5 658 243)
Loans and advances granted, net	**141 331 155**	**141 634 494**

In the first half of 2012, as a result of re-segmentation, PLN 839 138 thousand of loan volumes of small and medium enterprises and PLN 973 821 thousand of loan volumes of housing market clients were transferred to the corporate segment.

As at 30 June 2012, the share of impaired loans amounted to 8.7% (as at 31 December 2011: 8.0%), whereas the coverage ratio of impaired loans (calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers) amounted to 47.0% (as at 31 December 2011: 48.0%).

As at 30 June 2012 the share of loans overdue by more than 90 days in the gross amount of loans and advances was 5.2% (as at 31 December 2011: 4.6%).

(in PLN thousand)

19. Investment securities available for sale

	30.06.2012	31.12.2011
Debt securities available for sale, gross	**12 642 841**	**14 325 469**
issued by the State Treasury	7 029 251	8 679 028
Treasury bonds PLN	6 817 065	8 414 865
Treasury bonds EUR	-	11 720
Treasury bonds USD	120 516	30 661
Treasury bonds UAH	91 670	220 793
Treasury bills	-	989
issued by local government bodies, municipal bonds	3 499 441	3 458 356
issued by non-financial institutions	2 063 317	2 137 215
corporate bonds PLN	2 063 317	2 129 507
corporate bonds UAH	-	4 946
bills of exchange	-	2 762
issued by banks, corporate bonds	50 832	50 870
Impairment allowances of debt securities available for sale	**(5 536)**	**(17 944)**
corporate bonds PLN	(5 536)	(10 236)
corporate bonds UAH	-	(4 946)
bills of exchange	-	(2 762)
Total net debt securities available for sale	**12 637 305**	**14 307 525**
Equity securities available for sale, gross	**117 006**	**88 370**
Equity securities not admitted to public trading	68 393	41 025
Equity securities admitted to public trading	48 613	47 345
Impairment allowances of equity securities available for sale	**(12 314)**	**(2 619)**
Total net equity securities available for sale	**104 692**	**85 751**
Total net investment securities available for sale	**12 741 997**	**14 393 276**

As at 30 June 2012, in the investment securities available for sale portfolio, the carrying amount of assets pledged as collateral for amounts due from repurchase agreements was PLN 944 151 thousand. As at 31 December 2011, in the investment securities available for sale portfolio, there were no assets pledged as collateral for liabilities due to sell-buy-back transactions.

20. Investments in associates and jointly controlled entities

a) the value of the Bank's investments in jointly controlled entities (i.e. the acquisition cost adjusted to share in the change in net assets after acquisition date and impairment allowances)

Entity name	30.06.2012	31.12.2011
The CENTRUM HAFFNERA Sp. z o.o. Group	**12 057**	**10 665**
Purchase price	44 371	44 371
Change in valuation with equity method	(32 314)	(33 706)
Centrum Obsługi Biznesu Sp. z o.o.	**5 468**	**5 307**
Purchase price	17 498	17 498
Change in valuation with equity method	(12 030)	(12 191)
Total	**17 525**	**15 972**

(in PLN thousand)

b) the value of the Bank's investments in associates (i.e. the acquisition cost adjusted to share in the change in net assets and impairment allowances)

Entity name	30.06.2012	31.12.2011
The Bank Pocztowy SA Group	**106 720**	**106 720**
Purchase price	146 500	146 500
Change in valuation with equity method	49 630	44 198
Impairment allowances	(89 410)	(83 978)
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in valuation with equity method	3 569	3 475
Impairment allowances	(5 069)	(4 975)
Agencja Inwestycyjna CORP-SA SA	**310**	**427**
Purchase price	29	29
Change in valuation with equity method	281	398
Total	**107 030**	**107 147**

Selected data on associates accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
30.06.2012					
The Bank Pocztowy SA Group	5 747 792	5 401 478	279 547	15 498	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	18 239	134	209	285	33.33
Agencja Inwestycyjna CORP-SA SA	3 026	1 575	6 506	584	22.31
Total	**5 769 057**	**5 403 187**	**286 262**	**16 367**	**X**
31.12.2011					
The Bank Pocztowy SA Group	5 215 801	4 889 578	457 671	29 555	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	17 666	137	513	18	33.33
Agencja Inwestycyjna CORP-SA SA	3 874	1 833	12 459	1 109	22.31
Total	**5 237 341**	**4 891 548**	**470 643**	**30 682**	**X**

Data for 2011 was derived from the audited financial statements, therefore, they could have changed as compared with the data presented in the financial statements for 2011, where the initial financial data was presented.

Financial data concerning the Bank Pocztowy Group presented in the table above is derived from consolidated financial statements prepared in accordance with IFRS/IAS. Data about other companies is derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Group's estimates, differences between the above mentioned financial statements and the financial statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Group.

Selected data on jointly controlled entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
30.06.2012					
Centrum Obsługi Biznesu Sp. z o.o.	117 911	102 970	12 195	385	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	317 446	287 272	24 817	6 832	49.43
Total	**435 357**	**390 242**	**37 012**	**7 217**	**X**
31.12.2011					
Centrum Obsługi Biznesu Sp. z o.o.	122 181	107 918	22 272	(11 314)	41.44
The CENTRUM HAFFNERA Sp. z o.o. Group	313 685	290 102	49 846	(48 450)	49.43
Total	**435 866**	**398 020**	**72 118**	**(59 764)**	**X**

Data for 2011 was derived from the audited financial statements, therefore, they could have changed as compared with the data presented in the financial statements for 2011, where the initial financial data was presented.

Financial data concerning Centrum Obsługi Biznesu Sp. z o.o. and the CENTRUM HAFFNERA Sp. z o.o. Group presented in the table above is derived from financial statements prepared in accordance with the Polish

(in PLN thousand)

Accounting Standards. According to the Group's estimates, differences between the above mentioned financial statements and the financial statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Group.

	01.01-30.06.2012	01.01-30.06.2011
Investments in associates at the beginning of the period	**107 147**	**131 652**
Change in impairment allowances of investment	(5 526)	(643)
Share of profit/loss	4 475	1 206
Share in other comprehensive income of associates	1 181	(367)
Dividends paid	(247)	(112)
Investment in associates at the end of the period	**107 030**	**131 736**

	01.01-30.06.2012	01.01-30.06.2011
Investments in jointly controlled entities at the beginning of the period	**15 972**	**41 279**
Share of profit/loss	1 553	(5 003)
Investments in jointly controlled entities at the end of the period	**17 525**	**36 276**

As at 30 June 2012 and 31 December 2011, the parent company had no share in contingent liabilities and commitments of associates and jointly controlled entities acquired jointly with other investors.

In the interim consolidated financial statements for the period ended 30 June 2012 all associates and jointly controlled entities are accounted for using the equity method.

21. Intangible assets and tangible fixed assets

Intangible assets	30.06.2012	31.12.2011
Software	1 432 836	1 450 693
Goodwill	228 950	227 349
Development costs	3 486	3 486
Other, including capital expenditure	105 687	118 480
Total	**1 770 959**	**1 800 008**

Tangible fixed assets	30.06.2012	31.12.2011
Land and buildings	1 694 845	1 691 339
Machinery and equipment	514 235	559 727
Assets under construction	137 900	144 776
Means of transport	62 981	62 344
Investment properties	243	248
Other	84 584	82 883
Total	**2 494 788**	**2 541 317**

In the six-month period ended 30 June 2012, there were no significant transactions of purchase and sale of tangible fixed assets and significant liabilities due to purchase of tangible fixed assets.

22. Amounts due to banks

	30.06.2012	31.12.2011
Loans and advances received	4 287 966	4 360 878
Banks deposits	1 181 691	1 372 635
Amounts due from repurchase agreements	92 947	-
Current accounts	50 326	422 707
Other money market deposits	127 910	82 944
Total	**5 740 840**	**6 239 164**

In the six-month period ended 30 June 2012, loans and advances received are being paid in a timely manner and with no significant violations of loan or advance agreement.

(in PLN thousand)

23. Amounts due to customers

	30.06.2012	31.12.2011
Amounts due to retail clients	**106 462 857**	**104 183 094**
Term deposits	58 255 637	55 523 745
Current accounts and overnight deposits	47 970 670	48 187 307
Other money market deposits	236 550	472 042
Amounts due to corporate entities	**35 525 139**	**38 468 560**
Term deposits	22 845 265	23 949 758
Current accounts and overnight deposits	9 423 967	11 399 925
Loans and advances received	1 949 250	1 988 013
Amounts due from repurchase agreements	970 319	644 005
Other money market deposits	336 338	486 859
Amounts due to state budget entities	**4 998 509**	**3 822 243**
Current accounts and overnight deposits	2 435 766	2 241 333
Term deposits	2 479 924	1 516 981
Other money market deposits	82 819	63 929
Total	**146 986 505**	**146 473 897**

In the six-month period ended 30 June 2012, loans and advances received are paid in a timely manner and with no significant violations of loan or advance agreement.

	30.06.2012	31.12.2011
Amounts due to customers, of which:	**146 986 505**	**146 473 897**
retail and private banking	103 077 041	100 390 214
Corporate	27 881 422	28 780 730
small and medium enterprises	8 423 715	9 163 920
housing market clients	4 539 945	5 410 622
loans and advances received	1 949 250	1 988 013
amounts due from repurchase agreements	970 319	644 005
other liabilities	144 813	96 393
Total	**146 986 505**	**146 473 897**

In the first half of 2012, as a result of re-segmentation, PLN 62 677 thousand of deposit volumes of small and medium enterprises and PLN 402 317 thousand of deposits volumes of housing market clients were transferred to corporate segment.

24. Debt securities in issue

	30.06.2012	31.12.2011
Debt securities in issue		
Financial instruments measured at amortised cost	6 991 039	7 596 164
bonds issued by PKO Bank Polski SA	2 463 499	2 929 973
bonds issued by PKO Finance AB	4 404 540	4 476 996
bonds issued by BFL SA	123 000	189 195
Financial instruments designated at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	312 236	175 615
Total	**7 303 275**	**7 771 779**

	30.06.2012	31.12.2011
Debt securities in issue by maturity:		
up to 1 month	45 336	9 957
from 1 month to 3 months	2 660 310	3 109 211
from 3 months to 1 year	42 436	41 311
from 1 year to 5 years*	4 555 193	4 611 300
Total	**7 303 275**	**7 771 779**

* As at 30 June 2012 and 31 December 2011 significant items of debt securities in issue were Eurobonds issued by PKO Finance AB in the nominal value of EUR 800 000 thousand and bonds in the nominal value of CHF 250 000 thousand. As at 30 June 2012 amounts due in respect of own issue was reduced by the value of bonds temporarily included in the Brokerage House's portfolio in the nominal value of EUR 1 150 thousand (PLN equivalent of PLN 4 900 thousand), in connection with the Brokerage House acting as a market maker in the bonds' market.

(in PLN thousand)

In the six-month period of 2012, the Bank issued bank securities and bank bonds with nominal value of PLN 4 520 232 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 the first half of 2012, bank securities and bank bonds with nominal value of PLN 4 853 501 thousand were redeemed.

In the six-month period of 2012, BFL SA issued bonds with a nominal value of PLN 690 000 thousand and redeemed bonds with a nominal value of PLN 755 000 thousand. As at 30 June 2012, the Company's debt in respect of the bonds issued amounted to PLN 280 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 154 213 thousand (at nominal value).

25. Other liabilities

	30.06.2012	31.12.2011
Accounts payable	328 414	291 040
Deferred income	385 651	305 372
Other liabilities	1 580 732	1 854 351
Total	**2 294 797**	**2 450 763**

26. Provisions

For the six-month period ended 30 June 2012	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2012, of which:	**3 638**	**428 299**	**111 970**	**75 257**	**619 164**
Short term provision	**3 638**	**38 232**	**111 970**	**75 257**	**229 097**
Long term provision	**-**	**390 067**	**-**	**-**	**390 067**
Increase/reassessment of provision	364	-	87 359	5 235	**92 958**
Release of provision	(575)	-	(59 348)	-	**(59 923)**
Use of provision	(61)	(9)	-	(33 192)	**(33 262)**
Currency translation differences	-	-	(4)	-	**(4)**
Other changes and reclassifications	-	-	(220)	-	**(220)**
As at 30 June 2012, of which:	**3 366**	**428 290**	**139 757**	**47 300**	**618 713**
Short term provision	**3 366**	**38 253**	**139 757**	**47 300**	**228 676**
Long term provision	**-**	**390 037**	**-**	**-**	**390 037**

* Included in 'Other provisions' is i.a.: restructuring provision of PLN 35 113 thousand and provision of PLN 5 150 thousand for potential claims on impaired loans portfolios sold.

In the six-month period ended 30 June 2012, there were no significant settlements due to court proceedings.

For the six-month period ended 30 June 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:	**7 479**	**411 792**	**82 320**	**82 099**	**583 690**
Short term provision	**7 479**	**29 628**	**82 320**	**82 023**	**201 450**
Long term provision	**-**	**382 164**	**-**	**76**	**382 240**
Increase/reassessment of provision	-	-	102 786	4 318	**107 104**
Release of provision	-	-	(83 431)	-	**(83 431)**
Use of provision	(22)	-	-	(33 767)	**(33 789)**
Currency translation differences	-	-	(26)	-	**(26)**
As at 30 June 2011, of which:	**7 457**	**411 792**	**101 649**	**52 650**	**573 548**
Short term provision	**7 457**	**29 628**	**101 649**	**52 650**	**191 384**
Long term provision	**-**	**382 164**	**-**	**-**	**382 164**

* Included in 'Other provisions' is i.a.: restructuring provision of PLN 36 395 thousand and provision of PLN 10 866 thousand for potential claims on impaired loans portfolios sold.

(in PLN thousand)

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

OTHER NOTES

27. Off-balance sheet liabilities

Contingent liabilities

Underwriting programmes

As at 30 June 2012, the Group's underwriting agreements covered the following securities (maximum liability of the Group 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	1 633 000	15.06.2017	Bonds Issue Agreement*
Company B	corporate bonds	548 500	31.07.2013	Bonds Issue Agreement*
Company C	corporate bonds	121 842	31.12.2024	Bonds Issue Agreement*
Company D	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company E	corporate bonds	100 000	31.12.2022	Bonds Issue Agreement*
Total		**2 506 042**		

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

As at 31 December 2011, the Group's underwriting agreements covered the following securities (maximum liability of the Group 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 B	corporate bonds	423 000	31.07.2013	Bonds Issue Agreement*
Company C	corporate bonds	136 013	31.12.2024	Bonds Issue Agreement*
Company D	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company F	corporate bonds	24 900	30.12.2015	Bonds Issue Agreement*
Company G	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 Programme.

All securities under the sub-issue (underwriting) programme, taken up by the Group, have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

Contractual commitments

As at 30 June 2012 the amount of contractual commitments concerning intangible assets amounted to PLN 185 759 thousand (as at 31 December 2011, it amounted to PLN 104 144 thousand).

As at 30 June 2012 the amount of contractual commitments concerning tangible fixed assets amounted to PLN 67 840 thousand (as at 31 December 2011, it amounted to PLN 20 306 thousand).

Granted loan commitments

	30.06.2012	31.12.2011
Financial entities	1 046 526	1 144 993
Non-financial entities	26 998 484	28 486 768
State budget entities	3 334 215	823 897
Total	**31 379 225**	**30 455 658**
of which: irrevocable loan commitments	7 941 752	5 946 055

Granted loan commitments were presented in nominal values.

(in PLN thousand)

Guarantees issued

	30.06.2012	31.12.2011
Financial entities	53 085	207 156
Non-financial entities	10 655 655	6 053 115
State budget entities	455 361	174 459
Total	**11 164 101**	**6 434 730**

As at 30 June 2012 and as at 31 December 2011 the Bank and its subsidiaries did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a subsidiary or other entity thereof with a total value accounting for 10% of the Bank's equity.

Information on provisions for off-balance sheet guarantees and financial liabilities is included in Note 26 'Provisions'.

Off-balance sheet liabilities received

	30.06.2012	31.12.2011
Financial	3 367 793	883 117
Guarantees	1 922 446	1 918 281
Total	**5 290 239**	**2 801 398**

The off-balance sheet liabilities received were presented at nominal values.

Assets pledged as collateral for contingent liabilities

As at 30 June 2012 and 31 December 2011 the Group had no assets pledged as collateral for contingent liabilities.

28. Legal claims

As at 30 June 2012, the total value of court proceedings in which the PKO Bank Polski SA Group entities are a defendant was PLN 466 832 thousand, of which PLN 80 898 thousand referred to court proceedings in Ukraine (as at 31 December 2011 the total value of above mentioned court proceedings amounted to PLN 428 623 thousand), while the total value of court proceedings in which the Group entities are the plaintiff was PLN 424 565 thousand, of which PLN 190 506 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loans granted by KREDOBANK SA (as at 31 December 2011 the total value of above mentioned court proceedings amounted to PLN 698 971 thousand).

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 until 31 January 2012 and set the date for another sitting of the Court for 9 February 2012. Upon the application of the plaintiffs' attorney, the date of hearing was postponed for 24 April 2012, on which the attorney's request for deferment of the case until the end of September 2012 was dismissed. The Court postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, the District Court in Warsaw, the Court for Competition and Consumer Protection, suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On

24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed interchange fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of the District Court in Warsaw, the Court for Competition and Consumer Protection dated 8 May 2012.

As at 30 June 2012 and 31 December 2011, the Bank had a liability in the amount of PLN 16 597 thousand.

b) legal claims in KREDOBANK SA

KREDOBANK SA is party to a court dispute with its former loan Client. On 31 January 2011 KREDOBANK SA instigated court proceedings against the above mentioned Client in connection with the commencement of collection of loan dues, as a result of which the Client filed a counter-claim against KREDOBANK SA for annulling the loan agreements and collateral agreements.

The court accepted the Client's claim and determined the loan agreements invalid, in effect the Client is obliged to return to KREDOBANK SA the amount of loan received (UAH 40 860 thousand, i.e. PLN 17 247 thousand at the average NBP exchange rate prevailing as at 30 June 2012), and KREDOBANK SA is obliged to return to the Client the amount of interest received (UAH 4 506.6 thousand, i.e. PLN 1 902.2 thousand at the average NBP exchange rate prevailing as at 30 June 2012).

In December 2011, the above mentioned loan was transferred to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and as at 31 December 2011 a 100% impairment allowance was recorded against this impaired loan.

In February 2012, a motion for cassation to the Supreme Court of the Ukraine and for sending the case for reconsideration was filed.

At the same time, having obtained a favourable court verdict, on 31 October 2011 the Client filed a claim against KREDOBANK SA for compensation for direct losses, loss of profits and moral losses. The claim is for the amount of UAH 185 million (i.e. PLN 78 million at the average NBP exchange rate prevailing as at 30 June 2012). Court proceedings are pending on the case. In the ongoing proceedings the Client resigned from the part of demands of UAH 36 million. As at the end of the first half of 2012 the total amount of the claim amounts to UAH 149 million (i.e. PLN 62.9 million at the average NBP exchange rate prevailing as at 30 June 2012).

In order to strengthen the Group in the ongoing court trial, in March 2012 the transaction of loan transfer was reversed, in consequence at the end of first half of 2012 this transaction was recognised in the statement of financial position of KREDOBANK SA as owed debt.

Due to high probability of a positive for KREDOBANK SA court verdict on the compensation claim resulting from legal analysis, at the end of the first half of 2012 the Group did not recognise the provision for the above mentioned claim.

c) re-privatisation claims relating to properties held by the Group

As at the date of these financial statements, six 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 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 as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties of the Bank 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.

(in PLN thousand)

29. Supplementary information to the statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on nostro account 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.

	30.06.2012	31.12.2011	30.06.2011
Cash and balances with the central bank	8 837 388	9 142 168	7 643 539
Current receivables from financial institutions	2 673 638	2 280 802	2 241 614
Total	**11 511 026**	**11 422 970**	**9 885 153**

Cash flow from interests and dividends, both received and paid

Interest income - received	**01.01 – 30.06.2012**	**01.01 – 30.06.2011**
Income from loans and advances granted	4 384 672	3 984 848
Income from securities designated at fair value through profit and loss	426 757	297 225
Income from placements	138 289	104 333
Income from investment securities	452 344	184 580
Income from trading securities	32 462	45 077
Other interest received (mainly from current accounts, realised guarantees, purchased debts, previous years interest adjustments and interest on other receivables from financial sector)	715 968	670 888
Total	**6 150 492**	**5 286 951**

Dividend income - received	**01.01 – 30.06.2012**	**01.01 – 30.06.2011**
Dividend income from jointly controlled entities and associates	247	112
Dividend income from other entities	1 589	1 439
Total	**1 836**	**1 551**

Interest expense – paid	**01.01 – 30.06.2012**	**01.01 – 30.06.2011**
Interest expense on deposits – paid	(1 692 999)	(1 383 237)
Interest expense on loans and advances – paid	(46 238)	(45 856)
Interest expense on debt securities in issue – paid	(111 232)	(40 424)
Other interest paid (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(518 651)	(550 042)
Total	**(2 369 120)**	**(2 019 559)**

30. Transactions with the State Treasury and related entities

The State Treasury as at 30 June 2012 has control over the parent company of the Group. 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, other state budgetary agencies and entities in which the shareholder is the State Treasury are disclosed in the Group'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)

	01.01-30.06.2012	01.01-30.06.2011
Income due to temporary redemption by the State budget of interest on mortgage loans from the 'old' portfolio recognised for this period	94 874	79 551
Income due to temporary redemption by the State budget of interest on mortgage loans from the 'old' portfolio received in cash	48 603	34 921
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	46 271	44 630

The Act on the coverage of repayment of certain mortgage loans by the 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 loans 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 on mortgage loans by the State Treasury.

	01.01-30.06.2012	01.01-30.06.2011
Fee and commission income	2 304	2 468

Since 1 January 1996, the Bank is the general distributor of Treasury stamps and receives commissions in this respect from the State Treasury.

	01.01-30.06.2012	01.01-30.06.2011
Fee and commission income	10 267	10 618

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 PKO Bank Polski SA on 11 February 2003. Under this agreement, the Brokerage House of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds.

	01.01-30.06.2012	01.01-30.06.2011
Fee and commission income	21 856	14 322

(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.

	30.06.2012						31.12.2011					
Entity	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	-	5 476	2 080 000	-	1	(145)	-	-	-	-	-	-
Entity 2	343 746	100 279	418 597	2 846	199	(405)	399 939	-	368 959	4 980	909	(301)
Entity 3	191 421	10 362	186 711	4 357	1 171	(2 475)	132 802	150 000	477 545	13 039	2 797	(3 182)
Entity 4	148 644	39 475	74 459	5 120	241	(39)	178 132	15 474	144 912	3 898	578	(45)
Entity 5	140 197	-	-	5 489	1 280	-	130 940	-	-	18 230	245	(6 988)
Entity 6	107 405	-	11 768	3 473	180	(1)	102 811	-	20 357	6 228	605	(5)
Entity 7	106 756	9 905	43 279	2 736	246	(523)	54 758	11 045	95 264	3 420	783	(1 370)
Entity 8	76 194	9 400	60 000	2 584	17	(1 041)	85 308	12 543	60 000	5 731	156	(2 995)
Entity 9	52 006	-	121 842	1 398	2	(365)	58 103	7 000	136 013	2 923	11	(774)
Entity 10	46 850	46 000	-	305	3	(1 447)	48 749	45 850	-	565	5	(1 158)
Entity 11	32 991	-	46 348	1 010	61	(476)	41 060	10 000	50 000	2 927	97	(3 259)
Entity 12	30 459	-	19 833	478	10	(6)	-	-	30 000	-	-	(326)
Entity 13	20 563	-	-	658	4	(87)	25 048	-	-	1 507	8	(114)
Entity 14	20 113	11 600	6 000	691	12	(427)	20 115	5 105	6 000	1 441	32	(645)
Entity 15	13 591	-	692	551	20	-	19 556	-	3 434	1 340	76	-
Other significant exposures	99 936	1 129 670	5 610 994	3 756	1 790	(86 140)	172 297	1 980 756	2 900 763	27 033	4 071	(145 924)
Total	**1 430 872**	**1 362 167**	**8 680 523**	**35 452**	**5 237**	**(93 577)**	**1 469 618**	**2 237 773**	**4 293 247**	**93 262**	**10 373**	**(167 086)**

As at 30 June 2012 and as at 31 December 2011 respectively, no significant impairment allowances were recognised for above mentioned receivables.

(in PLN thousand)

31. Related party transactions

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

30 June 2012

Entity	Receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
Agencja Inwestycyjna CORP-SA SA	64	-	68	378	-	1 301	-	-
Bank Pocztowy SA	-	-	113	70	62	614	181	4 539
CENTRUM HAFFNERA Sp. z o.o.	-	-	265	5	5	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	3 609	3	3	53	53	-
Centrum Obsługi Biznesu Sp. z o.o.	31 880	31 880	19 255	429	429	315	315	172
Centrum Operacyjne Sp. z o.o.	-	-	76	1	1	-	-	-
Kamienica Morska Sp. z o.o.	-	-	98	3	3	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	6 991	6 991	4 014	235	235	61	61	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	18 128	1	1	234	234	-
Promenada Sopocka Sp. z o.o.	47 127	47 127	2 715	698	698	29	29	-
Sopot Zdrój Sp. z o.o.	226 761	226 761	2 264	2 189	2 189	26	26	-
Total	**312 823**	**312 759**	**50 605**	**4 012**	**3 626**	**2 633**	**899**	**4 711**

31 December 2011

Entity	Net receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
Agencja Inwestycyjna CORP-SA SA	-	-	76	691	-	2 552	-	-
Bank Pocztowy SA	-	-	983	346	325	486	481	24 974
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	-	-	-
Kamienica Morska Sp. z o.o.	-	-	-	13	13	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	8 479	8 479	217	479	479	58	58	2 976
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	-
Sopot Zdrój Sp. z o.o.	235 466	235 466	3 318	7 322	7 322	71	71	-
Total	**326 732**	**326 732**	**38 868**	**11 378**	**10 666**	**4 974**	**2 417**	**27 950**

32. Personal related party transactions

As at 30 June 2012, 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 (two entities as at 31 December 2011).

In the first half of 2012 and in 2011, no intercompany transactions were concluded with these entities.

33. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits*

Remuneration received from PKO Bank Polski SA

	01.01-30.06.2012	01.01-30.06.2011
The Management Board of the Bank		
Short-term employee benefits	7 694	7 023
The Supervisory Board of the Bank		
Short-term employee benefits	621	494
Total remuneration	**8 315**	**7 517**

* Includes remuneration from the Bank and the Bank's subsidiaries, unless stated otherwise.

(in PLN thousand)

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

	01.01-30.06.2012	01.01-30.06.2011
The Management Board of the Bank		
Short-term employee benefits	20	15
Total remuneration	**20** **	**15** ***

** Includes remuneration from associates in the amount of PLN 20 thousand.
*** Includes remuneration from associates in the amount of PLN 15 thousand.

b) post-employment benefits

In the six-month periods ended 30 June 2012 and 30 June 2011 respectively, no post-employment benefits were granted.

c) other long-term benefits

In the six-month periods ended 30 June 2012 and 30 June 2011 respectively, no 'other long-term benefits' were granted.

d) benefits due to termination of employment

In the six-month periods ended 30 June 2012 and 30 June 2011 respectively, no benefits due to termination of employment were granted.

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

	30.06.2012	31.12.2011
The Management Board members	160	130
The Supervisory Board members	2 303	2 415
Total	**2 463**	**2 545**

Interest conditions and repayment periods of receivables are set at arm's length for the similar banking products.

Remuneration received by members of the Management Board and the Supervisory Board of the PKO Bank Polski SA Group's subsidiaries

	01.01-30.06.2012	01.01-30.06.2011
The Management Board		
Short-term employee benefits	10 271	8 939
The Supervisory Board		
Short-term employee benefits	91	-
Total employee benefits	**10 362**	**8 939**

34. Changes to the entities of the Group

In the first half of 2012, the following events affecting the structure of the PKO Bank Polski SA Group took place:

1) Purchase of share and capital contribution to new company 'Inter-Risk Ukraina' Additional Liability Company

On 16 January 2012, the Bank was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Additional Liability Company ('Inter-Risk Ukraina', 'the Company'). The additional liability means that the shareholder is responsible for the company's liabilities up to 103% of its share in the Company's share capital, i.e. the Bank as the Company's shareholder, in case of insufficient amount of the Company's share capital to fulfil liabilities, bears additional liability up to 103% in the Company's share capital, i.e. up to UAH 44 573 thousand (PLN 18 814 thousand as at 30 June 2012).

The Bank acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA and Towarzystwo Ubezpieczeniowe 'PZU Ukraina Ubezpieczenia na Życie' SA a total of 1 share in the above mentioned Company in the nominal value of UAH 275 thousand, which represents 100% of the Company's share capital and entitles to 100% of the votes at the General Shareholders' Meeting for the price of PLN 2 500 thousand.

On 30 January 2012, the Bank made a capital contribution to the above mentioned Company of UAH 43 million (i.e. PLN 17 212.9 thousand at the average NBP exchange rate as at 27 January 2012 prevailing in the Bank as at 30 January 2012), conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 43 275 thousand.

The main purpose of acquiring and subsequently the operation of the Company is to use it to perform effective debt collection in Ukraine, including the impaired loans portfolio purchased by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and the impaired loans portfolio of KREDOBANK SA.

2) Taking control over Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. by 'Inter-Risk Ukraina'

In February 2012, the Bank carried out a transaction consisting of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. ('Finansowa Kompania', 'the Company') to 'Inter-Risk Ukraina' for the price of PLN 29.6 thousand.

In February 2012 'Inter-Risk Ukraina' made a capital contribution to 'Prywatne Inwestycje' in the amount of UAH 43 million, conducted by increasing the nominal value of the Company's share. As a result of the above mentioned increase, the Company's share capital amounts to UAH 46 101 thousand. The increase in the Company's share capital was registered with the State Ukrainian Register of Businesses on 27 February 2012.

As a result of the above mentioned changes 'Inter-Risk Ukraina' holds part of 'Prywatne Inwestycje', constituting 93.408% of the Company's share capital, which entitles to 93.408% of the votes at the General Shareholders' Meeting. The remaining part of the Company's share is owned by the Bank.

3) Purchase of share in new company Finansowa Kompania 'Idea Kapitał' Sp. z o.o. by KREDOBANK SA

On 23 March 2012 KREDOBANK SA was registered with the State Ukrainian Register of Businesses as a sole shareholder of Finansowa Kompania 'Idea Kapitał' Sp. z o.o.

KREDOBANK SA acquired from Towarzystwo Ubezpieczeniowe 'PZU Ukraina' SA 1 share in the above mentioned Company in the nominal value of UAH 4 100.0 thousand, constituting 100% of the Company's share capital which entitles to 100% of the votes at the General Shareholders' Meeting. The acquisition price was UAH 4 100.2 thousand.

The Company's activities comprise provision of financial services.

4) Taking up shares in the increased share capital of Bankowy Leasing Sp. z o.o. by Bankowy Fundusz Leasingowy SA

On 31 January 2012 an increase in the share capital of Bankowy Leasing Sp. z o.o. of PLN 9 500 thousand was registered in the National Court Register. As a result of the above mentioned increase, the share capital of the Company amounts to PLN 66 914.5 thousand and consists of 133 829 shares, each of PLN 500 nominal value.

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

As a result of the above mentioned transaction Bankowy Fundusz Leasingowy SA remains the sole shareholder of Bankowy Leasing Sp. z o.o.

On 29 June 2012 Bankowy Fundusz Leasingowy SA transferred funds in the amount of PLN 15 500 thousand to Bankowy Leasing Sp. z o.o. as the taking up shares in the increased share capital of the Company. The above mentioned increase has to be registered in the National Court Register and will result in a change in the Group in the second half of 2012.

5) Changes to the Qualia Development Sp. z o.o. Group

In the first half of 2012 in the Qualia Development Sp. z o.o. Group:

a) Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Spółka komandytowa was created (the Company was registered in the National Court Register on 14 February 2012);

   The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).

b) Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Spółka komandytowa was created (the Company was registered in the National Court Register on 15 March 2012);

   The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).

c) Qualia spółka z ograniczoną odpowiedzialnością – Jurata Spółka komandytowa was created (the Company was registered in the National Court Register on 27 March 2012);

   The partners are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).

d) amount of contribution and limited partnership amount in Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Spółka komandytowa were increased;

   On 17 April 2012, by the Partners' Resolution of the Company, the limited partner's – Qualia Development Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 20 001 thousand and the general partner's – Qualia Sp. z o.o. amount of contribution was increased from PLN 1 thousand to PLN 21 thousand, and the value of limited partnership amount was increased from PLN 1 thousand to PLN 20 001 thousand. Above mentioned changes were registered in the National Court Register on 19 June 2012.

e) Qualia Development Sp. z o.o. became a sole shareholder of Qualia Hotel Management Sp. z o.o.

   On 1 June 2012 Qualia Development Sp. z o.o. acquired 1 share in Qualia Hotel Management Sp. z o.o. in the nominal value of PLN 50 from Qualia Sp. z o.o. The purchase price is equal to the nominal value of the share.

   As a result of the above mentioned transaction Qualia Development Sp. z o.o. holds shares of Qualia Hotel Management Sp. z o.o. constituting 100% of the Company's share capital which entitles to 100% of the votes at the General Shareholders' Meeting.

In the first half of 2012 the following additional payments to companies of the Qualia Development Sp. z o.o. Group were made:

- PKO Bank Polski SA made additional payments to Qualia Development Sp. z o.o. in the total amount of PLN 35 319 thousand,
- Qualia Development Sp. z o.o. made additional payments to Qualia Residence Sp. z o.o. in the total amount of PLN 13 600 thousand,
- Qualia Development Sp. z o.o. made additional payments to Qualia Hotel Management Sp. z o.o. in the total amount of PLN 1 498.5 thousand,
- Qualia Development Sp. z o.o. made an additional payment to Qualia Sp. z o.o. in the amount of PLN 35 thousand,
- Qualia Sp. z o.o. made additional payments to Qualia Hotel Management Sp. z o.o. in the total amount of PLN 1.5 thousand.

6) Completion of the liquidation process of Centrum Finansowe Puławska Sp. z o.o.

In the first half of 2012, as part of the liquidation of the subsidiary Centrum Finansowe Puławska Sp. z o.o. on 1 March of this year PKO Bank Polski SA took over the assets in bankruptcy of the above mentioned Company, including real estate in Warsaw where the Head Office of the Bank is located.

Centrum Finansowe Puławska Sp. z o.o. in liquidation, on the basis of a decision dated 7 May 2012 of the District Court for the Capital City of Warsaw, XIII Economic Department of the National Court Register, was removed from the National Court Register, effective on 28 May 2012.

35. Explanation of differences between previously published financial statements and these financial statements

In the first half of 2012, there were no changes as compared to the previously published financial statements.

36. Changes in economic situation and business activity conditions, which have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether those assets and liabilities are recognised at fair value or the adjusted acquisition cost (amortised cost)

There were no changes in economic situation and business activity conditions, which have a significant impact on the fair value of financial assets and financial liabilities of the entity, regardless of whether those assets and liabilities are recognised at fair value or the adjusted acquisition cost (amortised cost).

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

37. Risk management in the Group

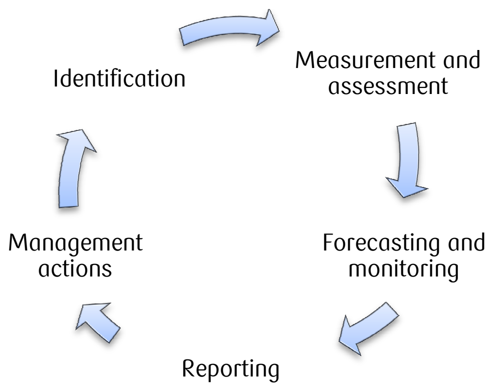
Risk management is one the most important internal processes in both PKO Bank Polski SA and the other entities of the PKO Bank Polski SA Group, especially KREDOBANK SA and the Bankowy Fundusz Leasingowy SA Group. Risk management aims at ensuring an appropriate level of security and profitability of business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

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

The process of banking risk management in the Group consists of the following stages:

- risk identification – the identification of current and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the financial situation of the Group. Within the risk identification process, the types of risk which are perceived as material for the Bank's activity, the Group entities' or the whole Group's activity are identified,
- risk measurement and assessment – defining risk assessment tools adequate to the type, significance of the risk, data availability and quantitative risk assessment by means of determined tools, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of risk management goals. Within risk measurement, stress-tests are being conducted on the basis of assumptions 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 Authorities of the Bank about the results of risk assessment, taken actions and recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients,
- management actions – including, in particular, 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 aim of taking management actions is to form the risk management process and risk level.

The risk management process is described on the chart below:



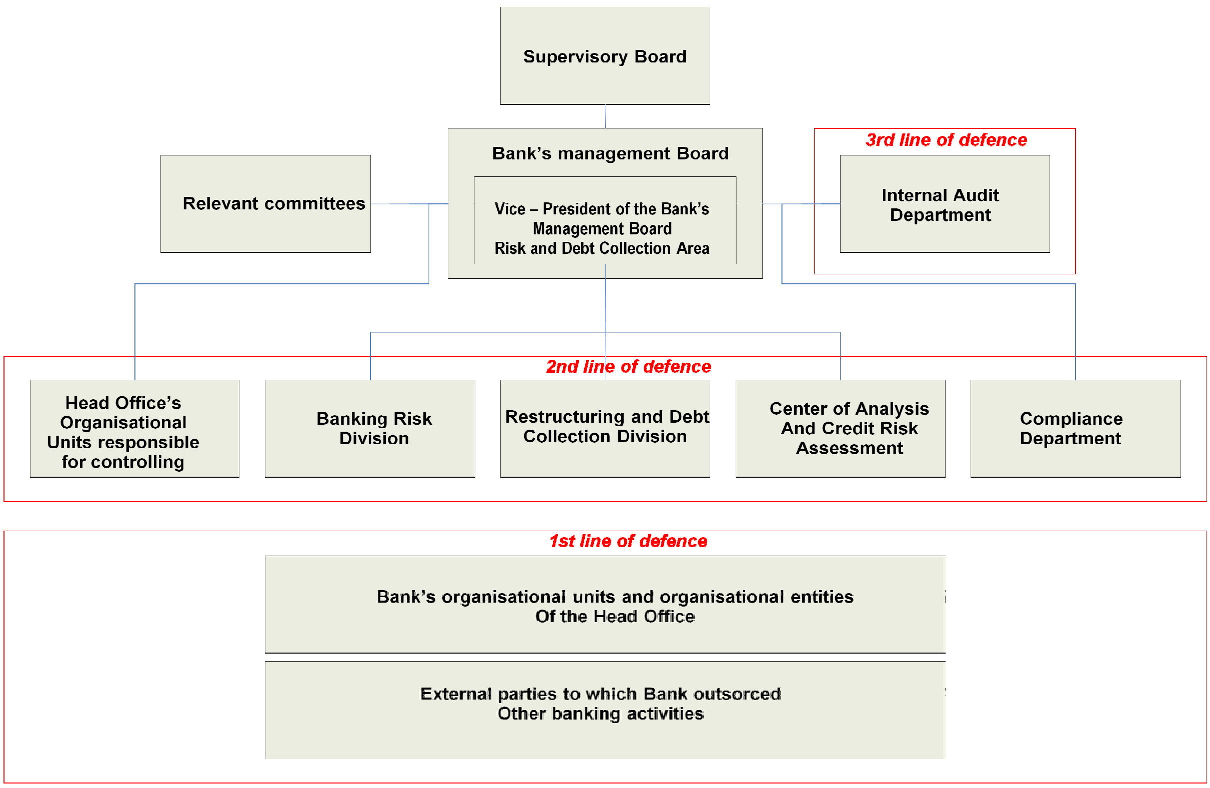
Risk management in the Group is based especially on the following principles:

- the Group manages all of the identified types of banking risk,
- 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 area of risk and debt collection remains organisationally independent of business activities,
- the risk level is monitored on a current basis,
- the risk management is integrated with the planning and controlling systems,
- the risk management process supports the pursuit of the Group's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk.

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, which is informed on a regular basis about the risk profile of the Bank as well as of the Group and the most important activities taken in the area of risk management.

The 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 Management Board takes the most important decisions affecting the risk level 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 President of the Management Board.

The first line of defence is being performed in the organisational units of the Bank, the organisational units of the Head Office and entities of the Group and concerns the activities of those units, cells and entities which may generate risk. The units, cells and the Group entities are responsible for identifying risks, designing and implementing appropriate control mechanisms, unless control mechanisms have been implemented as part of the measures taken in the second line of defence. At the same time the Group entities are obliged to have comparable and cohesive systems of risk control in the Bank and in the Group entities, taking into account the specific business characteristic of each entity and market conditions.

The second line of defence is being performed, 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 being performed 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 Analysis and Credit Risk Assessment Centre 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 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 Division 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 from 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 require independent assessment. The Analysis and Credit Risk Assessment Centre takes lending decisions in respect of individual clients and SME clients covered by rating methods assessment.

Risk management is supported by the following committees:

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

RC monitors the integrity, adequacy and efficiency of the banking 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 PKO Bank Polski SA's Banking Risk Management Strategy. RC supports the Supervisory Board in the banking risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the banking risk monitoring system.

ALCO makes decisions within the scope of limits and thresholds on particular kinds of risks and issues related to transfer pricing, as well as gives recommendations to the Management Board i.a. with regard to a shape of Bank's assets and liabilities structure, particular risks, capital management and price policy.

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

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

ORC makes decisions within the scope of i.a. calculations of Key Risk Indicators (KRI), losses limits on operational risk, values of key measurement parameters used to calculate AMA results, assumptions of the stress-test scenarios and results of validation of the operational risk measurement models. Moreover ORC supports the Management Board in the process of managing operational risk by giving recommendations, relating to i.a. strategic levels of operational risk tolerance.

ORC gives operational risk management recommendations for the Group entities, which are submitted to the companies of the PKO Bank Polski SA Group as part of the Bank's corporate governance.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

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

The PKO Bank Polski SA Group'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 in the area of efficiency and effective cost control.

37.1. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank and the Group entities 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, given Group entities as well as the whole PKO Bank Polski SA Group`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 or the Group 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' or 'insignificant'. Similar assessment is conducted periodically in the entities of the Group. In particular, monitoring is conducted if significant change in activities or the profile of the Bank or of the PKO Bank Polski Group SA entities took place.

37.2. 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 a 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 impaired loans exposure, while keeping expected level of profitability and value of loan portfolio.

The Bank and subsidiaries of the Group apply the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk 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 or its value is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the assessment of credit risk generated by the contract,
- loan granting decisions are made only by authorised persons, within their authority,
- credit risk is diversified by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by legal collateral taken by the Bank, margins on the credit risk collected from clients and allowances (provisions) on credit exposures.

The above mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB) i.e. advanced credit risk measurement method, which can be used while calculating capital requirements for credit risk after being approved by the Financial Supervision Authority.

The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the BFL SA Group, the BTK SA Group) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the Group's subsidiaries are agreed every time with the Bank's units responsible for risk management.

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

The KREDOBANK SA Group, the BFL SA Group and the BTK SA Group have units responsible for risk in their organisational structures, which are in particular responsible for:

- developing methods of credit risk assessment, recognising provisions and allowances,

- controlling and monitoring credit risk during the lending process,
- the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of loan transaction.

The process of credit decision-making at the KREDOBANK SA Group, the BFL SA Group and the BTK SA Group is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group companies by giving their opinions on projects and periodically reviewing internal regulations of these companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

37.2.1. Portfolio risk measurement

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 impaired loans (according to IAS),
- coverage ratio of impaired loans with allowances (coverage ratio),
- cost of risk.

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

The portfolio credit risk measurement methods allow i.a. to reflect the credit risk in the price of products, determine the optimum conditions of financing availability and determine impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of the Bank's loan portfolio. The test results are reported to the Bank's Authorities. 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 lending 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.

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. As of 1 September 2010, the Bank operates a scoring method for credit risk evaluation of clients in the SME segment, along with an appropriate software application. This method is available next to the rating method. Its implementation resulted in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness.

(in PLN thousand)

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 response time to warning signs indicating the elevated credit risk levels, the Bank uses and develops the EWS (Early Warning System).

In May 2012, the behavioural scoring system at the Client level was implemented productively in the Bank, which replaced the behavioural scoring system at the product level functioning in the Bank. The implementation of that assessment will allow more precise management of the total individual Customer exposure through the mechanisms of a Client comprehensive assessment with regard to loan and deposit products held.

37.2.2. Forecasting and monitoring of credit risk

The Group's exposure to credit risk

Amounts due from banks	Exposure	
	30.06.2012	31.12.2011
Amounts due from banks impaired, of which:	32 111	32 499
valued with the individual method	32 111	32 385
Amounts due from banks not impaired, of which:	2 761 363	2 396 540
not past due	2 761 363	2 396 540
Gross total	**2 793 474**	**2 429 039**
Impairment allowances	**(32 158)**	**(32 812)**
Net total by carrying amount	**2 761 316**	**2 396 227**

Loans and advances to customers	Exposure	
	30.06.2012	31.12.2011
Loans and advances impaired, of which:	12 789 075	11 797 232
valued with the individual method	6 266 202	5 701 547
Loans and advances not impaired, of which:	134 559 145	135 495 505
not past due	130 459 502	131 488 230
past due but not impaired	4 099 643	4 007 275
past due up to 4 days	973 381	855 403
past due over 4 days	3 126 262	3 151 872
Gross total	**147 348 220**	**147 292 737**
Impairment allowances	**(6 017 065)**	**(5 658 243)**
Net total by carrying amount	**141 331 155**	**141 634 494**

Investment securities available for sale – debt securities	Exposure	
	30.06.2012	31.12.2011
Debt securities impaired, of which:	5 536	17 944
valued with the individual method	5 536	17 944
Debt securities not impaired, of which:	12 637 305	14 307 525
not past due	12 637 305	14 307 525
with external rating	7 080 083	8 729 898
with internal rating	5 557 222	5 577 627
Gross total	**12 642 841**	**14 325 469**
Impairment allowances	**(5 536)**	**(17 944)**
Net total by carrying amount	**12 637 305**	**14 307 525**

(in PLN thousand)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Group as at 30 June 2012 and as at 31 December 2011, excluding collaterals and related improvement of credit situation, by net carrying amount.

Items of the statement of financial position	30.06.2012	31.12.2011
Current account in the central bank	6 210 782	6 845 759
Amounts due from banks	2 761 316	2 396 227
Trading assets - debt securities	378 069	1 300 164
Derivative financial instruments	2 857 209	3 064 733
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	14 946 799	12 467 201
Loans and advances to customers	141 331 155	141 634 494
Investment securities available for sale - debt securities	12 637 305	14 307 525
Other assets - other financial assets	539 976	431 144
Total	**181 662 611**	**182 447 247**

Off-balance sheet items	30.06.2012	31.12.2011
Irrevocable loan commitments	7 941 752	5 946 055
Guarantees granted	7 294 693	4 939 669
Underwriting of issues	3 456 621	1 074 685
Letters of credit granted	412 787	420 376
Total	**19 105 853**	**12 380 785**

Financial assets valued with the individual method for which individual impairment allowance has been recognised by carrying amount gross

	30.06.2012	31.12.2011
Amounts due from banks	**32 111**	**32 385**
Loans and advances to customers	**6 266 202**	**5 701 547**
Financial sector	41 219	44 757
corporate loans	41 219	44 757
Non-financial sector	6 218 819	5 649 239
corporate loans	4 646 515	4 302 318
mortgage loans	1 492 088	1 262 477
consumer loans	80 216	84 444
Public sector	6 164	7 551
corporate loans	6 164	7 551
Financial assets available for sale	**5 649**	**18 058**
issued by non-financial entities	5 640	18 049
issued by financial entities	9	9
Total	**6 303 962**	**5 751 990**

Allowances for credit losses

The Group performs a monthly review of loan exposures in order to identify non-performing loan exposures, 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 Group's IT systems the events that are material from the point of view of identifying any indications of impairment of loan 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 Group implements three methods of estimating the impairment:

- the individualised method applied in respect of individually significant loans, which show the indications of individual impairment or requiring individual assessment due to 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 for which the objective evidence of individual impairment was identified,
- the group method (IBNR) applied in respect of the loans for which no objective evidence of individual impairment was identified, but there is a possibility of losses incurred but not recognised occurring.

The structure of loan portfolio and loan impairment allowances of the PKO Bank Polski SA Group are presented in Note 18 ‘Loans and advances to customers’.

Concentration of credit risk within the Group

The Group 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 Group analyses concentration risk in respect of:

- the largest business entities,
- the largest groups,
- industries,
- geographical regions,
- loan currencies,
- exposures secured with mortgage collateral.

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank. According to Article 71 clause 1 and 1a 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 amounts - 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 the exposure concentration limit, which is 25% of the Group's own funds.

As at 30 June 2012 and 31 December 2011, concentration limits were not exceeded.

As at 30 June 2012, the level of concentration risk in the Group with respect to individual exposures was low – the largest exposure to a single entity was equal to 10.1% of the own consolidated funds (as at 31 December 2011 amounted to 9.2% and 7.7% of the consolidated own funds).

Among the 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

Concentration by the largest groups

The largest concentration of the Group towards a group of borrowers amounts to 1.65% of the Group’s loan portfolio. The 5 biggest groups include only the clients of PKO Bank Polski SA.

As at 30 June 2012, the level of concentration risk towards the group of borrowers was low – the greatest exposure of the Group amounted to 11.8% of the consolidated own funds (as at 31 December 2011 10.5% and 9.4% of the Group’s consolidated own funds).

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*concentration partly exempt from concentration limits

Concentration by industries

As compared with 31 December 2011 the exposure of the Group in industry sectors has increased by above PLN 1.8 billion. The total exposure in the four largest industry sectors 'Industrial processing', 'Wholesale and retail trade, repair of vehicles, including motorcycles', 'Business activity connected with maintenance of real estate' and 'Construction' amounted to approx. 63% of the total loan portfolio covered by an analysis of the sector.

Concentration by geographical regions

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

As at 30 June 2012 and as at 31 December 2011, the largest concentration of the Group's loan portfolio was in the mazowiecki region. Almost half of the Group'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.

Concentration of credit risk by currency

As at 30 June 2012, the share of exposure in convertible currencies other than PLN, in the total portfolio of the Group amounted to 23.2% (as at 31 December 2011 amounted to 24.2%). The greatest parts of currency exposures of the Group are those in CHF and they are related to Bank's credit portfolio. In case of the Group entities the situation is different, i.e. in the BFL SA currency portfolio, the EUR exposure constitutes the largest part (92.4% of the currency portfolio), similarly in the BTK SA Group's portfolio – loans granted in EUR (80.7% of the currency portfolio) while in the KREDOBANK SA Group's portfolio – loans granted in USD, which constitute approx. 74.5% of the currency portfolio and 23% of the whole KREDOBANK Group's portfolio.

A decrease in the share of loans denominated in foreign currencies in the first half of 2012 results from concentration of new sales of mortgage loans in Polish currency. The significant risk of concentration has been identified in the KREDOBANK Group resulting from the specifics of Ukrainian market, on which, because of weak local currency, the currency loans are the most popular.

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 30 June 2012 and as at 31 December 2011, these limits were not exceeded.

37.2.3. Credit risk reporting

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

37.2.4. Management decisions concerning credit risk

Basic credit risk management tools used by the Bank include in particular:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum value of 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 Article 71 clause 1 of the Banking Law,
- industry-related limits – limits which reduce 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 a result of i.a. the recommendations S and T,
- loan 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 institutional client, whereas the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin.

Collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. The Bank and the Group entities' collateral policy is meant to secure properly the credit risk, to which the Group 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, including if possible, personal guarantees combined with collateral established on tangible assets,
- liquid types of collateral i.e. collateral established on tangible assets, in which the disposal is possible without a substantial reduction in their prices at a time, which does not expose the Bank to change the value of the collateral because of the appropriate prices fluctuation of a particular collateral are preferred,
- when a tangible asset is accepted as collateral, an assignment of rights from the insurance policy relating to that tangible asset or the insurance agreement issued to the Bank are accepted as additional collateral,
- collateral is assessed in terms of the actual possibility of their use as a potential source of the Bank's claim. The basis of the value assessment of the collateral established on tangible assets is the market value,
- 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 internal regulations of Group's subsidiaries.

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 collateral is established, the following types of collateral are used (depending on type and amount of loan): insurance of receivables or a collateral in the form of a cession of receivables related to the construction agreement, a cession of a development contract and an open/closed fiduciary account/guarantee, bill of exchange or warranty.

With regard to retail 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.

When signing a leasing agreement, the BFL SA Group, as a proprietor of leased objects, treats them as collateral.

37.3. Interest rate risk management

The interest rate risk is a risk of incurring losses on the Bank's statement of financial position 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 statement of financial position and off-balance sheet items.

37.4. Measurement of interest rate risk

In the process of interest rate risk management, the PKO Bank Polski SA Group uses in particular 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 statement of financial position 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.

37.5. Forecasting and monitoring of interest rate risk

Exposure of the PKO Bank Polski SA Group to the interest rate risk as at 30 June 2012 and 31 December 2011, comprised mainly of the exposure of the Bank. Interest rate risk generated by the Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly altered by exposure of the Group entities, in which the biggest part has the exposure of KREDOBANK SA.

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

Name of sensitivity measure	30.06.2012	31.12.2011
VaR for a 10-day time horizon (PLN thousand)*	58 487	62 661
Parallel movement of interest rate curves by 200 b.p. (PLN thousand) (stress-test)	516 362	530 726

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market in which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 22 323 thousand as of 30 June 2012 and PLN 29 673 thousand as of 31 December 2011.

As at 30 June 2012, the Bank's interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 58 487 thousand, which accounted for approximately 0.30% of the Bank's own funds. As at 31 December 2011, VaR for the Bank amounted to PLN 62 661 thousand, which accounted to approximately 0.36% of the Bank's own funds*.

37.5.1. Reporting of interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk whereas monthly reports for the last month of a quarter and quarterly reports concern the Group as well. Reports contain the information on interest rate risk exposure and usage of available limits regarding the risk. Reports are prepared mainly for: ALCO, RC, the Management Board and the Supervisory Board.

37.5.2. Management decisions concerning interest rate risk

The main tools used in interest rate risk management in the Group include:

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

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

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

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

37.6. Currency risk management

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

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

37.6.1. Measurement of currency risk

The Bank measures currency risk using the Value at Risk model (VaR) 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 probability level and taking into account the correlation between the risk factors.

37.6.2. Forecasting and monitoring of currency risk

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

Name of sensitivity measure	30.06.2012	31.12.2011
VaR for a 10-day time horizon (PLN thousand)*	2 012	1 470
Change of CUR/PLN by 20% (PLN thousand) (stress-test)	25 551	17 210

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR which amounted to approx. PLN 519 thousand as of 30 June 2012 and approx. PLN 467 thousand as of 31 December 2011.

The level of currency risk was low both as at 30 June 2012 and as at 31 December 2011.

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

Currency position	30.06.2012	31.12.2011
USD	(225 776)	(180 781)
GBP	35	50
CHF	(54 715)	(37 266)
EUR	101 148	83 153
Other (Global Net)	17 784	11 630

The volume of currency positions is a key factor determining the level of currency risk to which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 30 June 2012 amounted to approx. 0.01%).

37.6.3. Reporting of currency risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing currency risk whereas monthly reports for the last month of a quarter and quarterly reports concern the Group as well. Reports contain the information on currency risk exposure and usage of available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Management Board and the Supervisory Board.

37.6.4. Management decisions concerning currency risk

Main tools used in currency risk management in the Group 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 Group set limits and threshold values on currency risk for i.a. currency positions, Value at Risk calculated for a 10-day time horizon and daily loss on currency market.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities. The regulations are developed by the entities, which are characterised by high level of currency risk measure outcomes. The regulations are issued after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

37.7. 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. Situation of the lack of liquidity may arise from inappropriate structure of the 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 ensure necessary amount of funds in order to pay current 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 statement of financial position and off-balance sheet liabilities.

The PKO Bank Polski SA Group's policy concerning liquidity is based on investing in liquid securities portfolio and increasing stable sources of financing (stable deposits, in particular). In its liquidity risk management policy, money market instruments are used, including NBP open market operations.

37.7.1. Measurement of liquidity risk

The Group 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).

37.7.2. Forecasting and monitoring of liquidity risk

Liquidity gaps presented below constitute a sum of the Bank's liquidity gap in real terms (real terms i.a. in the Bank's items of the statement of financial position concern 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) and a contractual liquidity gap of the remaining entities of the Group.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
								30.06.2012
The Group - adjusted gap in real terms	8 784 896	7 557 355	876 336	1 565 087	3 068 291	8 675 372	13 883 869	(44 411 206)
The Group - cumulative adjusted gap in real terms	8 784 896	16 342 251	17 218 587	18 783 674	21 851 965	30 527 337	44 411 206	-
								31.12.2011
The Group - adjusted gap in real terms	7 299 484	12 094 029	(1 599 805)	1 399 996	(1 169 611)	10 276 571	16 150 066	(44 450 730)
The Group - cumulative adjusted gap in real terms	7 299 484	19 393 513	17 793 708	19 193 704	18 024 093	28 300 664	44 450 730	-

In all time horizons, the PKO Bank Polski SA Group's cumulative adjusted liquidity gap in real terms* as at 30 June 2012 and 31 December 2011 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 29 June 2012 and as at 31 December 2011:

Name of sensitivity measure	29.06.2012	31.12.2011
Liquidity reserve up to 1 month* (PLN million)	12 789	17 723

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

As at 30 June 2012, the level of permanent balances on deposits constituted approx. 93.1% of all deposits in the Bank (excluding inter-bank market), which means a decrease by approx. (1.7) pp. as compared to the end of 2011.

37.7.3. Reporting of liquidity risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing liquidity risk whereas monthly reports for the last month of the quarter and quarterly reports are prepared for the Group as well. Reports contain the information on liquidity risk exposure and usage of available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Management Board and the Supervisory Board.

37.7.4. Management decisions concerning liquidity risk

The main tools for liquidity risk management in the PKO Bank Polski SA Group are:

- procedures for liquidity risk management, including 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 lending activities.

To ensure an adequate liquidity level, the Bank and the subsidiaries of the PKO Bank Polski SA Group accepted limits and thresholds for short, medium and long-term liquidity risk.

Methods of liquidity risk management in the subsidiaries of the Group are defined by internal regulations implemented by the entities which are characterised by high levels of liquidity risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank for the entities.

* The PKO Bank Polski SA Group's liquidity gap in real terms has been determined as the sum of the PKO Bank Polski SA liquidity gap in real terms and contractual liquidity gaps of the remaining entities of the PKO Bank Polski SA Group.

37.7.5. 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 (the Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity 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 the Brokerage House 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.

37.7.6. Management of derivative instruments risk

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

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

The derivative instruments risk management process is integrated in the Bank with management of the 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.

37.7.7. Measurement of the derivative instruments risk

The Bank measures the derivative instruments 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.

37.7.8. 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.

37.7.9. 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 instruments risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Management Board and the Supervisory Board.

37.7.10. Management decisions concerning risk of derivative instruments

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

– procedures for derivative instruments risk management,
– limits and thresholds set for the risk related to derivative instruments,
– master agreements specifying i.a. settlement mechanisms,
– collateral agreements, 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, monitoring their usage and reporting risk level.

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

37.8. 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 Group to events which are beyond its control.

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT applications of the Bank.

37.8.1. Measurement of operational risk

Measurement of operational risk in the Bank aims at defining the scale of threats related to the existence of operational risk with the use of determined risk measures.

The measurement of operational risk comprises:

- calculation of key operational risk indicators (KRI),
- calculation of AMA,
- stress-tests,
- calculation of capital requirements and internal capital.

37.8.2. Forecasting and monitoring of operational risk

The objective of operational risk monitoring is to control operational risk and diagnose areas for management actions.

The Bank regularly monitors:

- utilisation level of strategic tolerance limits and losses limits on operational risk,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- KRI values in relation to thresholds and critical values,
- operating events and their effects,
- effects of actions taken following external control recommendations or internal audits.

The dominant impact on the operational risk profile in the first half of 2012 was exercised by the following three entities, i.e. PKO Bank Polski SA, the BFL SA Group and the KREDOBANK SA Group. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk. The Group's subsidiaries manage the operational risk according to principles of risk management in PKO Bank Polski SA, considering the specific nature and scale of activity of particular entities.

37.8.3. Reporting of operational risk

The Bank prepares reports concerning operational risk on a quarterly basis. The reports are addressed to Director of the Banking Risk Division, the ORC, the Risk Committee, the Management Board and the Bank's Supervisory Board. The reports contain among others information on:

- the results of measuring and monitoring operational risk,

- the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and IT applications of the Bank,
- actions taken to reduce operational risk and evaluate the effectiveness of such actions,
- recommendations and information about implementation of former recommendations,
- recommendations and decisions of the ORC or the Management Board.

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

37.8.4. 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 conducted at PKO Bank Polski SA Head Office level. The ongoing operational risk management is conducted by every organisational unit of the Bank.

In order to mitigate exposure on the operational risk, the following operational risk management instruments are used by the Bank:

- control instruments,
- human resources management instruments (proper staff selection, enhancement of professional qualification of employees, motivation packages),
- threshold and critical values of Key Risk Indicators (KRI),
- strategic tolerance limits and limits on operational risk losses,
- contingency plans,
- insurance,
- outsourcing.

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.

If the risk level is elevated or high, the Bank uses the following approach:

- risk reduction – mitigating the impact of risk factors or consequences of its materialisation,
- risk transfer – transfer of responsibility for covering potential losses on a third-party,
- risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

The Group entities manage the operational risk in accordance with the rules implemented by PKO Bank Polski SA, taking into account the specific nature and scale of the business conducted by the Group entities.

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

The objective of compliance risk management is to strengthen the image of the Group entities as an institutions acting in accordance with the law and adopted code of conduct, reliable, fair and honest and mitigation of possible loss of reputation or credibility, and mitigating the risk of occurring financial losses or legal sanctions resulting from breach of law and other regulations and of ethical standards.

The rules concerning the process of compliance risk management are consistent in all Group entities.

The Bank performs identification and assessment of compliance risk including in particular a specification for each of the relevant internal processes exposed on compliance risk, potential threats on the occurrence of breach of law and other standards of conduct, as well as the impact of the materialisation of those threats and optimal solutions reducing the level of incurred risk.

The assessment also takes into account changes in the regulatory environment and the results of actions taken by external supervisory and control bodies and internal audit.

Reporting of information concerning compliance risk includes both the Bank, and the PKO Bank Polski SA Group entities. Reports prepared quarterly contain information, including cases of non-compliance, passed by the Group entities. The reports are addressed to the Risk Committee, the Bank's Management Board, the Supervisory Board's Audit Committee and the Supervisory Board. The reports contain, i.a.:

- the results of the identification and assessment of compliance risk,
- cases of materialisation of the compliance risk in the Group and the financial sector,
- the most important changes in the regulatory environment and actions carried out at the Bank in order to adapt to the new regulations and standards of conduct,
- the results of external audits performed at the Bank and the Group entities,
- implementation the post-inspection recommendations issued by the external supervisory and control bodies, as well as substantial correspondence between the Bank and such bodies.

Compliance risk management involves in particular:

- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- propagating of ethical standards and monitoring their functioning,
- conflict of interest management,
- prevention from accepting and transferring benefits and incentives by the Group's employees that could result in informal commitments in relations with representatives of public administration authorities, customers or counterparties, cause interest conflicts or otherwise adversely affect the way of the employees' duties performing,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

37.10. Strategic risk management

The strategic risk is defined as a risk related to the possibility of occurrence of negative financial consequences resulting from wrong 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 wrong 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.

In measuring the strategic risk, the Bank takes into account an impact of selected groups 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 at least on annual basis.

Strategic risk reporting is conducted annually in the Bank. Reports on strategic risk are prepared for the Management Board, Bank's directors and 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.

37.11. Reputation risk management

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

The objective of managing the reputation risk is to protect the Group's image and limit the probability of the occurrence and level of the Group's image-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 Group'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 Group with the environment in terms of identifying the negative impact of image-related events,
- gathering and analysing 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 Group mainly comprises preventive activities aimed at reducing or minimising the scale and the scope of image-related events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimising the unfavourable effect of negative image-related events on the PKO Bank Polski SA Group's image.

38. Capital adequacy

Objectives and principles of capital adequacy management were described in details in the annual consolidated financial statements of the PKO Bank Polski SA Group for 2011. In these financial statements was also included the information on the Group's own funds components calculated for the purpose of capital adequacy as well as the calculation methods of capital requirements concerning the individual risk types.

The level of capital adequacy of the Group as at 30 June 2012 remained on a safe level, significantly above the statutory limits.

The capital adequacy ratio of the Group, which is one of the main capital adequacy measures as compared to 31 December 2011 increased by 0.64 pp., which was mainly caused by the increase of the Bank's own funds calculated for capital adequacy purposes.

38.1.1. Own funds for the capital adequacy requirements

As at 30 June 2012, the PKO Bank Polski SA Group's own funds calculated for capital adequacy purposes increased by PLN 2 257 797 thousand, which was mainly due to the recognition of profit earned by the Bank in 2011 after expected charges deduction (PLN 2 366 122 thousand) to the Bank's own funds.

(in PLN thousand)

The structure of the Group's own funds, determined for the purposes of capital adequacy is presented in the table below:

GROUP'S OWN FUNDS	30.06.2012	31.12.2011
Basic funds (Tier 1)	**18 971 668**	**16 664 233**
Share capital	1 250 000	1 250 000
Reserve capital	15 363 674	13 041 390
Other reserves	3 437 957	3 460 368
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unappropriated profits from previous years, profit in the course of approval less any expected charges	(103 340)	(23 162)
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(97 602)	(129 518)
Assets valuation adjustments in trade portfolio	(19)	(143)
Intangible assets, of which:	(1 770 959)	(1 800 008)
goodwill of subsidiaries	(228 950)	(227 349)
Equity exposures	(78 715)	(109 054)
Negative currency translation differences from foreign operations	(97 400)	(94 350)
Non-controlling interest	(1 928)	(1 290)
Supplementary funds (Tier 2)	**1 569 066**	**1 545 549**
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)	44 065	51 576
Positive currency translation differences from foreign operations	3 016	2 327
Equity exposures	(78 715)	(109 054)
Short-term equity (Tier 3)	**59 979**	**133 134**
TOTAL OWN FUNDS	**20 600 713**	**18 342 916**

38.1.2. Capital requirements (Pillar 1)

The table below presents the Group's capital requirements as regards particular types of risk.

Capital requirements	30.06.2012	31.12.2011
Credit risk	**11 256 992**	**10 657 309**
credit risk (banking book)	11 132 432	10 534 714
counterparty credit risk (trading book)	124 560	122 595
Market risk	**500 523**	**355 284**
equity securities risk	710	1 604
specific risk of debt instruments	404 706	262 412
general risk of interest rates	95 107	91 268
Operational risk	**912 787**	**852 099**
Total capital requirements	**12 670 302**	**11 864 692**
Capital adequacy ratio	**13.01%**	**12.37%**

An increase in the capital requirement due to credit risk was a consequence mainly of entry into force the provision of Resolution No. 153/2011 of the PFSA* due to which from the date of 30 June 2012, there was an increase in risk weights (from 75% to 100%) for retail exposures and for exposures secured on residential property, in which the instalment of principal or interest depend on changes in the exchange rate of the currency or currencies other than the currency of revenues generated by the debtor.

The increase of market risk capital requirement was mainly due to the increase in value of liabilities due to securities underwriting agreements of corporate bonds by approx. 222%.

The Bank's capital requirements in respect of operating risk was calculated under the advanced measurement approach (AMA) with the limitation 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). The requirement in respect of operational risk of the Group entities was calculated under the basic index approach (BIA) in both periods.

* Resolution no 153/2011 of the Polish Financial Supervision Authority of 7 June 2011 amending the Resolution No. 76/2010 of the Polish Financial Supervision Authority on the scope and detailed procedures for determining capital requirements for particular types of risk (Official Journal of PFSA No. 8 of 29 July 2011, item 29).

An increase of requirement in respect of operating risk from PLN 852 million (as at 31 December 2011) to PLN 913 million (as at 30 June 2012) results from the annual revaluation of the requirement calculated under the standardised approach (TSA) and the basic index approach (BIA), including the difference in weighted profit before income tax between 2011 and 2008.

38.1.3. Internal capital (Pillar 2)

The principles of calculation of internal capital in the Group were presented in details in annual consolidated financial statements of the PKO Bank Polski SA Group for 2011.

38.1.4. Disclosures (Pillar 3)

In accordance with § 6 of Resolution No. 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed procedures and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced (Official Journal of PFSA 2008, No. 8, item 39, with subsequent amendments), 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 since the date of approval of the annual financial statements by the Ordinary General Shareholders' Meeting.

The report 'Capital adequacy and risk management (Pillar 3) of the PKO Bank Polski SA Group as at 31 December 2011' was published on the Bank's official website on 5 July 2012.

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

INFORMATION ON THE EVENTS AFTER THE REPORTING PERIOD

39. Events after the reporting period

1. On 20 July 2012 Extraordinary General Shareholders' Meeting of Fort Mokotów Inwestycja Sp. z o.o. – a subsidiary of the Bank - passed a resolution on the increase of the Company's share capital by PLN 21 685 thousand. The shares in the increased capital will be acquired by the present shareholders, i.e. PKO Bank Polski SA, which will acquire shares for PLN 21 682 thousand and Qualia Development Sp. z o.o., which will acquire shares for the amount of PLN 3 thousand.

2. On 24 July 2012 the Bank and other institutions financing the activities of Polimex-Mostostal SA, signed a standstill agreement with the Company for a period of four months. As at the end of June 2012, the Bank was exposed with both on-balance and off-balance sheet exposures towards the Company. As at the balance date the Bank classified these exposures as not impaired based on the analysis of the financial standing of the Company and terms of the above mentioned standstill agreement, which do not introduce any significant changes to the terms of cooperation with the Client.

   The Bank monitors the financial and economic standing of the Client on an ongoing basis.

3. On 26 July 2012 PKO Bank Polski SA received a notification from the Minister of State Treasury of selling off a considerable block of Bank's shares by the State Treasury as a result of which the number of total votes held by the State Treasury in the Bank has changed. According to the notification received by the Bank on 24 July 2012, 95 000 000 Bank's shares held by the State Treasury were sold off in block transactions. Prior to the sell-off transaction conducted, the State Treasury held the total number of 512 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 40.99% of the share capital and the same share in the total number of votes in the Bank. As a result of the above mentioned sell-off transaction on 24 July 2012 the State Treasury holds 417 406 277 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 33.39% of the share capital and the same share in the total number of votes in the Bank. Moreover, Bank Gospodarstwa Krajowego ('BGK') wholly controlled by the State Treasury, holds the total number of 128 102 731 bearer shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 10.25% of the Bank's share capital and the same share in the total number of votes in the Bank. Prior to the above mentioned shares' sell-off transaction, the State Treasury and BGK held the total number of 640 509 008 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amounted to 51.24% of the Bank's share capital and the same share in the total number of votes in the Bank. After the above mentioned shares' sell-off transaction,

(in PLN thousand)

the State Treasury and BGK hold the total number of 545 509 008 Bank's shares giving the same number of votes at the General Shareholders' Meeting of the Bank. These shares amount to 43.64% of the Bank's share capital and the same share in the total number of votes in the Bank.

4. On 27 July 2012, the Bank received funds in the amount of CHF 410 million due to a loan, in accordance with an agreement signed on 19 June 2012 between PKO Bank Polski SA and a consortium of banks. The repayment of the loan will take place once on 19 June 2015.
5. The Bank received a notification dated 27 July 2012 from ING Otwarty Fundusz Emerytalny about increasing the stake in PKO Bank Polski SA shares exceeding the threshold 5% of total number of votes at the General Shareholders' Meeting of the Bank. As a result of the acquisition of the PKO Bank Polski SA shares, cleared on 24 July, ING Otwarty Fundusz Emerytalny increased its stake in the Bank's shares to 64 594 448, representing 5.17% of share capital and of total number of votes at the General Shareholders' Meeting of the Bank. Prior to the purchase transaction ING Otwarty Fundusz Emerytalny held 53 631 448 shares of PKO Bank Polski SA, representing 4.29% of share capital and of total number of votes at the General Shareholders' Meeting of the Bank.

Signatures of all Members of the Management Board of the Bank

31.07.2012	Zbigniew Jagiełło	President of the Management Board	.... (signature)
31.07.2012	Piotr Alicki	Vice-President of the Management Board	.... (signature)
31.07.2012	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
31.07.2012	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
31.07.2012	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
31.07.2012	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for
maintaining the books of account

31.07.2012

Danuta Szymańska

Director of the Accounting Division

....

(signature)

Independent registered auditor's report on the review of the condensed interim financial statements for the period from 1 January to 30 June 2012

To the Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

We have reviewed the attached condensed interim financial statements of Powszechna Kasa Oszczędności Bank Polski SA (hereinafter called *the Bank*), with its registered office in Warsaw, 15 Puławska Street, comprising the statement of financial position as at 30 June 2012, showing total assets and total liabilities and equity of PLN 188,175,877 thousand; the income statement for the period from 1 January to 30 June 2012, showing a net profit of PLN 2,005,686 thousand; the statement of comprehensive income for the period from 1 January to 30 June 2012, showing total net comprehensive income of PLN 1,825,639 thousand; the statement of changes in equity, the statement of cash flows for the period from 1 January to 30 June 2012 and additional information on accounting policies with other explanatory notes.

The Management Board of the Bank is responsible for preparing condensed interim financial statements which comply with International Financial Reporting Standard IAS 34 as adopted by the European Union concerning interim reporting. Our responsibility was to report on these condensed interim financial statements based on our review.

We conducted our review in accordance with the requirements of the national standards of auditing issued by the National Chamber of Registered Auditors and International Standard on Review Engagements 2410. We planned and performed our review to obtain moderate assurance that the condensed interim financial statements are free of material misstatement. We conducted the review through analysis of the condensed interim financial statements, inspection of the accounting records, and making enquiry of the Management Board and employees responsible for finance and accounting at the Bank.

The scope and methodology of a review of condensed interim financial statements differs significantly from the scope of an audit that constitutes a basis for expressing an opinion on compliance with the applicable accounting principles and policies and the fairness and clarity of the financial statements and as a consequence we are unable to express an opinion on the attached financial statements.

PricewaterhouseCoopers Sp. z o.o.,
Al. Armii Ludowej 14, 00-638 Warszawa, Polska
T: +48 (22) 523 4000, F: +48 (22) 523 4040, www.pwc.com

Independent registered auditor's report
on the review of the condensed interim financial statements
for the period from 1 January to 30 June 2012

To the Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA (cont.)

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34: Interim Financial Reporting.

Conducting the review on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Antoni F. Reczek
President of the Management Board

PricewaterhouseCoopers Sp. z o.o.

Principal Registered Auditor
No. 90011

Warsaw, 1 August 2012

Bank Polski

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

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED 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	7 609 116	6 516 166	1 837 906	1 627 252
Net fee and commission income	3 101 444	3 142 829	749 123	784 844
Operating profit	4 800 512	4 080 051	1 159 516	1 018 892
Profit before income tax	4 780 860	4 079 236	1 154 769	1 018 688
Net profit (including non-controlling shareholders)	3 804 745	3 212 806	918 998	802 319
Net profit attributable to the parent company	3 807 195	3 216 883	919 590	803 337
Earnings per share for the period - basic (in PLN/EUR)	3.05	2.57	0.74	0.64
Earnings per share for the period - diluted (in PLN/EUR)	3.05	2.57	0.74	0.64
Net comprehensive income	3 937 416	3 297 105	951 044	823 371
Net cash flow from / used in operating activities	5 556 998	340 637	1 342 238	85 066
Net cash flow from / used in investing activities	(3 630 127)	(1 967 767)	(876 821)	(491 401)
Net cash flow from / used in financing activities	1 057 418	1 073 418	255 409	268 060
Total net cash flows	2 984 289	(553 712)	720 825	(138 276)

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	190 748 037	169 660 501	43 186 931	42 840 315
Total equity	22 821 984	21 359 568	5 167 086	5 393 422
Share capital attributable to equity holders of the parent company	22 823 274	21 357 578	5 167 378	5 392 919
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)	18.26	17.09	4.13	4.31
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)	18.26	17.09	4.13	4.31
Capital adequacy ratio	12.37%	12.47%	12.37%	12.47%
Tier 1 capital	16 664 233	15 960 072	3 772 920	4 030 016
Tier 2 capital	1 545 549	1 512 546	349 925	381 927
Tier 3 capital	133 134	145 928	30 143	36 848

The selected items of the consolidated financial statements positions were translated into EUR according to the following exchange 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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CONSOLIDATED INCOME STATEMENT
for the years ended 31 December 2011 and 31 December 2010 respectively

	Note	2011	2010
Continuing operations:			
Interest and similar income	4	12 037 762	10 415 315
Interest expense and similar charges	4	(4 428 646)	(3 899 149)
Net interest income		**7 609 116**	**6 516 166**
Fee and commission income	5	3 837 165	3 880 863
Fee and commission expense	5	(735 721)	(738 034)
Net fee and commission income		**3 101 444**	**3 142 829**
Dividend income	6	6 800	5 663
Net income from financial instruments designated at fair value	7	(75 056)	(62 577)
Gains less losses from investment securities	8	20 179	73 056
Net foreign exchange gains	9	337 296	346 762
Other operating income	10	451 723	469 388
Other operating expense	10	(309 186)	(293 736)
Net other operating income and expense		**142 537**	**175 652**
Net impairment allowance and write-downs	11	(1 930 447)	(1 868 364)
Administrative expenses	12	(4 411 357)	(4 249 136)
Operating profit		**4 800 512**	**4 080 051**
Share of profit (loss) of associates and jointly controlled entities	13	(19 652)	(815)
Profit before income tax		**4 780 860**	**4 079 236**
Income tax expense	14	(976 115)	(866 430)
Net profit (including non-controlling shareholders)		**3 804 745**	**3 212 806**
Profit (loss) attributable to non-controlling shareholders		(2 450)	(4 077)
Net profit attributable to equity holders of the parent company		**3 807 195**	**3 216 883**
Earnings per share			
– basic earnings per share for the period (in PLN)	15	3.05	2.57
– diluted earnings per share for the period (in PLN)	15	3.05	2.57
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 the PKO Bank Polski SA Group did not carry out discontinued operations.

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

	Note	2011	2010
Net profit (including non-controlling shareholders)		**3 804 745**	**3 212 806**
Other comprehensive income		**132 671**	**84 299**
Currency translation differences from foreign operations		16 894	(1 211)
Share in other comprehensive income of an associate	25	(1 233)	271
Unrealised net gains on financial assets available for sale (gross)	8; 24	(33 649)	(16 159)
Deferred tax on unrealised net gains on financial assets available for sale		6 398	2 750
Unrealised net gains on financial assets available for sale (net)		(27 251)	(13 409)
Cash flow hedges (gross)	21	178 100	121 788
Deferred tax on cash flow hedges	14	(33 839)	(23 140)
Cash flow hedges (net)		144 261	98 648
Total net comprehensive income		**3 937 416**	**3 297 105**
Total net comprehensive income, of which attributable to:		**3 937 416**	**3 297 105**
equity holders of PKO Bank Polski SA		3 940 696	3 301 437
non-controlling shareholders		(3 280)	(4 332)

Notes on pages 11 to 156 are an integral part of these Consolidated Financial Statements

CONSOLIDATED 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	17	9 142 168	6 182 412
Amounts due from banks	18	2 396 227	2 307 032
Trading assets	19	1 311 089	1 503 649
Derivative financial instruments	20	3 064 733	1 719 085
Financial assets designated upon initial recognition at fair value through profit and loss	22	12 467 201	10 758 331
Loans and advances to customers	23	141 634 494	130 668 119
Investment securities available for sale	24	14 393 276	10 219 400
Investments in associates and jointly controlled entities	25	123 119	172 931
Non-current assets held for sale		20 410	19 784
Inventories	26	566 846	530 275
Intangible assets	27	1 800 008	1 802 037
Tangible fixed assets	28	2 541 317	2 576 445
of which investment properties		248	259
Current income tax receivables	14	5 957	4 318
Deferred income tax asset	14	543 922	582 802
Other assets	29	737 270	613 881
TOTAL ASSETS		**190 748 037**	**169 660 501**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	30	3 454	3 370
Amounts due to banks	31	6 239 164	5 233 875
Derivative financial instruments	20	2 645 281	2 404 795
Amounts due to customers	32	146 473 897	132 981 215
Debt securities in issue	33	7 771 779	3 298 867
Subordinated liabilities	34	1 614 377	1 611 779
Other liabilities	35	2 450 763	2 092 834
Current income tax liabilities	14	78 810	67 744
Deferred income tax liability	14	29 364	22 764
Provisions	36	619 164	583 690
TOTAL LIABILITIES		**167 926 053**	**148 300 933**
Equity			
Share capital	37	1 250 000	1 250 000
Other capital	38	17 881 264	16 888 145
Currency translation differences from foreign operations		(92 023)	(109 747)
Unappropriated profits		(23 162)	112 297
Net profit for the year		3 807 195	3 216 883
Capital and reserves attributable to equity holders of the parent company		**22 823 274**	**21 357 578**
Non-controlling interest		(1 290)	1 990
TOTAL EQUITY		**22 821 984**	**21 359 568**
TOTAL LIABILITIES AND EQUITY		**190 748 037**	**169 660 501**

Capital adequacy ratio	66	12.37%	12.47%
Book value (in PLN thousand)		22 821 984	21 359 568
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		18.26	17.09
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		18.26	17.09

Notes on pages 11 to 156 are an integral part of these Consolidated Financial Statements

(in PLN thousand)

CONSOLIDATED 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							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
Note	37	38	38	38	38	38	38	38						
As at 1 January 2011	**1 250 000**	**12 212 177**	**3 412 239**	**1 070 000**	**976**	**(25 171)**	**217 924**	**16 888 145**	**(109 747)**	**112 297**	**3 216 883**	**21 357 578**	**1 990**	**21 359 568**
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 216 883	(3 216 883)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 233)	(27 251)	144 261	**115 777**	17 724	-	3 807 195	**3 940 696**	(3 280)	**3 937 416**
Net profit	-	-	-	-	-	-	-	-	-	-	3 807 195	**3 807 195**	(2 450)	**3 804 745**
Other comprehensive income	-	-	-	-	(1 233)	(27 251)	144 261	**115 777**	17 724	-	-	**133 501**	(830)	**132 671**
Transfer from unappropriated profits	-	829 213	48 129	-	-	-	-	**877 342**	-	(877 342)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(2 475 000)	-	**(2 475 000)**	-	**(2 475 000)**
As at 31 December 2011	**1 250 000**	**13 041 390**	**3 460 368**	**1 070 000**	**(257)**	**(52 422)**	**362 185**	**17 881 264**	**(92 023)**	**(23 162)**	**3 807 195**	**22 823 274**	**(1 290)**	**22 821 984**

for the year ended 31 December 2010	Share capital	Other capital							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
Note	37	38	38	38	38	38	38	38						
As at 1 January 2010	**1 250 000**	**12 149 682**	**3 405 087**	**1 070 000**	**705**	**(11 762)**	**119 276**	**16 732 988**	**(108 791)**	**248 806**	**2 305 538**	**20 428 541**	**7 329**	**20 435 870**
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	2 305 538	(2 305 538)	-	-	-
Total comprehensive income, of which:	**-**	**-**	**-**	**-**	**271**	**(13 409)**	**98 648**	**85 510**	**(956)**	**-**	**3 216 883**	**3 301 437**	**(4 332)**	**3 297 105**
Net profit	-	-	-	-	-	-	-	-	-	-	3 216 883	**3 216 883**	(4 077)	**3 212 806**
Other comprehensive income	-	-	-	-	271	(13 409)	98 648	**85 510**	(956)	-	-	**84 554**	(255)	**84 299**
Transfer from unappropriated profits	-	62 495	7 152	-	-	-	-	**69 647**	-	(69 647)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(2 375 000)	-	**(2 375 000)**	-	**(2 375 000)**
Acquisition of shares issue of a subsidiary by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	204	**204**
Increase in interest by acquisition of shares of a subsidiary	-	-	-	-	-	-	-	-	-	1 493	-	**1 493**	(1 493)	-
Additional payment to equity for non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	352	**352**
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	1 107	-	**1 107**	(70)	**1 037**
As at 31 December 2010	**1 250 000**	**12 212 177**	**3 412 239**	**1 070 000**	**976**	**(25 171)**	**217 924**	**16 888 145**	**(109 747)**	**112 297**	**3 216 883**	**21 357 578**	**1 990**	**21 359 568**

(in PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT
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		4 780 860	4 079 236
Adjustments:		776 138	(3 738 599)
Amortisation and depreciation		520 161	512 319
(Gains) losses from investing activities	43	(7 330)	(3 947)
Interest and dividends	43	(423 475)	(413 827)
Change in amounts due from banks	43	(68 549)	72 433
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(1 516 310)	2 311 665
Change in derivative financial instruments (asset)		(1 345 648)	310 037
Change in loans and advances to customers	43	(11 767 948)	(15 015 080)
Change in other assets		(160 586)	78 412
Change in amounts due to banks	43	1 199 747	67 853
Change in derivative financial instruments (liability)		240 486	860 425
Change in amounts due to customers	43	13 548 699	7 499 314
Change in debt securities in issue		78 094	(158 733)
Change in impairment allowances and provisions	43	868 375	923 148
Change in other liabilities and subordinated liabilities	43	518 496	648 133
Income tax paid		(946 199)	(1 178 323)
Other adjustments	43	38 125	(252 428)
Net cash from / used in operating activities		**5 556 998**	**340 637**
Net cash flow from investing activities			
Inflows from investing activities		**8 294 680**	**8 669 411**
Disposal of shares in a subsidiary, net of cash disposed		-	32
Proceeds and interest from sale of investment securities		8 271 568	8 643 928
Repurchase of securities held to maturity		-	10 050
Proceeds from sale of intangible assets and tangible fixed assets		16 584	9 990
Other investing inflows (dividends)		6 528	5 411
Outflows from investing activities		**(11 924 807)**	**(10 637 178)**
Purchase of a subsidiary, net of cash acquired		(1 482)	-
Purchase of investment securities available for sale		(11 426 990)	(10 017 463)
Purchase of securities held to maturity		-	-
Purchase of intangible assets and tangible fixed assets		(496 335)	(619 715)
Net cash from / used in investing activities		**(3 630 127)**	**(1 967 767)**
Net cash flow from financing activities			
Proceeds from debt securities in issue		5 925 568	3 168 240
Redemption of debt securities in issue		(1 951 454)	-
Repayment of interest from issued debt securities		(108 743)	(82 590)
Dividends paid to equity holders of the parent company		(2 475 000)	(2 375 000)
Long-term borrowings		969 487	1 084 130
Repayment of long-term borrowings		(1 302 440)	(721 362)
Net cash generated from financing activities		**1 057 418**	**1 073 418**
Net cash inflow/(outflow)		**2 984 289**	**(553 712)**
of which currency translation differences		347 178	19 005
Cash and cash equivalents at the beginning of the period		8 438 681	8 992 393
Cash and cash equivalents at the end of the period	43	**11 422 970**	**8 438 681**
of which restricted	40	3 923	6 950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Group') 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 parent company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the parent company', 'the Bank').

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

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was entered 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 of the voting rights of the shareholders and adopting a policy for accumulation and reduction of votes,
2) the statutory number of members of the Supervisory Board,
3) the subject of the first meeting Supervisory Board after election for the new term,
4) the definition of the parent company and subsidiary.

The amendments to the Memorandum of Association of PKO Bank Polski SA referred to above, implemented by the Extraordinary General Meeting of the Bank on 14 April 2011, were registered with 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 amendments, the announced decrease in share of the State Treasury in the equity of PKO Bank Polski SA, which may reoccur in subsequent years (although the share will not drop below 25%), will not lead to limiting the control of the State Treasury over the Bank's strategic decisions.

The Bank is a listed company 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 of the Group

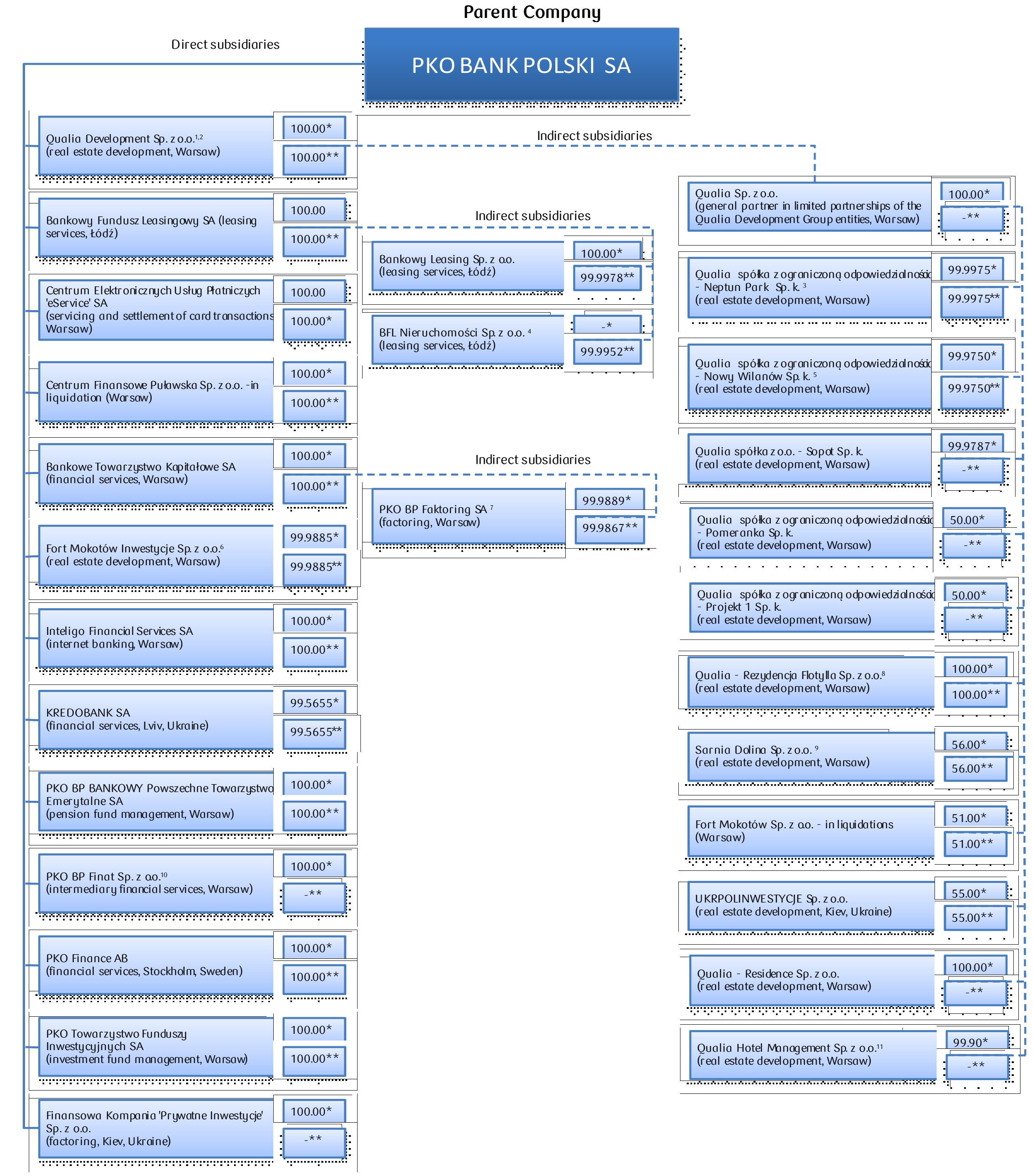
PKO Bank Polski SA is a commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as perform a full range of foreign exchange services, open and hold bank accounts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

In addition, through its subsidiaries, the Group conducts activities relating to leasing, factoring, investment funds, pension funds, Internet banking as well as servicing and settlement of card transactions and real estate development. The scope of activities of each of the Group entities is set out in this note, in the table 'Structure of the PKO Bank Polski SA Group'.

The Group operates in the Republic of Poland and through its subsidiaries, KREDOBANK SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and UKRPOLINWESTYCJE Sp. z o.o. – in Ukraine and through its subsidiary PKO Finance AB in Sweden.

Structure of the PKO Bank Polski SA Group

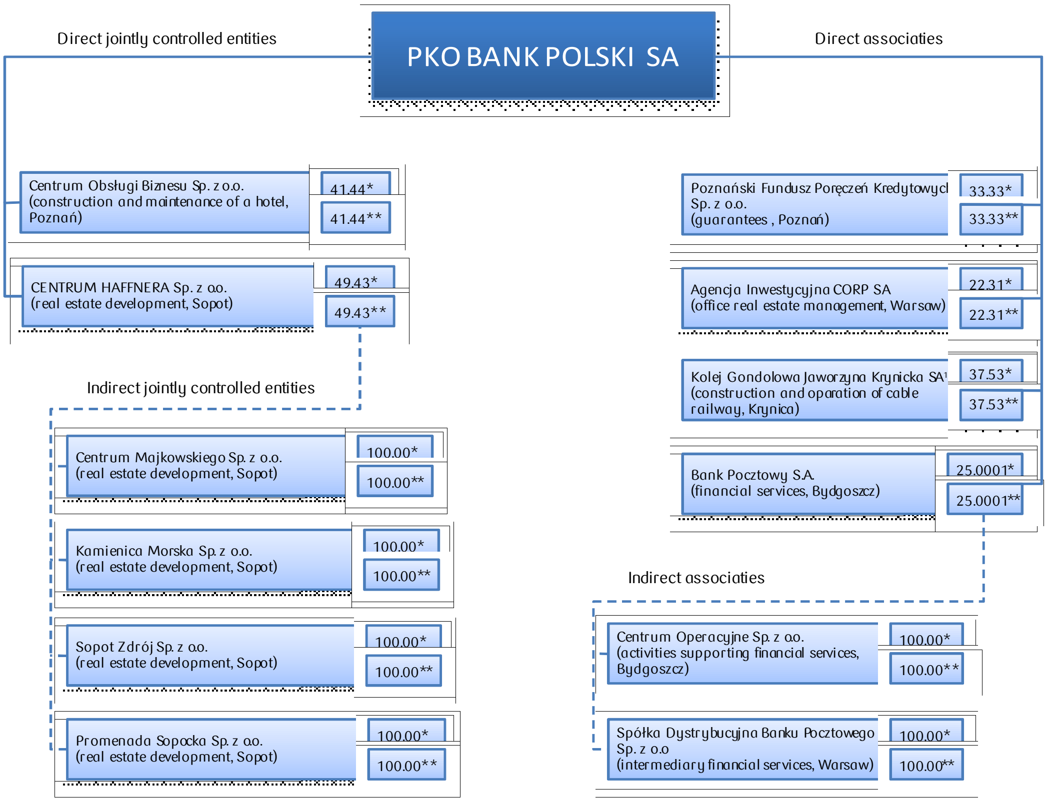
The PKO Bank Polski SA Group consists of the following entities:



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

1) the previous name 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.

Jointly controlled entities and associates included in the consolidated financial statements:



* % 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 parent's participation in the share capital of the subsidiaries is set out in Note 46 'Changes to the entities of the Group'.

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
- Jacek Obłękowski Vice-President of the Management Board
- Jarosław Myjak 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 Annual General Shareholders' 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 resolutions appointing:
   - Piotr Alicki as the of the Vice-President of the Management Board,
   - Bartosz Drabikowski as the of the Vice-President of the Management Board,
   - Jarosław Myjak as the of the Vice-President of the Management Board,

- Jacek Obłękowski as the of the Vice-President of the Management Board,
- Jakub Papierski as the 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 Annual General Shareholders' 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 Annual General Shareholders' 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 change took place in the composition of the Bank's Supervisory Board:

The Annual General Shareholders' Meeting of the Bank convened for 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 9 members of Supervisory Board 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 consolidated 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 accepted by the Bank's Supervisory Board on 29 February 2012.

2. Summary of significant accounting policies and estimates and judgements

2.1. Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with the 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

IASB introduces limitations in that respect.

2.2. Going concern

The consolidated financial statements of the PKO Bank Polski SA Group have been prepared on the basis that the Group 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 consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity of the PKO Bank Polski SA Group for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the PKO Bank Polski SA Group.

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 allowances. The Group measures non-current assets (or groups of the above-mentioned assets) classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

2.4. Basis of consolidation

2.4.1. Subsidiaries

Subsidiaries are entities (including entities which are not incorporated, such as general partnerships) controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations.

Control is exercised when the parent company holds directly or indirectly more than one-half of the voting rights in a given entity, unless in special circumstances it may be proven that such holdings do not lead to exercising control. Control is also exercised when the Bank has one-half or less voting rights in a given entity and when:

1) it has more than one-half of votes on the basis of agreements with other investors,
2) it is capable of managing the entity's financial and operational policy on the basis of the Memorandum of Association or an agreement,
3) it is capable of appointing and removing most of the Management Board or any equivalent management body where the Management Board or equivalent body exercises control over the entity, or
4) it has the majority of votes at the Management Board's or any equivalent management body's meetings where the Management Board or equivalent body exercises control over the entity.

Subsidiaries are fully consolidated from the date on which control was acquired until the day until it ceased.

The 'full' method of consolidation requires the adding up of all full amounts of the individual items of statement of financial position, income statement of the subsidiaries and of the Bank, and making appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated at consolidation. The following items are eliminated in full at consolidation:

1) inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
2) revenue and costs arising from business transactions conducted between the consolidated entities,

3) gains or losses from business transactions conducted between consolidated entities, included in the carrying amount of the assets of the consolidated entities, except for losses indicating impairment,
4) dividends accrued or paid by the subsidiaries to the parent company and to other consolidated entities,
5) inter-company cash flows in the cash flow statement.

The consolidated cash flow statement has been prepared on the basis of the consolidated statement of financial position, consolidated income statement and the additional notes and explanations.

The parent company and consolidated subsidiary reporting periods for the financial statements are co-terminous. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

2.4.2. Acquisition method

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

As at the date of the acquisition, identifiable assets taken over, liabilities taken over and all non-controlling shares in the acquired entity are recognised separately from goodwill.

Identifiable assets and liabilities acquired are initially measured at fair value as at the acquisition date. In each and every business combination, all non-controlling shares in the acquired entity are measured at fair value or on a pro rata basis in respect of the share of the non-controlling shares in the identifiable net assets of the target entity.

Goodwill is recognised as at the acquisition date and measured as the excess of the total of:

1) the consideration provided, measured at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules, and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank

over the net amount of the value of identifiable assets and liabilities acquired, measured at fair value as at the acquisition date, determined as at the acquisition date.

If the net value, determined as at the acquisition date, of identifiable assets and liabilities acquired, measured at fair value as at the acquisition date is higher than the total of:

1) the consideration provided, measured at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules, and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank,

the difference is recognised directly in the income statement.

2.4.3. Associates and jointly controlled entities

Associates are entities (including entities which are not incorporated, such as general partnerships) on which the Group exerts significant influence but whose financial and operating policies it does not control, which usually accompanies having from 20% to 50% of the total number of votes in the decision-making bodies of the entities.

Jointly controlled entities are trade companies or other entities, which are partly controlled by parent company or a significant investor and other shareholders or partners on the basis of the Memorandum of Association, company's agreement or an agreement concluded for a period longer than one year.

Investments in associates and jointly controlled entities are accounted in accordance with the equity method and are initially stated at cost. The Group's investment in associates and jointly controlled entities includes goodwill determined as at the acquisition date, net of any potential accumulated impairment allowances.

The Group's share in the results of the associates and jointly controlled entities from the date of purchase has been recorded in the income statement and its share in changes of other comprehensive income from the date of purchase has been recorded in other comprehensive income. The carrying amount of investments is adjusted by the total movements in particular equity items from the date of their purchase. When the Group's share in the losses of an associate or jointly controlled entity becomes equal or higher than the Group's share in the associate or jointly controlled entity, which covers potential unsecured receivables, the Group discontinues recognising further losses unless it has assumed the obligation or has made payments on behalf of the given associate or jointly controlled entity.

Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated in proportion to the Group's share in the above-mentioned entities. Unrealised losses are also eliminated unless the transaction proves that the given asset transferred has been impaired.

At each balance sheet date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and jointly controlled entities. If any such indicators exist, the Group estimates the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher. If carrying amount of the asset exceeds its recovery value, the Group recognises an impairment allowance in the income statement. The projection for the value in use requires making assumptions, e.g. about future cash flows that the Group 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.

2.5. Foreign currencies

2.5.1. Functional and presentation currency

Items presented in the financial statements of the individual Group entities, including KREDOBANK SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., UKRPOLINWESTYCJE Sp. z o.o. and PKO Finance AB are measured in functional currency i.e. in the currency of the basic economic environment in which the given entity operates. The functional currency of the parent company and other entities included in these financial statements, except for KREDOBANK SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., UKRPOLINWESTYCJE Sp. z o.o. and PKO Finance AB is the Polish zloty. The functional currency of KREDOBANK SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and UKRPOLINWESTYCJE Sp. z o.o. is the Ukrainian hrivna and the functional currency of PKO Finance AB is Euro.

Consolidated financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Group.

2.5.2. 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 by the Group 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 at the balance sheet date,
2) non-monetary assets valued at historical cost in foreign currency are translated into Polish zloty using exchange rates prevailing on a day of a particular transaction,
3) non-monetary assets designated 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 and monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(in PLN thousand)

UAH	2011	2010
Rate prevailing on the last day of the period	0.4255	0.3722
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.3716	0.3830
The highest rate in the period	0.4267	0.4406
The lowest rate in the period	0.3330	0.3423

EUR	2011	2010
Rate prevailing on the last day of the period	4.4168	3.9603
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	4.1401	4.0044
The highest rate in the period	4.5494	4.1458
The lowest rate in the period	3.9345	3.8622

2.6. Financial assets and liabilities

2.6.1. Classification

Financial assets are classified by the Group into the following categories: financial assets designated 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 as follows: financial liabilities designated at fair value through profit and loss and other financial liabilities. The classification of financial assets and liabilities is determined by the Group on initial recognition.

2.6.1.1. Financial assets and liabilities designated 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. Financial assets or financial liabilities are 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 classified as designated at fair value through profit and loss. The Group 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 managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Group.

The Group 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.

2.6.1.2. Financial assets available for sale

Financial assets available for sale are 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 Group upon initial recognition),
b) held-to-maturity,
c) those that meet the definition of loans and advances.

2.6.1.3. 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 in an active market, other than:

1) those that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit and loss,
2) those that the Group 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.

2.6.1.4. 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 Group has the positive intention and ability to hold to maturity other than:

1) those that the Group designates upon initial recognition at fair value through profit and loss,
2) those that the Group 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 Group did not hold any assets classified to this category.

2.6.1.5. 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, or a loan or an advance received.

2.6.2. 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.

2.6.3. 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 by the Group to another entity. The financial asset is transferred when the Group:

1) the contractual rights to receive the cash flows from the financial asset is transferred, or
2) the Group 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 Group.

When the Group 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 Group 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 Group 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 from the statement of financial position.

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

The Group 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.

The Group derecognises loans 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.

2.6.4. 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 designated 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:

2.6.4.1. 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'.

2.6.4.2. Financial assets available for sale

Financial assets available for sale (except for impairment allowances and currency translation differences) are measured at fair value, and gains and losses arising from changes in fair value are recognised in the other comprehensive income until the amount included in the other comprehensive income is reclassified to the income statement when a financial asset is derecognised from a statement of financial position. Interest determined using effective interest rate from financial assets available for sale is presented in the net interest income.

2.6.4.3. Loans, advances and investments held to maturity

They are measured at amortised cost with the use of effective interest rate and an allowance for impairment losses. In the case of loans and advances for which it is not possible to reliably estimate the future cash flows and the effective interest rate, loans advances and investments held to maturity are measured at costs to pay.

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

They are measured at amortised cost. If the time schedule of cash flows from a financial instrument cannot be determined, and thus the effective interest rate cannot be determined fairly, the liability is measured at the amount of consideration due.

Debt instruments issued by the Group are recognised as other financial liabilities and measured at amortised cost.

2.6.4.5. 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 49).

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 designated at fair value through profit and loss and available for sale:
   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 49),
   b) at valuation performed by a specialised external entity providing services of this kind (LEVEL 2 or LEVEL 3, Note 49),
2) debt instruments designated at fair value through profit and loss (LEVEL 2, Note 49):
   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) debt instruments available for sale:
   a) the method based on market prices of securities (the market value method) (LEVEL 2, Note 49),
   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 49),
   c) the method based on market prices of securities with similar financial characteristics (the reference asset value method) (LEVEL 2, Note 49),
   d) in the case of securities whose 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 or LEVEL 3, Note 49).

If it is not possible to determine fair value, equity instruments are stated at acquisition cost less impairment losses (LEVEL 3, Note 49).

Amortised cost is the amount at which the financial instrument was measured at the date of initial recognition, decreased by principal repayments, and increased or decreased by the cumulative amortisation of any differences between that initial amount and the amount at maturity, and decreased by any impairment allowances. 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 next re-pricing, and which is the internal rate of return of the asset/liability for the given period. The calculation of this rate includes payments received/made by the Group which affect financial characteristics of the instrument, with exception of potential future losses related to non-performing loans. Commissions, fees and transaction costs which constitute an integral part of the effective return on a financial instrument, adjust their carrying amounts and are included in the calculation of the effective interest rate.

2.6.5. Derivative instruments

2.6.5.1. 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 market is their market price (LEVEL 1, Note 49). In other cases, fair value is derived with the use of valuation models which use data from an active market. Valuation techniques are based on discounted cash flow models, option models and yield curves (LEVEL 2, Note 49).

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 Group includes the difference, respectively, in the net income from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains in correspondence with 'Derivative financial instruments'. The above recognition method applies to derivative instruments which do not qualify to the application of hedge accounting. The method of recording hedging derivatives is presented in Note 2.6.6.4.

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

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

2.6.5.2. 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 that otherwise would be required under the contract.

Embedded derivative instruments separated from host contracts and recognised separately and accounting records are valued at fair value. Valuation is presented in the statement of financial position under 'Derivative Financial Instruments'. Changes in the valuation at fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments designated at fair value through profit and loss' or '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, 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 case of contracts which are not financial instruments and which include an instrument that fulfils the above conditions, profits and losses from embedded derivatives are recorded in the income statement under the 'Net income from financial instruments designated at fair value through profit and loss' or 'Net foreign exchange gains'.

2.6.6. Hedge accounting

2.6.6.1. Hedge accounting criteria

The Group 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.

2.6.6.2. Discontinuing hedge accounting

The Group 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 Group invalidates a hedge relationship.

2.6.6.3. Fair value hedge

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

2.6.6.4. Cash flows 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 currency translation differences on the nominal value of the hedging transactions. These are shown in the income statement, in 'Net interest income' and 'Net foreign exchange gains' respectively.

2.6.7. Offsetting of financial instruments

A financial asset or liability may only be offset when the Group 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 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. Impairment of financial assets

2.8.1. Assets measured at amortised cost

At each balance date for credit, loan or finance lease, 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 Group determines the amounts of impairment losses. 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.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group 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 Group firstly assesses impairment on an individual basis for significant receivables. If, for a given financial asset assessed individually, there are no objective indications of impairment, the asset is included in a group of financial assets with similar characteristics, which are subsequently assessed for impairment on a collective basis.

Loan and lease receivables are classified by the Group 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 or lease receivables that are assessed on a collective basis.

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

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

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

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

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

In subsequent periods, if the amount of impairment loss is reduced because of an event subsequent to the impairment being 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 Group plans that the adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of historic impairment data from the existing information systems and applications. As a consequence, new data obtained by the Group could influence 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.

2.8.2. Assets available for sale

At each balance date, the Group makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If such evidence exists, the Group determines the amounts of impairment losses.

Objective evidence that a financial asset or group of assets available for sale is impaired includes the 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 borrower’s financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganisation of the issuer,
6) 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 Group 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 by the market interest rates set on the based on yield curves for Treasury bonds moved by risk margins.

An impairment loss of a financial asset classified as available for sale is recognised in 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.

2.9. Leasing

The Group is a party to lease agreements, based on which it conveys in return for payment to use and take profits (the lessor) from tangible and intangible assets during a fixed period (the rights).

The Group is also a party to lease agreements, based on which it receives tangible fixed assets for an agreed period of time (the lessee).

The classification of lease agreements by the Group is based on the extent to which risks and rewards incidental to ownership of an asset lie with the lessor or the lessee.

2.9.1. The Group as a lessor

As regards finance lease agreements, the Group, as a lessor, has receivables of the present value of contractual lease payments, increased by a possible unguaranteed residual value assigned to the lessor, fixed at the date of the lease agreement. These receivables are disclosed under ‘Loans and advances to customers’. Finance lease payments are apportioned between the finance income and the reduction of balance of receivables in a way that provide fixed interest rate from an outstanding debt.

As regards operating lease agreements, initial direct costs that are incremental and directly attributable to negotiating and arranging a lease, are added to the carrying value of the leased asset during the period fixed in the lease agreement, on the same basis as in the case of contracts for hire. Conditional lease payments constitute income when they are due. Lease payments due from agreements, which do not meet the finance lease criteria (operating lease agreements) constitute income in the income statement and are recognised on a straight-line basis during the lease term.

2.9.2. The Group as a lessee

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.

2.10. Tangible fixed assets and intangible assets

2.10.1. Intangible assets

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

2.10.2. Goodwill

Goodwill arising on acquisition of a business entity is initially recognised at the value determined according to the Note 2.4.2. Following the initial recognition, goodwill is stated at the initial value less any cumulative impairment allowances.

Goodwill arising on acquisition of subsidiaries is recognised under 'Intangible assets' and goodwill arising on acquisition of associates and jointly controlled entities is recognised under 'Investments in associates and jointly controlled entities'.

The test for goodwill impairment is carried out at least at the end of each year. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment allowance is recognised.

2.10.3. 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 accumulated amortisation and impairment allowances.

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

2.10.4. Other intangible assets

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

2.10.5. Development costs

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

2.10.6. Tangible fixed assets

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

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

2.10.7. 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 Group will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible asset (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.

2.10.8. 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, 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.

Amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by the Group:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment properties)	40-60 years
Leaseholds improvements (buildings, premises)	2-60 years (or term of the lease if shorter)
Machinery and equipment	2-15 years
Computer hardware	2-10 years
Means of transport	3-5 years
Intangible assets	**Periods**
Software	2-15 years
Other intangible assets	1-5 years

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

2.10.9. Impairment allowances of non-financial non-current assets

At each balance date, the Group 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 Group makes an assessment of whether there are any indicators of impairment of any of its no 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 Group 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 Group determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

Impairment allowances are 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).

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

2.11. Other items in the statement of financial position

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

Non-current assets held for sale include assets whose carrying amount is to be recovered as a result of sale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, when such sale is highly probable, i.e. the entity has determined to sell the asset 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 Group'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 Group makes reclassification from fixed 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.

2.11.2. Inventories

Inventories related mainly to real estate development activities of the Group and valued at the lower of two values: the purchase price/cost of production and net realisable value.

Expenses incurred in bringing the inventories to their present location and condition are treated as follows: finished goods (housing and service premises) and work in progress (housing and service premises in progress and land held for development) – as direct expenses and part of indirect costs of production. In the case of long-term preparatory or production periods, cost or purchase price is increased by finance charges specifically incurred for such purchases.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The value of inventories disbursement is determined by specific identification of individual purchase prices or production cost of components, which relate to realisation of specific projects.

2.11.3. Accruals and deferred income

Accruals and deferred income mainly comprise 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’.

2.12. Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Group 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.

2.13. Restructuring provision

A restructuring provision is set up when general criteria for recognising provisions are met as well as there are met detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37. Precisely, the constructive obligation of restructurisation and recognising provisions arises only when the Group 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 which 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 Group's on-going business operations.

The restructuring provision does not cover future operating expenses.

2.14. 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 Group 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 periodically by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement ('Zakładowy Układ Zbiorowy Pracy') being in force at the Group. 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 amount to discounted future payments, taking into account staff turnover, and relate to the service period beginning on the balance sheet date. Gains or losses resulting from actuarial calculations are recognised in the income statement.

The Group 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.

2.15. Borrowing costs

Borrowing costs that may be directly attributable to the acquisition, construction or production of a qualifying asset are capitalised by the Group as part of acquisition or production cost of that asset when it is probable that they will result in future economic benefits and the acquisition or production cost can be measured reliably.

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

2.16. Contingent liabilities and commitments

The Group enters into 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 Group,

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 estimated 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 commitment granted.

Upon 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'.

2.17. Shareholders' equity

Equity constitutes capital and reserves created in accordance with the legal regulations applicable in Poland and the Memorandum of Association. The classification to particular equity components, discussed in Note 2.17 below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1.79.b. In accordance with IAS 1, equity also includes unappropriated profits and accumulated losses, currency translation differences on translating foreign operations, the effective portions of cash flow hedges and net gains or losses on the valuation of financial instruments classified as available-for-sale. Equity components of the subsidiaries, other than share capital, in a proportion equal to the interest in the subsidiary held by the parent company, are added to respective equity components of the parent company. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent company.

2.17.1. Share capital

Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with Memorandum of Association and entry to the Register of Entrepreneurs.

2.17.2. Reserve capital

Reserve capital is created according to the Memorandum of Association of the Group entities, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses of Group entities.

2.17.3. 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. Moreover, the item includes the share of the Parent company in the revaluation reserve of associated entities and foreign exchange differences on translation of the net result of the foreign operation as a rate constituting the arithmetical average of foreign exchange rates for the currency as at the day ending each of the months in the financial year published by the National Bank of Poland, and foreign exchange differences arising on the measurement of net assets in the foreign operation.

2.17.4. 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.

2.17.5. 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.

2.17.6. Shareholders' equity also includes

1) net result prior to the approval less declared dividends,
2) dividends declared after the reporting period but not paid.

The net profit or loss for the year is the profit before tax reported in the income statement for the current year, adjusted for the corporate income tax expense and profits (losses) attributable to non-controlling shareholders.

In accordance with the Polish legislation, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable. In the case of joint stock companies - the amount to be distributed between shareholders may not exceed the net profit for the previous year plus retained earnings and amounts reclassified from the supplementary capital and other reserves accumulated from profit appropriation which may be distributed as dividend. The resulting amount must be decreased by the amount of accumulated losses, Treasury shares and amounts which should be transferred from the net profit for the last year to supplementary capital or other reserves based on the law or the Memorandum of Association. In the case of limited liability companies - the amount to be distributed between shareholders may not exceed the net profit for the previous year plus retained earnings and amounts reclassified from the distributable portion of supplementary capital and other reserves accumulated from profit appropriation. The resulting amount must be decreased by the amount of accumulated losses, Treasury shares and amounts which should be transferred from the net profit for the last year to supplementary capital or other reserves based on the law or the Memorandum of Association.

2.17.7. Non-controlling interest

Non-controlling interest represent the part of capital in a subsidiary company, which cannot be directly or indirectly assigned to the parent company.

2.18. Determination of a financial result

The Group 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.

2.18.1. 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 expenses 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 loss values are calculated from present values of receivables (that is net of impairment loss) by using current interest rate 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, 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.

2.18.2. 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 Group for services not related directly to the creation of loans, advances and other receivables, as well as amounts charged by the Group 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 cannot determine the effective interest rate.

2.18.3. Dividend income

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

2.18.4. Net income from financial instruments designated 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.

2.18.5. 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.

2.18.6. 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 average NBP exchange rates at the balance date, and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS and currency options).

The Group recognises in net foreign exchange gains 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 changes in fair value 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 2010, No. 2, item 11 with subsequent amendments).

Monetary assets and liabilities presented by the Group in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into PLN using the average NBP rate prevailing for a given currency as at the balance date. Impairment allowances for loan exposures and other receivables denominated in foreign currencies, which are created in Polish 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 currency translation differences are recorded in the income statement.

2.18.7. Other operating income and expense

Other operating income and expense includes income and expense not related directly to banking activity. Other operating income mainly includes gains from sale or liquidation of non-current assets and assets possessed in exchange for debts, recovered bad debts, legal damages, fines and penalties, income from lease/rental of properties. 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.

Other operating income and expense in relation to the Group's entities include also income from sale of finished goods, goods for resale and raw materials, and the corresponding costs of their production.

Income from construction services (real estate development activities) is recognised on a completed contract basis, which involves recognition of all construction costs that incurred during the period of construction as work-in-progress. Payments received on account of a purchase of apartments are shown within deferred income.

2.19. 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 the item 'Other comprehensive income' in the statement of comprehensive income.

2.19.1. 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 being in force within particular tax jurisdiction with regard to corporate income tax of capital groups are taken into consideration. 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. According to the above-mentioned Decree moment of taxation of 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. Therefore, the Group recognises the deferred income tax liability on income due to capitalised interest on mortgage loans, as described in the Decree.

2.19.2. 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 Group recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the statement of financial position 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 sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or 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 sheet date.

The Group uses the 19% tax rate for entities operating on the territory of Poland, a 16% tax rate for entities operating in Ukraine (in 2010: 21%) and 26.3% tax rate for entities operating in Sweden.

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

2.20. Critical estimates and judgements

While preparing financial statements, the Group 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 Group 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 Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance sheet date. Actual results may differ from estimates.

Estimates and assumptions made by the Group 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 Group performs critical estimates are presented below:

2.20.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset (‘a loss event’), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group 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 Group 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 Bank’s loan portfolio individually determined to be impaired, the estimated impairment allowances would decrease by PLN 212 million or increase by PLN 384 million respectively (as at 31 December 2010 respectively would decrease by PLN 181 million or increase by PLN 378 million). 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.

2.20.2. 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 b.p. 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 in opposite direction 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 (in 2010: PLN 42 million) for upward movement of yield curve and increase of PLN 88 million (in 2010: PLN 50 million) for downward movement of the curve.

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

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2011, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted financial discount rate. An increase/decrease in the financial discount rate of 0.25 pp. will contribute to an increase/decrease in the amount of the provision for retirement and pension benefits and jubilee bonuses of 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 anniversary bonuses by about PLN 19 million).

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

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

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. However, if 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 of the Group as follows: a decrease in depreciation costs by PLN 27 million or an increase in depreciation costs by PLN 137 million respectively (as at 31 December 2010: a decrease in deprecation cost by PLN 27 million or increase in depreciation cost by PLN 152 million respectively).

(in PLN thousand)

2.21. Changes in accounting policies

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

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 Group. Appropriate disclosures of the transactions of the Bank as a government related entity are included in Note 44 '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 Group due to the fact that the Group 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 Group due to the fact that the Group 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 Group 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 Group 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 years starting on 1 January 2011	Yes	The amendments comprise changes related to the presentation, disclosure and valuation. They also include terminology and editing changes. The 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 Group. The relevant disclosures in respect of IFRS 7 are presented in Note 54 'Risk Management in the Group'. 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 Group due to the fact that the Group 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 Group for 2012 and will require the Group's broader disclosures, however it is estimated that Group'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 Group 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 Group, it is estimated that the above amendments shall not apply to the financial statements of the Group.

(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 Group 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 Group'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 Group 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 Group.
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 Group 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 Group.

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
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. The above changes will possibly apply for the first time to the financial statements of the Group 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 Group 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 Group 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 effect 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.

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
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. The above changes will possibly apply for the first time to the financial statements of the Group 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 Group.
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 Group for the year 2013, provided that they are adopted by the European Union. In the case of the Group 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

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
				detailed disclosures of interests in unconsolidated structured entities. The above changes will apply for the first time to the financial statements of the Group for the year 2013, provided that they are adopted by the European Union. The changes applied will require additional disclosures to the Group'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 Group 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 Group 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 wide range of disclosures about the Group's entities will not be material.

(in PLN thousand)

Standard/ interpretation	***Introduction date***	***Application date***	***Approved by the European Union***	***Description of potential changes***
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. The above changes will possibly apply for the first time to the financial statements of the Group for the year 2013, provided that they are adopted by the European Union. According to the accounting policies subsidiaries and associates are recognised using equity method.
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 Group with the exception of IFRS 9 (an influence of IFRS 9 on accounting principles applied by the Group have not been assessed yet). The Group 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.

3. Information on the segments of activities

The PKO Bank Polski SA Group's reporting scheme is primarily based on the criteria of groups of clients – recipients of products and services offered by the parent company and other entities of the PKO Bank Polski SA Group. Each operating business segment comprises activities of providing products and services that are characterised by similar risk and income – different from other business segments. The segment report below is recognised in an internal reporting system, i.e. the way of presenting data to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources.

The segment report below presents an internal structure of the PKO Bank Polski SA Group. At present, the PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment segment:

1) The retail segment comprises transactions of the parent company with retail clients, small and medium entities and housing market clients, as well as activities of the following subsidiaries: KREDOBANK SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA, PKO BP Finat Sp. z o.o., Centrum Elektronicznych Usług Płatniczych eService SA, Qualia Development Sp. z o.o. Group and Fort Mokotów Inwestycje Sp. z o.o.

   This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market customers.

2) The corporate segment includes transactions of the parent company with large corporate clients, as well as activities of the Bankowy Fundusz Leasingowy SA Group and the Bankowe Towarzystwo Kapitałowe SA Group.

   This segment comprises, among others, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy back and buy sell back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects.

3) The investment segment comprises the Bank's portfolio activity on its own account, i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions and activities of PKO Finance AB and Centrum Finansowe Puławska Sp. z .o.o. (own activities). In the net result of the segment, the net result of internal settlements (ALM) related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting is presented. Internal funds transfer is based on transfer pricing dependant on interest rates. The transactions between business segments are conducted on arm's length. Long-term external financing includes the issuance of bonds, subordinated liabilities and funds under the EMTN programme issuance as well as amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted on arm's length.

Accounting policies applied in the segment report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by operating activities segment. Values of assets, liabilities, income and expenses of a particular segment are based on internal management information. To particular segments there have been assigned assets and liabilities as well as income and expense related to these assets and liabilities.

(in PLN thousand)

The current income tax expense was presented only on the Group level.

The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the 12-month period ended 31 December 2011 and 31 December 2010 and of selected assets and liabilities as at 31 December 2011 and as at 31 December 2010.

As an additional reporting scheme, the PKO Bank Polski SA Group applies information on segments by geographical areas. The PKO Bank Polski SA Group activity is also conducted in Ukraine – through KREDOBANK SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and UKRPOLINWESTYCJE Sp. z o.o.

For the period from 1 January to 31 December 2011	Continuing operations				
	Retail segment	Corporate segment	Investment segment		Total activity of the PKO Bank Polski SA Group
			Own activities	Transfer centre	
Net interest income	**5 524 147**	**707 871**	**151 339**	**1 225 759**	**7 609 116**
Net fee and commission income	**2 654 554**	**319 628**	**127 262**	**-**	**3 101 444**
Other net income	**301 703**	**110 322**	**196 253**	**(176 522)**	**431 756**
Net result from financial operations	7 528	101	864	(63 370)	**(54 877)**
Net foreign exchange gains	184 509	82 077	183 862	(113 152)	**337 296**
Dividend income	-	-	6 800	-	**6 800**
Net other operating income and expense	83 632	54 178	4 727	-	**142 537**
Income/expenses relating to internal customers	26 034	(26 034)	-	-	**-**
Net impairment allowance and write-downs	**(1 516 117)**	**(383 963)**	**(30 367)**	**-**	**(1 930 447)**
Administrative expenses, of which:	**(3 952 170)**	**(304 113)**	**(155 074)**	**-**	**(4 411 357)**
Amortisation and depreciation	(464 388)	(36 834)	(18 939)	-	**(520 161)**
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	**(19 652)**
Segment gross profit	**3 012 117**	**449 745**	**289 413**	**1 049 237**	**4 780 860**
Income tax expense (tax burden)	**-**	**-**	**-**	**-**	**(976 115)**
Profit (loss) attributable to non-controlling shareholders	**-**	**-**	**-**	**-**	**(2 450)**
Net profit attributable to the parent company	**3 012 117**	**449 745**	**289 413**	**1 049 237**	**3 807 195**

As at 31 December 2011	Continuing operations				
	Retail segment	Corporate segment	Investment segment		Total activity of the PKO Bank Polski SA Group
			Own activities	Transfer centre	
Assets	119 171 733	43 459 366	28 116 938	-	**190 748 037**
Liabilities	117 311 415	33 246 940	17 367 698	-	**167 926 053**

For the period from 1 January to 31 December 2010	Continuing operations*				
	Retail segment	Corporate segment	Investment segment		Total activity of the PKO Bank Polski SA Group
			Own activities	Transfer centre	
Net interest income	**5 170 877**	**637 047**	**280 911**	**427 331**	**6 516 166**
Net fee and commission income	**2 738 897**	**287 478**	**116 454**	**-**	**3 142 829**
Other net income	**241 202**	**76 058**	**219 850**	**1 446**	**538 556**
Net result from financial operations	(3 713)	(293)	75 266	(60 781)	**10 479**
Net foreign exchange gains	93 444	58 328	132 763	62 227	**346 762**
Dividend income	-	-	5 663	-	**5 663**
Net other operating income and expense	125 447	44 047	6 158	-	**175 652**
Income/expenses relating to internal customers	26 024	(26 024)	-	-	**-**
Net impairment allowance and write-downs	**(1 473 947)**	**(328 488)**	**(65 929)**	**-**	**(1 868 364)**
Administrative expenses, of which:	**(3 836 090)**	**(273 465)**	**(139 581)**	**-**	**(4 249 136)**
Amortisation and depreciation	(459 838)	(33 444)	(19 037)	-	**(512 319)**
Share of profit (loss) of associates and jointly controlled entities	-	-	-	-	**(815)**
Segment gross profit	**2 840 939**	**398 630**	**411 705**	**428 777**	**4 079 236**
Income tax expense (tax burden)	**-**	**-**	**-**	**-**	**(866 430)**
Profit/loss attributable to non-controlling shareholders	**-**	**-**	**-**	**-**	**(4 077)**
Net profit attributable to the parent company	**2 840 939**	**398 630**	**411 705**	**428 777**	**3 216 883**

**due to presentation changes in the segments result, data for 2010 has been brought to comparability.*

(in PLN thousand)

As at 31 December 2010	Continuing operations*				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	112 010 210	34 963 122	22 687 169	-	**169 660 501**
Liabilities	109 307 500	27 721 094	11 272 339	-	**148 300 933**

**due to presentation changes in the segments result, data for 2010 has been brought to comparability.*

As an additional reporting scheme, the PKO Bank Polski SA Group applies information on segments by geographical areas. The PKO Bank Polski SA Group activity is also conducted in Ukraine – through KREDOBANK SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and UKRPOLINWESTYCJE Sp. z o.o.

For the period from 1 January to 31 December 2011	Continuing operations		
	Poland	Ukraine	Total
Net interest income	7 562 456	46 660	**7 609 116**
Net fee and commission income	3 062 740	38 704	**3 101 444**
Other net income	429 079	2 677	**431 756**
Administrative expenses	(4 306 730)	(104 627)	**(4 411 357)**
Net impairment allowance and write-downs	(1 865 152)	(65 295)	**(1 930 447)**
Share of profit (loss) of associates and jointly controlled entities	-	-	**(19 652)**
Segment gross profit	**4 882 393**	**(81 881)**	4 780 860
Income tax expense (tax burden)	-	-	**(976 115)**
Profit (loss) attributable to non-controlling shareholders	-	-	**(2 450)**
Net profit (loss) attributable to the parent company	**4 882 393**	**(81 881)**	3 807 195
Assets of the segment	189 196 560	1 551 477	**190 748 037**
Liabilities of the segment	166 763 390	1 162 663	**167 926 053**

For the period from 1 January to 31 December 2010	Continuing operations		
	Poland	Ukraine	Total
Net interest income	6 446 248	69 918	**6 516 166**
Net fee and commission income	3 102 281	40 548	**3 142 829**
Other net income	539 835	(1 279)	**538 556**
Administrative expenses	(4 135 277)	(113 859)	**(4 249 136)**
Net impairment allowance and write-downs	(1 858 988)	(9 376)	**(1 868 364)**
Share of profit (loss) of associates and jointly controlled entities	-	-	**(815)**
Segment gross profit	**4 094 099**	**(14 048)**	4 079 236
Income tax expense (tax burden)	-	-	**(866 430)**
Profit (loss) attributable to non-controlling shareholders	-	-	**(4 077)**
Net profit (loss) attributable to the parent company	**4 094 099**	**(14 048)**	3 216 883
Assets of the segment	168 030 912	1 629 589	**169 660 501**
Liabilities of the segment	147 264 946	1 035 987	**148 300 933**

(in PLN thousand)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. 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:	**10 586 814**	**9 142 557**
Income from loans and advances to customers	9 782 468	8 532 201
Income from investment securities available for sale	576 630	457 802
Income from investment securities held to maturity	-	156
Income from placements with banks	218 731	148 494
Other	8 985	3 904
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 through profit and loss	561 826	494 702
Income from trading assets	74 847	128 940
Total	**12 037 762**	**10 415 315**

In the 'Income from derivative hedging instruments' the Group 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 Group are included in Note 21 '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:	**(4 426 762)**	**(3 872 932)**
Interest expense on amounts due to customers	(4 101 578)	(3 715 721)
Interest expense on debt securities in issue	(278 178)	(123 382)
Interest expense on deposits from banks	(45 684)	(30 276)
Premium expense on debt securities available for sale	(1 322)	(3 553)
Other expense	**(1 884)**	**(26 217)**
Total	**(4 428 646)**	**(3 899 149)**

(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	**8 744 562**	**7 462 566**
Interest income from loans and advances to customers	9 782 468	8 532 201
Fee and commission income from loans and advances	582 100	528 824
Interest income from placements with banks	218 731	148 494
Net impairment allowance on loans and advances to customers and amounts due from banks measured at amortised cost	(1 818 641)	(1 728 268)
Net impairment allowance on finance lease receivables	(20 096)	(18 685)
Losses from financial liabilities measured at amortised cost	**(4 425 440)**	**(3 869 379)**
Interest expense on amounts due to customers	(4 101 578)	(3 715 721)
Interest expense on debt securities in issue	(278 178)	(123 382)
Interest expense on deposits from bank	(45 684)	(30 276)
Net result	**4 319 122**	**3 593 187**

5. 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:	**582 100**	**528 824**
Income from loans and advances	582 100	528 824
Other commissions	**3 252 259**	**3 350 380**
Income from payment cards	1 048 720	963 434
Income from maintenance of bank accounts	916 484	922 632
Income from loan insurance	515 499	653 501
Income from maintenance of investment and pension funds (including management fees)	340 751	338 144
Income from cash transactions	160 451	177 684
Income from securities transactions	70 344	73 261
Income from servicing foreign mass transactions	47 966	44 754
Income from sale and distribution of court fee stamps	18 625	26 255
Other*	133 419	150 715
Income from fiduciary activities	**2 806**	**1 659**
Total	**3 837 165**	**3 880 863**

* 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	(320 592)	(293 247)
Expenses on acquisition services	(140 216)	(144 252)
Expenses on loan insurance	(133 488)	(150 842)
Expenses on settlement services	(20 977)	(21 751)
Expenses on asset management fees	(16 158)	(21 672)
Expenses on fee and commissions for operating services rendered by banks	(11 435)	(10 137)
Other*	(92 855)	(96 133)
Total	**(735 721)**	**(738 034)**

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

(in PLN thousand)

6. Dividend income

	2011	2010
Dividend income from the issuers of:		
Securities classified as available for sale	6 416	5 411
Securities classified as held for trading	384	252
Total	**6 800**	**5 663**

7. Net income from financial instruments designated at fair value

	2011	2010
Derivative instruments[1)]	(88 731)	(104 809)
Debt securities	10 631	40 786
Equity instruments	(612)	1 427
Structured bank securities designated at fair value through profit and loss[1)]	3 630	-
Other[1)]	26	19
Total	**(75 056)**	**(62 577)**

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	10 504 206	(10 592 619)	(88 413)
Financial assets designated upon initial recognition at fair value through profit and loss	65 089	(51 732)	13 357
Total	**10 569 295**	**(10 644 351)**	**(75 056)**

2010	Gains	Losses	Net result
Trading assets	8 472 769	(8 567 689)	(94 920)
Financial assets designated upon initial recognition at fair value through profit and loss	54 192	(21 849)	32 343
Total	**8 526 961**	**(8 589 538)**	**(62 577)**

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 (85 075)[1] thousand (in the year ended 31 December 2010 PLN (104 790) [1)] thousand) (LEVEL 2, Note 49).

8. Net gains/(losses) on investment securities

	2011	2010
Losses/gains recognised directly in other comprehensive income	(53 828)	(89 215)
Total result recognised directly in other comprehensive income	**(53 828)**	**(89 215)**
Gains derecognised from other comprehensive income	21 448	75 530
Losses derecognised from other comprehensive income	(1 269)	(2 474)
Total result derecognised from other comprehensive income, recognised in profit and loss	**20 179**	**73 056**
Total result retained in other comprehensive income	**(33 649)**	**(16 159)**

[1] The total amount of the items marked with[1)] in the note 7 'Net income from financial instruments designated at fair value'.

(in PLN thousand)

9. 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)
Currency translation differences from foreign operations	(185 878)	1 373 603
Total	**337 296**	**346 762**

10. Other operating income and expense

	2011	2010
Other operating income		
Net income from sale of products and services	256 051	323 919
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	76 636	51 255
Sundry income	20 630	20 730
Damages, penalties and fines received	19 219	23 443
Recovery of expired and written-off receivables	5 336	4 977
Sale of shares in subsidiaries, jointly controlled entities and associates	-	1 426
Other	73 851	43 638
Total	**451 723**	**469 388**

	2011	2010
Other operating expense		
Costs of sale of products and services	(171 543)	(200 536)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(69 946)	(48 107)
Donations	(11 571)	(4 296)
Sundry expenses	(4 696)	(4 378)
Other	(51 430)	(36 419)
Total	**(309 186)**	**(293 736)**

(in PLN thousand)

11. Net impairment allowance and write-downs

For the year ended 31 December 2011	Note	Value at the beginning of the period	Increases			Decreases		Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Currency translation differences	Other	Decrease due to derecognition of assets and settlement	Reversed during the period		
Investment securities available for sale	24	**21 909**	**8 439**	**629**	**-**	**645**	**9 769**	**20 563**	1 330
Debt securities available for sale		21 259	6 468	614	-	628	9 769	**17 944**	3 301
Unquoted equity instruments		650	1 971	15	-	17	-	**2 619**	(1 971)
Amounts due from banks	18	**28 925**	**1 471**	**-**	**4 296**	**341**	**1 539**	**32 812**	**68**
Loans and advances to customers measured at amortised cost	23	**4 856 670**	**5 518 214**	**69 345**	**63 604**	**1 170 181**	**3 679 409**	**5 658 243**	**(1 838 805)**
non-financial sector		4 726 693	5 426 314	65 847	63 604	1 166 672	3 618 753	5 497 033	(1 807 561)
consumer loans		1 513 717	2 232 735	1 526	11 802	724 234	1 571 703	1 463 843	(661 032)
mortgage loans		983 311	1 081 965	10 864	38 775	101 226	689 859	1 323 830	(392 106)
corporate loans		2 229 665	2 111 614	53 457	13 027	341 212	1 357 191	2 709 360	(754 423)
financial sector		26 938	21 789	3 498	-	1 879	13 288	37 058	(8 501)
corporate loans		26 938	21 789	3 498	-	1 879	13 288	37 058	(8 501)
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)
Finance lease receivables		89 905	62 841	-	-	1 628	42 745	108 373	(20 096)
Tangible fixed assets	28	**18 434**	**5 549**	**659**	**-**	**17 254**	**1 000**	**6 388**	**(4 549)**
Intangible assets	27	**132 972**	**2 799**	**-**	**-**	**238**	**238**	**135 295**	**(2 561)**
Investments in entities measured using equity method	25	**60 138**	**28 815**	**-**	**-**	**-**	**-**	**88 953**	**(28 815)**
Non-current assets held for sale		2 961	-	-	-	3	-	**2 958**	-
Other, of which:		**314 214**	**245 718**	**915**	**266**	**35 759**	**188 603**	**336 751**	**(57 115)**
provisions for legal claims and liabilities and guarantees granted	36	89 799	168 669	24	261	114	143 031	115 608	(25 638)
Total		**5 436 223**	**5 811 005**	**71 548**	**68 166**	**1 224 421**	**3 880 558**	**6 281 963**	**(1 930 447)**

(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: Currency translation differences	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	24	**21 572**	**8 156**	**216**	**-**	**1 198**	**6 837**	**21 909**	**(1 319)**
Debt securities available for sale		19 155	8 063	216	-	138	6 037	21 259	(2 026)
Unquoted equity instruments		2 417	93	-	-	1 060	800	650	707
Amounts due from banks	18	**27 109**	**896**	**-**	**1 078**	**-**	**158**	**28 925**	**(738)**
Loans and advances to customers measured at amortised cost	23	**3 937 124**	**4 359 759**	**16 728**	**26 642**	**870 039**	**2 613 544**	**4 856 670**	**(1 746 215)**
non-financial sector		3 824 558	4 196 059	16 688	26 642	861 275	2 475 979	4 726 693	(1 720 080)
consumer loans		1 362 621	1 728 793	2 149	3 217	668 058	915 005	1 513 717	(813 788)
mortgage loans		734 760	797 121	3 799	20 377	44 286	528 460	983 311	(268 661)
corporate loans		1 727 177	1 670 145	10 740	3 048	148 931	1 032 514	2 229 665	(637 631)
financial sector		19 248	18 834	40	-	8 162	3 022	26 938	(15 812)
corporate loans		19 248	18 834	40	-	8 162	3 022	26 938	(15 812)
budget sector		21 496	15 059	-	-	-	23 421	13 134	8 362
corporate loans		21 496	15 059	-	-	-	23 421	13 134	8 362
Finance lease receivables		71 822	129 807	-	-	602	111 122	89 905	(18 685)
Tangible fixed assets	28	**1 856**	**29 418**	**-**	**-**	**12 212**	**628**	**18 434**	**(28 790)**
Intangible assets	27	**95 135**	**37 837**	**-**	**-**	**-**	**-**	**132 972**	**(37 837)**
Investments in entities measured using equity method	25	**5 028**	**55 171**	**-**	**-**	**-**	**61**	**60 138**	**(55 110)**
Non-current assets held for sale		**1 680**	**1 281**	-	-	-	-	**2 961**	**(1 281)**
Other, of which:		**359 043**	**230 182**	**379**	**27**	**42 309**	**233 108**	**314 214**	**2 926**
provisions for legal claims and liabilities and guarantees granted	36	119 849	141 014	69	-	1 032	170 101	89 799	29 087
Total		**4 448 547**	**4 722 700**	**17 323**	**27 747**	**925 758**	**2 854 336**	**5 436 223**	**(1 868 364)**

(in PLN thousand)

12. Administrative expenses

	2011	2010
Employee costs	(2 403 744)	(2 374 901)
Overheads	(1 276 586)	(1 237 892)
Depreciation and amortisation	(520 161)	(512 319)
Taxes and other charges	(74 129)	(70 640)
Contribution and payments to Bank Guarantee Fund	(136 737)	(53 384)
Total	**(4 411 357)**	**(4 249 136)**

Wages and salaries / Employee benefits

	2011	2010
Wages and salaries, of which:	(2 032 341)	(2 011 724)
actuarial provision for anniversary bonuses and retirement benefits	(16 507)	(43 497)
Social Security, of which:	(304 511)	(299 985)
contributions for retirement pay and pensions*	(247 023)	(239 819)
Other employee benefits	(66 892)	(63 192)
Total	**(2 403 744)**	**(2 374 901)**

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

Operating lease agreements

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 Group 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 Group.

Total value of future lease payments under irrevocable operating lease	31.12.2011	31.12.2010
For the period:		
up to 1 year	106 028	92 788
from 1 year to 5 years	173 614	153 089
above 5 years	61 348	51 125
Total	**340 990**	**297 002**

Lease and sub-lease payments recognised as an expense of a given period from 1 January 2011 to 31 December 2011 amounted to PLN 129 812 thousand (in the period from 1 January 2010 to 31 December 2010 PLN 118 392 thousand).

13. Share of profit (loss) of associates and jointly controlled entities

Entity	2011	2010
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(3 991)	(1 883)
Centrum Haffnera Sp. z o.o. Group	(21 316)	(6 077)
Associates		
Bank Pocztowy SA	5 332	7 153
Agencja Inwestycyjna 'CORP-SA' SA	315	53
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	8	(61)
Total	**(19 652)**	**(815)**

(in PLN thousand)

Additional information on jointly controlled entities and associates is presented in Note 1 'General Information' and Note 48 'Changes to the entities of the Group and jointly controlled entities and associates'.

14. Income tax expense

	2011	2010
Consolidated income statement		
Current income tax expense	(958 076)	(1 064 174)
Deferred income tax related to temporary differences	(18 039)	197 744
Tax expense in the consolidated income statement	**(976 115)**	**(866 430)**
Tax expense in other comprehensive income related to temporary differences	(27 441)	(20 390)
Total	**(1 003 556)**	**(886 820)**

	2011	2010
Profit before income tax	**4 780 860**	**4 079 236**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(908 363)	(775 055)
Effect of other tax rates of foreign entities	(2 504)	(340)
Permanent differences between accounting gross profit and taxable profit, of which:	**(73 996)**	**(66 154)**
Recognition/reversal of provisions and revaluation not constituting taxable expense/income	(51 399)	(36 487)
Other non-tax-deductible expenses	(17 656)	(19 480)
Dividend income	17 859	20 501
Other permanent differences	(22 800)	(30 688)
Other differences between gross financial result and taxable income, including donations	**8 508**	**(25 064)**
Tax loss settlement	**240**	**183**
Income tax in the consolidated income statement	**(976 115)**	**(866 430)**
Effective tax rate	**20.42%**	**21.24%**
Temporary difference due to the deferred tax presented in the consolidated income statement	(18 039)	197 744
Current income tax expense in the consolidated income statement, of which:	**(958 076)**	**(1 064 174)**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(958 032)	(1 064 171)
Effect of other tax rates of foreign entities	(44)	(3)

Current income tax liabilities/receivables

	31.12.2011	31.12.2010
Current income tax receivables	5 957	4 318
Current income tax liabilities	78 810	67 744

The Group entities are subject to corporate income tax. The amount of current tax liability is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2011 is made within the statutory deadline of 31 March 2012.

According to regulations on considering tax liabilities as past due, 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.

(in PLN thousand)

Deferred tax asset/liability

	Consolidated statement of financial position		Consolidated 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 housing loans	190 844	211 576	20 732	26 870
Interest on securities	58 187	44 537	(13 650)	(6 824)
Valuation of derivative financial 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	256 004	(35 291)	(22 488)
Temporary positive differences concerning Group's entities, of which:	29 363	24 786	-	-
transferred to income statement	29 307	24 535	(6 795)	(1 595)
transferred to other comprehensive income	56	251	-	-
Gross deferred tax liability, of which:	**858 673**	**747 160**	**-**	**-**
transferred to income statement	772 689	695 791	(76 898)	(61 765)
transferred to other comprehensive income	85 984	51 369	-	-
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	57 394	-	-
transferred to income statement	11 580	50 640	(39 060)	39 368
transferred to other comprehensive income	12 970	6 754	-	-
Provision for employee benefits	126 714	118 613	8 101	8 442
Impairment allowances on credit exposure	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)	-
Temporary negative differences concerning Group's entities, of which:	159 787	119 879	-	-
transferred to income statement	159 211	120 261	38 950	4 218
transferred to other comprehensive income	576	(382)	-	-
Gross deferred income tax asset, of which:	**1 373 231**	**1 307 198**	**-**	**-**
transferred to income statement	1 359 685	1 300 826	58 859	259 509
transferred to other comprehensive income	13 546	6 372	-	-
Total deferred tax impact, of which:	**514 558**	**560 038**	**-**	-
transferred to income statement	586 996	605 035	(18 039)	197 744
transferred to other comprehensive income	(72 438)	(44 997)	-	-
Deferred income tax asset (presented in statement of financial position)	**543 922**	**582 802**	**-**	-
Deferred tax liability (presented in statement of financial position)	**29 364**	**22 764**	**-**	-
Net deferred tax impact on the income statement	**-**	**-**	**(18 039)**	**197 744**

The item temporary negative differences concerning Group's entities in respect of deferred tax as at 31 December 2011, in accordance with IAS 12, includes the tax effect of unsettled tax losses in the amount of PLN 52 436 thousand, including the tax loss of KREDOBANK SA in the amount of PLN 49 979 thousand. In accordance with the tax jurisdiction binding on the territory of Ukraine, the right to settling of the unsettled tax losses is not in principle restricted by any expiry date. Yet, the ability to settle tax losses which arose before 2011 has been questioned by the Ukrainian tax authorities as a result of a tax inspection carried out. At the same time the Group's analysis of binding tax and judicial decisions and external opinions obtained indicate that there are no effective grounds for questioning the ability to settle those losses. In consequence, KREDOBANK SA appealed to the tax authorities against this decision and is waiting for the decision. The Management Board of the Bank is of the opinion that the appeal will be effective.

15. Earnings per share

Basic earnings per share

The basic earnings per share ratio is calculated on the basis of profit attributable to ordinary shareholders of the Bank, by dividing the respective profit 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)	3 807 195	3 216 883
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	3.05	2.57

Earnings per share from discontinued operations

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

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 year 2011 and 2010.

Diluted earnings per share from discontinued operations

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

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

Pursuant to the Resolution No. 8/2011 of the Annual General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna 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 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. 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	2 295 222	2 398 207
Other funds	1 187	1 488
Total	**9 142 168**	**6 182 412**

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.

(in PLN thousand)

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.

18. Amounts due from banks

	31.12.2011	31.12.2010
Deposits with banks	1 912 647	1 493 827
Current accounts	405 724	722 717
Loans and advances granted	108 868	112 551
Cash in transit	1 800	6 862
Gross total	**2 429 039**	**2 335 957**
Impairment allowances on receivables, of which:	(32 812)	(28 925)
impairment allowances on exposure to a foreign bank	(32 385)	(28 089)
Net total	**2 396 227**	**2 307 032**

Details on risk related to amounts due from banks was presented in Note 55 ‘Credit risk management’.

19. 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 institution, 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
Debt securities	**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 other financial institutions	-	227	-	12	-	**239**
issued by banks	-	-	-	1 465	259	**1 724**
Total	**68 409**	**51 918**	**507 069**	**497 725**	**175 043**	**1 300 164**

The average yield on debt securities issued by the State Treasury and included in the trading assets portfolio as at 31 December 2011 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 trading assets 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
Debt securities	**-**	**292**	**860 158**	**254 749**	**375 854**	**1 491 053**
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**
issued by other financial institutions	-	-	10	-	-	**10**
issued by non-financial institutions	-	-	-	509	-	**509**
Total	**-**	**292**	**860 158**	**254 749**	**375 854**	**1 491 053**

The average yield on debt securities issued by the State Treasury and included in the trading assets portfolio as at 31 December 2010 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 trading assets 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)

20. Derivative financial instruments

Derivative instruments used by the Group

The Bank and other entities within the Group use various types of derivatives in order to manage risk involved in its business activities. As at 31 December 2011 and 31 December 2010, the Group 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	2 547 808	2 302 683	1 565 164	1 848 812
Total	**3 064 733**	**2 645 281**	**1 719 085**	**2 404 795**

Type of contract	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
IRS	1 941 309	1 925 161	1 447 237	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	**3 064 733**	**2 645 281**	**1 719 085**	**2 404 795**

The most frequently used types of derivatives in the Group's activityare: IRS, FRA, FX Swap, CIRS and Forwards. The remaining entities in the Group may enter into transactions in derivatives exclusively for the purpose of hedging against the risk resulting from their core activities.

(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)	35 442 220	41 119 688	135 027 442	156 039 292	23 222 768	**390 851 410**	1 925 161	1 941 309
Purchase	17 721 110	20 559 844	67 513 721	78 019 646	11 611 384	**195 425 705**	-	-
Sale	17 721 110	20 559 844	67 513 721	78 019 646	11 611 384	**195 425 705**	-	-
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	**103 620 008**	**105 326 724**	**226 359 017**	**197 045 148**	**25 933 397**	**658 284 294**	**2 645 281**	**3 064 733**

(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	2 165 895	3 101 234	149 193	-	**7 422 250**	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	1 086 905	1 565 478	76 066	-	**3 733 473**	-	-
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)	29 692 198	31 588 056	90 322 034	132 693 552	20 420 516	**304 716 356**	1 553 029	1 447 237
Purchase	14 846 099	15 794 028	45 161 017	66 346 776	10 210 258	**152 358 178**	-	-
Sale	14 846 099	15 794 028	45 161 017	66 346 776	10 210 258	**152 358 178**	-	-
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	**75 424 057**	**71 546 645**	**139 325 625**	**165 018 033**	**23 204 091**	**474 518 451**	**2 404 795**	**1 719 085**

(in PLN thousand)

21. Derivative hedging instruments

As at 31 December 2011, the Group 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 Group used the fair value hedge described in points 1-3 above.

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

The characteristics of the cash flow hedges applied by the Group 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 efficiency	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 efficiency	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 efficiency	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 efficiency	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 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.

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/ losses transferred to other comprehensive income in the period	1 290 334	(145 504)
Amount transferred from other comprehensive income to profit and loss, of which transferred to:	(1 112 234)	267 292
- interest income	(814 275)	(649 116)
- net foreign exchange gains	(297 959)	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	**(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)**

22. 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 EUR	143 973	128 849
municipal bonds PLN	108 922	-
Total	**12 467 201**	**10 758 331**

As at 31 December 2011 and as at 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	Currency	31.12.2010	Currency
in the parent company:				
NBP money market bills	8 600 000	PLN thousand	4 000 000	PLN thousand
Treasury bills	2 196 950	PLN thousand	1 932 960	PLN thousand
Treasury bonds PLN	1 361 669	PLN thousand	4 834 445	PLN thousand
Treasury bonds EUR	110 420	PLN thousand	-	PLN thousand
municipal bonds EUR	110 420	PLN thousand	99 008	PLN thousand
municipal bonds PLN	100 000	PLN thousand	-	PLN thousand
in subsidiaries:				
bonds of other entities	3 128	UAH thousand	22 148	UAH thousand

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)

23. Loans and advances to customers

	31.12.2011	31.12.2010
Gross loans and advances to customers, of which:	**147 292 737**	**135 524 789**
financial entities	1 241 461	2 992 518
corporate, of which:	1 241 461	2 992 518
receivables due from repurchase agreements	93 899	1 577 744
deposits of Brokerage House in Stock Exchange Guarantee Fund and collateral deposit	6 891	12 892
non-financial entities	139 926 701	127 986 447
corporate, of which:	45 051 202	40 099 575
receivables due from repurchase agreements	11 341	8 607
mortgage	70 808 365	62 440 607
consumer	24 067 134	25 446 265
State budget entities	5 043 786	3 820 961
corporate	5 043 786	3 820 320
mortgage	-	641
Interest	1 080 789	724 863
Impairment allowances on loans and advances to customers	(5 658 243)	(4 856 670)
Loans and advances to customers - net	**141 634 494**	**130 668 119**

	31.12.2011	31.12.2010
Loans and advances granted		
Valued with the individual method	6 549 383	6 562 353
impaired, of which:	5 701 547	5 899 231
receivables from finance leases	142 150	125 556
not impaired, of which:	847 836	663 122
receivables from finance leases	89 493	155 373
Valued with the portfolio method	6 095 685	4 987 943
impaired, of which:	6 095 685	4 987 943
receivables from finance leases	107 903	102 133
Valued with the group method (IBNR), of which:	134 647 669	123 974 493
receivables from finance leases	2 656 595	2 177 602
Loans and advances granted – gross	**147 292 737**	**135 524 789**
Allowances on exposures valued with the individual method	(2 079 621)	(1 765 956)
Impaired, of which:	(2 079 621)	(1 765 956)
allowances on lease receivables	(36 180)	(29 509)
Allowances on exposures valued with the portfolio method, of which:	(2 910 042)	(2 593 103)
allowances on lease receivables	(60 091)	(48 013)
Allowances on exposures valued with group method (IBNR), of which:	(668 580)	(497 611)
allowances on lease receivables	(12 102)	(12 383)
Allowances - total	**(5 658 243)**	**(4 856 670)**
Loans and advances granted – net	**141 634 494**	**130 668 119**

	31.12.2011	31.12.2010
Loans and advances granted – gross, of which:	**147 292 737**	**135 524 789**
retail and private banking	21 635 864	23 124 799
mortgage banking	65 614 374	58 052 382
small and medium enterprises	17 245 213	15 969 362
housing market clients	7 897 963	6 978 870
corporate	33 654 831	29 003 774
transactions with receivables due from repurchase agreements	105 240	1 586 351
other receivables	58 463	84 388
Interests	1 080 789	724 863
Impairment allowances on loans and advances granted	(5 658 243)	(4 856 670)
Loans and advances granted – net	**141 634 494**	**130 668 119**

(in PLN thousand)

A detailed description of changes in allowance has been presented in the Note 11.

As at 31 December 2011, the share of impaired loans amounted to 8.0% (as at 31 December 2010: 8.0%), whereas the coverage ratio for impaired loans (calculated as total impairment allowances on loans and advances divided by gross carrying amount of impaired loans) amounted to 48.0% (as at 31 December 2010: 44.6%).

As at 31 December 2011, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 4.6% (as at 31 December 2010: 4.3%).

An increase in the volume of loans valued with the portfolio method in 2011 by PLN 1 107 742 thousand resulted mainly from the increase in delays in repayment in the portfolio of mortgage loans and corporate loans (mainly small and medium enterprises).

Finance lease agreements

Finance lease – lessor

The Group conducts lease activities through the entities from the Bankowy Fundusz Leasingowy SA Group.

The value of gross investments in leases and the minimum lease payments resulting from finance lease agreements amounted to:

as at 31 December 2011

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	1 236 555	1 054 102	182 453
from 1 year to 5 years	1 858 913	1 593 253	265 660
over 5 years	432 391	348 786	83 605
Gross total	**3 527 859**	**2 996 141**	**531 718**
Impairment allowances	(108 373)	(108 373)	-
Net total	**3 419 486**	**2 887 768**	**531 718**

Net lease investment	
Present value of the minimal lease payments	2 996 141
of which non guaranteed final amounts due to the lessor	1 216

as at 31 December 2010

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	1 094 331	944 182	150 149
from 1 year to 5 years	1 520 458	1 310 743	209 715
over 5 years	370 404	305 739	64 665
Gross total	**2 985 193**	**2 560 664**	**424 529**
Impairment allowances	(89 905)	(89 905)	-
Net total	**2 895 288**	**2 470 759**	**424 529**

Net lease investment	
Present value of the minimal lease payments	2 560 664
of which non guaranteed final amounts due to the lessor	1 059

(in PLN thousand)

24. Investment securities available for sale

	31.12.2011	31.12.2010
Debt securities available for sale, gross	**14 325 469**	**10 144 678**
issued by the State Treasury	8 679 028	5 813 314
Treasury bonds PLN	8 414 865	5 636 357
Treasury bonds EUR	11 720	-
Treasury bonds UAH	220 793	153 323
Treasury bonds USD	30 661	-
Treasury bills	989	23 634
issued by local government bodies - municipal bonds	3 458 356	2 824 173
issued by non-financial institutions	2 137 215	1 456 333
corporate bonds PLN	2 129 507	1 445 357
corporate bonds UAH	4 946	8 214
bills of exchange	2 762	2 762
issued by banks - corporate bonds	50 870	50 858
Impairment of debt securities available for sale	**(17 944)**	**(21 259)**
corporate bonds PLN	(10 236)	(10 283)
corporate bonds UAH	(4 946)	(8 214)
bills of exchange	(2 762)	(2 762)
Total net debt securities available for sale, net	**14 307 525**	**10 123 419**
Equity securities available for sale, gross	**88 370**	**96 631**
Equity securities admitted to public trading	47 345	85 491
Equity securities not admitted to public trading	41 025	11 140
Impairment of equity securities not admitted to public trading	**(2 619)**	**(650)**
Total net equity securities available for sale	**85 751**	**95 981**
Total net investment securities available for sale	**14 393 276**	**10 219 400**

Change in investment securities available for sale

	2011	2010
Investment securities available for sale		
Balance at the beginning of the period	**10 219 400**	**7 944 317**
Currency translation differences	32 339	(2 811)
Increases (purchase)	12 021 060	10 508 141
of which change in impairment allowances	(1 346)	(337)
Decreases (redemption)	(7 845 874)	(8 214 088)
Changes in the fair value in relation to other comprehensive income	(33 649)	(16 159)
Balance at the end of the period	**14 393 276**	**10 219 400**

Details on risk related to investment securities available for sale was presented in Note 55 ‘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	**517 265**	**135 416**	**1 250 213**	**7 925 149**	**4 479 482**	**14 307 525**
issued by the State Treasury	135 852	86 232	960 122	5 200 513	2 296 309	**8 679 028**
issued by local government bodies	5 136	7 486	236 506	1 260 119	1 949 109	**3 458 356**
issued by non-financial entities	376 277	41 698	53 585	1 464 517	183 194	**2 119 271**
issued by banks	-	-	-	-	50 870	**50 870**
Total	**517 265**	**135 416**	**1 250 213**	**7 925 149**	**4 479 482**	**14 307 525**

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:

in the parent company:

- Treasury bonds PLN 8 319 451
- municipal bonds 3 402 338
- corporate bonds 2 306 651
- Treasury bonds EUR 10 600
- Treasury bills of exchange 2 762

in subsidiaries:

- Treasury bonds 113 787
- Treasury bills 1 000
- investment funds participation units 9 951
- corporate bonds 9 620*
- Treasury bonds 506 456*
- Treasury bonds in USD 71 908*
- shares and investments 300*

*in UAH 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	**192 274**	**43 189**	**3 360 357**	**2 386 976**	**4 140 623**	10 123 419
issued by the State Treasury	13 655	37 941	2 887 736	533 558	2 340 424	**5 813 314**
issued by local government bodies	3 130	5 248	216 534	1 050 709	1 548 552	**2 824 173**
issued by non-financial institutions	175 489	-	256 087	802 709	200 789	**1 435 074**
issued by banks	-	-	-	-	50 858	**50 858**
Total	**192 274**	**43 189**	**3 360 357**	**2 386 976**	**4 140 623**	**10 123 419**

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:

in the parent company:

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

in subsidiaries:

- Treasury bonds 153 470
- Treasury bills 23 940
- investment funds participation units 21 409
- Corporate bonds 19 235*
- Treasury bonds 394 638*
- Shares and investments 345*

*in UAH thousand

(in PLN thousand)

25. Investments in jointly controlled entities and associates

a) the value of the Bank's investments in jointly controlled entities (i.e. the acquisition cost adjusted to the Bank's share in the change in the entity's net assets after acquisition date and impairment allowances)

Entity name	31.12.2011	31.12.2010
Centrum Haffnera Sp. z o.o. Group	**10 665**	**31 981**
Purchase price	44 371	44 371
Change in valuation with equity method	(33 706)	(12 390)
Centrum Obsługi Biznesu Sp. z o.o	**5 307**	**9 298**
Purchase price	17 498	17 498
Change in valuation with equity method	(12 191)	(8 200)
Total	**15 972**	**41 279**

b) the value of the Bank's investments in associates (i.e. the acquisition cost adjusted to share in net assets change and impairment allowances)

Entity name	31.12.2011	31.12.2010
Bank Pocztowy SA	**106 720**	**131 427**
Purchase price	146 500	146 500
Change in valuation with equity method	44 198	40 098
Impairment allowances	(83 978)	(55 171)
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in valuation with equity method	3 475	3 467
Impairment allowances	(4 975)	(4 967)
Agencja Inwestycyjna CORP-SA SA	**427**	**225**
Purchase price	29	29
Change in valuation with equity method	398	196
Total	**107 147**	**131 652**

Selected data on associates accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2011					
Bank Pocztowy SA Group	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 Group	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**

The information concerning Bank Pocztowy SA, presented in the table above is derived from consolidated financial statements prepared in accordance with the IFRS/IAS. Data about other companies is derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Group'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 Group. Data for the year 2010 is derived from audited financial statements.

(in PLN thousand)

Selected information on jointly controlled entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2011					
Centrum Obsługi Biznesu Sp. z o.o.	122 199	107 940	22 275	(11 318)	41.44
Centrum Haffnera Sp. z o.o. Group	320 009	295 445	50 101	(46 586)	49.43
Total	**442 208**	**403 385**	**72 376**	**(57 904)**	**X**
31.12.2010					
Centrum Obsługi Biznesu Sp. z o.o	124 979	98 835	20 151	(980)	41.44
Centrum Haffnera Sp. z o.o. Group	327 145	258 450	44 958	(11 262)	49.43
Total	**452 124**	**357 285**	**65 109**	**(12 242)**	**X**

The information concerning Centrum Obsługi Biznesu Sp. z o.o. and Centrum Haffnera Sp. z o.o. Group, presented in the above table is derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Group'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 Group. Data of both entities for the year 2010 is derived from audited financial statements.

In the consolidated financial statements for the year ended 31 December 2011, all associates and jointly controlled entities are accounted for using the equity method.

	2011	2010
Investments in associates at the beginning of the period	**131 652**	**179 452**
Share of profit/loss	5 655	7 146
Share in other comprehensive income of associates	(1 233)	271
Dividends paid	(112)	(107)
Change in impairment allowances of investment	(28 815)	(55 110)
Investment in associates at the end of the period	**107 147**	**131 652**

In 2011, the Group increased an impairment allowances against shares of Bank Pocztowy SA of PLN 28 807 thousand and increased by PLN 8 thousand impairment allowances against shares of Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. Impairment allowances against shares of Bank Pocztowy SA was recognised on the basis of the Company's shares recoverable amount estimation, i.e. the value in use calculated on the basis of the discounted cash flows model for the years 2012-2016 and the fair value estimation based on the market ratios of the peer group of banks.

In 2010, the Group recognised an impairment allowance against shares of Bank Pocztowy SA amounting to PLN 55 171 thousand and decreased by PLN 61 thousand impairment allowances against shares of Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.

	2011	2010
Investments in jointly controlled entities at the beginning of the period	**41 279**	**49 240**
Share of profit / loss	(25 307)	(7 961)
Investments in jointly controlled entities at the end of the period	**15 972**	**41 279**

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

In 2011, PKO Bank Polski SA did not make any direct investments in jointly controlled entities or associates.

(in PLN thousand)

26. Inventories

Carrying amount of inventories by kind*	31.12.2011	31.12.2010
Work-in-progress – construction investments	271 709	261 609
Finished goods - construction investments	216 851	195 817
Supplies	102 412	96 298
Materials	8 962	11 409
Impairment allowances on inventories	(33 088)	(34 858)
Total	**566 846**	**530 275**

* The balance relates mainly to expenses on real estate development incurred by the Group entities whose scope of activity relates to real estate development.

On 31 December 2011 and 31 December 2010 the Group had no inventories constituting collateral for liabilities to third parties.

27. Intangible assets

For the year ended 31 December 2011	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Net carrying amount at the beginning of the period	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**
Taking control of a subsidiary	-	-	170	-	**170**
Purchases	-	16 226	-	192 367	**208 593**
Sales and disposals	-	(659)	-	(558)	**(1 217)**
Impairment allowances	-	-	(2 561)	-	**(2 561)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	2 363	-	-	**2 363**
Transfers	-	358 071	-	(358 071)	**-**
Amortisation	-	(206 598)	-	(4 474)	**(211 072)**
Other value changes	-	1 987	-	(292)	**1 695**
Net carrying amount at the end of the period	**3 486**	**1 450 693**	**227 349**	**118 480**	**1 800 008**
As at 1 January 2011 (at the beginning of the period)					
Purchase price (gross carrying amount)	3 486	2 479 718	344 695	397 155	**3 225 054**
Accumulated amortisation and impairment allowances	-	(1 200 415)	(114 955)	(107 647)	**(1 423 017)**
Net carrying amount	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**
As at 31 December 2011 (at the end of the period)					
Purchase price (gross carrying amount)	3 486	2 859 020	344 865	224 958	**3 432 329**
Accumulated amortisation and impairment allowances	-	(1 408 327)	(117 516)	(106 478)	**(1 632 321)**
Net carrying amount	**3 486**	**1 450 693**	**227 349**	**118 480**	**1 800 008**

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).

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

(in PLN thousand)

For the year ended 31 December 2010	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other. including capital expenditure	Total
Net carrying amount at the beginning of the period	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
Purchases	58	15 002	-	463 096	**478 156**
Sales and disposals	-	(252)	-	(4 927)	**(5 179)**
Impairment allowances	-	-	(35 193)	(2 644)	**(37 837)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	394	-	7	**401**
Transfers	-	240 132	-	(240 132)	**-**
Amortisation	-	(190 135)	-	(3 533)	**(193 668)**
Other changes of value	14	(16 290)	-	3 863	**(12 413)**
Net carrying amount at the end of the period	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**
As at 1 January 2010 (at the beginning of the period)					
Purchase price (gross carrying amount)	3 414	2 254 339	344 695	180 126	**2 782 574**
Accumulated amortisation and impairment allowances	-	(1 023 887)	(79 762)	(106 348)	**(1 209 997)**
Net carrying amount	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
As at 31 December 2010 (at the end of the period)					
Purchase price (gross carrying amount)	3 486	2 479 718	344 695	397 155	**3 225 054**
Accumulated amortisation and impairment allowances	-	(1 200 415)	(114 955)	(107 647)	**(1 423 017)**
Net carrying amount	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**

The Group produced independently patents and licences of PLN 1 084 thousand. In the period from 1 January 2011 to 31 December 2011, the Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 493 314 thousand (in the period from 1 January 2010 to 31 December 2010 PLN 630 492 thousand).

As at 31 December 2011 and as at 31 December 2010, there were no restrictions as regards the Group legal rights to intangible assets as cash flow hedges.

The table below presents data concerning goodwill included in the Group's financial statements as at 31 December 2011 and 31 December 2010.

Net goodwill	31.12.2011	31.12.2010
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	51 158	51 158
Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp.k.*	18 672	21 233
Centrum Finansowe Puławska Sp. z o.o. – in liquidation	7 785	7 785
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	170	-
Total	**227 349**	**229 740**

* the Company was established as a result of transformation of the company PKO BP Inwestycje – Nowy Wilanów Sp. z o.o.

As at 31 December 2011, the Group conducted mandatory goodwill impairment tests in accordance with the model developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of operations of particular entities.

The goodwill impairment testing model of PKO BP BANKOWY PTE SA was performed using the *embedded value* method, according to which the value in use of PKO Bank Polski SA's share was determined, the goodwill impairment testing model of Centrum Finansowe Puławska Sp. z o.o.– in liquidation was performed by assessing the liquidation value of the Company, and the goodwill impairment testing models for other companies were based on discounted future cash flows and on the condition of continued holding of the shares.

As a result of the above-mentioned testing, consistently with the previous year, goodwill impairment allowance was recognised as a result of purchasing shares in PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. (currently Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.) in the amount of PLN 2 561 thousand, i.e. in proportion to the disposed portion of cash generating units, to which the goodwill had been attributed (i.e. the project stage understood as an separate building or a complex of multi-apartment buildings constructed by the Company).

(in PLN thousand)

28. 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	**2 485 233**	**2 314 537**	**79 982**	**113 268**	**793**	**452 619**	**5 446 432**
Increases, of which:	**25 752**	**52 077**	**33 247**	**230 766**	**-**	**8 242**	**350 084**
Purchases and other changes	11 644	22 739	32 547	229 491	-	3 940	300 361
Currency translation differences	14 108	9 584	700	1 275	-	4 302	29 969
Other	-	19 754	-	-	-	-	19 754
Decreases, of which:	**(35 898)**	**(202 465)**	**(26 893)**	**(45 384)**	**-**	**(30 530)**	**(341 170)**
Disposals and sales	(24 612)	(202 465)	(4 351)	(11)	-	(28 423)	(259 862)
Other	(4 958)	-	(22 542)	(45 373)	-	(2 107)	(74 980)
Transfers from fixed assets to fixed assets held for trading	(6 328)	-	-	-	-	-	(6 328)
Transfers from capital expenditure on fixed assets	**39 872**	**98 615**	**3 251**	**(148 675)**	**-**	**6 937**	**-**
Gross value of tangible fixed assets at the end of the period	**2 514 959**	**2 262 764**	**89 587**	**149 975**	**793**	**437 268**	**5 455 346**
Accumulated depreciation as at the beginning of the period	**(761 303)**	**(1 711 094)**	**(32 279)**	**-**	**(534)**	**(346 343)**	**(2 851 553)**
Increases, of which:	**(80 628)**	**(192 268)**	**(14 018)**	**-**	**(11)**	**(34 711)**	**(321 636)**
Depreciation for the period	(76 289)	(186 931)	(13 521)	-	(11)	(32 337)	(309 089)
Currency translation differences	(2 346)	(5 337)	(497)	-	-	(2 374)	(10 554)
Other	(1 993)	-	-	-	-	-	(1 993)
Decreases, of which:	**18 454**	**200 420**	**20 005**	**-**	**-**	**26 669**	**265 548**
Disposal and sales	15 684	198 806	3 049	-	-	25 358	242 897
Other	777	1 614	16 956	-	-	1 311	20 658
Transfers from fixed assets to fixed assets held for trading	1 993	-	-	-	-	-	1 993
Accumulated depreciation at the end of the period	**(823 477)**	**(1 702 942)**	**(26 292)**	**-**	**(545)**	**(354 385)**	**(2 907 641)**
Impairment allowances at the beginning of the period	**(1 133)**	**(55)**	**-**	**(17 246)**	**-**	**-**	**(18 434)**
Increases, of which:	**(16)**	**(42)**	**(951)**	**(5 199)**	**-**	**-**	**(6 208)**
Other	(16)	(42)	(951)	(5 199)	-	-	(6 208)
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)**	**(95)**	**(951)**	**(5 199)**	**-**	**-**	**(6 388)**
Net carrying amount at the beginning of the period	**1 722 797**	**603 388**	**47 703**	**96 022**	**259**	**106 276**	**2 576 445**
Net carrying amount at the end of the period	**1 691 339**	**559 727**	**62 344**	**144 776**	**248**	**82 883**	**2 541 317**

As at 31 December 2011, the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases 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 Group'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	**2 444 010**	**2 430 397**	**72 073**	**207 251**	**731**	**454 305**	**5 608 767**
Increases, of which:	**4 009**	**42 828**	**20 092**	**126 967**	**118**	**5 392**	**199 406**
Purchases and other changes	1 834	40 643	19 903	124 578	118	4 034	191 110
Currency translation differences	2 175	2 185	189	2 389	-	1 358	8 296
Decreases, of which:	**(22 572)**	**(274 676)**	**(12 183)**	**(33 714)**	**(56)**	**(18 540)**	**(361 741)**
Disposals and sales	(15 820)	(246 740)	(3 647)	(97)	(56)	(14 806)	(281 166)
Other	(405)	(1 648)	(8 385)	(33 617)	-	(3 734)	(47 789)
Transfers from fixed assets to fixed assets held for trading	(6 347)	(26 288)	(151)	-	-	-	(32 786)
Transfers from capital expenditure on fixed assets	**59 786**	**115 988**	**-**	**(187 236)**	**-**	11 462	**-**
Gross value of tangible fixed assets at the end of the period	**2 485 233**	**2 314 537**	**79 982**	**113 268**	**793**	**452 619**	**5 446 432**
Accumulated depreciation as at the beginning of the period	**(693 034)**	**(1 778 135)**	**(27 233)**	**-**	**(409)**	**(330 406)**	**(2 829 217)**
Increases, of which:	**(83 217)**	**(205 336)**	**(12 587)**	**-**	**(126)**	**(32 503)**	**(333 769)**
Depreciation for the period	(82 525)	(191 587)	(12 495)	-	(126)	(31 918)	(318 651)
Currency translation differences	(471)	(851)	(85)	-	-	(559)	(1 966)
Other	(221)	(877)	(7)	-	-	(26)	(1 131)
Transfers from fixed assets to fixed assets held for trading	-	(12 021)	-	-	-	-	(12 021)
Decreases, of which:	**14 948**	**272 377**	**7 541**	**-**	**1**	**16 566**	**311 433**
Disposal and sales	13 265	245 701	2 115	-	1	13 282	274 364
Other	44	1 588	5 424	-	-	3 284	10 340
Transfers from fixed assets to fixed assets held for trading	1 639	25 088	2	-	-	-	26 729
Accumulated depreciation at the end of the period	**(761 303)**	**(1 711 094)**	**(32 279)**	**-**	**(534)**	**(346 343)**	**(2 851 553)**
Impairment allowances at the beginning of the period	**(1 163)**	**(685)**	**(8)**	**-**	**-**	**-**	**(1 856)**
Increases, of which:	**(149)**	**(12 023)**	**-**	**(17 246)**	**-**	**-**	**(29 418)**
Other	(149)	(2)	-	(17 246)	-	-	(17 397)
Transfers from fixed assets to fixed assets held for trading	-	(12 021)	-	-	-	-	(12 021)
Decreases, of which:	**179**	**12 653**	**8**	**-**	**-**	**-**	**12 840**
Other	179	632	8	-	-	-	819
Transfers from fixed assets to fixed assets held for trading	-	12 021	-	-	-	-	12 021
Impairment allowances at the end of the period	**(1 133)**	**(55)**	**-**	**(17 246)**	**-**	**-**	**(18 434)**
Net carrying amount at the beginning of the period	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**
Net carrying amount at the end of the period	1 722 797	603 388	47 703	96 022	259	106 276	2 576 445

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

(in PLN thousand)

Operating lease – lessor

As at the balance sheet date the total value of future lease receivables within minimal lease payment under operating lease are as follows:

Total value of future lease payments under non-cancellable operating lease	31.12.2011	31.12.2010
For the period:		
up to 1 year	11 172	4 326
from 1 year to 5 years	20 988	4 507
above 5 years	12 531	7 539
Total	**44 691**	**16 372**

The average agreement period for operating lease agreements where the Group is a lessor amounts to 36 months. The lessee bears service and insurance costs.

As at the balance sheet date the assets in lease under operating lease are as follows:

Means of transport	2011	2010
Gross value as at the beginning of the period	22 321	14 983
Changes in the period	1 217	7 338
Gross value at the end of the period	23 538	22 321
Accumulated depreciation as at the beginning of the period	(8 343)	(5 246)
Depreciation for the period	(6 025)	(3 553)
Other changes in depreciation	6 701	456
Impairment allowances as at the end of the period	(7 667)	(8 343)
Net book value	**15 871**	**13 978**

Investment properties	2011	2010
Gross value as at the beginning of the period	2 327	-
Changes in the period	6 780	2 327
Gross value at the end of the period	9 107	2 327
Accumulated depreciation as at the beginning of the period	(253)	-
Depreciation for the period	(48)	(55)
Other changes in depreciation	38	(198)
Impairment allowances as at the end of the period	(263)	(253)
Net book value	**8 844**	**2 074**

29. Other assets

	31.12.2011	31.12.2010
Accruals and prepayments	209 379	170 978
Settlements of payment cards transactions	161 552	204 677
Settlements of financial instruments	143 845	47 279
Trade receivables	87 995	86 592
Receivables from other transactions with financial, non-financial institutions	26 538	11 088
Receivables and settlements of investment securities turnover	1 730	8 020
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
Other*	96 747	68 815
Total	**737 270**	**613 881**
including financial assets**	431 144	374 088

* An item 'Other' includes i.a. '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' and 'Other'.

(in PLN thousand)

30. 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**

31. Amounts due to banks

	31.12.2011	31.12.2010
Loans and advances received	4 360 878	4 068 332
Bank deposits	1 372 635	973 072
Current accounts	422 707	44 379
Amounts due from repurchase agreement	-	54 446
Other money market deposits	82 944	93 646
Total	**6 239 164**	**5 233 875**

32. Amounts due to customers

	31.12.2011	31.12.2010
Amounts due to retail clients	**104 183 094**	**95 107 854**
Term deposits	55 523 745	48 398 185
Current accounts and overnight deposits	48 187 307	46 416 011
Other money market deposits	472 042	293 658
Amounts due to corporate entities	**38 468 560**	**31 826 551**
Term deposits	23 949 758	18 009 746
Current accounts and overnight deposits	11 399 925	11 264 473
Loans and advances received	1 988 013	1 856 819
Amounts due from repurchase agreement	644 005	446 175
Other money market deposits	486 859	249 338
Amounts due to state budget entities	**3 822 243**	**6 046 810**
Current accounts and overnight deposits	2 241 333	2 689 369
Term deposits	1 516 981	3 349 821
Other money market deposits	63 929	7 620
Total	**146 473 897**	**132 981 215**

	31.12.2011	31.12.2010
Amounts due to customers, of which:	**146 473 897**	**132 981 215**
retail and private banking	100 390 214	91 621 199
small and medium enterprises	9 163 920	8 860 939
housing market clients	5 410 622	5 087 626
corporate	28 780 730	24 973 332
loans and advances received	1 988 013	1 856 819
amounts due from repurchase agreement	644 005	446 175
other receivables	96 393	135 125
Total	**146 473 897**	**132 981 215**

(in PLN thousand)

33. Debt securities in issue

	31.12.2011	31.12.2010
Debt securities in issue		
Financial instruments measured at amortised cost	7 596 164	3 298 867
bonds issued by PKO Bank Polski SA	2 929 973	-
bonds issued by PKO Finance AB	4 476 996	3 187 766
bonds issued by BFL SA	189 195	111 101
Financial instruments designated at fair value through profit and loss	175 615	-
bank securities issued by PKO Bank Polski SA	175 615	-
Total	**7 771 779**	**3 298 867**

	31.12.2011	31.12.2010
Debt securities in issue by maturity:		
up to 1 month	9 957	24 901
from 1 month to 3 months	3 109 211	86 200
from 3 months to 1 year	41 311	23 389
from 1 year to 5 years*	4 611 300	3 164 377
Total	**7 771 779**	**3 298 867**

* As at 31 December 2011 significant items of debt securities in issue were Eurobonds in the nominal value of EUR 800 000 thousand and bonds in the nominal value of CHF 250 000 thousand (as at 31 December 2010 Eurobonds in the nominal value of EUR 800 000 thousand respectively).

In 2011 the Bank issued bank securities and bank bonds with 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.aG and measured at amortised cost. In 2011 bank securities and bank bonds in nominal amount of PLN 1 951 454 thousand were redeemed.

In 2011 BFL SA issued bonds with a nominal value of PLN 1 290 000 thousand and redeemed bonds with a nominal value of PLN 1 065 000 thousand. As at 31 December 2011, the Company's debt in respect of the bonds issued amounted to PLN 345 000 thousand (at nominal value) of which the debt due to the Bank amounted to PLN 191 070 thousand (at nominal value).

In 2011 PKO Finance AB issued bonds in CHF with a nominal value of CHF 250 000 thousand.

As at 31 December 2011, the average interest rate of securities issued by PKO Finance AB was 3.73% (as at 31 December 2010 – 3.73%) and by BFL – 6.11% (as at 31 December 2010 – 5.36%).

34. Subordinated liabilities

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

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 of repayment of interest	(84 527)	(82 590)
Subordinated liabilities as at the end of the period	**1 614 377**	**1 611 779**

35. Other liabilities

	31.12.2011	31.12.2010
Deferred income	305 372	345 302
Accounts payable	291 040	304 515
Other liabilities relating to:	**1 854 351**	**1 443 017**
interbank settlements	580 998	174 854
liabilities relating to settlements of security transactions	279 204	181 456
liabilities due to suppliers	195 740	162 137
liabilities relating to investment activities and internal operations	182 964	196 687
liabilities due to legal settlements	147 009	283 408
liabilities arising from foreign currency activities	140 546	131 849
financial instruments settlements	82 861	39 851
liabilities relating to payment cards	27 981	20 430
liabilities due to insurance companies	24 821	25 465
liabilities due to UOKiK (the Competition and Consumer Protection Office)	16 597	22 310
liabilities due to distribution of Treasury stamps	12 626	14 375
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	10 265	4 844
liabilities arising from transactions with financial and non-financial institutions	11 949	29 065
other*	140 790	156 286
Total	**2 450 763**	**2 092 834**
including financial liabilities**	1 857 592	1 307 838

* Item 'other' includes i.a. 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', 'Liabilities due to legal settlements' and 'Other'.

As at 31 December 2011 and 31 December 2010, none of the Group entities had overdue contractual liabilities.

36. 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:	**7 479**	**411 792**	**82 320**	**82 099**	**583 690**
Short term provision	**7 479**	**29 628**	**82 320**	**82 023**	**201 450**
Long term provision	**-**	**382 164**	**-**	**76**	**382 240**
Increase of provision	399	36 257	168 270	8 656	**213 582**
Use of provision	(114)	-	-	(2 274)	**(2 388)**
Release of provision	(4 126)	(19 750)	(138 905)	(13 224)	**(176 005)**
Currency translation differences	-	-	24	-	**24**
Other changes	-	-	261	-	**261**
As at 31 December 2011, of which:	**3 638**	**428 299**	**111 970**	**75 257**	**619 164**
Short term provision	**3 638**	**38 232**	**111 970**	**75 257**	**229 097**
Long term provision	**-**	**390 067**	**-**	**-**	**390 067**

*Included in 'Other provisions' is i.a.: 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:	**8 128**	**368 295**	**111 721**	**114 150**	**602 294**
Short term provision	**8 128**	**27 418**	**111 721**	**114 150**	**261 417**
Long term provision	**-**	**340 877**	**-**	**-**	**340 877**
Increase of provision	722	43 497	140 292	6 591	**191 102**
Use of provision	(1 034)	-	2	(3 466)	**(4 498)**
Release of provision	(337)	-	(169 764)	(35 696)	**(205 797)**
Currency translation differences	-	-	69	-	**69**
Other changes	-	-	-	520	**520**
As at 31 December 2010, of which:	**7 479**	**411 792**	**82 320**	**82 099**	**583 690**
Short term provision	**7 479**	**29 628**	**82 320**	**82 023**	**201 450**
Long term provision	**-**	**382 164**	**-**	**76**	**382 240**

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

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

37. 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). Issued shares of PKO Bank Polski SA are not preferred shares.

As at 31 December 2011 and as at 31 December 2010, the subsidiaries, jointly controlled entities and associates of the Bank did not hold shares of PKO Bank Polski SA.

Information on the shareholders of PKO Bank Polski SA is presented in Note 1 'General information'.

(in PLN thousand)

38. Other capital

	31.12.2011	31.12.2010
Other capital, of which:		
Reserve capital	13 041 390	12 212 177
Other reserves	3 460 368	3 412 239
General banking risk fund	1 070 000	1 070 000
Total other reserves	**17 571 758**	**16 694 416**
Share in other comprehensive income of an associate	(257)	976
Financial assets available for sale	(52 422)	(25 171)
Cash flow hedges	362 185	217 924
Total other capital from comprehensive income	**309 506**	**193 729**
Total other capital	**17 881 264**	**16 888 145**

OTHER NOTES

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

As at 31 December 2011 and as at 31 December 2010, the Group 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.

40. Pledged assets

The Group had the following pledged assets:

40.1. 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).

40.2. 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

40.3. 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.

40.4. Guarantee Fund for the Settlement of Stock Exchange Transactions

Cash pledged as collateral for securities' transactions conducted by Dom Maklerski PKO BP SA (Brokerage House) 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

(in PLN thousand)

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.

41. Contingent liabilities

Underwriting programs

As at 31 December 2011, the Group's underwriting agreements covered the following securities (maximum liability of the Group 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 Group's underwriting agreements covered the following securities (maximum liability of the Group 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 Group 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 thousand (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	1 144 993	752 074
Non-financial entities	28 486 768	27 747 336
State budged entities	823 897	1 005 614
Total	**30 455 658**	**29 505 024**
of which: irrevocable loan commitments	5 946 055	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	6 053 115	4 792 355
Non-financial entities	207 156	2 234 228
State budged entities	174 459	253 771
Total	**6 434 730**	**7 280 354**

In the years ended 31 December 2011 and 31 December 2010, the Bank and its subsidiaries 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 Group's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 36 '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	15 573 751	936 775	4 677 249	3 930 378	5 337 505	**30 455 658**
Guarantee liabilities issued	102 848	80 264	1 776 447	3 962 200	512 971	**6 434 730**
Total	**15 676 599**	**1 017 039**	**6 453 696**	**7 892 578**	**5 850 476**	**36 890 388**

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	16 631 759	314 035	3 994 998	2 923 109	5 641 123	**29 505 024**
Guarantee liabilities issued	1 649 878	974 119	1 828 614	2 550 325	277 418	**7 280 354**
Total	**18 281 637**	**1 288 154**	**5 823 612**	**5 473 434**	**5 918 541**	**36 785 378**

Off-balance sheet liabilities received (by nominal amount)

	31.12.2011	31.12.2010
Financial	883 117	403 874
Guarantees	1 918 281	2 228 815
Total	**2 801 398**	**2 632 689**

Assets pledged as collateral for contingent liabilities

As at 31 December 2011 and as at 31 December 2010 the Group had no assets pledged as collateral for contingent liabilities.

Right to sell or pledge collateral established for the Group

As at 31 December 2011 and as at 31 December 2010, there was no collateral established for the Group which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

42. Legal claims

As at 31 December 2011, the total value of court proceedings in which the PKO Bank Polski SA Group's entities are a defendant was PLN 428 623 thousand, of which PLN 79 202 thousand refers to court proceedings in Ukraine (as at 31 December 2010 the total value of above mentioned court proceedings was PLN 315 447 thousand), while the total value of court proceedings in which the Group's entities are the plaintiff was PLN 698 971 thousand, of which PLN 417 673 thousand referred to court proceedings in Ukraine, mainly related to collection of dues from loan agreements granted by KREDOBANK SA, (as at 31 December 2010 the total value of above mentioned court proceedings was PLN 312 731 thousand).

The most significant legal claims of the Group 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 above-mentioned amount.

b) legal claims in KREDOBANK SA

KREDOBANK SA is party to a court dispute with its Client who defaulted on a loan. On 31 January 2011 KREDOBANK SA instigated court proceedings against the above-mentioned Client in connection with the commencement of collection of loan dues, as a result of which the Client filed a counter-claim against KREDOBANK SA for annulling the loan agreements and collateral agreements.

The court accepted the client's claim and determined the loan agreements invalid, in effect the Client is obliged to return to KREDOBANK SA the amount of loan received (UAH 40 860 thousand, i.e. PLN 17 386 thousand at the average NBP rate at the end of 2011), and KREDOBANK SA is obliged to return to the Client the amount of interest received (UAH 4 506.6 thousand, i.e. PLN 1 918 thousand at the average NBP rate at the end of 2011). The amounts due from the Customer were covered in the books of KREDOBANK SA by a 100% impairment allowance. In December 2011, the above-mentioned loan was transferred to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and as at 31 December 2011 a 100% impairment allowance was recorded against this impaired loan.

KREDOBANK SA is considering filing a motion for cassation to the Supreme Court of the Ukraine and for sending the case for reconsideration.

At the same time, having obtained a favourable court verdict, on 31 October 2011 the Client filed a claim against KREDOBANK SA for compensation for direct losses, loss of profits and moral losses. The claim is for the amount of UAH 185 million (i.e. PLN 79 million at the average NBP rate at the end of 2011). Court proceedings are pending on the case.

As at 31 December 2011 the Group did not recognise the provision for the above mentioned compensation claim.

c) re-privatisation claims relating to properties held by the Group

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 and one administrative proceeding concerning a property acquired by the Bank in liquidation process of Centrum Finansowe Puławska Sp. z o.o. – in liquidation. These proceedings, in the event of an unfavourable outcome may result in re-privatisation claims 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 as regards stating the invalidity of decisions and verdicts of public administration bodies, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties of the Bank claims were submitted by their former owners (court proceedings are pending).

(in PLN thousand)

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.

43. Supplementary information to the consolidated 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 three months from the date of acquisition.

	31.12.2011	31.12.2010
Cash and balances with the central bank	9 142 168	6 182 412
Current receivables from banks	2 280 802	2 256 269
Total	**11 422 970**	**8 438 681**

Cash flow from interests and dividends, both received and paid

Interest income - received	2011	2010
Income from loans and advances to customers	8 267 884	7 139 112
Income from securities designated upon initial recognition at fair value through profit and loss	596 387	473 267
Income from investment securities	469 357	513 639
Income from placements	237 962	164 434
Income from trading securities	74 675	133 245
Other interest received	1 395 908	2 596 549
Total	**11 042 173**	**11 020 246**

Interest expense – paid	2011	2010
Interest expense on deposits - paid	(2 899 239)	(3 111 424)
Interest expense on loans and advances - paid	(183 479)	(70 829)
Interest expense on debt securities in issue - paid	(109 020)	(101 423)
Other interest paid (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(1 117 954)	(1 408 249)
Total	**(4 309 692)**	**(4 691 925)**

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**

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

(in PLN thousand)

Cash flow from operating activity – other adjustments

	2011	2010
Interest accrued, discount, premium on debt securities	(181 116)	(476 475)
Hedge accounting	144 261	98 648
Valuation, impairment allowances for investments in jointly controlled entities and associates	54 009	53 468
Currency translation differences from foreign operations	16 894	(1 211)
Disposal and impairment allowances for tangible fixed assets and intangible assets	4 077	73 142
Total	**38 125**	**(252 428)**

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)
Interest paid from loans granted, presented in financing activities	33 336	23 630
Dividends received, presented under investing activities	(6 528)	(5 411)
Total	**(423 475)**	**(413 827)**

Change in amounts due from banks	**2011**	**2010**
Change in the balance of the statement of financial position	(89 195)	(283 977)
Change in impairment allowances on amounts due from banks	(3 887)	(1 816)
Exclusion of a change in the balance of cash and cash equivalents	24 533	358 226
Total	**(68 549)**	**72 433**

Change in loans and advances to customers	**2011**	**2010**
Change in the balance of the statement of financial position	(10 966 375)	(14 095 534)
Change in impairment allowances on amounts due from customers	(801 573)	(919 546)
Total	**(11 767 948)**	**(15 015 080)**

Change in amounts due to banks	**2011**	**2010**
Change in the balance of the statement of financial position	1 005 373	84 616
Transfer of loans and advances received from banks/repayment of these loans and advances - to financing activities	194 374	(16 763)
Total	**1 199 747**	**67 853**

Change in amounts due to customers	**2011**	**2010**
Change in the balance of the statement of financial position	13 492 682	7 908 281
Transfer of loans and advances received from other than banks financial entities/repayment of these loans and advances - to financing activities	56 017	(408 967)
Total	**13 548 699**	**7 499 314**

(in PLN thousand)

Change in impairment allowances and provisions	2011	2010
Change in the balance of the statement of financial position	35 474	(18 604)
Change in impairment allowances on amounts due from customers	801 573	919 546
Change in impairment allowances on amounts due from banks	3 887	1 816
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	27 441	20 390
Total	**868 375**	**923 148**

Change in other liabilities and subordinated liabilities	2011	2010
Change in the balance of the statement of financial position	360 527	526 211
Transfer of repayment of interest on loans and advances to non-financial entities, presented in financing activities	49 226	39 332
Transfer of interest paid on debt securities in issue	108 743	82 590
Total	**518 496**	**648 133**

44. Transactions with the State Treasury and related entities

The State Treasury has control over the parent entity of the Group 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 Group's statement of financial position.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing 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 housing loans.

	2011	2010
Income due to temporary redemption by the State budget of interest on housing 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 housing 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 housing 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 housing 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' housing 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 housing loans.

	2011	2010
Fee and commission income	4 578	6 590

(in PLN thousand)

As of 1 January 1996 the Bank became the general distributor of court fee stamps. 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 the agreement signed between the Ministry of Finance as the issuer and PKO Bank Polski SA 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 31 December 2010, no significant impairment allowances were recognised for above-mentioned receivables.

(in PLN thousand)

45. Related party transactions

Transactions of the parent company with jointly controlled entities and associates valued with the equity method

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

31 December 2011

Entity	Net receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interes 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
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	-	-	-
Kamienica Morska Sp. z o.o.	-	-	-	13	13	-	-	-
Kolej Gondolowa 'Jaworzyna Krynicka' SA	8 479	8 479	217	479	479	58	58	2 976
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	-
Sopot Zdrój Sp. z o.o.	235 466	235 466	3 318	7 322	7 322	71	71	-
Total	**326 732**	**326 732**	**38 868**	**11 378**	**10 666**	**4 974**	**2 417**	**27 950**

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

31 December 2010

Entity	Net receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interes 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
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	-
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
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	-	-	-
Sopot Zdrój Sp. z o.o.	209 785	209 785	4 049	5 617	5 617	60	60	-
TOTAL	**290 274**	**290 213**	**51 242**	**8 405**	**7 761**	**5 318**	**1 338**	**9 705**

46. 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.

47. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits*

Remuneration received from PKO Bank Polski SA

Short-term employee benefits	2011	2010
The Management Board of the Bank	10 937	6 831
The Supervisory Board of the Bank	1 088	621
Total	**12 025**	**7 452**

*Includes remuneration from the Bank and the Bank's subsidiaries, unless stated otherwise.
** Includes remuneration from associates in the amount of PLN 15 thousand.
*** Includes remuneration from associates in the amount of PLN 46 thousand.

(in PLN thousand)

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

Short-term employee benefits	2011	2010
The Management Board of the Bank	47	137
Total	**47** **	**137** ***

b) post-employment benefits

As at 31 December 2011 and 31 December 2010 no post-employment benefits were granted.

c) other long-term benefits

As at 31 December 2011 and 31 December 2010 no 'other long-term benefits' were granted.

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

As at 31 December 2011 and 31 December 2010 no benefits were granted in the form of share-based payments.

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

	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-mentioned items are set at arm's length.

Remuneration received by members of the Management Board and the Supervisory Board of the PKO Bank Polski SA Group subsidiaries

Short-term employee benefits	2011	2010
The Management Board	19 753	14 099
The Supervisory Board	173	539
Total	**19 926**	**14 638**

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

In 2011 the following events, concerning subsidiaries (direct and indirect), 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 directly holds 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. in the total amount of PLN 6 600 thousand was registered with 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. in the total amount of PLN 12 700 thousand was registered with 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 of the company Bankowy Leasing Sp. z o.o.

On 30 December 2011 with the National Court Register was registered:

- the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 15 414.5 thousand by the share issue, which were granted to Bankowy Fundusz Leasingowy SA as a sole shareholder of 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 assets 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 divides on 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: on 27 January in the amount of PLN 1 000 thousand and on 9 May in the 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 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, whereby 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 appearing 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 part of above-mentioned actions:

– Qualia Sp. z o.o. was formed (the Company was registered with 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 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 one 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 change 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 with 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 with 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 with 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 with 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 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. The Company was registered with the National Court Register on 4 January 2012. The company was included in the consolidated financial statements of the PKO Bank Polski SA Group for the year 2011. 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 completing 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 with 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 with 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 seat in Kiev from Kompania Finansowa 'Centrum Usług Faktoringowych' 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. 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).

Receivables 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 co-subsidiaries and associates:

- On 28 September 2011, a decrease in the share capital of Centrum Majkowskiego Sp. z o.o. was registered with the National Court Register. The company is a subsidiary of Centrum Haffnera Sp. z o.o. (a co-subsidiary 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 with the National Court Register on 10 January 2012.

49. 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.

49.1. 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 Group classifies financial assets and liabilities to the following categories:

1) **Level 1:** Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Group 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 whose 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 Group classified to that category the following items:
   - debt securities valuated to the curve or those whose price comes from Bloomberg platform or brokerage 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,
   - securities issued by Ministry of Finance of Ukraine in KREDOBANK SA portfolio,
   - derivative instruments.
3) **Level 3:** Financial assets and liabilities whose fair value is determined with use of valuation models, for which available data is not derived from observable markets. The Group classified to this category shares not quoted on Warsaw Stock Exchange (WSE), equity securities portfolio and debt securities portfolio of KREDOBANK SA.

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

(in PLN thousand)

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

Assets and liabilities valued at fair value as at 31.12.2011	Note	Carrying amount	Level 1 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets	19	**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	20	**3 064 733**	**5 066**	**3 059 667**	**-**
Hedging instruments		516 925	-	516 925	-
Trade instruments		2 547 808	5 066	2 542 742	-
Financial assets designated upon initial recognition at fair value through profit and loss	22	**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	24	**14 393 276**	**8 465 685**	**5 891 671**	**35 920**
Debt securities		14 307 525	8 415 854	5 891 671	-
Equity securities		85 751	49 831	-	35 920
Financial assets at fair value - total		**31 236 299**	**11 050 716**	**20 149 663**	**35 920**
Derivative financial instruments	20	**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	33	**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 19)	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 22)	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 24)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	14 307 525	8 415 854	5 891 671	-
Treasury bonds PLN	8 414 865	8 414 865	-	-
Treasury bonds EUR	11 720	-	11 720	-
Treasury bonds UAH	220 793	-	220 793	-
Treasury bonds USD	30 661	-	30 661	-
Municipal bonds	3 458 356	-	3 458 356	-
Corporate bonds	2 170 141	-	2 170 141	-
Treasury bills	989	989	-	-
Equity securities	85 751	49 831	-	35 920
TOTAL	**14 393 276**	**8 465 685**	**5 891 671**	**35 920**

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into three 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 the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	**19**	**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	**20**	**1 719 085**	**718**	**1 718 367**	**-**
Hedging instruments		153 921	-	153 921	-
Trade instruments		1 565 164	718	1 564 446	-
Financial assets designated upon initial recognition at fair value through profit and loss	**22**	**10 758 331**	**3 048 210**	**7 710 121**	**-**
Debt securities		10 758 331	3 048 210	7 710 121	-
Investment securities available for sale	**24**	**10 219 400**	**5 746 686**	**4 463 428**	**9 286**
Debt securities		10 123 419	5 659 991	4 463 428	-
Equity securities		95 981	86 695	-	9 286
Financial assets at fair value - total		**24 200 465**	**10 244 429**	**13 946 750**	**9 286**
Derivative financial instruments	**20**				**-**
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 19)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 491 053	1 436 219	54 834	-
Treasury bills	-	-	-	-
Treasury bonds	1 483 144	1 428 310	54 834	-
Corporate bonds	519	519	-	-
Municipal bonds	7 390	7 390	-	-
BGK bonds	-	-	-	-
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 22)	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**	**-**

(in PLN thousand)

Investment securities available for sale as at 31.12.2010 (Note 24)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	10 123 419	5 659 991	4 463 428	-
Treasury bonds PLN	5 636 357	5 636 357	-	-
Treasury bonds EUR	-	-	-	-
Treasury bonds UAH	153 323	-	153 323	-
Treasury bonds USD	-	-	-	-
Municipal bonds	2 824 173	-	2 824 173	-
Corporate bonds	1 485 932	-	1 485 932	-
Treasury bills	23 634	23 634	-	-
Equity securities	95 981	86 695	-	9 286
TOTAL	**10 219 400**	**5 746 686**	**4 463 428**	**9 286**

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 at fair value divided into a three-level hierarchy (1 January 2011 - 31 December 2011):

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
Opening balance as at 1 January 2011	**-**	**9 286**	**9 286**
Total gains or losses	3 628	3 994	7 622
in financial result	3 628	3 994	7 622
Purchase	-	25 900	25 900
Sales	(3 628)	(3 260)	(6 888)
Closing balance as at 31 December 2011	**-**	**35 920**	**35 920**
Total gains or losses for the period in the financial result for assets held at the end of the period	**3 628**	**3 994**	**7 622**

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
Opening balance as at 1 January 2010	**4 159**	**7 846**	**12 005**
Total gains or losses	(3 885)	1 182	(2 703)
in financial result	(3 885)	262	(3 623)
total in other comprehensive income	-	920	920
Purchase	-	4 950	4 950
Sales	(274)	(3 663)	(3 937)
Transfer to or from level 3	-	(1 029)	(1 029)
Closing balance as at 31 December 2010	**-**	**9 286**	**9 286**
Total gains or losses for the period in the financial result for assets held at the end of the period	**(3 885)**	**262**	**(3 623)**

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

The Group holds certain financial instruments which are not stated 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 using various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates. All models 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 value.

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 applies to following groups of financial instruments:

- loans and advances to customers: 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 housing plan passbooks and bills of savings,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans and advances granted and taken on interbank market at a variable interest rate (change of interest rate maximum on a three month basis),
- cash and balances with the Central Bank and amounts due to the Central Bank,
- other financial assets and liabilities,
- debt securities in issue (at variable interest rate), issued by KREDOBANK and BFL.

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

The fair value of deposits and other amounts due to customers other than banks, with specified maturities, has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products.

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

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

The fair value of debt securities issued by PKO Finance AB has been estimated using Bloomberg data.

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.

Receivables on financial lease have been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance sheet date.

(in PLN thousand)

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the Group's statement of financial positions 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	9 142 168	9 142 168	6 182 412	6 182 412
Amounts due from banks	2 396 227	2 395 600	2 307 032	2 310 677
Loans and advances to customers	141 634 494	134 828 126	130 668 119	132 354 672
corporate loans	48 929 163	47 334 318	44 842 815	45 730 364
consumer loans	22 872 908	22 444 892	24 129 437	24 276 727
mortgage loans	69 832 423	65 048 916	61 695 867	62 347 581
Other financial assets	431 144	431 144	374 088	374 088
Amounts due to the central bank	3 454	3 454	3 370	3 370
Amounts due to banks	6 239 164	6 234 511	5 233 875	5 233 592
Amounts due to customers	146 473 897	146 495 779	132 981 215	132 769 766
due to corporate entities	38 468 560	38 468 586	31 826 551	31 617 979
due to state budget entities	3 822 243	3 822 243	6 046 810	6 046 896
due to retail clients	104 183 094	104 204 950	95 107 854	95 104 891
Debt securities in issue	7 771 779	7 773 693	3 298 867	3 298 867
Subordinated liabilities	1 614 377	1 618 446	1 611 779	1 617 238
Other financial liabilities	1 857 592	1 857 592	1 307 838	1 307 838

50. 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.

51. Sale of impaired loan portfolios

The Group did not enter any securitisation transactions, although:

- in 2010, the Bank performed a bundle sale of 120 thousand retail receivables classified as 'loss' in relation to individuals who do not conduct business activities. The debt portfolio 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 bundle 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 subsequent bundle sales were carried 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 the provision for potential claims on impaired loans portfolios sold as at 31 December 2011 amounted to PLN 3 945 thousand (as at 31 December 2010 it was PLN 11 430 thousand). The Bank did not receive any securities on account of the above-mentioned transactions.

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

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

53. Influence of macroeconomic situation on the Group'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 Group 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 złoty 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 Group 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 Group 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 Group's financial statements.

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

In 2011, the Group 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.

High financial results have been achieved with considerable growth dynamics of net interest income compared with the previous 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 Group 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 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

54. Risk management in the Group

Risk management is one the most important internal processes both in PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group. 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.

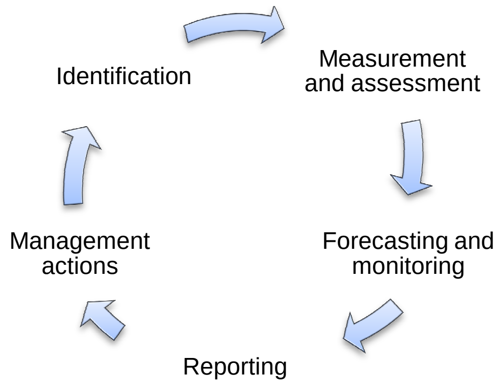
At the PKO Bank Polski SA Group the following types of risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk) and reputation 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 the Group 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 Group. Within the risk identification process, types of risk perceived as material in the banking activity, the entities of the Group and the whole Group's 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.



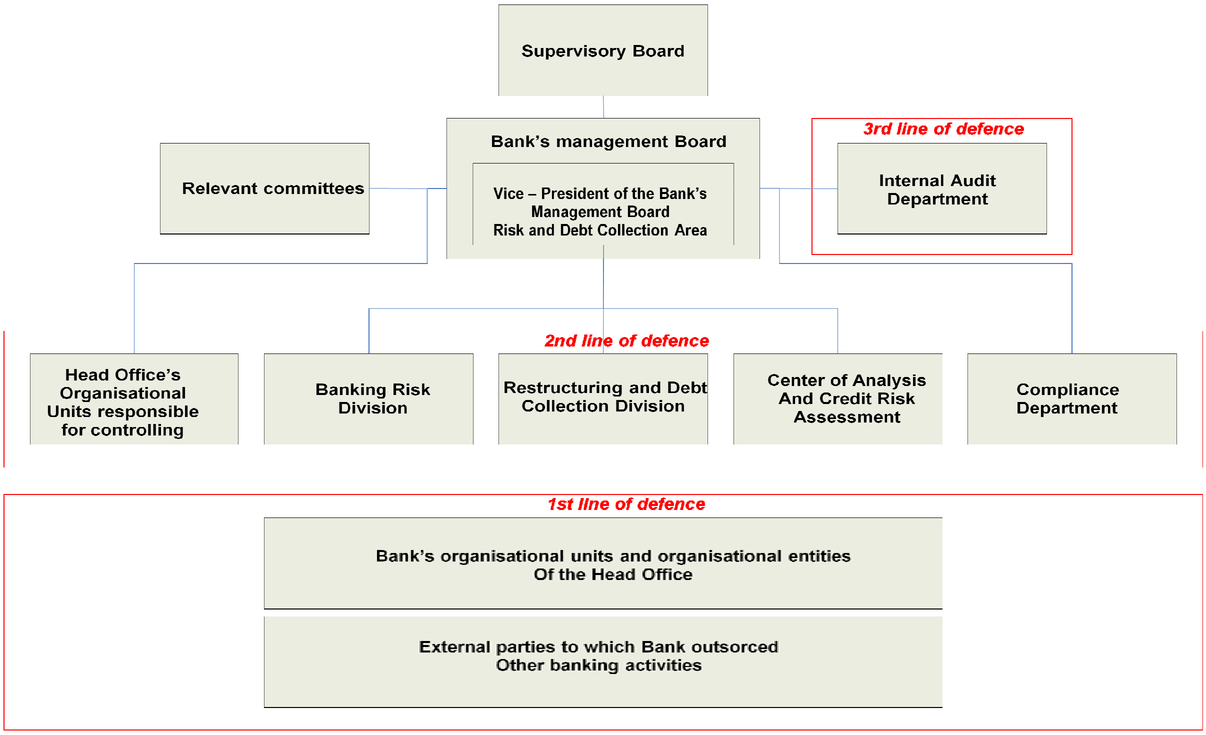
Risk management in the Group is based specially on the following principles:

- the Group manages all of the identified types of banking risk,
- the risk level is monitored on a current basis,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the risk management process supports the pursuit of the Group'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 Bank as well as of the PKO Bank Polski SA Group and the most important activities taken in the area of risk management.

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

The first line of defence is being performed in the organisational units of the Bank, the organisational units of the Head Office and entities of the Group and concerns the activities of those units and entities which may generate risk. The units, cells and entities of the Group 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. At the same time the Group's entities are obliged to have comparable and cohesive systems of risk control in the bank and in the Group's entities, taking into account the specific business characteristic of each entity and market conditions.

The second line of defence is being performed, 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 being performed 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 (*Centrum Analiz i Oceny Ryzyka Kredytowego*) 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),
- the Operating Risk Committee (ORC),
- credit committees which operate in the regional retail and corporate branch offices.

The 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.

The 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. The 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, inter alia, 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.

Moreover, ORC prepares operating risk management recommendations for member companies of the PKO Bank Polski SA Group, which are submitted to the Group's entities as part of the Bank's corporate governance.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

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

PKO Bank Polski SA's top priority is to maintain its strong capital position and to further increase 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 the consent of the Polish Financial Supervision Authority (PFSA) for applying statistical methods to calculate capital requirements for operating risk (AMA) as of 30 June 2011, with temporary limitation (until the elimination of the PFSA conditions) on a decrease in capital requirements no more than to the level of 75% of the requirement calculated by the standardised approach.

Moreover, in 2011 the PKO Bank Polski Group participated in a stress tests organised by EBA (European Banking Authority). The test results confirmed the Group's strong equity position and significant resistence to potential negative market scenarios.

In 2011, actions were carried out in relation to the development of the credit risk measurement methodology in KREDOBANK SA aimed at adapting the solutions to IAS. Active efforts were also made to automate the crediting process, including the assessment of the credit risk by adapting and implementing a system analogical to the application used by PKO Bank Polski SA. Additionally, internal regulations related to the process of crediting individuals and legal entities were updated.

In 2011 actions started in the Bankowy Fundusz Leasingowy SA Group on amending the 'Procedures for assessing the risk of lease transactions and the scoring methodology, and reconstruction of the decision-making process'. These together with the new IT system are planned to be implemented in 2012.

54.1. Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's and Group's entities 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, Group's entities and whole Group'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 or Group 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. Similar assessment is concluded periodically in the Group's entities. Monitoring is conducted if significant change in activities took place or the profile of the Bank or the Group changed.

55. 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 and subsidiaries of the Group apply the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons, within their authority,
- credit risk is diversified by geographical location, by industry, by product and by clients,
- expected credit risk is mitigated by setting 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.

The Group entities, which have significant credit risk levels (KREDOBANK SA, the BFL SA Group, the BTK SA Group) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

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

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

KREDOBANK SA, the BFL SA Group and the BTK Group have units responsible for risk in their organisational structures, which are in particular responsible for:

- developing methods of credit risk assessment, recognising provisions and allowances,
- controlling and monitoring credit risk during the lending process,
- the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making at KREDOBANK SA, the BFL SA Group and the BTK SA Group is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group companies by giving their opinions on projects and periodically reviewing internal regulations of these companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

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

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

The portfolio credit risk measurement methods make it possible, i.e. 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,
- 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 acquisition the 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. Since 1 September 2010, Bank uses a scoring method for credit risk evaluation of clients in the SME segment, and a dedicated software application. 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.

(in PLN thousand)

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 the second half of 2011, in determining the write-downs against 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

The Group's exposure to credit risk

Amounts due from banks	Exposure	
	31.12.2011	31.12.2010
Amounts due from banks impaired, of which:	32 499	28 559
valued with an individual method	32 385	28 089
Amounts due from banks not impaired, of which:	2 396 540	2 307 398
neither past due nor impaired	2 396 540	2 307 047
past due but not impaired	-	351
past due up to 4 days	-	351
Gross total	**2 429 039**	**2 335 957**
Impairment allowances	**(32 812)**	**(28 925)**
Net total by carrying amount	**2 396 227**	**2 307 032**

(in PLN thousand)

Loans and advances to customers	Exposure 31.12.2011	Exposure 31.12.2010
Loans and advances impaired, of which:	11 797 232	10 887 174
valued with an individual method	5 701 547	5 899 231
Loans and advances not impaired, of which:	135 495 505	124 637 615
neither past due nor impaired	131 488 230	120 260 937
past due but not impaired	4 007 275	4 376 678
past due up to 4 days	855 403	2 027 160
past due over 4 days	3 151 872	2 349 518
Gross total	**147 292 737**	**135 524 789**
Impairment allowances	**(5 658 243)**	**(4 856 670)**
Net total by carrying amount	**141 634 494**	**130 668 119**

Investment securities available for sale – debt securities	Exposure 31.12.2011	Exposure 31.12.2010
Debt securities impaired, of which:	17 944	21 259
Valued with an individual method	17 944	21 259
Debt securities not impaired, of which:	14 307 525	10 123 419
neither past due nor impaired	14 307 525	10 123 419
with external rating	8 729 898	5 864 172
with internal rating	5 577 627	4 259 247
Gross total	**14 325 469**	**10 144 678**
Impairment allowances	**(17 944)**	**(21 259)**
Net total by carrying amount	**14 307 525**	**10 123 419**

Other assets – other financial assets	Exposure 31.12.2011	Exposure 31.12.2010
Other assets impaired	110 826	137 213
Other assets not impaired	421 244	367 098
neither past due nor impaired	420 251	366 806
past due but not impaired	993	292
Gross total	**532 070**	**504 311**
Impairment allowances	**(100 926)**	**(130 223)**
Net total by carrying amount	**431 144**	**374 088**

(in PLN thousand)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Group 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	**2 396 227**	**2 307 032**
Trading assets – debt securities	**1 300 164**	**1 491 053**
issued by the State Treasury	1 268 471	1 483 144
issued by local government bodies	14 783	7 390
issued by banks	1 724	-
issued by financial institutions	239	10
issued by non-financial institutions	14 947	509
Derivative financial instruments	**3 064 733**	**1 719 085**
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	**141 634 494**	**130 668 119**
financial entities (other than banks)	1 215 310	2 972 158
corporate loans	*1 215 310*	*2 972 158*
non-financial entities	135 368 534	123 858 597
consumer loans	*22 872 908*	*24 129 437*
mortgage loans	*69 832 423*	*61 695 223*
corporate loans	*42 663 203*	*38 033 937*
state budget entities	5 050 650	3 837 364
corporate loans	5 050 650	3 836 720
mortgage loans	-	644
Investment securities - debt securities	**14 307 525**	**10 123 419**
issued by banks	50 870	50 858
issued by non-financial institutions	2 119 271	1 435 074
issued by the State Treasury	8 679 028	5 813 314
issued by local government bodies	3 458 356	2 824 173
Other assets - other financial assets	**431 144**	**374 088**
Total	**182 447 247**	**161 223 844**

Off-balance sheet items	31.12.2011	31.12.2010
Irrevocable liabilities granted	5 946 055	7 001 338
Guarantees granted	4 939 669	4 554 377
Letters of credit granted	420 376	229 946
Guarantees of issue (underwriting)	1 074 685	2 496 031
Total	**12 380 785**	**14 281 692**

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

Taking the type of Group's business activity and the amount of credit and leasing debts into consideration, the most important portfolios are managed by the Bank and Bankowy Fundusz Leasingowy SA. Information about credit quality of loans granted by the Bank and BFL SA Group is presented below.

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).

(in PLN thousand)

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).

Financial assets neither past due nor impaired	31.12.2011	31.12.2010
Amounts due from banks	**2 396 540**	**2 307 047**
of which:		
with rating	2 072 322	2 215 818
without rating	324 218	91 229
Loans and advances to customers	**131 488 230**	**120 260 937**
with rating	123 173 721	115 489 715
without rating	8 314 509	4 771 222
PKO Bank Polski SA	**128 593 307**	**118 036 993**
with rating – financial, non-financial and budget sector (corporate loans)	38 595 846	36 648 989
A (first rate)	1 269 043	1 053 966
B (very good)	2 377 152	2 683 977
C (good)	4 248 073	6 165 665
D (satisfactory)	8 937 711	10 691 018
E (average)	9 791 398	7 460 009
F (acceptable)	9 244 208	8 594 354
G (poor)*	2 728 261	-
with rating – non-financial sector (consumer and mortgage loans)	83 438 089	77 811 902
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	4 377 072
without rating – financial, non-financial and budget sector (consumer, mortgage and other loans)	6 559 372	3 576 102
The BFL SA Group	**2 307 463**	**1 858 253**
with rating	1 139 786	1 028 824
A2 (first rate)	4 574	2 858
A3 (very good)	71 872	109 326
A4 (good)	147 577	132 142
A5 (satisfactory)	354 505	284 998
A6 (average)	477 485	391 914
B1 (acceptable)	61 132	94 634
B2 (poor)	19 117	12 065
C (bad)	3 524	887
without rating	1 167 677	829 429
without rating – customers of non-financial and financial sector of other entities of the PKO Bank Polski SA Group	587 460	365 691
Other assets – other financial assets	**420 251**	**366 806**
Total	**134 305 021**	**122 934 790**

* 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 this 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.

(in PLN thousand)

Structure of debt securities and inter-bank deposits, 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**

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+	8 427 574	-	5 659 991	-
BBB- to BBB+	-	50 870	-	50 858
rated differently in entities of the Group	251 454	-	153 323	-
Total	8 679 028	50 870	5 813 314	50 858

Amounts due from banks

Rating/portfolio	31.12.2011	31.12.2010
AAA	8 308	-
AA - to AA+	342 293	521 466
A - to A+	1 544 092	1 292 018
BBB - to BBB+	135 914	350 470
BB - to BB+	108	2 066
B - to B+	35 898	43 685
without rating	324 218	91 229
rated differently in entities of the Group	5 709	6 113
Total	2 396 540	2 307 047

(in PLN thousand)

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	951 813
F (acceptable)	602 792	573 439
G (poor)	84 180	215 261
H (bad)	203 514	-
Total	**5 577 627**	**4 259 247**

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

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 Group

The Group 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 Group 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.

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank, which has an influence upon the Group. 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 concentration limit, which is 25% of the Bank's own consolidated 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 in Group with respect to individual exposures was low – the largest exposure to a single entity was equal to 9.2% and 7.7% of the Bank’s own consolidated funds.

Among 20 largest borrowers of the Group there are exclusively clients of PKO Bank Polski SA.

(in PLN thousand)

Total exposure of the Group 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	0.85%	1.	736 873	0.54%
2.	541 970	0.37%	2.	464 247	0.34%
3.	484 761	0.33%	3.	350 441	0.26%
4.	399 939	0.27%	4.	334 671	0.25%
5.	342 022	0.23%	5.	326 815	0.24%
6.	325 542	0.22%	6.	297 702	0.22%
7.	323 299	0.22%	7.	287 418	0.21%
8.	313 271	0.21%	8.	281 790	0.21%
9.	294 361	0.20%	9.	256 297	0.19%
10.	293 060	0.20%	10.	250 000	0.18%
11.	262 785	0.18%	11.	243 947	0.18%
12.	244 256	0.17%	12.	230 999	0.17%
13.	237 574	0.16%	13.	229 921	0.17%
14.	236 898	0.16%	14.	223 904	0.17%
15.	235 466	0.16%	15.	218 157	0.16%
16.	220 566	0.15%	16.	214 447	0.16%
17.	213 811	0.15%	17.	212 636	0.16%
18.	212 868	0.14%	18.	209 785	0.15%
19.	206 108	0.14%	19.	199 078	0.15%
20.	203 980	0.14%	20.	195 894	0.14%
Total	**6 850 809**	**4.65%**	**Total**	**5 765 022**	**4.25%**

* 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 by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a group of borrowers amounted to 1.31%. The 5 largest capital groups include only clients of PKO Bank Polski SA.

As at 31 December 2011, the concentration of credit risk by the largest capital groups was low. The greatest exposure of the Group towards a capital group amounted to 10.5% and 9.4% of the Group's own consolidated funds.

Total exposure of the Group 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	1 928 808	1.31%	1***	1 183 394	0.87%
2	1 725 766	1.17%	2	898 546	0.66%
3	1 226 346	0.83%	3	892 191	0.66%
4	950 453	0.65%	4	871 694	0.64%
5	949 050	0.64%	5	848 561	0.63%
Total	**6 780 423**	**4.60%**	**Total**	**4 694 386**	**3.46%**

* Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and 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

As compared with 31 December 2010 the exposure of the Group in industry sectors has increased by over PLN 7.5 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. 63% of the total loan portfolio covered by an analysis of the sector.

(in PLN thousand)

The analysis of exposure by industry segments 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	19.19%	11.67%	21.94%	11.51%
G	Wholesale and retail trade, repair of motor vehicles, including motorcycles	16.64%	24.52%	17.08%	23.63%
L	Maintenance of real estate	15.18%	10.00%	13.29%	11.08%
F	Construction	12.17%	13.20%	14.09%	11.35%
O	Public administration and national defence, obligatory social security	8.03%	0.47%	6.77%	0.46%
D	Electricity, gas, water vapour, hot water and air conditioning production and supply	1.49%	0.20%	1.49%	0.14%
Other exposure		27.30%	39.94%	25.34%	41.83%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

Concentration by geographical regions

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

As at 31 December 2011, the largest concentration of the Group's loan portfolio was in the mazowiecki region. Half of the Group'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 of Poland.

Region	31.12.2011	31.12.2010
Poland		
mazowiecki	18.12%	17.27%
śląsko-opolski	11.69%	13.04%
wielkopolski	10.44%	10.29%
małopolsko-świętokrzyski	9.47%	9.43%
dolnośląski	7.65%	7.71%
lubelsko-podkarpacki	7.04%	6.87%
zachodnio-pomorski	6.68%	6.96%
łódzki	6.43%	6.49%
pomorski	6.32%	6.41%
kujawsko-pomorski	5.02%	4.94%
warmińsko-mazurski	3.61%	3.57%
podlaski	3.21%	3.14%
other	3.26%	2.74%
Ukraine	1.06%	1.14%
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2011, the share of exposure in convertible currencies, other than PLN, in the total loan portfolio of the Group amounted to 24.2%. Increase of loans denominated in foreign currencies in 2011 is mainly the consequence of increase of foreign exchange rates in 2011.

The greatest part of the Group's currency exposures are those in CHF and they relate mainly to the currency loan portfolio of the Bank. In case of particular Group entities, the situation is different, i.e. for the BFL SA Group, the greatest currency exposures are those in EUR (88.2% of currency loan portfolio), similarly for the BTK SA Group – EUR denominated loans (80.9% of currency loan portfolio) and for KREDOBANK SA – USD denominated loans (76.5% of the currency loan portfolio and 30.4% of the company's total loan portfolio).

Significant concentration risk was identified in KREDOBANK SA, and resulted from the character of the Ukrainian market, where due to weak local currency the majority of loans are granted in a foreign currency.

(in PLN thousand)

Concentration of credit risk by currency

Currency	31.12.2011	31.12.2010
PLN	75.76%	76.43%
Foreign currencies, of which:	24.24%	23.57%
CHF	16.46%	16.85%
EUR	5.71%	4.73%
USD	1.41%	1.44%
UAH	0.64%	0.54%
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 the credit risk.

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

Renegotiated receivables

The purpose of the restructuring activity of the Group 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 costs relating to these recoveries in the case of enforcement proceedings.

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

Past due financial assets

Financial assets which are past due but not impaired at the reporting date 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 customers	2 543 933	1 348 716	**114 626**	**4 007 275**	3 259 441	1 021 127	96 110	**4 376 678**
financial sector	4 469	153	-	**4 622**	-	-	102	**102**
non-financial sector	2 494 974	1 348 563	114 626	**3 958 163**	2 657 540	1 021 127	96 008	**3 774 675**
budget 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	**2 544 410**	**1 348 716**	**115 142**	**4 008 268**	**3 259 792**	**1 021 419**	**96 110**	**4 377 321**

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 loan exposures the expected cash flows exceed the carrying amount of these exposures.

(in PLN thousand)

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	**32 385**	**28 089**
Loans and advances to customers	**5 701 547**	**5 899 231**
Financial sector	44 757	41 188
corporate loans	44 757	41 188
Non-financial sector	5 649 239	5 850 521
consumer loans	84 444	91 982
mortgage loans	1 262 477	903 038
corporate loans	4 302 318	4 855 501
State budget sector	7 551	7 522
corporate loans	7 551	7 522
Financial assets available for sale	**18 058**	**21 376**
issued by financial entities	9	8
issued by non-financial entities	18 049	21 368
Total	**5 751 990**	**5 948 696**

Financial assets available for sale for which individual objective evidence of impairment was identified were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables and property right for cash. The financial effect of the collateral held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2011 amounted to PLN 3 436 427 thousand (as at 31 December 2010 the amount was PLN 3 751 558 thousand).
- for investment securities available for sale: blank promissory notes, guarantee, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Group 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,
- 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

The PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan 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 Group'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 PKO Bank Polski SA Group applies three methods of estimating impairment:

- the individualised method applied in respect of individually significant loans, for which the objective evidence of impairment was identified or requiring individual assessment due to the transactions specifics and resulting from events determining the repayment of exposure,
- the portfolio method applied in respect of individually insignificant loans, for which the objective evidence of impairment was identified,
- the group method (IBNR) applied in respect of the loans for which no objective evidence of impairment was identified, but there is a possibility of losses incurred but not recognised occurring.

The structure of the loan portfolio and loan impairment allowances of the PKO Bank Polski SA Group are presented in Note 23 'Loans and advances to customers'.

With regard to other credit 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 liabilities (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 off-balance sheet liabilities.

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 loan impairment allowances of the PKO Bank Polski SA Group are presented in Note 23 'Loans and advances to customers'.

(in PLN thousand)

Credit risk of financial institutions

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

Counterparty	Type of instrument		Total
	Deposits	Derivatives	
Counterparty 1	485 944	1 918	487 863
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

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

Interbank exposure*			
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.

(in PLN thousand)

Total exposure to each counterparty (column '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.	United Kingdom	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 Group 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 thousand PLN)		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 Group 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 Group 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 Group 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 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 Group.

The Group takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Group's website, placing announcements in the national press, using internet portals i.a. carried out internet auctions and sending offers. In addition, the Group 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 Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realisation of collateral.

The carrying amounts of non-financial assets held by the Group, taken over in exchange for debts as at 31 December 2011 amounted to PLN 59 086 thousand and as at 31 December 2010 amounted to PLN 56 585 thousand. The above mentioned amounts are presented in Note 29 'Other assets', in line item 'Other' (PLN 11 319 thousand and PLN 11 188 thousand respectively), in Note 26 'Inventories', in line item 'Supplies' (PLN 47 767 thousand and PLN 45 397 thousand respectively).

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 (i.a. 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 the Article 71, clause 1 of the Banking Law,
- industry-related limits – limits which reduce 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 i.a. the recommendations 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 but 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 and the entities' of the Group collateral management is meant to secure properly the credit risk to which the Group 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 applies 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 internal regulations of Group's subsidiaries.

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.

When signing a leasing agreement, BFL SA Group, as a proprietor of leased objects, treats them as collateral.

56. 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, the Group 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., ±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.

Measures of interest rate gap are determined for other Group entities using similar methods to those used for determining the interest rate gap for the Bank itself, taking into account the specific nature of the entities.

(in PLN thousand)

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**
The Group - periodic gap	50 300 391	13 856 572	(20 533 401)	(22 321 974)	(4 487 228)	900 527	79 727	**17 794 614**
The Group - cumulative gap	50 300 391	64 156 963	43 623 562	21 301 588	16 814 360	17 714 887	17 794 614	-
PLN (in PLN thousand)								**31.12.2010**
The Group - periodic gap	40 074 163	16 872 118	(23 857 194)	(13 908 620)	(2 867 293)	538 212	329 000	**17 180 386**
The Group - cumulative gap	40 074 163	56 946 281	33 089 087	19 180 467	16 313 174	16 851 386	17 180 386	-
USD (in USD thousand)								**31.12.2011**
The Group - periodic gap	542 875	(35 377)	(311 295)	(360 850)	(39 223)	24 152	84 102	**(95 616)**
The Group - cumulative gap	542 875	507 498	196 203	(164 647)	(203 870)	(179 718)	(95 616)	-
USD (in USD thousand)								**31.12.2010**
The Group - periodic gap	304 316	(161 359)	(166 953)	(139 043)	11 781	54 871	94 404	**(1 983)**
The Group - cumulative gap	304 316	142 957	(23 996)	(163 039)	(151 258)	(96 387)	(1 983)	-
EUR (in EUR thousand)								**31.12.2011**
The Group - periodic gap	299 125	(187 104)	(25 506)	(16 821)	(40 984)	(337 996)	7 879	**(301 407)**
The Group - cumulative gap	299 125	112 021	86 515	69 694	28 710	(309 286)	(301 407)	-
EUR (in EUR thousand)								**31.12.2010**
The Group - periodic gap	661 080	(308 414)	78 172	(223 242)	19 577	(592 387)	40 700	**(324 514)**
The Group - cumulative gap	661 080	352 666	430 838	207 596	227 173	(365 214)	(324 514)	-
CHF (in CHF thousand)								**31.12.2011**
The Group - periodic gap	(683 848)	546 151	(15 430)	(38 121)	1 427	(29 085)	7 345	**(211 561)**
The Group - cumulative gap	(683 848)	(137 697)	(153 127)	(191 248)	(189 821)	(218 906)	(211 561)	-
CHF (in CHF thousand)								**31.12.2010**
The Group - periodic gap	302 630	(552 592)	(3 600)	(4 460)	(40)	1 520	6 770	**(249 772)**
The Group - cumulative gap	302 630	(249 962)	(253 562)	(258 022)	(258 062)	(256 542)	(249 772)	-

At the end of 2011 and 2010 the Group had a positive cumulative gap in PLN in all time horizons.

Forecasting and monitoring of interest rate risk

As at 31 December 2011 and 31 December 2010, the exposure of the PKO Bank Polski SA Group to the interest rate risk comprised mainly of the exposure of the Bank. Interest rate risk generated by the other Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly altered by exposure of the Group, in which the biggest part has the exposure of KREDOBANK SA.

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

Name of the 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 test)	530 726	522 641

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 29 673 thousands as at 31 December 2011 and PLN 30 150 thousand as at 31 December 2010, respectively.

As at 31 December 2011 the interest rate VaR for a 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. The quarterly reports are also applicable to the Group. Reports present the information on interest rate 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 as regards interest rate risk

The main tools used in interest rate risk management in the Group include:

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

The Group 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.

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

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

Measurement of the currency risk

The Bank measures the 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.

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

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:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20% and 50%),
2) historical scenarios – bases 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 Group'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 (in PLN thousand)*	1 470	3 171
Change in CUR/PLN +20% (in PLN thousand) (stress-test)**	17 210	8 109

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 467 thousands as at 31 December 2011 and approx. PLN 182 thousand as at 31 December 2010, respectively.

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

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

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

	31.12.2011	31.12.2010
	Currency position	Currency position
EUR	83 153	(4 035)
GBP	50	48 073
CHF	(37 266)	(18 820)
USD	(180 781)	(78 916)
Other (Global Net)	11 630	11 257

The volume of currency positions is a key factor determining the level of currency risk on which the Group 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 Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position at the end of 2011 amounted to ca. 0.01%).

(in PLN thousand)

Currency structure

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

	Currency translated to PLN – 31.12.2011				
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the central bank	8 468 498	365 266	28 741	279 663	**9 142 168**
Amounts due from banks	366 793	1 070 348	219 257	772 641	**2 429 039**
Loans and advances to customers	111 613 129	8 295 725	24 625 849	2 758 034	**147 292 737**
Securities	27 626 050	309 552	-	256 527	**28 192 129**
Tangible assets	8 535 276	-	-	352 399	**8 887 675**
Other assets and derivatives	4 882 258	260 814	41 031	186 993	**5 371 096**
Total assets (gross)	161 492 004	10 301 705	24 914 878	4 606 257	**201 314 844**
Depreciation / amortisation / impairment	(9 044 071)	(227 207)	(538 972)	(756 557)	**(10 566 807)**
Total assets (net)	**152 447 933**	**10 074 498**	**24 375 906**	**3 849 700**	**190 748 037**
LIABILITIES AND EQUITY, of which:					
Amounts due to the central bank	3 454	-	-	-	**3 454**
Amounts due to other banks	1 626 266	963 916	3 503 896	145 086	**6 239 164**
Amounts due to customers	132 464 871	6 852 350	1 306 358	5 850 318	**146 473 897**
Debt securities in issue	3 294 783	3 555 738	921 258	-	**7 771 779**
Subordinated liabilities	1 614 377	-	-	-	**1 614 377**
Provisions	601 371	13 843	434	3 516	**619 164**
Other liabilities and derivatives and deferred tax liabilities	4 782 744	324 797	4 523	92 154	**5 204 218**
Equity	22 821 984	-	-	-	**22 821 984**
TOTAL LIABILITIES AND EQUITY	**167 209 850**	**11 710 644**	**5 736 469**	**6 091 074**	**190 748 037**
CONTINGENT LIABILITIES GRANTED	**32 000 400**	**3 321 411**	**128 614**	**1 439 963**	**36 890 388**

	Currency translated to PLN – 31.12.2010				
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the central bank	5 563 983	373 306	17 420	227 703	**6 182 412**
Amounts due from banks	248 565	1 113 541	637 132	336 719	**2 335 957**
Loans and advances to customers	103 869 753	6 285 663	22 910 754	2 458 619	**135 524 789**
Securities	22 207 655	133 968	-	161 666	**22 503 289**
Tangible assets	8 448 191	-	-	223 295	**8 671 486**
Other assets and derivatives	3 672 430	120 470	491	122 908	**3 916 299**
Total assets (gross)	144 010 577	8 026 948	23 565 797	3 530 910	**179 134 232**
Depreciation / amortisation / impairment	(8 313 676)	(152 029)	(358 477)	(649 549)	**(9 473 731)**
Total assets (net)	**135 696 901**	**7 874 919**	**23 207 320**	**2 881 361**	**169 660 501**
LIABILITIES AND EQUITY, of which:					
Amounts due to the central bank	3 370	-	-	-	**3 370**
Amounts due to other banks	1 471 161	618 794	3 125 225	18 695	**5 233 875**
Amounts due to customers	122 932 057	5 577 720	1 067 586	3 403 852	**132 981 215**
Debt securities in issue	111 101	3 187 766	-	-	**3 298 867**
Subordinated liabilities	1 611 779	-	-	-	**1 611 779**
Provisions	574 043	6 131	669	2 847	**583 690**
Other liabilities and derivatives and deferred tax liabilities	4 221 714	246 579	1 079	118 765	**4 588 137**
Equity	21 359 568	-	-	-	**21 359 568**
TOTAL LIABILITIES AND EQUITY	**152 284 793**	**9 636 990**	**4 194 559**	**3 544 159**	**169 660 501**
CONTINGENT LIABILITIES GRANTED	**33 334 068**	**2 519 541**	**123 465**	**808 304**	**36 785 378**

Reporting of the currency risk

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

(in PLN thousand)

Management decisions concerning currency risk

Main tools used in currency risk management in the Group 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 Group has set limits and threshold values for currency risk, i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

58. 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 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 statement of financial position and contingent liabilities and commitments.

The Group'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, also uses money market instruments, including NBP open market operations.

Measurement of the liquidity risk

The Group 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 the sum of Bank's adjusted liquidity gap (adjusted in terms of 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) and contractual liquidity gap of other Group's entities.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months
31.12.2011								
The Group - adjusted gap in real terms	7 299 484	12 094 029	(1 599 805)	1 399 996	(1 169 611)	10 276 571	16 150 066	**(44 450 730)**
The Group - cumulative adjusted gap in real terms	7 299 484	19 393 513	17 793 708	19 193 704	18 024 093	28 300 664	44 450 730	-
31.12.2010								
The Group - adjusted gap in real terms	3 207 473	14 102 549	(949 842)	(106 638)	3 800 570	5 160 414	(1 014 208)	(24 200 318)
The Group - cumulative adjusted gap in real terms	3 207 473	17 310 022	16 360 180	16 253 542	20 054 112	25 214 526	24 200 318	-

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

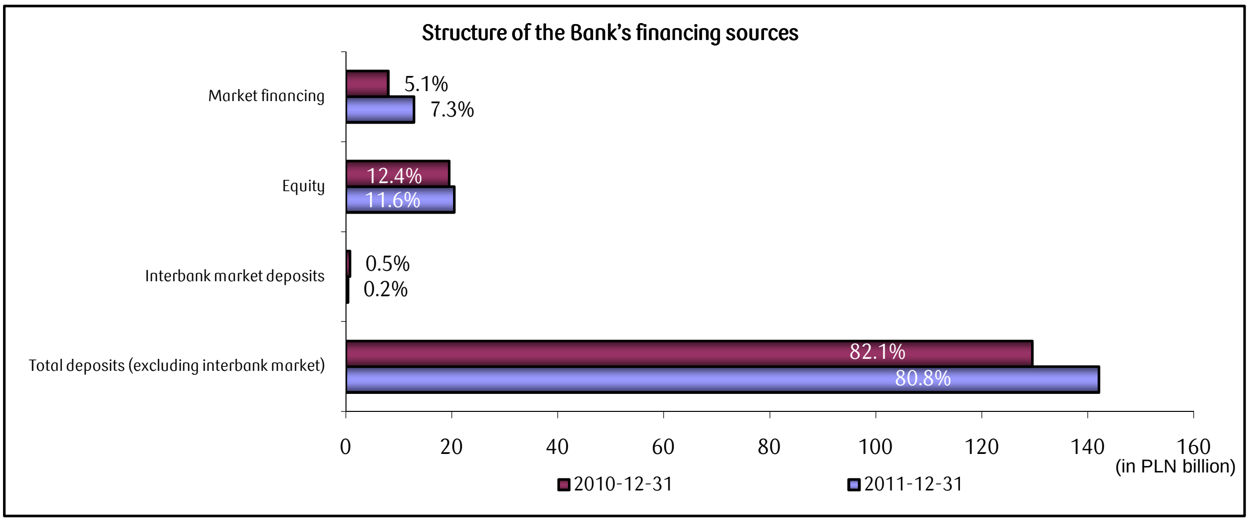
The table below presents liquidity reserve of the Bank as at 31 December 2011 and 31 December 2010:

	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 approx. 94.8% of all deposits in the Bank (excluding interbank market), which means an 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 Group'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 Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability shall be taken into account. In situations where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group 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.

* The PKO Bank Polski SA Group's liquidity gap in real terms has been determined as the sum of PKO Bank Polski SA's liquidity gap in real terms and contractual liquidity gaps of the remaining entities of the PKO Bank Polski SA Group.

(in PLN thousand)

Contractual flows of the Group'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	2 206 359	286 603	3 635 593	423 617	202 084	6 754 256	**6 239 164**
Amounts due to customers	93 164 498	15 234 611	35 242 327	3 184 423	1 798 613	148 624 472	**146 473 897**
Debt securities in issue	-	3 141 070	164 040	5 145 214	-	8 450 324	**7 771 779**
Subordinated liabilities	-	-	96 383	369 881	1 699 775	2 166 039	**1 614 377**
Other liabilities	1 813 989	426 765	119 187	17 172	73 650	2 450 763	**2 450 763**
Off-balance sheet financial liabilities – granted	15 573 751	936 775	4 677 249	3 930 378	5 337 505	30 455 658	-
Off-balance sheet guarantee liabilities – issued	102 848	80 264	1 776 447	3 962 200	512 971	6 434 730	-

Contractual flows of the Groups 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	1 175 530	99 282	518 099	4 268 099	196 449	6 257 459	**5 233 875**
Amount due to customers	82 510 946	17 377 623	31 661 703	1 877 178	1 608 955	135 036 405	**132 981 215**
Debt securities in issue	25 000	95 000	122 469	3 658 117	-	3 900 586	**3 298 867**
Subordinated liabilities	-	-	80 835	323 563	1 762 592	2 166 990	**1 611 779**
Other liabilities	1 984 551	41 329	42 972	16 136	6 343	2 091 331	**2 092 834**
Off-balance sheet financial liabilities – granted	16 631 759	314 035	3 994 998	2 923 109	5 641 123	29 505 024	-
Off-balance sheet guarantee liabilities – issued	1 649 878	974 119	1 828 614	2 550 325	277 418	7 280 354	-

(in PLN thousand)

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

<u>Derivative financial instruments settled in net amounts</u>

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

- interest rate swaps (IRS),
- Forward Rate Agreements (FRA),
- Non Deliverable Forwards (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 as at 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)	(1 219 638)
- 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)

<u>Derivative financial instruments settled in gross amounts</u>

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

- foreign currency swaps,
- foreign currency forwards,
- 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 2010 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP 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 PLN thousand)

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.

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 as at 31 December 2011

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	9 142 168	-	-	**9 142 168**
Amounts due from banks	2 425 344	3 695	(32 812)	**2 396 227**
Financial assets held for trading	638 321	672 768	-	**1 311 089**
Derivative financial instruments	1 304 726	1 760 007	-	**3 064 733**
Financial assets designated upon initial recognition at fair value through profit and loss	11 666 896	800 305	-	**12 467 201**
Loans and advances to customers	37 349 343	109 943 394	(5 658 243)	**141 634 494**
Investment securities available for sale	2 116 703	12 297 136	(20 563)	**14 393 276**
Inventories	493 481	106 453	(33 088)	**566 846**
Other assets	1 626 436	4 563 001	(417 434)	**5 772 003**
TOTAL ASSETS	**66 763 418**	**130 146 759**	**(6 162 140)**	**190 748 037**

Liabilities				
Amounts due to the central bank	3 454	-	-	**3 454**
Amounts due to other banks	5 513 385	725 779	-	**6 239 164**
Derivate financial instruments	883 657	1 761 624	-	**2 645 281**
Amounts due to customers	141 686 933	4 786 964	-	**146 473 897**
Debt securities in issue	3 160 479	4 611 300	-	**7 771 779**
Subordinated liabilities	-	1 614 377	-	**1 614 377**
Other liabilities	3 096 173	81 928	-	**3 178 101**
TOTAL LIABILITIES	**154 344 081**	**13 581 972**	**-**	**167 926 053**
EQUITY	**-**	**22 821 984**	**-**	**22 821 984**
TOTAL LIABILITIES AND EQUITY	**154 344 081**	**36 403 956**	**-**	**190 748 037**

(in PLN thousand)

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

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	6 182 412	-	-	**6 182 412**
Amounts due from banks	2 324 738	11 219	(28 925)	**2 307 032**
Trading assets	873 046	630 603	-	**1 503 649**
Derivative financial instruments	652 640	1 066 445	-	**1 719 085**
Financial assets designated upon initial recognition at fair value through profit and loss	8 533 646	2 224 685	-	**10 758 331**
Loans and advances to customers	25 865 842	109 658 947	(4 856 670)	**130 668 119**
Investment securities available for sale	3 614 202	6 627 107	(21 909)	**10 219 400**
Inventories	356 639	208 494	(34 858)	**530 275**
Other assets	1 517 897	4 644 073	(389 772)	**5 772 198**
TOTAL ASSETS	**49 921 062**	**125 071 573**	**(5 332 134)**	**169 660 501**

Liabilities				
Amounts due to the central bank	3 370	-	-	**3 370**
Amounts due to banks	1 856 924	3 376 951	-	**5 233 875**
Derivative financial instruments	843 518	1 561 277	-	**2 404 795**
Amounts due to customers	124 025 037	8 956 178	-	**132 981 215**
Debt securities in issue	134 490	3 164 377	-	**3 298 867**
Subordinated liabilities	-	1 611 779	-	**1 611 779**
Other liabilities	2 008 051	758 981	-	**2 767 032**
TOTAL LIABILITIES	**128 871 390**	**19 429 543**	**-**	**148 300 933**
EQUITY	**-**	**21 359 568**	**-**	**21 359 568**
TOTAL LIABILITIES AND EQUITY	**128 871 390**	**40 789 111**	**-**	**169 660 501**

Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing liquidity risk. The quarterly reports are also applicable to the Group. 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 the PKO Bank Polski SA Group 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 Bank and the entities of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Methods of liquidity risk management in the entities of the Group are defined by internal regulations implemented by the Group's entities which are characterised by high levels of liquidity risk measure outcomes.

These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank to the entities.

59. 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 BP SA), investing activities and from other operations as part of banking activities generating a position in equity 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 BP broken down 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.

60. Other price risk

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 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.

61. Management of derivative instruments risk

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

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 process of derivative instruments risk management is integrated with the process of: interest rate, currency, liquidity as well as credit risk management. 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 currency risk, depending on the risk factor which affects the value of the instrument.

In the measurement of other Group members' derivative-related risk, information on the companies' positions in specific instruments is used, as indicated by the Bank.

Forecasting and monitoring of the derivative instruments risk

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank pays special attention 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.

[*] 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.

Reporting of the derivative instruments risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of the derivative instruments. The quarterly reports are also applicable to the Group. Reports present the information on the derivative risk exposure and updates on 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 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, among others, settlement mechanisms.

Risk management is carried out by imposing limits on the 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 derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

Methods of derivative risk management in the Group entities are defined by internal regulations implemented by these entities which take up a position in financial instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group entities.

62. 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 Group 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 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.

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

Reporting of operational risk

The Bank prepares reports concerning operational risk of the Bank and the entities of the Group 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 operational 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 to operational risk, 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.

The Group entities manage the operational risk in accordance with the rules implemented by the PKO Bank Polski SA, taking into account the specific nature of the business conducted by the Group entities.

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

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

Appropriate organisational units or designated employees are responsible for finding systemic solutions in the area of ensuring the Group's entities comply with the binding regulations and operating standards. Compliance Department is responsible for finding such solutions, development of the method for evaluation, monitoring and reporting compliance risk. The Compliance Department is a unit which was granted independence and which reports directly to the President of the Bank's Management Board.

The rules concerning the process of compliance risk management adopted by all Group entities are inherent within the PKO Bank Polski SA Group.

Compliance risk management involves in particular:

- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- development of ethical standards and monitoring of their application,
- conflict of interest management,
- preventing situations where the Group's employees could be perceived as pursuing their own interest in the professional context,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- 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.

Monitoring of compliance risk is conducted with the use of information submitted by the Companies and consists of:

- the analysis of non-compliance events in the Group and in banking sector, the reasons for their occurrence and their effects,
- the assessment of amendments in key legal regulations which have an impact on the Bank's and the Group's activity,
- the assessment of actions taken by the Group in respect of managing compliance risk.

Reporting of information concerning compliance risk includes both the Bank, and Group's entities. Reports prepared quarterly contain information, including cases of non-compliance, passed by the Group's entities. Reports are addressed to the Bank's Management Board, the Bank's Supervisory Board, and the Supervisory Board's Audit Committee. Reports contain among others:

- the results of identifying and assessing compliance risk,
- the non-compliance events,
- the key amendments in regulatory environment.

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

64. 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 organisational culture.

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

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

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

65. Reputation risk management

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

The objective of managing the reputation risk is to protect the Group'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 Group'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 Group 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 Group 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 Group's image.

66. Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO Bank Polski SA Group exceeds sum of regulatory capital requirements (the so-called Pillar 1) and 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 Group's activities.

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

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

The main measures of capital adequacy are:

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

As at 31 December 2011 compared with 31 December 2010 (comparable data calculated in accordance with the amended regulations concerning rules of calculating capital requirements as well as own funds), the Group's capital adequacy ratio dropped by 0.10 pp. to 12.37%, mainly due to an increase in the Group's credit risk capital requirement, resulted mainly from the fast loan portfolio growth of the Group.

Despite the drop in the capital adequacy ratio, the Group's capital adequacy 2011 remained at a safe level, significantly above the statutory limits.

66.1. Own funds calculated for the 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 (Official journal of the PFSA nr 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, equity instruments and other receivables classified as available for sale,
4) negative currency translation differences from foreign operations,
5) negative amounts in respect of adjustments on revaluation of assets in the trading portfolio.

* the 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)

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 Group include also short-term capital.

In addition, the following items are included in the calculation of consolidated own funds of the Group:

1) goodwill of subsidiaries (which decreases the value of own funds),
2) non- controlling interests in equity (which increase the value of own funds).

As at 31 December 2011, the Group's own funds increased by PLN 724 370 thousand, mainly as a result of including in the funds the Bank's net profit for 2010, net of dividend paid (of PLN 836 209 thousand) and an increase in the reserve capital and other reserves of the Group's entities of PLN 41 132 thousand. Compared with the balance as at the end of 2010, the accumulated profit dropped by PLN 135 459 thousand, and the amount of unrealised losses on debt and equity securities in the AFS portfolio increased by PLN 62 112 thousand, with a simultaneous drop in the value of other reductions of PLN 36 861 thousand.

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

GROUP'S OWN FUNDS	31.12.2011	31.12.2010
Basic funds (Tier 1)	**16 664 233**	**15 960 072**
Share capital	1 250 000	1 250 000
Reserve capital	13 041 390	12 212 177
Other reserves	3 460 368	3 412 239
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Profits from previous years	(23 162)	112 297
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(129 518)	(67 406)
Assets valuation adjustments in trade portfolio	(143)	(183)
Intangible assets, of which:	(1 800 008)	(1 802 037)
goodwill of subsidiaries	(227 349)	(229 740)
Equity exposures	(109 054)	(118 285)
Negative currency translation differences from foreign operations	(94 350)	(110 720)
Non-controlling interest	(1 290)	1 990
Supplementary funds (Tier 2)	**1 545 549**	**1 512 546**
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)	51 576	29 158
Positive currency translation differences from foreign operations	2 327	973
Equity exposures	(109 054)	(118 285)
Short-term equity (Tier 3)	**133 134**	**145 928**
TOTAL EQUITY	**18 342 916**	**17 618 546**

(in PLN thousand)

66.2. Capital requirements (Pillar 1)

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

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

The table below shows the Group's exposure to particular types of risk.

Capital requirements	31.12.2011	31.12.2010
Credit risk	**10 657 309**	**9 821 710**
credit risk (banking book)	10 534 714	9 756 757
counterparty risk (trading book)	122 595	64 953
Market risk	**355 284**	**422 154**
equity securities risk	1 604	767
specific risk of debt instruments	262 412	341 058
general risk of interest rates	91 268	80 329
Operational risk	**852 099**	**1 057 922**
Total capital requirements	**11 864 692**	**11 301 786**
Capital adequacy ratio	**12.37%**	**12.47%**

An increase in the capital requirement in 2011 in respect of credit risk resulted from a significant increase in the volume of loan portfolio (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 15.8% to the level of PLN 355 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 29%).

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, as at December 2011 the requirement in respect of operating risk for the Group compared with the value at the end of December 2010 dropped by PLN 206 million to PLN 852 million. The requirement in respect of operational risk of Group entities was calculated using the basic index approach (BIA) both in 2011 and 2010.

The Group 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 standardised method of credit risk requirement and 8% (considering collateral),

(in PLN thousand)

- 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 standardised method of credit risk requirement and 8% (considering recognised collateral),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the exposure calculated according to the standardised 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:

Type of instrument	Carrying amount	Risk - weighted value
Bank portfolio	183 766 482	118 090 798
Trading portfolio	6 981 555	2 643 592
Total instruments in the statement of financial position	**190 748 037**	**120 734 390**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	35 815 703	13 639 658	12 642 199
Trading portfolio	1 074 685	1 074 685	656 608
Total off-balance sheet instruments	**36 890 388**	**14 714 343**	**13 298 807**

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	318 503 683	2 918 421	1 532 443
Total derivative instruments	**401 886 533**	**5 366 688**	**2 483 374**

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	163 897 606	110 839 073
Trading portfolio	5 762 895	1 976 896
Total instruments in the statement of financial position	**169 660 501**	**112 815 969**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	34 289 347	11 654 884	10 662 583
Trading portfolio	2 496 031	2 496 031	2 295 917
Total off-balance sheet instruments	**36 785 378**	**14 150 915**	**12 958 500**

(in PLN thousand)

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	212 165 405	1 994 358	811 914
Total derivative instruments	**277 781 167**	**3 395 524**	**1 269 716**

66.3. Internal capital (Pillar 2)

The Group calculates internal capital in accordance with the Resolution No 258/2011 of the 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 (Financial Supervision Authority's Journal of Laws 2011, No. 11, item 42 as at 23 November 2011).

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

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

- credit risk (including default and concentration 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 activities of the Bank and other Group's subsidiaries.

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 each entity of the Group is the sum of internal capital amount necessary to cover all of the significant risks for the entity.

The total internal capital of the Group is the sum of internal capital amount of the Bank and all Group's entities.

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

In 2011, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

66.4. Disclosures (Pillar 3)

In accordance with § 6 of the Resolution No. 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.

* As at 31 December 2010 PKO Bank Polski SA calculates internal capital in accordance with the 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).

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

67. 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 the PKO Bank Polski SA Group. The above agreement was concluded on 14 April 2011.

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 in 2011 amounted 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 in 2011 amounted to PLN 2 031 thousand (2010: PLN 1 066 thousand).

68. 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 established for the purpose of realisation of investment projects. Ongoing registration of above-mentioned companies with 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 the above-mentioned Company of UAH 43 million (PLN 17 212.9 thousand). 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. 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 Management 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 Kołatkowski	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)

Independent Registered Auditor's Opinion
To the General Meeting of Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

We have audited the accompanying consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter called 'the Group'), of which Powszechna Kasa Oszczędności Bank Polski SA is the parent company (hereinafter called 'the Parent Company'), with its registered office in Warsaw, 15 Puławska Street, which comprise of the consolidated statement of financial position as at 31 December 2011, showing total assets and total equity and liabilities of PLN 190,748,037 thousand; the consolidated income statement for the financial year from 1 January to 31 December 2011, showing a net profit attributable to equity holders of the Parent Company of PLN 3,807,195 thousand; the consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2011, showing a total comprehensive income of PLN 3,937,416 thousand; the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on accounting policies and other relevant matters.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations. The Management Board and Members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the Director's Report for the Group meet the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as 'the Act').

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether in all material respects the consolidated financial statements comply with the applicable accounting policies and whether they present fairly the financial position and results of the Group.

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Act;

(b) national auditing standards as issued by the National Chamber of Registered Auditors;

(c) International Standards on Auditing.

PricewaterhouseCoopers Sp. z o.o.,
Al. Armii Ludowej 14, 00-638 Warszawa, Polska
T: +48 (22) 523 4000, F: +48 (22) 523 4040, www.pwc.com

Independent Registered Auditor's Opinion To the General Meeting of Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA (cont.)

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, and in all material respects, the accompanying consolidated financial statements:

(a) present fairly the Group's financial position as at 31 December 2011 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;

(b) comply in form and content with the relevant laws applicable to the Group;

(c) have been prepared on the basis of properly maintained consolidation documentation.

The information in the Directors' Report for the Group for the year ended 31 December 2011 has been prepared in accordance with the provisions of the Decree of the Minister of Finance of 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equivalent information required by the laws of another state not being a member state ('*the Decree*' – Journal of Laws of 2009, No. 33, item 259, with further amendments) and is consistent with the information presented in the audited consolidated financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Firm No. 144:

Antoni F. Reczek
President of the Management Board

PricewaterhouseCoopers Sp. z o.o.

Principal Registered Auditor
No. 90011

Warsaw, 29 February 2012

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.

PKO BANK POLSKI
SPÓŁKA AKCYJNA

Consolidated Financial Statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2010

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	for the period from 1 January to 31 December 2010	for the period from 1 January to 31 December 2009	for the period from 1 January to 31 December 2010	for the period from 1 January to 31 December 2009
Net interest income	6 516 166	5 051 182	1 627 252	1 163 706
Net fee and commission income	3 142 829	2 583 003	784 844	595 080
Operating profit	4 080 051	2 942 928	1 018 892	678 000
Profit before income tax	4 079 236	2 943 270	1 018 688	678 079
Net profit (including non-controlling shareholders)	3 212 806	2 311 784	802 319	532 595
Net profit attributable to the parent company	3 216 883	2 305 538	803 337	531 157
Earnings per share for the period – basic (in PLN/EUR)	2.57	2.06	0.64	0.47
Earnings per share for the period – diluted (in PLN/EUR)	2.57	2.06	0.64	0.47
Net comprehensive income	3 297 105	2 401 214	823 371	553 199
Net cash flow from / used in operating activities	340 637	(4 860 163)	85 066	(1 119 698)
Net cash flow from / used in investing activities	(1 967 767)	1 022 670	(491 401)	235 606
Net cash flow from / used in financing activities	1 073 418	4 559 643	268 060	1 050 464
Total net cash flows	(553 712)	722 150	(138 276)	166 371

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
Total assets	169 660 501	156 478 685	42 840 315	38 089 354
Total equity	21 359 568	20 435 870	5 393 422	4 974 410
Share capital attributable to equity holders of the parent company	21 357 578	20 428 541	5 392 919	4 972 626
Share capital	1 250 000	1 250 000	315 633	304 270
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	17.09	16.35	4.31	3.98
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)	17.09	16.35	4.31	3.98
Capital adequacy ratio	12.47%	14.81%	12.47%	14.81%
Tier 1 capital	15 960 255	16 253 084	4 030 062	3 956 254
Tier 2 capital	1 512 546	1 489 959	381 927	362 679
Tier 3 capital	145 928	129 876	36 848	31 614

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

- income statement and cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2010 and 2009: 1 EUR = 4.0044 PLN and 1 EUR = 4.3406 PLN respectively;
- statement of financial position items – average NBP rate as at 31 December 2010: 1 EUR = 3.9603 PLN and as at 31 December 2009: 1 EUR = 4.1082 PLN

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CONSOLIDATED INCOME STATEMENT
for the years ended 31 December 2010 and 31 December 2009 respectively

	Note	2010	2009
Continuing operations:			
Interest and similar income	4	10 415 315	9 031 330
Interest expense and similar charges	4	(3 899 149)	(3 980 148)
Net interest income		**6 516 166**	**5 051 182**
Fee and commission income	5	3 880 863	3 335 347
Fee and commission expense	5	(738 034)	(752 344)
Net fee and commission income		**3 142 829**	**2 583 003**
Dividend income	6	5 663	5 381
Net income from financial instruments designated at fair value through profit and loss	7	(62 577)	60 872
Gains less losses from investment securities	8	73 056	(2 622)
Net foreign exchange gains	9	346 762	909 139
Other operating income	10	469 388	584 949
Other operating expense	10	(293 736)	(324 066)
Net other operating income and expense		**175 652**	**260 883**
Net impairment allowance	11	(1 868 364)	(1 681 075)
Administrative expenses	12	(4 249 136)	(4 243 835)
Operating profit		**4 080 051**	**2 942 928**
Share of profit (loss) of associates and jointly controlled entities	13	(815)	342
Profit before income tax		**4 079 236**	**2 943 270**
Income tax expense	14	(866 430)	(631 486)
Net profit (including non-controlling interest)		**3 212 806**	**2 311 784**
Net profit/(loss) attributable to non-controlling shareholders		(4 077)	6 246
Net profit attributable to equity holders of the parent company		**3 216 883**	**2 305 538**
Earnings per share:			
– basic earnings per share for the period (in PLN)	15	2.57	2.06
– diluted earnings per share for the period (in PLN)	15	2.57	2.06
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 121 562
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 121 562

Discontinued operations:

In years 2010 and 2009 the PKO Bank Polski SA Group did not carry out discontinued operations

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the years ended 31 December 2010 and 31 December 2009 respectively

	Note	2010	2009
Profit for the year		**3 212 806**	**2 311 784**
Other comprehensive income net of tax		**84 299**	**89 430**
Currency translation differences from foreign operations	40	(1 211)	(51 321)
Share in other comprehensive income of an associate	26	271	-
Unrealised net gains on financial assets available for sale (gross)	24	(16 159)	26 582
Deferred tax on unrealised net gains on financial assets available for sale		2 750	(5 107)
Cash flow hedges (gross)	21	121 788	147 254
Deferred tax on cash flow hedges		(23 140)	(27 978)
Total net comprehensive income		**3 297 105**	**2 401 214**
Total net comprehensive income, of which attributable to:		**3 297 105**	**2 401 214**
equity holders of PKO Bank Polski SA		3 301 437	2 394 911
non-controlling shareholders		(4 332)	6 303

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010 and 31 December 2009

	Note	31.12.2010	31.12.2009
ASSETS			
Cash and balances with the central bank	17	6 182 412	7 094 350
Amounts due from banks	18	2 307 032	2 023 055
Trading assets	19	1 503 649	2 212 955
Derivative financial instruments	20	1 719 085	2 029 122
Financial assets designated at fair value through profit and loss	22	10 758 331	12 360 690
Loans and advances to customers	23	130 668 119	116 572 585
Investment securities available for sale	24	10 219 400	7 944 317
Securities held to maturity	25	-	9 894
Investments in associates and jointly controlled entities	26	172 931	228 692
Non-current assets held for sale		19 784	13 851
Inventories	27	530 275	653 075
Intangible assets	28	1 802 037	1 572 577
Tangible fixed assets	29	2 576 445	2 777 694
including investment properties		259	322
Current income tax receivables	14	4 318	7 184
Deferred income tax asset	14	582 802	403 218
Other assets	30	613 881	575 426
TOTAL ASSETS		**169 660 501**	**156 478 685**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	31	3 370	6 581
Amounts due to banks	32	5 233 875	5 146 048
Derivative financial instruments	20	2 404 795	1 544 370
Amounts due to customers	34	132 981 215	125 072 934
Debt securities in issue	35	3 298 867	289 360
Subordinated liabilities	36	1 611 779	1 612 178
Other liabilities	37	2 092 834	1 566 623
Current income tax liabilities	14	67 744	181 893
Deferred income tax liability	14	22 764	20 534
Provisions	38	583 690	602 294
TOTAL LIABILITIES		**148 300 933**	**136 042 815**
Equity			
Share capital	39	1 250 000	1 250 000
Other capital	40	16 888 145	16 732 988
Currency translation differences from foreign operations		(109 747)	(108 791)
Unappropriated profits		112 297	248 806
Net profit for the year		3 216 883	2 305 538
Capital and reserves attributable to equity holders of the parent company		**21 357 578**	**20 428 541**
Non-controlling interest		1 990	7 329
TOTAL EQUITY		**21 359 568**	**20 435 870**
TOTAL LIABILITIES AND EQUITY		**169 660 501**	**156 478 685**

Capital adequacy ratio	54	12.47%	14.81%
Book value (in PLN thousand)		21 359 568	20 435 870
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		17.09	16.35
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		17.09	16.35

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2010 and 31 December 2009 respectively

for the year ended 31 December 2010	Share capital	Other capital							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
Note	**39**	**40**	**40**	**40**	**40**	**40**	**40**	**40**						
As at 1 January 2010	**1 250 000**	**12 149 682**	**3 405 087**	**1 070 000**	**705**	**(11 762)**	**119 276**	**16 732 988**	**(108 791)**	**248 806**	**2 305 538**	**20 428 541**	**7 329**	**20 435 870**
Transfer of net profit from previous years	-	-	-	-	-	-	-	**-**	-	2 305 538	(2 305 538)	**-**	-	**-**
Total comprehensive income	-	-	-	-	271	(13 409)	98 648	**85 510**	(956)	-	3 216 883	**3 301 437**	(4 332)	**3 297 105**
Transfer from unappropriated profits	-	62 495	7 152	-	-	-	-	**69 647**	-	(69 647)		**-**	-	**-**
Dividends paid	-	-	-	-	-	-	-	**-**	-	(2 375 000)	-	**(2 375 000)**	-	**(2 375 000)**
Acquisition of shares of a subsidiary by non-controlling shareholders	-	-	-	-	-	-	-	**-**	-	-	-	**-**	204	**204**
Increase in interest by acquisition of shares of a subsidiary	-	-	-	-	-	-	-	**-**	-	1 493	-	**1 493**	(1 493)	**-**
Additional payment to equity for non-controlling shareholders	-	-	-	-	-	-	-	**-**	-	-	**-**	**-**	352	**352**
Loss of control of a subsidiary	-	-	-	-	-	-	-	**-**	-	1 107	-	**1 107**	(70)	**1 037**
As at 31 December 2010	**1 250 000**	**12 212 177**	**3 412 239**	**1 070 000**	**976**	**(25 171)**	**217 924**	**16 888 145**	**(109 747)**	**112 297**	**3 216 883**	**21 357 578**	**1 990**	**21 359 568**

for the year ended 31 December 2009	Share capital	Other capital							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
Note	**39**	**40**	**40**	**40**	**40**	**40**	**40**	**40**						
As at 1 January 2009	**1 000 000**	**7 274 717**	**1 523 827**	**1 070 000**	**-**	**(33 237)**	**-**	**9 835 307**	**(57 413)**	**53 232**	**3 120 674**	**13 951 800**	**46 216**	**13 998 016**
Transfer of net profit from previous years	-	-	-	-	**-**	-	-	**-**	-	3 120 674	(3 120 674)	**-**	-	**-**
Total comprehensive income	-	-	-	-	-	21 475	119 276	**140 751**	(51 378)	-	2 305 538	**2 394 911**	6 303	**2 401 214**
Own shares issue	250 000	4 831 125	-	-	-	-	-	**4 831 125**	-	-	-	**5 081 125**	-	**5 081 125**
Transfer from unappropriated profits	-	43 840	1 881 260	-	**-**	-	-	**1 925 100**	-	(1 925 100)	-	**-**	-	**-**
Dividends paid	-	-	-	-	**-**	-	-	**-**	-	(1 000 000)	-	**(1 000 000)**	(32 620)	**(1 032 620)**
Increase in investment in subsidiaries	-	-	-	-	**-**	-	-	**-**	-	-	-	**-**	(13 840)	**(13 840)**
Other	-	-	-	-	**705**	-	-	**705**	-	-	-	**705**	1 270	**1 975**
As at 31 December 2009	**1 250 000**	**12 149 682**	**3 405 087**	**1 070 000**	**705**	**(11 762)**	**119 276**	**16 732 988**	**(108 791)**	**248 806**	**2 305 538**	**20 428 541**	**7 329**	**20 435 870**

(in PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT
for the years ended 31 December 2010 and 31 December 2009 respectively

	Note	2010	2009
Net cash flow from operating activities			
Net profit		3 216 883	2 305 538
Adjustments:		(2 876 246)	(7 165 701)
Profit/loss of non-controlling shareholders		(4 077)	6 246
Amortisation and depreciation		512 319	469 152
(Gains) losses on investing activities	45	(3 947)	(9 513)
Interest and dividends	45	(413 827)	(425 087)
Change in amounts due from banks	45	72 433	804 234
Change in trading assets and financial assets at fair value through profit and loss		2 311 665	(8 521 954)
Change in derivative financial instruments (asset)		310 037	1 568 548
Change in loans and advances to customers	45	(15 015 080)	(14 445 446)
Change in deferred income tax asset and income tax receivables		(176 718)	(164 516)
Change in other assets		78 412	10 510
Change in amounts due to banks	45	67 853	(1 499 134)
Change in derivative financial instruments (liability)		860 425	(4 605 967)
Change in amounts due to customers	45	7 499 314	21 092 519
Change in debt securities in issue		(158 733)	77 787
Change in impairment allowances and provisions	45	884 786	(1 014 123)
Change in other liabilities	45	648 133	48 021
Income tax paid		(1 178 323)	(1 107 813)
Current income tax expense	14	1 064 174	817 478
Other adjustments	45	(235 092)	(266 643)
Net cash from / used in operating activities		**340 637**	**(4 860 163)**
Net cash flow from investing activities			
Inflows from investing activities		**8 669 411**	**11 326 509**
Disposal of shares in a subsidiary, net of cash disposed		32	-
Proceeds from sale of investment securities		8 643 928	11 298 566
Repurchase of securities held to maturity		10 050	-
Proceeds from sale of intangible assets and tangible fixed assets		9 990	22 751
Other investing inflows		5 411	5 192
Outflows from investing activities		**(10 637 178)**	**(10 303 839)**
Purchase of a subsidiary, net of cash acquired		-	(117 934)
Purchase of investment securities available for sale		(10 017 463)	(9 720 036)
Purchase of securities held to maturity		-	(9 642)
Purchase of intangible assets and tangible fixed assets		(619 715)	(456 227)
Net cash from / used in investing activities		**(1 967 767)**	**1 022 670**
Net cash flow from financing activities			
Proceeds from shares issue		-	5 081 125
Proceeds from bonds issue		3 168 240	-
Redemption of debt securities in issue		(82 590)	(106 152)
Dividends paid to the equity holders of the parent company		(2 375 000)	(1 000 000)
Dividends paid to non-controlling shareholders		-	(32 620)
Long-term borrowings		1 084 130	1 329 527
Repayment of long-term borrowings		(721 362)	(712 237)
Net cash generated from financing activities		**1 073 418**	**4 559 643**
Net cash inflow/(outflow)		**(553 712)**	**722 150**
of which currency translation differences		*19 005*	*(39 169)*
Cash and cash equivalents at the beginning of the period		8 992 393	8 270 243
Cash and cash equivalents at the end of the period	45	**8 438 681**	**8 992 393**
of which restricted	42	6 950	8 421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Group') have been prepared for the year ended 31 December 2010 and include comparative data for the year ended 31 December 2009. Data has been presented in PLN thousand unless indicated otherwise.

The parent company of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA'; 'the parent company'; 'the Bank').

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

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was entered 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:

Shareholder	Number of shares	Number of votes %	Nominal value of 1 share	% Shareholding
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**
As at 31 December 2009				
The State Treasury	512 406 927	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 342	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	**---**	**100.00**

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

Business activities of the Group

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

(in PLN thousand)

In addition, the Group conducts activities related to leasing, real estate development, factoring, electronic settlements via payment cards, as well as renders other financial services, including services offered by an investment fund company. The scope of activities of each of the Group entities is set out in this note, in the table 'Structure of the PKO Bank Polski SA Group'.

The Group operates in the Republic of Poland and through its subsidiaries, KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o. – in Ukraine and through its subsidiary PKO Finance AB in Sweden.

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group consists of the following entities:

No.	Entity name	Registered office	Activity	Share capital (%) 31.12.2010	Share capital (%) 31.12.2009
The PKO Bank Polski SA Group					
			Parent company		
1	**Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna**				
			Direct subsidiaries		
2	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services, including financial services	100.00	100.00
3	Bankowy Fundusz Leasingowy SA	Łódź	Leasing services	100.00	100.00
4	Centrum Elektronicznych Usług Płatniczych 'eService' SA	Warsaw	Servicing and settlement of card transactions	100.00	100.00
5	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Management and use of Centrum Finansowe Puławska	100.00	100.00
6	Inteligo Financial Services SA	Warsaw	Technical servicing of Internet banking	100.00	100.00
7	KREDOBANK SA	Lviv, Ukraine	Financial services	99.5655	99.4948
8	PKO BP Bankowy Powszechne Towarzystwo Emerytalne SA	Warsaw	Pension fund management	100.00	100.00
9	PKO BP Inwestycje Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
10	PKO Finance AB	Stockholm, Sweden	Financial services	100.00	100.00
11	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	100.00	100.00
12	Fort Mokotów Inwestycje Sp. z o.o.[1]	Warsaw	Real estate development	99.9885	99.9885
			Indirect subsidiaries		
	Subsidiaries of PKO BP Inwestycje Sp. z o.o.				
13	PKO BP Inwestycje - Neptun Park Sp. z o.o. [2 and 3]	Warsaw	Real estate development	99.9975	99.9975
14	PKO BP Inwestycje - Nowy Wilanów Sp. z o.o. [2 and 4]	Warsaw	Real estate development	99.9750	99.9750
15	PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o. [5]	Warsaw	Real estate development	100.00	100.00
16	PKO BP Inwestycje - Sarnia Dolina Sp. z o. o. [6]	Warsaw	Real estate development	56.00	56.00
17	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Real estate development	55.00	55.00
18	Fort Mokotów Sp. z o.o.	Warsaw	Real estate development	51.00	51.00
19	WISŁOK Inwestycje Sp. z o. o. [7]	Rzeszów	Real estate development	-	80.00
	Subsidiaries of Bankowy Fundusz Leasingowy SA				
20	Bankowy Leasing Sp. z o.o. [2]	Łódź	Leasing services	99.9978	99.9969
21	BFL Nieruchomości Sp. z o.o. [2]	Łódź	Leasing services	99.9952	99.9930
	Subsidiary of Inteligo Financial Services SA				
22	PKO BP Finat Sp. z o.o. [8]	Warsaw	Intermediary financial services	80.3287	80.3287
	Subsidiary of Bankowe Towarzystwo Kapitałowe SA				
23	PKO BP Faktoring SA [2]	Warsaw	Factoring	99.9867	99.9846

1) The second shareholder of the entity Fort Mokotów Inwestycje Sp. z o.o. is PKO BP Inwestycje Sp. z o.o.
2) PKO Bank Polski SA holds 1 share in the entity
3) The previous name of the entity was POMERANKA Sp. z o.o.
4) The previous name of the entity was Wilanów Investments Sp. z o.o.
5) The previous name of the entity was PKO Inwestycje - Międzyzdroje Sp. z o.o.
6) The previous name of the entity was Baltic Dom 2 Sp. z o.o.
7) All shares were sold on 26 February 2010.
8) Other shares of the entity PKO BP Finat Sp. z o.o. are in hold of PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA (19.6702%) and PKO Bank Polski SA (0.0011%)

(in PLN thousand)

Jointly controlled entities and associates included in the consolidated financial statements:

Jointly controlled entities

No.	Name of Entity	Registered Office	Activity	Share capital % 31.12.2010	Share capital % 31.12.2009
Direct jointly controlled entities					
1	CENTRUM HAFFNERA Sp. z o.o.	Sopot	Real estate development	49.43	49.43
2	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Construction and maintenance of a hotel	41.44	41.44
Indirect jointly controlled entities					
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (indirect jointly controlled by PKO Bank Polski SA)					
3	Centrum Majkowskiego Sp. z o.o.	Sopot	Real estate development	100.00	100.00
4	Kamienica Morska Sp. z o.o.	Sopot	Real estate development	100.00	100.00
5	Sopot Zdrój Sp. z o.o.	Sopot	Real estate development	100.00	100.00
6	Promenada Sopocka Sp. z o.o.	Sopot	Real estate development	100.00	100.00

Associates

No.	Name of Entity	Registered Office	Activity	Share capital % 31.12.2010	Share capital % 31.12.2009
Direct associates					
1	Bank Pocztowy SA	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka SA[1]	Krynica Górska	Construction and operation of cable railway	37.53	37.53
3	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Provision of sureties and guarantees	33.33	33.33
4	Agencja Inwestycyjna CORP SA	Warsaw	Office real estate management	22.31	22.31
Indirect associates					
Subsidiaries of Bank Pocztowy SA (indirect associates of PKO Bank Polski SA)					
5	Centrum Operacyjne Sp. z o. o.	Bydgoszcz	Activities supporting financial services	100.00	-
6	Spółka Dystrybucyjna Banku Pocztowego Sp. z o. o.	Warsaw	Financial intermediary services	100.00	-

[1] In 2010 and 2009 the Company's shares were included in non-current assets held for sale.

Information on changes in the parent's participation in the share capital of the subsidiaries is set out in Note 49 'Changes to the entities of the Group'.

Information on members of the Management and Supervisory Board of PKO Bank Polski SA

As at 31 December 2010, 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
- Krzysztof Dresler — Vice-President of the Management Board
- Jarosław Myjak — Vice-President of the Management Board
- Wojciech Papierak — Vice-President of the Management Board
- Jakub Papierski — Vice-President of the Management Board

During the year ended 31 December 2010, the following changes took place in the composition of the Management Board:

- on 27 January 2010, the Supervisory Board of PKO Bank Polski SA passed a resolution appointing Jakub Papierski as the Vice-President of the Bank's Management Board as of 1 April 2010;
- on 10 March 2010, the Bank's Supervisory Board appointed Jakub Papierski as the Vice-President of the Management Board of the Bank, effective from 22 March 2010, for the joint term of the Board beginning on 20 May 2008. Simultaneously, in accordance with the above resolution, the Bank's Supervisory Board has repealed its resolution of 27 January 2010, pursuant to which Jakub Papierski was to begin acting as a Vice-President of the Bank on 1 April 2010;

(in PLN thousand)

- on 13 April 2010, the Polish Financial Supervision Authority approved unanimously the appointment of Zbigniew Jagiełło as the President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna;
- on 21 July 2010 Mariusz Zarzycki resigned from the post of the Vice-President of the Management Board of PKO Bank Polski SA effective from 31 July 2010;
- on 1 September 2010, the Bank's Supervisory Board appointed Piotr Alicki as the Vice-President of the Bank's Management Board as of 2 November 2010.

As at 31 December 2010, the Bank's Supervisory Board consisted of:

• Cezary Banasiński	Chairman of the Supervisory Board
• Tomasz Zganiacz	Vice-Chairman of the Supervisory Board
• Mirosław Czekaj	Secretary of the Supervisory Board
• Jan Bossak	Member of the Supervisory Board
• Błażej Lepczyński	Member of the Supervisory Board
• Piotr Marczak	Member of the Supervisory Board
• Alojzy Zbigniew Nowak	Member of the Supervisory Board

During the year ended 31 December 2010, the following changes took place in the composition of the Bank's Supervisory Board:

- on 25 June 2010 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA appointed Piotr Marczak to the Supervisory Board of PKO Bank Polski SA. In accordance with the appropriate resolution, Piotr Marczak's appointment was effective from 25 June 2010.
- on 30 September 2010 Ireneusz Fąfara resigned from the post of member of the Supervisory Board of PKO Bank Polski SA.

Approval of financial statements

These consolidated financial statements, reviewed by the Supervisory Board's Audit Committee on 2 March 2011, have been approved for issue by the Management Board on 1 March 2011 and accepted by the Supervisory Board on 2 March 2011.

2. Summary of significant accounting policies including estimates and judgements

2.1. Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) as at 31 December 2010, 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 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 IASB introduces limitations in that respect.

2.2. Going concern

The consolidated financial statements of the PKO Bank Polski SA Group have been prepared on the basis that the Group will continue as a going concern during a period of 12 months from the issue date, i.e. since 7 March 2011.

As at the date of signing these consolidated financial statements, the Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity of the Bank or the entities of the PKO Bank Polski SA Group for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the PKO Bank Polski SA Group.

2.3. Basis for 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 amortized cost with an allowance for impairment losses or at cost with an allowance for impairment losses.

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

2.4. Basis of consolidation

2.4.1. Subsidiaries

Subsidiaries are entities (including entities which are not incorporated, such as general partnerships) controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations.

Control is exercised when the parent company holds directly or indirectly more than one-half of the voting rights in a given entity unless in special circumstances it may be proven that such holdings do not lead to exercising control. Control is also exercised when the Bank has one-half or less voting rights in a given entity and when:

1) it has more than one-half of votes on the basis of agreements with other investors,
2) it is capable of managing the entity's financial and operational policy on the basis of the Memorandum of Association or an agreement,
3) it is capable of appointing and removing most of the Management Board or any equivalent management body where the Management Board or equivalent body exercises control over the entity, or
4) it has the majority of votes at the Management Board's or any equivalent management body's meetings where the Management Board or equivalent body exercises control over the entity.

Subsidiaries are fully consolidated from the date on which control was acquired until the day until it ceased.

The 'full' method of consolidation requires the adding up of all full amounts of the individual items of statement of financial position, income statement of the subsidiaries and of the Bank, and making appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated at consolidation. The following items are eliminated in full at consolidation:

1) inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
2) revenue and costs arising from business transactions conducted between the consolidated entities,
3) gains or losses from business transactions conducted between consolidated entities, included in the carrying amount of the assets of the consolidated entities, except for losses indicating impairment,

4) dividends accrued or paid by the subsidiaries to the parent company and to other consolidated entities,
5) inter-company cash flows in the cash flow statement.

The consolidated cash flow statement have been prepared on the basis of the consolidated statement of financial position, consolidated income statement and the additional notes and explanations.

The parent company and consolidated subsidiary reporting periods for the financial statements are co-terminous. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

2.4.2. Acquisition method

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

As at the date of the acquisition, identifiable assets taken over, liabilities taken over and all non-controlling shares in the acquired entity are recognized separately from goodwill.

Identifiable assets and liabilities acquired are initially measured at fair value as at the acquisition date. In each and every business combination, all non-controlling shares in the acquired entity are measured at fair value or on a pro rata basis in respect of the share of the non-controlling shares in the identifiable net assets of the target entity.

Goodwill is recognized as at the acquisition date and measured as the excess of the total of:

1) the consideration provided, measured at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules, and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank over the net amount of the value of identifiable assets and liabilities acquired, measured at fair value as at the acquisition date, determined as at the acquisition date.

If the net value, determined as at the acquisition date, of identifiable assets and liabilities acquired, measured at fair value as at the acquisition date is higher than the total of:

1) the consideration provided, measured at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules, and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank,

the difference is recognized directly in the income statement.

2.4.3. Associates and jointly controlled entities

Associates are entities (including entities which are not incorporated, such as general partnerships) on which the Group exerts significant influence but whose financial and operating policies it does not control, which usually accompanies having 20% to 50% of the total number of votes in the decision-making bodies of the entities.

Jointly controlled entities are trade companies or other entities, which are jointly controlled by parent company or a significant investor and other shareholders or partners on the basis of the Articles of Association, company's agreement concluded for a period longer than one year.

Investments in associates and jointly controlled entities are accounted in accordance with the equity method and are initially stated at cost. The Group's investment in associates and jointly controlled entities includes goodwill (net of any potential accumulated impairment write-downs), determined as at the acquisition date.

The Group's share in the results of the associates and jointly controlled entities from the date of purchase has been recorded in the income statement and its share in changes of other comprehensive income from the date of purchase has been recorded in other comprehensive income. The carrying amount of investments is adjusted by the total movements in particular equity items from the date of their purchase. When the Group's share in the losses of an associate or jointly controlled entity becomes equal or higher than the Group's share in the associate or jointly controlled entity, which covers potential unsecured receivables, the Group discontinues recognizing further losses unless it has assumed the obligation or has made payments on behalf of the given associate or jointly controlled entity.

Unrealized gains on transactions between the Group and its associates and jointly controlled entities are eliminated in proportion to the Group's share in the said entities. Unrealized losses are also eliminated unless the transaction proves that the given asset transferred has been impaired.

At each balance date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and jointly controlled entities. If any such indicators exist, the Group estimates the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher. If carrying amount of the asset exceeds its recovery value, the Group recognizes an impairment allowance in the income statement. The projection for the value in use requires making assumptions, i.al. about future cash flows that the Group 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.

2.5. Foreign currencies

2.5.1. Functional and presentation currency

Items presented in the financial statements of the individual Group entities, including KREDOBANK SA, UKRPOLINWESTYCJE Sp. z o.o and PKO Finance AB are measured in functional currency i.e. in the currency of the basic economic environment in which the given entity operates. The functional currency of the parent company and other entities included in these financial statements, except for KREDOBANK SA, UKRPOLINWESTYCJE Sp. z o.o., and PKO Finance AB is the Polish zloty. The functional currency of KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o is the Ukrainian hrivna and the functional currency of PKO Finance AB is the Swedish krona.

Consolidated financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Group.

2.5.2. Transactions and balances denominated in foreign currency

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

1) monetary assets denominated in foreign currency are translated into Polish zloty using a closing rate - the average rate communicated by the National Bank of Poland for a given currency prevailing at the balance date;
2) non-monetary assets valued at historical cost in a foreign currency are translated into Polish zloty using exchange rates prevailing on a day of a particular transaction;
3) non-monetary assets designated 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 and non-monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(in PLN thousand)

UAH	2010	2009
Rate prevailing on the last day of the period	0.3722	0.3558
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.3830	0.3897
The highest rate in the period	0.4406	0.4801
The lowest rate in the period	0.3423	0.3222

SEK	2010	2009
Rate prevailing on the last day of the period	0.4415	0.4000
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.4222	0.4095
The highest rate in the period	0.4459	0.4403
The lowest rate in the period	0.3934	0.3675

2.6. Financial assets and liabilities

2.6.1. Classification

Financial assets are classified by the Group into the following categories: financial assets designated 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 as follows: financial liabilities designated at fair value through profit and loss and other financial liabilities. The classification of financial assets and liabilities is determined by the Group on initial recognition.

2.6.1.1. Financial assets and liabilities designated at fair value through profit and loss

A financial asset or financial liability designated 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. Financial assets or financial liabilities are 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 classified as designated at fair value through profit and loss. The Group may use this designation only when:
   a) the designated financial asset or liability is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden;
   b) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
   c) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Group.

The Group 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.

2.6.1.2. Financial assets available for sale

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

a) financial assets designated by the Group at fair value through profit and loss upon initial recognition;
b) financial assets held-to-maturity;
c) those that meet the definition of loans and advances.

2.6.1.3. 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 in an active market, other than:

1) those that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group upon initial recognition classifies as designated at fair value through financial result;
2) those that the Group 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.

2.6.1.4. 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 Group has the positive intention and ability to hold to maturity other than:

1) those that the Group upon initial recognition designates as valued at fair value through profit and loss;
2) those that the Group designates as available for sale;
3) those that meet the definition of loans and advances.

2.6.1.5. Other financial liabilities

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

2.6.2. Accounting for transactions

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

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

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

1) the contractual rights to receive the cash flows from the financial asset is transferred, or
2) the Group 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 Group.

When the Group 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 Group 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 Group 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 derecognized from the statement of financial position.

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

The Group 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.

The Group derecognizes loans 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 recognized for these accounts. In the case where no allowances were recognized against the account or the amount of the allowance is less than the amount of the loan or other receivable, the loan or receivable is written off after, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognized to date.

2.6.4. 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 designated 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:

2.6.4.1. 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’.

2.6.4.2. Financial assets available for sale

Financial assets available for sale (except for impairment allowances and currency translation differences) are measured at fair value, and gains and losses arising from changes in fair value are recognised in the other comprehensive income until the amount included in the other comprehensive income is reclassified to the income statement when a financial asset is derecognised from a statement of financial position. Interest determined using effective interest rate from financial assets available for sale are presented in the net interest income.

2.6.4.3. Loans, advances and investments held to maturity

They are measured at amortized cost with the use of effective interest rate and an allowance for impairment losses. In the case of loans and advances for which it is not possible to reliably estimate the future cash flows and the effective interest rate, loans advances and investments held to maturity are measured at costs to pay.

2.6.4.4. Other financial liabilities

They are measured at amortized cost. If the time schedule of cash flows from a financial instrument cannot be determined, and thus the effective interest rate cannot be determined fairly, the liability is measured at the amount of consideration due.

Debt instruments issued by the Group are recognized as other financial liabilities and measured at amortized cost.

2.6.4.5. Method of establishing fair value and amortized 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).

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 designated at fair value through profit and loss and available for sale:
   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,
   b) at valuation performed by a specialized external entity providing services of this kind,
2. debt instruments designated at fair value through profit and loss:
   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. debt instruments available for sale:
   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), 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,
   c) the method based on market prices of securities with similar financial characteristics (the reference asset value method),
   d) in the case of securities whose fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model.

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

Amortized cost is the amount at which the financial instrument was measured at the date of initial recognition, decreased by principal repayments, and increased or decreased by the cumulative amortization of any differences between that initial amount and the amount at maturity, and decreased by any impairment allowances. Amortized 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 next re-pricing, and which is the internal rate of return of the asset/liability for the given period. The calculation of this rate includes payments received/made by the Group which affect financial characteristics of the instrument, with exception of potential future losses related to non-performing loans.

Commissions, fees and transaction costs which constitute an integral part of the effective return on a financial instrument, adjust their carrying amounts and are included in the calculation of the effective interest rate.

2.6.5. Derivative instruments

2.6.5.1. Recognition and measurement

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

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 Group includes the difference, respectively, in the net income from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains, in correspondence with 'Derivative financial instruments'.

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

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

2.6.5.2. 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 that otherwise would be required under the contract.

Embedded derivative instruments separated from host contracts and recognized separately and accounting records are valued at fair value. Valuation is presented in the statement of financial position under 'Derivative Financial Instruments'. Changes in the valuation at fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments designated at fair value through profit and loss' or 'Net foreign exchange gains'.

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

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

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

2.6.5.3. Hedge accounting

2.6.5.3.1. Hedge accounting criteria

The Group 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.

2.6.5.3.2. Discontinuing hedge accounting

The Group 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 recognized directly in other comprehensive income over the period in which the hedge was effective are recognized 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 recognized directly in other comprehensive income over the period in which the hedge was effective are recognized 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 recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the income statement,
4) the Group invalidates a hedge relationship.

2.6.5.3.3. Fair value hedge

As at 31 December 2010 and 2009, the Group did not apply fair value hedge accounting.

2.6.5.3.4. Cash flows 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 recognized directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognized 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 recognized 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 currency translation differences on the nominal value of the hedging transactions. These are shown in the income statement, in 'Net interest income' and 'Net foreign exchange gains' respectively.

2.6.6. Offsetting of financial instruments

A financial asset or liability may only be offset when the Group 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 realized 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 recognized at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the contractor.

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

Sell-buy back, buy-sell back are measured at amortised cost, whereas securities which are an element of a sell-buy back transaction are not derecognized 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 recognized as interest expense/income, as appropriate, and it is amortized over the term of the contract using the effective interest rate.

2.8. Impairment of financial assets

2.8.1. Assets measured at amortized cost

At each balance date for credit, loan or finance lease, 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 Group determines the amounts of impairment losses. 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.

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

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

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

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

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

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

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

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

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

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

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

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

2.8.2. Assets available for sale

At each balance date, the Group makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If such evidence exists, the Group determines the amounts of impairment losses.

Objective evidence that a financial asset or group of assets available for sale is impaired includes the 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 borrower's financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganization of the issuer,
6) 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 Group 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 by the market interest rates set on the based on yield curves for Treasury bonds moved by risk margins.

An impairment loss of a financial asset classified as available for sale is recognised in 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 recognized, the impairment loss is reversed and the amount of the reversal is recorded in the income statement.

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

2.9. Leasing

The Group is a party to lease agreements, based on which it conveys in return for payment to use and take profits (the lessor) from tangible and intangible assets during a fixed period (the rights).

The Group is also a party to lease agreements, based on which it receives tangible fixed assets for an agreed period of time (the lessee).

The classification of leases is based on the extent to which risks and rewards incidental to ownership of an asset lie with the lessor or the lessee.

2.9.1. The Group as a lessor

As regards finance lease agreements, the Group, as a lessor, has receivables of the present value of contractual lease payments, increased by a possible unguaranteed residual value assigned to the lessor, fixed at the date of the lease agreement. These receivables are disclosed under 'Loans and advances to customers'. Finance lease payments are apportioned between the finance income and the reduction of balance of receivables in a way that provide fixed interest rate from an outstanding debt.

As regards operating lease agreements, initial direct costs that are incremental and directly attributable to negotiating and arranging a lease, are added to the carrying value of the leased asset during the period fixed in the lease agreement, on the same basis as in the case of contracts for hire. Conditional lease payments constitute income when they are due. Lease payments due from agreements, which do not meet the finance lease criteria (operating lease agreements) constitute income and are recognised on a straight-line basis during the lease term.

2.9.2. The Group as a lessee

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

2.10. Tangible fixed assets and intangible assets

2.10.1. Intangible assets

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

2.10.1.1. Goodwill

Goodwill arising on acquisition of a business entity is initially recognized at acquisition cost, being the excess of the costs of acquiring control over the share of the acquirer in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is stated at the acquisition cost less any cumulative impairment losses.

Goodwill arising on acquisition of subsidiaries is recognized under ‘Intangible assets’ and goodwill arising on acquisition of associates and jointly controlled entities is recognized under ‘Investments in associates and jointly controlled entities’.

The test for goodwill impairment is carried out at least at the end of each year. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment allowance is recognized.

2.10.1.2. Software

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

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

2.10.1.3. Other intangible assets

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

2.10.1.4. Development costs

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

2.10.2. Tangible fixed assets

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

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

2.10.3. 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 Group will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible asset (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.

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

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

For 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.

Amortization periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by the PKO Bank Polski SA Group:

Tangible assets	Periods
Buildings, premises, cooperative rights to premises (including investment properties)	2-60 years
Leaseholds improvements (buildings, premises)	2-60 years (or term of the lease if shorter)
Machinery and equipment	2-15 years
Computer hardware	2-10 years
Means of transport	3-5 years
Intangible assets	**Periods**
Software	2-15 years
Other intangible assets	1-5 years

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

2.10.5. Impairment allowances of non-financial non-current assets

At each balance date, the Group 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 Group makes an assessment of whether there are any indicators of impairment of any of its no 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 Group recognizes 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 Group makes an assessment of whether there are any indicators of impairment of any of its no 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 Group determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

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

Impairment 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).

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

2.11. Other items in the statement of financial position

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

Fixed assets held for sale include assets whose carrying amount is to be recovered as a result of sale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, when such sale is highly probable, i.e. the entity has determined to sell the asset 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 recognized as completed within one year from the date of classification of the asset into this category.

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

Discontinued operations are an element of the Group'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 fixed assets, for whose qualification criteria for the group of fixed assets held for sale are no longer fulfilled, the Group makes reclassification from fixed assets held for sale to the proper category of assets. Fixed 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.

2.11.2. Inventories

Inventories related mainly to real estate development activities of the Group are valued at the lower of two values: the purchase price/cost of production and net realizable value.

Expenses incurred in bringing the inventories to their present location and condition are treated as follows: finished goods (housing and service premises) and work in progress (housing and service premises in progress and land held for development) – as direct expenses and part of indirect costs of production. In the case of long-term preparatory or production periods, cost or purchase price is increased by finance charges specifically incurred for such purchases.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The value of inventories disbursement is determined by specific identification of individual purchase prices or production cost of components, which relate to realization of specific projects.

2.11.3. Accruals and deferred income

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

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

2.12. Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Group 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.

2.13. Restructuring provision

A restructuring provision is set up when general criteria for recognizing provisions are met as well as there are met detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37. Precisely, the constructive obligation of restructurisation and recognising provisions arises only when the Group has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the said parties. A detailed restructuring plan specifies at least 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 recognize 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 Group's on-going business operations.

The restructuring provision does not cover future operating expenses.

2.14. Employee benefits

According to the Collective Labour Agreement (Zakładowy Układ Zbiorowy), 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 Group 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 periodically by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement ('Zakładowy Układ Zbiorowy Pracy') being in force at the Group. 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 amount to discounted future payments, taking into account staff turnover, and relate to the service period ending on the balance date. Gains or losses resulting from actuarial calculations are recognized in the income statement.

The Group 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.

2.15. Borrowing costs

Borrowing costs that may be directly attributable to the acquisition, construction or production of a qualifying asset are capitalized by the Group as part of acquisition or production cost of that asset when it is probable that they will result in future economic benefits and the acquisition or production cost can be measured reliably.

Other borrowing costs are recognized by the Group as an expense in the period in which they are incurred.

2.16. Contingent liabilities and commitments

The Group enters into transactions, which, at the time of their recognition, are not recognized 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 Group,
2) a present obligation resulting from past events, but not recognized 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 estimated reliably.

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

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

Upon 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 recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 'Revenue'.

2.17. Shareholders' equity

Equity constitutes capital and reserves created in accordance with the legal regulations applicable in Poland and the Articles of Association. The classification to particular equity components, discussed in items 2.17.1 to 2.17.4 below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1. In accordance with IAS 1, equity also includes unappropriated profits and accumulated losses, currency translation differences on translating foreign operations, the effective portions of cash flow hedges and net gains or losses on the valuation of financial instruments classified as available-for-sale (discussed in items 2.17.5-2.18 below). Equity components of the subsidiaries, other than share capital, in a proportion equal to the interest in the subsidiary held by the parent company, are added to respective equity components of the parent company. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent company.

2.17.1. Share capital

Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with Articles of Association and entry to the Register of Entrepreneurs.

2.17.2. Reserve capital

Reserve capital is created according to the Articles of Association of the Group entities, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses of Group entities.

2.17.3. 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.

2.17.4. 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.

2.17.5. Share in other comprehensive income of an associate

The position comprises the share of the parent company in other reserves of associates.

2.17.6. Trading assets

This position comprises the effects of valuation of trading assets less deferred tax resulting from this valuation.

2.17.7. Cash flow hedges

Cash flow hedges comprise an effective part of a cash flow hedging position within hedge accounting including a deferred tax.

2.17.8. Currency translation differences from foreign operations

Capital component – currency translation differences resulting from the translation of the net result of a foreign entity using the rate calculated arithmetic mean of average NBP rates prevailed as at the last day of each month of the statement of financial position period as well as currency translation differences resulting from valuation of net assets in a foreign entity.

2.17.9. Shareholders' equity also includes

1. net result prior to the approval less declared dividends,
2. dividends declared after the reporting period but not paid.

The net profit or loss for the year is the profit before tax reported in the income statement for the current year, adjusted for the corporate income tax expense and profits (losses) attributable to non-controlling interest.

In accordance with the Polish legislation, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable. In the case of joint stock companies - the amount to be distributed between shareholders may not exceed the net profit for the prior year plus retained earnings and amounts reclassified from the supplementary capital and other reserves accumulated from profit appropriation which may be distributed as dividend. The resulting amount must be decreased by the amount of accumulated losses, Treasury shares and amounts which should be transferred from the net profit for the last year to supplementary capital or other reserves based on the law or the Memorandum of Association. In the case of limited liability companies - the amount to be distributed between shareholders may not exceed the net profit for the prior year plus retained earnings and amounts reclassified from the distributable portion of supplementary capital and other reserves accumulated from profit appropriation. The resulting amount must be decreased by the amount of accumulated losses, Treasury shares and amounts which should be transferred from the net profit for the last year to supplementary capital or other reserves based on the law or the Memorandum of Association.

2.17.10. Non-controlling interest

Non-controlling interest represent the part of capital in a subsidiary company, which cannot be directly or indirectly assigned to the parent company.

2.18. Determination of a financial result

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

2.18.1. Interest income and expense

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

Interest income and interest expenses are recognized 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 loss values are calculated from present values of receivables (that is net of impairment loss) by using current interest rate 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 recognized 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, 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.

2.18.2. Fee and commission income and expense

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

2.18.3. Dividend income

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

2.18.4. Net income from financial instruments at fair value through profit and loss

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.

2.18.5. 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.

2.18.6. Foreign exchange gains

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

The Group recognizes in net foreign exchange gains both realized and unrealized foreign exchange gains and losses on fair value measurement of unrealized 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).

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

2.18.7. Other operating income and expense

Other operating income and expense includes income and expense not related directly to banking activity. Other operating income mainly includes gains from sale or liquidation of non-current assets and assets possessed in exchange for debts, recovered bad debts, legal damages, fines and penalties, income from lease/rental of properties. 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.

Other operating income and expense in relation to the Group's entities include also income from sale of finished goods, goods for resale and raw materials, and the corresponding costs of their production.

Income from construction services (real estate development activities) is recognized on a completed contract basis, which involves recognition of all construction costs that incurred during the period of construction as work-in-progress. Payments received on account of a purchase of apartments are shown within deferred income.

2.19. Income tax

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

2.19.1. 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 being in force within particular tax jurisdiction with regard to corporate income tax of capital groups are taken into consideration. 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 housing loans (Journal of Laws No. 43, item 482) are taken into consideration. According to the above-mentioned Decree moment of taxation of capitalized 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. Therefore, the Group recognizes the deferred income tax liability on income due to capitalized interest on housing loans, as described in the Decree.

2.19.2. Deferred income tax

The amount of deferred income tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Group recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the statement of financial position 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 recognized 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 part of the deferred tax asset to be utilized.

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

The Group uses the 19% tax rate for entities operating on the territory of Poland, a 21% tax rate for entities operating in Ukraine (corporate tax rate being in force in Ukraine since 1 January 2011) and 26.3% tax rate for entities operating in Sweden.

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

2.20. Critical estimates and judgements

While preparing financial statements, the Group 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 Group 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 Group 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 Group are subject to periodic reviews. Adjustments to estimates are recognized in the periods in which the estimates were adjusted, provided that these adjustments affect only the given period. If the adjustments affect both the period in which the adjustment was made as well as future periods, they are recognized in the period in which the adjustments were made and in the future periods.

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

2.20.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group 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 Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts. In the case of a +/- 10% change in the present value of estimated cash flows for the Bank's loan portfolio individually determined to be impaired, the estimated impairment allowance 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.

2.20.2. 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 Group for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS quotations). The Group 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 34 957 thousand. A similar downwards movement in opposite direction would result in valuation increase by PLN 36 496 thousand (including the instruments covered by hedge accounting: a drop of PLN 42 389 thousand for upward movement of yield curve and increase of PLN 50 490 thousand for downward movement of the curve).

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

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2010, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted financial discount rate. An increase/decrease in the financial discount rate of 0.5 pp. will contribute to an increase/decrease in the amount of the provision for retirement and pension benefits and jubilee bonuses of approx. PLN 19 million.

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

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

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 in the Bank by PLN 25 million or an increase in depreciation costs by PLN 149 million respectively.

(in PLN thousand)

2.21. Changes in accounting policies

Set out below are the new or revised IFRS and the new interpretation of the International Financial Reporting Interpretations Committee (IFRIC). As at 31 December 2010, the Bank did not opt for early adoption of any of these standards and interpretations.

Amendments to standards and interpretations which have come into force and have been applied by the Bank since 1 January 2010

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of changes
Amendments to IFRS 3 - Business Combinations	January 2008	Effective for business combinations for which the acquisition date is on or after 1 July 2009	Yes	Implemented amendments enable to choose the method of presenting non-controlling shares either at fair value or their share in fair value of the identified net assets, a reassessment of shares to fair value in the acquired entity already possessed, while the difference should be presented through profit and loss. The amendments provide guidelines on how to use the acquisition method including the presentation of transaction costs as the cost of the period when they were incurred.
Amendments to IAS 27 - Consolidated and Separate Financial Statements	January 2008	Financial year starting on or after 1 July 2009	Yes	According to the standard, the entities are obliged to present the net transactions with non-controlling shareholders directly in equity as long as the up-to-now parent company remains dominant towards a given entity. The standard provides detail on the disclosure if the parent company lost control over a subsidiary entity. Precisely, it requires to measure the remaining shares at fair value and to present the difference through profit and loss.
Amendments to IAS 39 - Financial Instruments: Recognition and Measurement - Criteria for Hedge Accounting	July 2008	Financial year starting on or after 1 July 2009	Yes	The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item for a financial instrument should be applied in particular situations. The amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge. Amendments do not permit also to include the time value of a one-sided risk when options are designated as a hedging instrument.

(in PLN thousand)

Amendments to IFRS 2 Share-based Payment	June 2009	Financial year starting on or after 1 January 2010	Yes	Amendments precise the recognition of share-based cash-settled payment within the Group. Amendments precise the scope of IFRS 2 and regulate the joint usage of IFRS 2 and other standards. The amendments incorporate into IFRS 2 the subjects regulated earlier in IFRIC 8 and IFRIC 11.
Amendments to IFRS 1 - First-time Adoption of IFRS	July 2009	Financial year starting on or after 1 January 2010	Yes	Amendments introduce additional exemptions for first-time adopters related to assets valuation for petrol and gas entities.
IFRIC 12 - Service Concession Arrangements	November 2006	Financial year starting on or after 1 January 2010	Yes	This interpretation includes guidance on implementation of existing standards by operators for public-to-private service concession arrangements. IFRIC 12 applies to the arrangements, where the grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price.
IFRIC 15 - Agreements for the Construction of Real Estate	July 2008	Financial year starting on or after 1 January 2010	Yes	This interpretation contains general guidelines on how to assess agreements for the construction of real estate in order to decide whether its results should be presented in the financial statements in accordance with IAS 11 'Construction contracts' or with IAS 18 'Revenue'. In addition, IFRIC 15 indicates at what time revenue associated with construction services should be recognized.
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	July 2008	Financial year starting on or after 1 July 2009	Yes	The interpretation provides general guidance on whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent company, and the presentation currency of the parent company's consolidated financial statements. Moreover, IFRIC 16 explains which entity in the Group is allowed to disclose a hedging instrument within hedges of a net investment in a foreign operation. In particular, it explains if the parent company holding a net investment in a foreign operation is obliged to hold also a hedging instrument. The interpretation also clarifies how the gain or loss reclassified from equity to profit and loss, both for a hedged and a hedging instrument is calculated on disposal of the hedged foreign operation.
IFRIC 17 - Distributions of Non-cash Assets to Owners	November 2008	Financial year starting on or after 1 November 2009	Yes	The interpretation provides guidance on when a dividend payable should be recognized, how an entity should measure the dividend payable and how it should recognize the difference between the dividend paid and the carrying amount of the net assets distributed.

(in PLN thousand)

IFRIC 18 Transfers of Assets from Customers	January 2009	Financial year starting on or after 1 November 2009	Yes	The interpretation provides guidance on transfers of assets from customers, namely the circumstances in which the definition of an asset is met, the identification of the separately identifiable services (services in exchange for the transferred asset), the recognition of revenue and the accounting for transfers of cash from customers.
Amendments to IFRS 2009 (amendments to 12 standards)	April 2009	Financial year starting on or after 1 January 2010	Yes	The amendments comprise changes related to the presentation, disclosure and valuation. They also include terminology and editing changes.

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 IAS 32 - Classification of rights issues	October 2009	Financial year starting on or after 1 February 2010	Yes	Amendments relate to rights issue accounting (rights issue, 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.
Amendments to IFRS 1 - First-time Adoption of IFRS	January 2010	Financial year starting on or after 1 July 2010	Yes	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.
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 recognized in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

(in PLN thousand)

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IFRS 2010 (amendments to 7 standards)	May 2010	Majority of changes will be in force in financial year starting on or after 1 January 2011	No	The amendments comprise changes related to the presentation, disclosure and valuation. They also include terminology and editing 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.
Amendments to IAS 24 - Related Party Disclosure	November 2009	Financial year starting on or after 1 January 2011	Yes	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.
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 IFRSs. 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.
Amendments to IFRS 7 - Transfers of Financial Assets	October 2010	Financial year starting on or after 1 July 2011	No	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 remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the 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, an additional disclosure is required to enable the effects of those risks to be understood.

(in PLN thousand)

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
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. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets which addresses similar issues involving non-depreciable assets was incorporated into IAS 12 after excluding guidance regarding investment property measured at fair value.
IFRS 9, Financial Instruments Part 1: Classification and Measurement	November 2009; amended in October 2010 to address the classification and measurement of financial liabilities	Financial year starting on or after 1 January 2013	No	Key features of the standard are as follows: financial assets are required to be classified into two measurement categories: those to be measured at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification 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 as at fair value through profit or loss in other comprehensive income.

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant effect on the accounting policies applied by the Bank with the exception of IFRS 7 and IFRS 9 (an influence of IFRS 7 and 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).

3. Information on the segments of activities

The PKO Bank Polski SA Group's reporting scheme is primarily based on the criteria of groups of clients – recipients of products and services offered by the parent company and other entities of the PKO Bank Polski SA Group. Each operating business segment comprises activities of providing products and services that are characterized by similar risk and income – different from other business segments. The segment report below is recognized in an internal reporting system, i.e. the way of presenting data to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources.

The segment report below presents an internal structure of the PKO Bank Polski SA Group. At present, the PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment segment:

1. The retail segment comprises transactions of the parent company with retail clients, small and medium-sized enterprises and mortgage market clients, as well as activities of the following subsidiaries: KREDOBANK SA, PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA Group, Centrum Elektronicznych Usług Płatniczych eService SA, PKO BP Inwestycje Sp. z o.o. Group and Fort Mokotów Inwestycje Sp. z o.o.
   This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium-sized enterprises and housing market customers.

2. The corporate segment includes transactions of the parent company with large corporate clients, as well as activities of the Bankowy Fundusz Leasingowy SA Group and the Bankowe Towarzystwo Kapitałowe SA Group.
   This segment comprises, among others, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy back and buy sell back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects.

3. The investment segment comprises the Bank's portfolio activity on its own account, i.a. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions and activities of PKO Finance AB and Centrum Finansowe Puławska Sp. z .o.o. (own activities). In the net result of the segment, the net result of internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting is presented. Internal funds transfer is based on transfer pricing dependant on interest rates. The transactions between business segments are conducted on arm's length. Long-term external financing includes the issuance of bonds, subordinated liabilities and funds under the EMTN programme issuance as well as amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted on arm's length.

Accounting policies applied in the segmentation report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by operating activities segment. Values of assets, liabilities, income and expenses of a particular segment are based on internal management information. To particular segments there are assigned assets and liabilities as well as income and costs related to the assets and liabilities.

The current income tax expense was presented only on the Group level.

The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the 12-month period ending 31 December 2010 and 31 December 2009 and of selected assets and liabilities as at 31 December 2010 and as at 31 December 2009.

(in PLN thousand)

For the period from 1 January to 31 December 2010	Continuing activity				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	**5 170 877**	**637 047**	**280 911**	**427 331**	**6 516 166**
Net fee and commission income	**2 738 897**	**287 478**	**116 454**	**-**	**3 142 829**
Other net income	**241 202**	**76 058**	**219 850**	**1 446**	**538 556**
Net result from financial operations	(3 713)	(293)	75 266	(60 781)	**10 479**
Net foreign exchange gains	93 444	58 328	132 763	62 227	**346 762**
Dividend income	-	-	5 663	-	**5 663**
Net other operating income and expense	125 447	44 047	6 158	-	**175 652**
Income/expenses relating to internal customers	26 024	(26 024)	-	-	**-**
Net impairment allowance	**(1 496 373)**	**(328 488)**	**(43 503)**	**-**	**(1 868 364)**
Administrative expenses, of which:	**(3 851 749)**	**(285 920)**	**(111 467)**	**-**	**(4 249 136)**
Amortisation and depreciation	(459 838)	(33 444)	(19 037)	-	**(512 319)**
Share in gains or losses of associates and jointly controlled entities	-	-	-	-	**(815)**
Segment gross profit	**2 802 854**	**386 175**	**462 245**	**428 777**	**4 079 236**
Income tax expense (tax burden)	**-**	**-**	**-**	**-**	**(866 430)**
Profit/loss attributable to non-controlling shareholders	**-**	**-**	**-**	**-**	**(4 077)**
Net profit attributable to the parent company	**2 802 854**	**386 175**	**462 245**	**428 777**	**3 216 883**

As at 31 December 2010	Continuing activity				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets, of which:	112 010 210	34 963 122	22 687 169	-	**169 660 501**
Investments in associates and joint ventures	-	-	172 931	-	**172 931**
Liabilities	109 307 500	27 721 094	11 272 339	-	**148 300 933**

For the period from 1 January to 31 December 2009	Continuing activity*				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	**5 112 462**	**585 102**	**266 408**	**(912 790)**	**5 051 182**
Net fee and commission income	**2 264 928**	**223 068**	**95 007**	**-**	**2 583 003**
Other net income	**315 013**	**88 558**	**229 584**	**600 498**	**1 233 653**
Result from financial operations	(3 537)	4 412	58 306	(931)	**58 250**
Net foreign exchange gains	109 608	63 136	134 966	601 429	**909 139**
Dividend income	-	-	5 381	-	**5 381**
Net other operating income/expense	182 942	47 010	30 931	-	**260 883**
Income/expenses relating to internal customers	26 000	(26 000)	-	-	**-**
Net impairment allowance	**(1 281 366)**	**(393 528)**	**(6 181)**	**-**	**(1 681 075)**
Administrative expenses, of which:	**(3 865 716)**	**(276 113)**	**(102 006)**	**-**	**(4 243 835)**
Amortization and depreciation	(421 086)	(29 708)	(18 358)	-	**(469 152)**
Share in gains or losses of associates and jointly controlled entities	-	-	-	-	**342**
Segment gross profit	**2 545 321**	**227 087**	**482 812**	**(312 292)**	**2 943 270**
Income tax expense (tax burden)	**-**	**-**	**-**	**-**	**(631 486)**
Profit/loss attributable to non-controlling shareholders	**-**	**-**	**-**	**-**	**6 246**
Net profit attributable to the parent company	**2 545 321**	**227 087**	**482 812**	**(312 292)**	**2 305 538**

** due to presentation changes in the segments result, data for 2009 have been brought to comparability.*

(in PLN thousand)

As at 31 December 2009	Continuing activity*				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets, of which:	96 506 139	36 426 480	23 546 066	-	**156 478 685**
Investments in associates and joint ventures	-	-	228 692	-	**228 692**
Liabilities	100 543 468	28 402 191	7 097 156	-	**136 042 815**

**due to presentation changes in the segments result, data for 2009 have been brought to comparability.*

Geographical segments

Additionally, PKO Bank Polski SA Group applies information on segments by geographical areas. The PKO Bank Polski SA Group activity is also conducted in Ukraine – through KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o.

For the period from 1 January to 31 December 2010	Continuing activity		
	Poland	Ukraine	Total
Net interest income	6 446 248	69 918	**6 516 166**
Net fee and commission income	3 102 281	40 548	**3 142 829**
Other net income	539 835	(1 279)	**538 556**
Administrative expenses	(4 135 277)	(113 859)	**(4 249 136)**
Net impairment allowance	(1 858 988)	(9 376)	**(1 868 364)**
Share in profit/loss of associates and jointly controlled entities	-	-	**(815)**
Segment gross profit	**4 094 099**	**(14 048)**	**4 079 236**
Income tax expense (tax burden)	-	-	**(866 430)**
Profit (loss) attributable to non-controlling shareholders	-	-	**(4 077)**
Net profit (loss)	**4 094 099**	**(14 048)**	**3 216 883**
Assets of the segment, of which:	168 030 912	1 629 589	**169 660 501**
non-current assets**	4 768 563	191 982	**4 960 545**
Liabilities of the segment	147 264 946	1 035 987	**148 300 933**

For the period ended 31 December 2009	Continuing activity		
	Poland	Ukraine	Total
Net interest income	4 912 173	139 009	**5 051 182**
Net fee and commission income	2 541 950	41 053	**2 583 003**
Other net income	1 230 168	3 485	**1 233 653**
Administrative expenses	(4 115 772)	(128 063)	**(4 243 835)**
Net impairment allowance	(1 405 754)	(275 321)	**(1 681 075)**
Share in profit/loss of associates and jointly controlled entities	-	-	**342**
Segment gross profit	**3 162 765**	**(219 837)**	**2 943 270**
Income tax expense (tax burden)	-	-	**(631 486)**
Profit (loss) attributable to non-controlling shareholders	-	-	**6 246**
Net profit/loss attributable to the parent company	**3 162 765**	**(219 837)**	**2 305 538**
Assets of the segment, of which:	154 555 349	1 923 336	**156 478 685**
non-current assets**	4 538 397	215 092	**4 753 489**
Liabilities of the segment	134 726 841	1 315 974	**136 042 815**

**Non-current assets other than financial instruments, deferred income tax asset.

(in PLN thousand)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. Interest income and expense

Interest and similar income

	2010	2009
Income from loans and advances to customers [1)]	8 532 201	7 562 344
Income from derivative hedging securities	649 116	403 899
Income from securities at fair value through profit and loss	494 702	403 112
Income from investment securities, of which:[1)]	457 958	393 530
securities available for sale	457 802	393 278
securities held to maturity	156	252
Income from placements with other banks[1)]	148 494	159 262
Income from trading securities	128 940	97 207
Other[1)]	3 904	11 976
Total	**10 415 315**	**9 031 330**

In the 'Income from derivative hedging instruments' section, the Group presents interest income from derivative instruments designated for hedge accounting that are effective hedging instruments in respect to cash flow hedge. Details of hedging relationships applied by the Bank are included in Note 21: 'Derivative hedging instruments'.

In connection with IT systems development implemented throughout 2010, the Bank has obtained, as at 31 December 2010, information about the amount of interest income from loans for which objective evidence of impairment has been identified and amounted to PLN 420 780 thousand, of which interest income from impaired loans amounted to PLN 320 718 thousand. This income has been included in the position 'Income from loans and advances to customers'.

The values above include the amount of PLN 65 595 thousand recognised in 2010 in correspondence with 'Net impairment allowance and write-downs', resulting from additional data obtained from available applications and IT systems.

Interest expense and similar charges

	2010	2009
Interest expense on customers[2)]	(3 715 721)	(3 785 790)
Interest expense on debt securities in issue[2)]	(123 382)	(119 319)
Interest expense on deposits from other banks[2)]	(30 276)	(47 470)
Other	(29 770)	(27 569)
Total	**(3 899 149)**	**(3 980 148)**

In the year ended 31 December 2010 the total amount of interest and similar income, calculated using the effective interest rate method and arising from financial assets not valued at fair value through profit and loss, amounted[*)] to PLN 9 142 557 thousand (in the year ended 31 December 2009: PLN 8 127 112 thousand).

In the year ended 31 December 2010, interest expense, calculated using the effective interest rate method and arising from financial liabilities which are not valued at fair value through profit and loss, amounted[**)] to PLN (3 872 932) thousand. In the year ended 31 December 2009, interest expense amounted to PLN (3 962 098) thousand.

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

**) the total amount of the items marked with [2)], increased by the premium of debt securities available for sale, presented in 'Other', amounted to PLN (3 553) thousand as at 31 December 2010 and PLN (9 519) thousand as at 31 December 2009.

(in PLN thousand)

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

	2010	2009
Net gains and losses from financial assets and liabilities measured at amortized cost	**7 462 566**	**6 506 185**
Interest income from loans and advances to customers	8 532 201	7 562 344
Fee and commission income from loans and advances to customers	528 824	367 955
Interest income from placements with other banks	148 494	159 262
Net impairment allowance on loans and advances to customers and amounts due from banks measured at amortized cost	(1 728 268)	(1 554 276)
Net impairment allowance on finance lease receivables	(18 685)	(29 100)
Losses from financial liabilities measured at amortized cost	**(3 869 379)**	**(3 952 579)**
Interest expense on amounts due to customers	(3 715 721)	(3 785 790)
Interest expense on debt securities in issue	(123 382)	(119 319)
Interest expense on amounts due to other banks	(30 276)	(47 470)
Net result	**3 593 187**	**2 553 606**

5. Fee and commission income and expense

Fee and commission income

	2010	2009
Income from financial assets, which are not valued at fair value through profit and loss, of which:	**528 824**	**367 955**
Income from loans and advances	528 824	367 955
Other fee and commissions	**3 350 380**	**2 965 738**
Income from payment cards	963 434	932 319
Income from maintenance of bank accounts	922 632	895 974
Income from loan insurance	653 501	327 312
Income from maintenance of investment funds and pension funds (including management income)	338 144	310 366
Income from cash transactions	177 684	189 221
Income from securities transactions	73 261	53 300
Income from foreign mass transactions servicing	44 754	41 524
Income from sale and distribution of court fee stamps	26 255	27 842
Other*	150 715	187 880
Income from fiduciary services	**1 659**	**1 654**
Total	**3 880 863**	**3 335 347**

* Included in 'Other' are commissions received for servicing bond sale transactions, commissions of Dom Maklerski (the Brokerage House) for servicing Initial Public Offering issue and commissions for servicing loans granted by the State budget.

(in PLN thousand)

Fee and commission expense

	2010	2009
Expenses on payment cards	(293 247)	(334 400)
Expenses on loan insurance	(150 842)	(92 937)
Expenses on acquisition services	(144 252)	(152 428)
Expenses on settlement services	(21 751)	(20 401)
Expenses on asset management fees	(21 672)	(58 266)
Expenses on fee and commissions for operating services granted by other banks	(10 137)	(6 734)
Other*	(96 133)	(87 178)
Total	**(738 034)**	**(752 344)**

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

6. Dividend income

	2010	2009
Dividend income from the issuers of:		
Securities classified as available for sale	5 411	5 351
Securities classified as held for trading	252	30
Total	**5 663**	**5 381**

7. Net income from financial instruments at fair value through profit and loss

	2010	2009
Derivative instruments[1)]	(104 809)	33 380
Debt securities	40 786	24 193
Equity instruments	1 427	1 946
Other[1)]	19	1 353
Total	**(62 577)**	**60 872**

In the net income from financial instruments at fair value, position 'Derivative instruments', in financial year ended 31 December 2010, an ineffective portion related to cash flow hedges was recognized and it amounted to PLN (82 879) thousand (in financial year ended 31 December 2009, an ineffective portion related to cash flow hedges was recognized and it amounted to PLN (435) thousand).

2010	Gains	Losses	Net result
Trading assets	8 472 769	(8 567 689)	(94 920)
Financial assets designated upon initial recognition at fair value through profit and loss	54 192	(21 849)	32 343
Total	**8 526 961**	**(8 589 538)**	**(62 577)**

2009	Gains	Losses	Net result
Trading assets	11 951 118	(11 902 515)	48 603
Financial assets designated upon initial recognition at fair value through profit and loss	78 394	(66 125)	12 269
Total	**12 029 512**	**(11 968 640)**	**60 872**

The total change in fair values of financial instruments designated 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 2010 amounted to PLN (104 790)* thousand (in the year ended 31 December 2009: PLN 34 733 thousand).

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

(in PLN thousand)

8. Net gains/(losses) on investment securities

	2010	2009
Gains/losses recognized directly in other comprehensive income	(89 215)	25 302
Total result recognized directly in other comprehensive income	**(89 215)**	**25 302**
Gains derecognized from other comprehensive income	75 530	10 836
Losses derecognized from other comprehensive income	(2 474)	(13 458)
Total result derecognised from other comprehensive income	**73 056**	**(2 622)**
Total	**(16 159)**	**22 680**

9. Net foreign exchange gains

	2010	2009
Currency translation differences from financial instruments designated at fair value through profit and loss	(1 026 841)	2 712 617
Currency translation differences from foreign operations	1 373 603	(1 803 478)
Total	**346 762**	**909 139**

10. Other operating income and expense

	2010	2009
Other operating income		
Net income from sale of goods, commodities and materials	323 919	326 105
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	51 255	67 224
Damages, penalties and fines received	23 443	32 390
Sundry income	20 730	21 614
Recovery of expired and written-off receivables	4 977	20 084
Sale of shares in jointly controlled entities and associates	1 426	512
Other	43 638	117 020
Total	**469 388**	**584 949**

	2010	2009
Other operating expenses		
Costs of sale of goods, commodities and materials	(200 536)	(179 385)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(48 107)	(60 268)
Sundry expenses of the Bank	(4 378)	(5 004)
Donations	(4 296)	(3 648)
Other	(36 419)	(75 761)
Total	**(293 736)**	**(324 066)**

(in PLN thousand)

11. Net impairment allowance and write-downs

For the year ended 31 December 2010	Impairment allowances at the beginning of the period	Increases			Decreases				Impairment allowances at the end of the period	Net impairment allowance – impact on the income statement
		Impairment allowances recognised during the period	Currency translation differences	Other	Decrease in impairment allowances due to derecognition of assets	Impairment allowances reversed during the period	Currency translation differences	Other		
Investment securities available for sale	**21 572**	**8 156**	**216**	**-**	**1 060**	**6 837**	**-**	**138**	**21 909**	(1 319)
measured at fair value through equity (not listed on stock exchange)	19 155	8 063	216	-	-	6 037	-	138	**21 259**	(2 026)
financial instruments measured at purchase cost (unquoted equity instruments and related derivative instruments)	2 417	93	-	-	1 060	800	-	-	**650**	707
Loans and advances to customers and amounts due from other banks measured at amortised cost	**3 964 233**	**4 360 655**	**16 728**	**27 720**	**870 039**	**2 613 702**	**-**	**-**	**4 885 595**	**(1 746 953)**
Non-financial sector	3 824 558	4 196 059	16 688	26 642	861 275	2 475 979	-	-	4 726 693	(1 720 080)
consumer loans	1 362 621	1 728 793	2 149	3 217	668 058	915 005	-	-	1 513 717	(813 788)
mortgage loans	734 760	797 121	3 799	20 377	44 286	528 460	-	-	983 311	(268 661)
corporate loans	1 727 177	1 670 145	10 740	3 048	148 931	1 032 514	-	-	2 229 665	(637 631)
Financial sector	46 357	19 730	40	1 078	8 162	3 180	-	-	55 863	(16 550)
amounts due from banks	27 109	896	-	1 078	-	158	-	-	28 925	(738)
corporate loans	19 248	18 834	40	-	8 162	3 022	-	-	26 938	(15 812)
Budget sector	21 496	15 059	-	-	-	23 421	-	-	13 134	8 362
corporate loans	21 496	15 059	-	-	-	23 421	-	-	13 134	8 362
Finance lease receivables	71 822	129 807	-	-	602	111 122	-	-	89 905	(18 685)
Tangible fixed assets	**1 856**	**29 418**	**-**	**-**	**9**	**628**	**-**	**12 203**	**18 434**	**(28 790)**
Intangible assets	**95 135**	**37 837**	**-**	**-**	**-**	**-**	**-**	**-**	**132 972**	**(37 837)**
Investments in entities measured using equity method	**5 028**	**55 171**	**-**	**-**	**-**	**61**	**-**	**-**	**60 138**	**(55 110)**
Non-current assets held for sale	**1 680**	**1 281**		-	-	-	-	-	**2 961**	**(1 281)**
Other, of which:	**359 043**	**230 182**	**379**	**27**	**42 068**	**233 108**	**-**	**241**	**314 214**	**2 926**
Provisions for off-balance sheet liabilities and legal claims	119 849	141 014	69	-	987	170 101	-	45	89 799	29 087
Total	**4 448 547**	**4 722 700**	**17 323**	**27 747**	**913 176**	**2 854 336**	**-**	**12 582**	**5 436 223**	**(1 868 364)**

(in PLN thousand)

For the year ended 31 December 2009	Impairment allowances recognised at the beginning of the period	Increases			Decreases				Impairment allowances at the end of the period	Net impairment allowance – impact on the income statement
		Impairment allowances during the period	Currency translation differences	Other	Decrease in impairment allowances due to derecognition of assets	Impairment allowances reversed during the period	Currency translation differences	Other		
Investment securities available for sale, including:	**25 691**	**14 240**	**-**	**28**	**7 025**	**10 948**	**414**	**-**	**21 572**	**(3 292)**
measured at fair value through equity (not listed on stock exchange)	19 932	14 240	-	3	3 658	10 948	414	-	19 155	(3 292)
financial instruments measured at purchase cost (unquoted equity instruments and related derivative instruments)	5 759	-	-	25	3 367	-	-	-	2 417	-
Loans and advances to customers and amounts due from other banks measured at amortised cost	**2 945 987**	**3 896 001**	**-**	**-**	**534 587**	**2 312 625**	**27 459**	**3 084**	**3 964 233**	**(1 583 376)**
Non-financial sector	2 792 220	3 809 446	-	-	502 810	2 246 973	27 233	92	3 824 558	(1 562 473)
consumer loans	715 653	1 399 530	-	-	169 786	580 486	2 290	-	1 362 621	(819 044)
mortgage loans	535 713	590 322	-	-	45 604	339 769	5 902	-	734 760	(250 553)
corporate loans	1 540 854	1 819 594	-	-	287 420	1 326 718	19 041	92	1 727 177	(492 876)
Financial sector	85 636	24 101	-	-	31 776	30 324	226	1 054	46 357	6 223
amounts due from banks	28 111	52	-	-	-	-	-	1 054	27 109	(52)
corporate loans	57 525	24 049	-	-	31 776	30 324	226	-	19 248	6 275
Budget sector	23 471	2 103	-	-	1	4 077	-	-	21 496	1 974
corporate loans	23 471	2 103	-	-	1	4 077	-	-	21 496	1 974
Finance lease receivables	44 660	60 351	-	-	-	31 251	-	1 938	71 822	(29 100)
Tangible fixed assets	**2 035**	**654**	**-**	**50**	**-**	**815**	**-**	**68**	**1 856**	**161**
Intangible assets	**91 733**	**3 402**	**-**	**-**	**-**	**-**	**-**	**-**	**95 135**	**(3 402)**
Investments in entities measured using equity method	**4 360**	**3 876**	**-**	**-**	**-**	**-**	**-**	**3 208**	**5 028**	**(3 876)**
Non-current assets held for sale	-	**1 680**	-	-	-	-	-	-	**1 680**	**(1 680)**
Other, of which:	**219 549**	**227 691**	**-**	**79 147**	**13 939**	**142 081**	**412**	**10 912**	**359 043**	**(85 610)**
Provisions for off-balance sheet liabilities and legal claims	87 602	172 594	-	-	3 330	135 949	504	564	119 849	(36 645)
Total	**3 289 355**	**4 147 544**	**-**	**79 225**	**555 551**	**2 466 469**	**28 285**	**17 272**	**4 448 547**	**(1 681 075)**

(in PLN thousand)

Impairment allowances on loans and advances to customers and amounts due from banks measured at amortised cost recognised in the amount of PLN (1 746 953) thousand include interest income due to loans and advances to customers in the amount of PLN (65 595) thousand recognized in the year ended 31 December 2010 in correspondence with 'Income from loans and advances to customers', resulting from additional data obtained from available applications and IT systems.

12. Administrative expenses

	2010	2009
Staff costs	(2 374 901)	(2 307 514)
Overheads	(1 237 892)	(1 351 208)
Depreciation and amortisation expense	(512 319)	(469 152)
Taxes and other charges	(70 640)	(66 338)
Contribution and payments to Banking Guarantee Fund	(53 384)	(49 623)
Total	**(4 249 136)**	**(4 243 835)**

Wages and salaries / Employee benefits

	2010	2009
Wages and salaries, of which:	(2 011 724)	(1 943 269)
actuarial provision for anniversary bonuses and retirement benefits	(43 497)	(3 109)
Social Security, of which:	(299 985)	(301 263)
contributions to retirement pay and pensions*	(239 819)	(241 784)
Other employee benefits	(63 192)	(62 982)
Total	**(2 374 901)**	**(2 307 514)**

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

Operating lease agreements

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 recognized as expenses in the income statement, on a straight-line basis over the lease term.

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

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

Total value of future lease payments under non-cancellable operating lease	31.12.2010	31.12.2009
For the period:		
up to 1 year	92 788	93 898
from 1 year to 5 years	153 089	158 879
above 5 years	51 125	50 829
Total	**297 002**	**303 606**

Lease and sub-lease payments recognized as an expense in the period from 1 January 2010 to 31 December 2010 amounted to PLN 104 895 thousand (in the period from 1 January 2009 to 31 December 2009: PLN 104 367 thousand).

(in PLN thousand)

13. Share of profit (loss) of associates and jointly controlled entities

Entity	2010	2009
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(1 883)	248
Centrum Haffnera Sp. z o.o. Group	(6 077)	(7 690)
Associates		
Bank Pocztowy SA	7 153	2 597
Kolej Gondolowa Jaworzyna Krynicka SA	-	1 680
Agencja Inwestycyjna 'CORP' SA	53	94
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	(61)	3 413
Total	**(815)**	**342**

Additional information on jointly controlled entities and associates is presented in Note 1 'General Information' and Note 49 'Changes to the entities of the Group'.

14. Income tax expense

	2010	2009
Consolidated income statement		
Current income tax expense	(1 064 174)	(817 478)
Deferred income tax related to temporary differences	197 744	185 992
Tax expense in the consolidated income statement	**(866 430)**	**(631 486)**
Tax expense in other comprehensive income related to temporary differences	(20 390)	(21 690)
Total	**(886 820)**	**(653 176)**

(in PLN thousand)

	2010	2009
Profit before income tax	**4 079 236**	**2 943 270**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland (2009: 19%)	(775 055)	(559 221)
Effect of other tax rates of foreign entities	(340)	13 183
Permanent differences between accounting gross profit and taxable profit, of which:	**(66 154)**	**(71 965)**
Recognition of an impairment loss not constituting taxable expense (KREDOBANK)	-	(12 848)
Recognised/reversed provisions and positive revaluation not constituting taxable expense/income	(36 487)	(30 453)
Other non-tax-deductible expenses	(19 480)	(43 185)
Dividend income	20 501	20 525
Other non-taxable income	(1 047)	17 098
Other permanent differences	(29 641)	(23 102)
Other differences between gross financial result and taxable income, including donations	**(25 064)**	**(19 878)**
Tax loss settlement	**183**	**6 395**
Income tax in the consolidated income statement	**(866 430)**	**(631 486)**
Effective tax rate	**21.24%**	**21.46%**
Temporary difference due to the deferred tax presented in the income statement	197 744	185 992
Current income tax expense in the consolidated income statement, of which:	**(1 064 174)**	**(817 478)**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland (2009: 19%)	(1 064 171)	(817 471)
Effect of other tax rates of foreign entities*	(3)	(7)

* As at 31 December 2010 and 31 December 2009 there is no current income tax expense of KREDOBANK SA.

Current income tax liabilities/ receivables

	31.12.2010	31.12.2009
Current income tax receivables	4 318	7 184
Current income tax liabilities	67 744	181 893

The Group entities are subject to corporate income tax. The amount of current tax liability is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2010 is made within the statutory deadline of 31 March 2011.

According to regulations on considering tax liabilities as past due, 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.

(in PLN thousand)

Deferred tax asset/liability

	Consolidated statement of financial position		Consolidated income statement	
	31.12.2010	**31.12.2009**	**2010**	**2009**
Deferred tax liability				
Interest accrued on receivables (loans)	111 398	88 454	(22 944)	12 438
Capitalised interest on performing mortgage loans	211 576	238 446	26 870	20 313
Interest on securities	44 537	37 713	(6 824)	6 400
Valuation of derivative financial instruments, of which:	98 859	40 935	-	-
transferred to income statement	47 741	12 957	(34 784)	(12 957)
transferred to other comprehensive income	51 118	27 978	-	-
Difference between book value and tax value of tangible fixed assets	256 004	233 516	(22 488)	(37 516)
Other taxable temporary positive differences, of which:	24 786	23 190	-	-
transferred to income statement	24 535	22 940	(1 595)	722
transferred to other comprehensive income	251	250	-	-
Gross deferred tax liability, of which:	**747 160**	**662 254**	**-**	**-**
transferred to income statement	695 791	634 026	(61 765)	(10 600)
transferred to other comprehensive income	51 369	28 228	-	-
Deferred tax asset				
Interest accrued on liabilities	406 364	326 419	79 945	103 415
Valuation of derivative financial instruments, of which:	19 470	17 410	-	-
transferred to income statement	19 470	17 410	2 060	(60 324)
transferred to other comprehensive income	-	-	-	-
Valuation of securities, of which:	57 394	15 090	-	-
transferred to income statement	50 640	11 272	39 368	2 878
transferred to other comprehensive income	6 754	3 818	-	-
Provision for employees benefits	118 613	110 171	8 442	134
Impairment allowances on credit exposure	335 477	236 494	98 983	76 705
Adjustment to effective interest rate valuation	218 000	191 507	26 493	25 058
Other temporary negative differences, of which:	151 880	147 847	-	-
transferred to income statement	152 262	148 044	4 218	48 726
transferred to other comprehensive income	(382)	(197)	-	-
Gross deferred income tax asset, of which:	**1 307 198**	**1 044 938**	**-**	**-**
transferred to income statement	1 300 826	1 041 317	259 509	196 592
transferred to other comprehensive income	6 372	3 621	-	-
Total deferred tax impact, of which:	**560 038**	**382 684**	-	**-**
transferred to income statement	605 035	407 291	197 744	185 992
transferred to other comprehensive income	(44 997)	(24 607)	-	-
Deferred income tax asset (presented in statement of financial position)	**582 802**	**403 218**	-	**-**
Deferred tax liability (presented in statement of financial position) (presented in the statement of financial position)	**22 764**	**20 534**	-	**-**
Net deferred tax impact on the income statement	**-**	**-**	**197 744**	**185 992**

As at 31 December 2010, in accordance with IAS 12, the Group present the tax effect of the unsettled tax loss related to its subsidiaries in the 'Other temporary negative differences' position of deferred income tax asset. The tax effect of the abovementioned loss amounts to PLN 66 992 thousand. According to regulations specific for each foreign tax jurisdiction for those entities, the there is no time limit for settling of the unsettled tax loss (which amounts to 63 327 thousand).

15. 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

	2010	2009
Profit per ordinary shareholders (in PLN thousand)	3 216 883	2 305 538
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 121 562
Earnings per share (in PLN per share)	2.57	2.06

Earnings per share from discontinued operations

As at 31 December 2010 and 31 December 2009, the Group did not report any material income or expenses from discontinued operations.

Diluted earnings per share

The diluted earnings per share ratio is calculated on the basis of profit attributable to ordinary capital 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 year ended 31 December 2010 nor in the year ended 31 December 2009.

Diluted earnings per share from discontinued operations

As at 31 December 2010 and 31 December 2009 the Group did not report any material income or expenses from discontinued operations.

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

Dividends declared after the balance date are not recognized by the Bank as liabilities existing as at 31 December 2010.

Pursuant to Resolution No. 39/2010 of the Ordinary General Shareholders' Meeting of PKO Bank Polski SA passed on 23 July 2010, the dividend for 2009 amounted to PLN 2.375.000, i.e. PLN 1.90 (gross) per one share.

The list of shareholders eligible to receive dividend for 2009 was determined as at 23 October 2010, and the payment was made on 20 December 2010.

As at 31 December 2010, 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.

(in PLN thousand)

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. Cash and balances with the central bank

	31.12.2010	31.12.2009
Current account with the central bank	3 782 717	4 625 073
Cash	2 398 207	2 463 763
Other funds	1 488	5 514
Total	**6 182 412**	**7 094 350**

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 2010, this interest rate was 3.375%.

As at 31 December 2010 and 31 December 2009, there were no further restrictions as regards the use of these funds.

18. Amounts due from banks

	31.12.2010	31.12.2009
Deposits with other banks	1 493 827	1 160 377
Receivables due from repurchase agreements	-	105 427
Current accounts	722 717	617 388
Loans and advances	112 551	161 378
Cash in transit	6 862	5 594
Total	**2 335 957**	**2 050 164**
Impairment allowances on receivables	(28 925)	(27 109)
of which impairment allowances on exposure to a foreign bank	(28 089)	(27 013)
Net total	**2 307 032**	**2 023 055**

Details on risk related to amounts due from banks was presented in Note 56 ‘Credit risk’.

19. Trading assets

	31.12.2010	31.12.2009
Debt securities	**1 491 053**	**2 202 847**
issued by the State Treasury, of which:	1 483 144	2 198 840
Treasury bills	-	388 500
Treasury bonds	1 483 144	1 810 340
issued by local government units, of which:	7 390	2 208
municipal bonds	7 390	2 208
issued by non-financial entities, of which:	509	-
corporate bonds	509	-
issued by other financial institutions, of which:	10	-
corporate bonds	10	-
issued by banks, of which:	-	1 799
BGK bonds	-	1 799
Shares in other entities – listed on stock exchanges	**12 596**	**10 108**
Total trading assets	**1 503 649**	**2 212 955**

(in PLN thousand)

Trading assets at carrying amount by maturity as at 31 December 2010 and as at 31 December 2009

As at 31 December 2010	up to 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	over 5 years	Total
Debt securities	**-**	**292**	**860 158**	**254 749**	**375 854**	**1 491 053**
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**
issued by other financial institutions	-	-	10	-	-	**10**
issued by non-financial entities	-	-	-	509	-	**509**
Shares in other entities – listed on stock exchange	**12 596**	-	-	-	-	**12 596**
Total	**12 596**	**292**	**860 158**	**254 749**	**375 854**	**1 503 649**

The average yield on debt securities issued by the State Treasury and included in the trading assets portfolio as at 31 December 2010 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 trading assets 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)

As at 31 December 2009	up to 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	over 5 years	Total
Debt securities	**74 828**	**633 188**	**715 630**	**607 866**	**171 335**	**2 202 847**
issued by other banks	-	-	-	1 536	263	**1 799**
issued by the State Treasury	74 828	633 188	715 630	604 162	171 032	**2 198 840**
issued by local government bodies	-	-	-	2 168	40	**2 208**
Shares in other entities – listed on stock exchange	**10 108**	-	-	-	-	**10 108**
Total	**84 936**	**633 188**	**715 630**	**607 866**	**171 335**	**2 212 955**

As at 31 December 2009, the average yield on debt securities issued by the State Treasury and included in the trading assets portfolio amounted to 4.57%. As at 31 December 2009, 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 2009 comprised the following securities carried at nominal values:

- Treasury bills 397 600
- Treasury bonds 1 840 020
- BGK bonds 1 799
- Municipal bonds 2 176

(in PLN thousand)

20. Derivative financial instruments

Derivative instruments used by the Group

The Bank and other entities within the Group use various types of derivatives in order to manage risk involved in its business activities. As at 31 December 2010 and 31 December 2009, the Group held the following derivative instruments:

	31.12.2010		31.12.2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging instruments	153 921	555 983	352 261	25 312
Other derivative instruments	1 565 164	1 848 812	1 676 861	1 519 058
Total	**1 719 085**	**2 404 795**	**2 029 122**	**1 544 370**

Type of contract	31.12.2010		31.12.2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
IRS	1 447 237	1 553 029	1 306 906	1 296 136
FRA	12 157	11 107	7 613	8 298
FX Swap	62 204	83 613	90 056	27 181
CIRS	126 219	687 977	402 221	33 699
Forward	18 356	42 972	24 167	49 349
Options	46 397	25 382	198 159	127 847
Other	6 515	715	-	1 860
Total	**1 719 085**	**2 404 795**	**2 029 122**	**1 544 370**

The most frequently used types of derivatives are: IRS, FRA, FX Swap, CIRS and Forwards. The remaining entities in the Group may enter into transactions in derivatives exclusively for the purpose of hedging against the risk resulting from their core activities (the banking portfolio).

(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	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	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	2 165 895	3 101 234	149 193	-	**7 422 250**	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	1 086 905	1 565 478	76 066	-	**3 733 473**	-	-
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)	29 692 198	31 588 056	90 322 034	132 693 552	20 420 516	**304 716 356**	1 553 029	1 447 237
Purchase	14 846 099	15 794 028	45 161 017	66 346 776	10 210 258	**152 358 178**	-	-
Sale	14 846 099	15 794 028	45 161 017	66 346 776	10 210 258	**152 358 178**	-	-
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	**75 424 057**	**71 546 645**	**139 325 625**	**165 018 033**	**23 204 091**	**474 518 451**	**2 404 795**	**1 719 085**

(in PLN thousand)

Derivative financial instruments as at 31 December 2009

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

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	12 955 378	2 381 565	41 597	-	-	**15 378 540**	27 181	90 056
Purchase of currency	6 514 969	1 188 651	21 056	-	-	**7 724 676**	-	-
Sale of currency	6 440 409	1 192 914	20 541	-	-	**7 653 864**	-	-
FX forward	1 711 582	1 707 652	2 532 286	36 321	-	**5 987 841**	49 349	24 167
Purchase of currency	852 500	852 621	1 245 800	17 769	-	**2 968 690**	-	-
Sale of currency	859 082	855 031	1 286 486	18 552	-	**3 019 151**	-	-
Options	1 598 363	4 075 651	3 958 544	222 614	-	**9 855 172**	127 847	198 159
Purchase	806 041	2 052 047	2 009 861	119 346	-	**4 987 295**	-	-
Sale	792 322	2 023 604	1 948 683	103 268	-	**4 867 877**	-	-
Cross Currency IRS	-	-	3 691 407	25 419 357	6 671 259	**35 782 023**	33 699	402 221
Purchase	-	-	1 852 643	12 742 333	3 335 244	**17 930 220**	-	-
Sale	-	-	1 838 764	12 677 024	3 336 015	**17 851 803**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	23 447 426	24 392 100	65 679 342	97 732 042	17 146 818	**228 397 728**	1 296 136	1 306 906
Purchase	11 723 713	12 196 050	32 839 671	48 866 021	8 573 409	**114 198 864**	-	-
Sale	11 723 713	12 196 050	32 839 671	48 866 021	8 573 409	**114 198 864**	-	-
Forward Rate Agreement (FRA)	4 334 000	20 484 000	12 300 000	-	-	**37 118 000**	8 298	7 613
Purchase	1 750 000	14 834 000	6 250 000	-	-	**22 834 000**	-	-
Sale	2 584 000	5 650 000	6 050 000	-	-	**14 284 000**	-	-
Other transactions								
Other (stock market index derivatives)	2 493 314	5 908	6 929	400 000	-	**2 906 151**	1 860	-
Purchase	1 246 657	1 840	858	200 000	-	**1 449 355**	-	-
Sale	1 246 657	4 068	6 071	200 000	-	**1 456 796**	-	-
Total derivative instruments	**46 540 063**	**53 046 876**	**88 210 105**	**123 810 334**	**23 818 077**	**335 425 455**	**1 544 370**	**2 029 122**

(in PLN thousand)

21. Derivative hedging instruments

As at 31 December 2010, the Group applies the following hedging strategies:

1. hedging 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. hedging 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. hedging against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions.

The characteristics of the cash flow hedges applied by the Group 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**	**Hedges against fluctuations from loans in PLN at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions**	**Hedges against fluctuations from loans in EUR at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions**
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.	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.	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	Currency risk and interest rate risk.	Interest rate risk.	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.	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.	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	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.	The portfolio of loans in PLN indexed to the variable 3M WIBOR rate.	The portfolio of loans in EUR indexed to the variable EURIBOR rate.
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2011 to January 2017	January 2011 to October 2013	January 2011 to December 2015

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 2010 and 31 December 2009, respectively.

Type of instrument:	Carrying amount/fair value					
	31.12.2010			31.12.2009		
	Assets	Liabilities	Total	Assets	Liabilities	Total
IRS	103 219	18 755	**84 464**	7 610	93	**7 517**
CIRS	50 702	537 228	**(486 526)**	344 651	25 219	**319 432**
Total	**153 921**	**555 983**	**(402 062)**	**352 261**	**25 312**	**326 949**

The nominal value of hedging instruments by maturity as at 31 December 2010 and as at 31 December 2009 are as follows:

Type of instrument:	Nominal value as at 31 December 2010					
	Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	TOTAL
IRS in PLN thousand	3 375 000	1 700 000	780 000	125 000	-	**5 980 000**
IRS						
in PLN thousand	-	-	-	1 128 686	-	**1 128 686**
in EUR thousand	-	-	-	285 000	-	**285 000**
CIRS						
in PLN thousand	632 780	1 265 560	1 740 145	12 418 308	1 423 755	**17 480 548**
in CHF thousand	200 000	400 000	550 000	3 925 000	450 000	**5 525 000**

Type of instrument:	Nominal value as at 31 December 2009					
	Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	TOTAL
IRS in PLN thousand	260 000	140 000	-	30 000	-	**430 000**
CIRS						
in PLN thousand	418 155	1 115 740	1 666 295	9 022 190	3 314 055	**15 536 435**
in CHF thousand	150 000	400 000	600 000	3 250 000	1 200 000	**5 600 000**

Other comprehensive income as regards hedging cash flows	**31.12.2010**	**31.12.2009**
Other comprehensive income at the beginning of the period	147 254	-
Gains or losses transferred to other comprehensive income in the period	(145 504)	636 166
Amount transferred from other comprehensive income to profit and loss, of which transferred to:	267 292	(488 912)
- interest income	(649 116)	(403 899)
- net foreign exchange gains	916 408	(85 013)
Other comprehensive income at the end of the period (gross)	**269 042**	**147 254**
Tax effect	**(51 118)**	**(27 978)**
Other comprehensive income at the end of the period (net)	**217 924**	**119 276**
Ineffective part of hedging cash flows recognized through profit and loss	**(82 879)**	**(435)**
Effect on other comprehensive income in the period (gross)	**121 788**	**147 254**
Deferred tax on cash flow hedges	**(23 140)**	**(27 978)**

22. Financial assets designated at fair value through profit and loss

	31.12.2010	31.12.2009
Debt securities	**10 758 331**	**12 360 690**
issued by the State Treasury, including:	6 631 702	5 362 314
Treasury bills	1 893 058	4 566 506
Treasury bonds	4 738 644	795 808
issued by central banks, including:	3 997 780	6 994 218
NBP bills	3 997 780	6 994 218
issued by local government units, including:	128 849	-
Municipal bonds	128 849	-
Issues by non-financial institutions, including:	-	4 158
Corporate bonds in UAH	-	4 158
Total	**10 758 331**	**12 360 690**

As at 31 December 2010 and 31 December 2009, the portfolio of securities designated at fair value through profit and loss comprised of the following:

By nominal amount	31.12.2010	Currency	31.12.2009	Currency
in the parent company:				
NBP money market bills	4 000 000	PLN thousand	7 000 000	PLN thousand
Treasury bills	1 932 960	PLN thousand	4 634 410	PLN thousand
Treasury bonds	4 834 445	PLN thousand	766 000	PLN thousand
EUR bonds	99 008	PLN thousand	-	PLN thousand
in subsidiaries:				
bonds of other entities	22 148	UAH thousand	22 595	UAH thousand

As at 31 December 2010, the average yield on debt securities issued by the State Treasury and included in the portfolio of other financial instruments at fair value through profit and loss was PLN 4.57%. As at 31 December 2009, the average yield on such securities amounted to: 4.16% for PLN.

(in PLN thousand)

Financial assets designated at fair value through profit and loss by maturity by carrying amount

As at 31 December 2010	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**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**

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**7 463 292**	**2 193 104**	**2 704 114**	**-**	**180**	**12 360 690**
issued by central banks	6 994 218	-	-	-	-	**6 994 218**
issued by non-financial institutions	-	-	3 978	-	180	**4 158**
issued by the State Treasury	469 074	2 193 104	2 700 136	-	-	**5 362 314**
Total	**7 463 292**	**2 193 104**	**2 704 114**	**-**	**180**	**12 360 690**

(in PLN thousand)

23. Loans and advances to customers

	31.12.2010	31.12.2009
Gross loans and advances, of which:	**135 524 789**	**120 509 709**
consumer	25 446 265	23 483 449
corporate	46 912 413	43 990 773
mortgage	62 441 248	52 471 695
Interest	724 863	563 792
Impairment allowances on loans and advances	(4 856 670)	(3 937 124)
Loans and advances – net	**130 668 119**	**116 572 585**

	31.12.2010	31.12.2009
Loans and advances to customers		
Valued using the individual method	6 562 353	6 254 327
Impaired, of which:	5 899 231	5 355 887
Receivables from finance leases	*125 556*	*191 082*
Not impaired, of which:	663 122	898 440
Receivables from finance leases	*155 373*	*30 313*
Valued using the portfolio method, of which:	4 987 943	3 752 263
Receivables from finance leases	*102 133*	*74 814*
Valued using the group method (IBNR), of which:	123 974 493	110 503 119
Receivables from finance leases	*2 177 602*	*2 062 495*
Loans and advances to customers – gross	**135 524 789**	**120 509 709**
Allowances for exposures valued using the individual method	(1 765 956)	(1 365 574)
Impaired, of which:	(1 765 956)	(1 365 574)
Allowances on lease receivables	*(29 509)*	*(24 163)*
Allowances for exposures valued using the portfolio method, of which:	(2 593 103)	(1 989 868)
Allowances on lease receivables	*(48 013)*	*(37 980)*
Allowances for impairment on exposures with group impairment (IBNR), of which:	(497 611)	(581 682)
Allowances on lease receivables	*(12 383)*	*(9 679)*
Total allowances	**(4 856 670)**	**(3 937 124)**
Loans and advances to customers- net	**130 668 119**	**116 572 585**

As at 31 December 2010, the share of impaired loans amounted to 8.0% (as at 31 December 2009: 7.6%); whereas the coverage ratio for impaired loans (calculated as total impairment allowances on total receivables divided by gross carrying amount of impaired loans) amounted to 44.6% (as at 31 December 2009: 43.2%).

The increase in the volume of loans assessed under the portfolio method in 2010 by PLN 1 235 680 thousand resulted mainly from the increase in delays in repayment in the portfolio of consumer loans and mortgage loans granted to individuals.

Details on risk related to amounts due from banks was presented in Note 56 ‘Credit risk’.

Finance lease agreements

Finance lease – lessor

The Group conducts lease activities through the entities from the Bankowy Fundusz Leasingowy SA Group.

The value of gross investments in leases and the minimum lease payments resulting from finance lease agreements amounted to:

(in PLN thousand)

as at 31 December 2010

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	1 094 331	944 182	150 149
from 1 to 5 years	1 520 458	1 310 743	209 715
over 5 years	370 404	305 739	64 665
Gross total	**2 985 193**	**2 560 664**	**424 529**
Impairment allowances	(89 905)	(89 905)	-
Net total	**2 895 288**	**2 470 759**	**424 529**

Net lease investment	
Present value of the minimal lease payments	2 560 664
of which non guaranteed final amounts due to the lessor	1 059

as at 31 December 2009

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	988 988	841 443	147 545
from 1 to 5 years	1 645 608	1 451 404	194 204
over 5 years	118 595	65 857	52 738
Gross total	**2 753 191**	**2 358 704**	**394 487**
Impairment allowances	(71 822)	(71 822)	-
Net total	**2 681 369**	**2 286 882**	**394 487**

Net lease investment	
Present value of the minimal lease payments	2 358 704
non guaranteed final amounts due to the lessor	926

(in PLN thousand)

24. Investment securities available for sale

	31.12.2010	31.12.2009
Debt securities available for sale, gross	**10 144 678**	**7 867 725**
issued by banks	50 858	90 086
corporate bonds	50 858	50 901
foreign bonds in EUR	-	39 185
issued by non-financial institutions	1 456 333	794 812
corporate bonds in PLN	1 445 357	783 973
corporate bonds in UAH	8 214	7 939
bills of exchange	2 762	2 900
issued by the State Treasury	5 813 314	4 982 606
Treasury bonds	5 636 357	4 461 657
Treasury bonds in UAH	153 323	16 305
Treasury bills	23 634	504 644
issued by local government bodies	2 824 173	2 000 221
municipal bonds	2 824 173	2 000 221
Allowance for impairment on debt securities available for sale	**(21 259)**	**(19 155)**
corporate bonds	(10 283)	(10 283)
corporate bonds in UAH	(8 214)	(5 972)
bills of exchange	(2 762)	(2 900)
Total debt securities available for sale, net	**10 123 419**	**7 848 570**
Equity securities available for sale, gross	**96 631**	**98 164**
Equity securities admitted to public trading	85 491	89 687
Equity securities not admitted to public trading	11 140	8 477
Allowance for impairment on investment securities available for sale	**(650)**	**(2 417)**
Impairment of equity securities not admitted to public trading	(650)	(2 417)
Total net equity securities available for sale	**95 981**	**95 747**
Total net investment securities	**10 219 400**	**7 944 317**

Change in investment securities available for sale

	2010	2009
Investment securities available for sale		
Balance at the beginning of the period	**7 944 317**	**8 614 913**
Currency translation differences	(2 811)	43 336
Increases	10 508 141	10 138 272
of which: change in impairment allowance	*(337)*	*4 119*
Decreases (redemption)	(8 214 088)	(10 874 884)
Change in the fair value	(16 159)	22 680
Balance at the end of the period	**10 219 400**	**7 944 317**

Details on risk related to investment securities available for sale was presented in Note 56 ‘Credit risk’.

(in PLN thousand)

Investment securities available for sale by maturity by carrying amount

As at 31 December 2010	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by banks	-	-	-	-	50 858	**50 858**
issued by non-financial institutions	175 489	-	256 087	802 709	200 789	**1 435 074**
issued by the State Treasury	13 655	37 941	2 887 736	533 558	2 340 424	**5 813 314**
issued by local government bodies	3 130	5 248	216 534	1 050 709	1 548 552	**2 824 173**
Total	**192 274**	**43 189**	**3 360 357**	**2 386 976**	**4 140 623**	**10 123 419**

The average yield of securities available for sale 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:

in the parent company:

• corporate bonds in PLN	1 479 200
• municipal bonds	2 814 845
• Treasury bonds	5 537 770
• Treasury bills of exchange	2 762

in subsidiaries:

• Treasury bonds	153 470
• Treasury bills	23 940
• investment funds participation units	21 409
• corporate bonds	19 235*
• Treasury bonds	394 638*
• shares and investments	345*

*in UAH thousand

(in PLN thousand)

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by banks	-	-	39 185	-	50 901	**90 086**
issued by non-financial institutions	79 947	33 547	1 256	628 407	32 500	**775 657**
issued by the State Treasury	346 327	851 240	1 779 253	2 003 295	2 491	**4 982 606**
issued by local government bodies	3 935	1 218	161 508	791 181	1 042 379	**2 000 221**
Total	**430 209**	**886 005**	**1 981 202**	**3 422 883**	**1 128 271**	**7 848 570**

The average yield of available-for-sale securities as at 31 December 2009 amounted to 4.62 %.

As at 31 December 2009, the portfolio of debt securities available for sale, at nominal values, comprised the following:

in the parent company:

• corporate bonds in PLN	827 010
• Treasury bills	497 270
• municipal bonds	2 013 589
• Treasury bonds	4 358 000
• Foreign bonds EUR	41 082
• Bills of exchange	2 900

in subsidiaries:

• Treasury bonds	181 493
• Treasury bills	9 200
• investment funds participation units	20 409
• corporate bonds	20 735*
• Treasury bonds	50 000*
• shares and investments	98*

*in UAH thousand

(in PLN thousand)

25. Securities held to maturity

	31.12.2010	31.12.2009
Debt securities held to maturity	**-**	**9 894**
issued by the State Treasury, of which:	-	9 894
Treasury bonds	-	9 894
Total	**-**	**9 894**

Change in securities held to maturity

	2010	2009
Debt securities held to maturity		
Balance at the beginning of the period	9 894	-
Increases	-	9 642
Decreases	(9 894)	-
Changes in the fair value	-	252
Balance at the end of the period	**-**	**9 894**

Securities held to maturity by carrying amount and by maturity

As at 31 December 2010 there were no securities held to maturity.

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	Total
issued by the State Treasury	-	1 881	8 013	**9 894**
Total	**-**	**1 881**	**8 013**	**9 894**

26. Investments in associates and jointly controlled entities

a) the value of the Bank's investments in jointly controlled entities (i.e. the acquisition cost adjusted to the Bank’s share in the change in the entity’s net assets after acquisition date and allowances for impairment losses).

Entity name	31.12.2010	31.12.2009
Centrum Obsługi Biznesu Sp. z o.o	9 298	11 182
Centrum Haffnera Sp. z o.o. Group	31 981	38 058
Total	**41 279**	**49 240**

b) the value of the Bank's investments in associates (i.e. the acquisition cost adjusted to share in net assets change and allowances for impairment losses)

Entity name	31.12.2010	31.12.2009
Bank Pocztowy SA	131 427	179 173
Agencja Inwestycyjna CORP SA	225	279
Total	**131 652**	**179 452**

(in PLN thousand)

Selected data on associated entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2010					
Bank Pocztowy SA	4 170 155	3 857 505	342 933	14 706	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	16 892	48	604	82	33.33
Agencja Inwestycyjna CORP SA	3 017	1 593	13 007	503	22.31
Total	**4 190 064**	**3 859 146**	**356 544**	**15 291**	**X**
31.12.2009					
Bank Pocztowy SA	3 914 409	3 631 441	309 820	9 338	25.00
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	16 291	25	573	34	33.33
Agencja Inwestycyjna CORP SA	3 710	2 073	14 823	479	22.31
Total	**3 934 410**	**3 633 539**	**325 216**	**9 851**	**X**

The information concerning Bank Pocztowy SA as at 2010, presented in the above table is derived from financial statements prepared, for the first time, 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 Group'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 2009 are derived from audited financial statements.

As at 31 December 2010 and 31 December 2009, the Group had no share in contingent liabilities of associates acquired jointly with other investors.

Selected data on jointly controlled entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenues	Net profit	% share
31.12.2010					
Centrum Obsługi Biznesu Sp. z o.o	125 007	98 811	20 196	(875)	41.44
Centrum Haffnera Sp. z o.o. Group	340 409	270 584	44 896	(15 575)	49.43
Total	**465 416**	**369 395**	**65 092**	**(16 450)**	**X**
31.12.2009					
Centrum Obsługi Biznesu Sp. z o.o	129 648	103 772	18 470	(6 041)	41.44
Centrum Haffnera Sp. z o.o. Group	367 513	282 087	32 219	(117)	49.43
Total	**497 161**	**385 859**	**50 689**	**(6 158)**	**X**

The information presented in the above table for Centrum Obsługi Biznesu Sp. z o.o. is derived from financial statements prepared in accordance with the Polish Accounting Standards, and the information for Centrum Haffnera Sp. z o.o. is derived from consolidated financial statements prepared in accordance with Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. The information for both companies for the year 2009 is derived from audited financial statements.

In the consolidated financial statements for the year ended 31 December 2010, all associates and jointly controlled entities are accounted for using the equity method.

(in PLN thousand)

	2010	2009
Investments in associates at the beginning of the period	**179 452**	**190 463**
Share in profit/(loss)	7 146	7 785
Share in changes recognized directly in equity	271	705
Dividends paid	(107)	(94)
Share in changes recognised directly in equity	-	(15 531)
Reclassification of Kolej Gondolowa Jaworzyna Krynicka SA shares to non-current assets held for sale	-	(15 531)
Change in impairment allowances of investment	(55 110)	(3 876)
Investment in associates at the end of the period	**131 652**	**179 452**

In 2010, the Group recognized an impairment allowance against shares of Bank Pocztowy SA amounting to PLN 55 171 thousand and decreased by PLN 61 thousand impairment allowance against shares of Poznański Fundusz Poręczeń Kredytowych Sp.z o.o. Impairment allowance against shares of Bank Pocztowy SA was recognized on the basis of fair value of the shares based on market indicators for a group of comparable banks.

In 2009, the Group recognized an impairment allowance against shares of Poznański Fundusz Poręczeń Kredytowych Sp.z o.o. amounting to PLN 3 876 thousand.

In January 2009, PKO Bank Polski SA, taking into consideration the status of the work related to the sale of shares in Kolej Gondolowa Jaworzyna Krynicka SA, reclassified all the shares held in the above-mentioned company to non-current assets held-for-sale (in accordance with IFRS 5). Until January 2009, the company was classified as investment in associates and recognized in the consolidated financial statements under the equity method.

	2010	2009
Investments in jointly controlled entities at the beginning of the period	**49 240**	**56 682**
Share of profit (loss)	(7 961)	(7 442)
Investments in jointly controlled entities at the end of the period	**41 279**	**49 240**

As at 31 December 2010 and 31 December 2009, the parent company had no share in contingent liabilities and commitments of associates acquired jointly with other investors.

In the year ended 31 December 2010, PKO Bank Polski SA did not make any direct investments in jointly controlled entities or associates.

27. Inventories

Carrying amount of inventories by kind*	**31.12.2010**	**31.12.2009**
Work-in-progress – construction investments	261 609	424 824
Finished goods - construction investments	195 817	144 347
Supplies	96 298	105 252
Materials	11 409	12 666
Impairment allowances on inventories	(34 858)	(34 014)
TOTAL	**530 275**	**653 075**

* The balance relates mainly to expenses on real estate development incurred by the Group entities whose scope of activity relates to real estate development.

On 31 December 2010 and 31 December 2009 the Group had no inventories constituting collateral for liabilities to third parties.

(in PLN thousand)

28. Intangible assets

For the year ended 31 December 2010	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Intangible assets at the beginning of the period - net	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
Purchases	58	15 002	-	463 096	**478 156**
Sales and disposals	-	(252)	-	(4 927)	**(5 179)**
Impairment allowances	-	-	(35 193)	(2 644)	**(37 837)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	394	-	7	**401**
Transfers	-	240 132	-	(240 132)	**-**
Amortisation	-	(190 135)	-	(3 533)	**(193 668)**
Other value changes	14	(16 290)	-	3 863	**(12 413)**
Net carrying amount as at 31 December 2010	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**
As at 1 January 2010					
Purchase price (gross carrying amount)	3 414	2 254 339	344 695	180 126	**2 782 574**
Accumulated amortisation and impairment allowances	-	(1 023 887)	(79 762)	(106 348)	**(1 209 997)**
Net carrying amount	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
As at 31 December 2010					
Purchase price (gross carrying amount)	3 486	2 479 718	344 695	397 155	**3 225 054**
Accumulated amortisation and impairment allowances	-	(1 200 415)	(114 955)	(107 647)	**(1 423 017)**
Net carrying amount	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**

The most significant item of intangible assets of the Group relates to expenditures on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2010 amounted to PLN 1 066 066 thousand (during the years 2003 – 2009, they amounted to PLN 983 150 thousand). As at 31 December 2010, the carrying amount of the Integrated Information System (ZSI) amounted to PLN 701 470 thousand. The expected useful life of the ZSI system is 15 years. As at 31 December 2010, the remaining useful life is 11 years.

For the year ended 31 December 2009	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Intangible assets at the beginning of the period	**6 923**	**971 226**	**164 720**	**209 909**	**1 352 778**
Purchase of shares of a subsidiary	-	-	103 615	-	**103 615**
Purchases	375	8 689	-	283 366	**292 430**
Sales and disposals	-	(209)	-	-	**(209)**
Impairment allowances	-	-	(3 402)	-	**(3 402)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	(534)	-	44	**(490)**
Transfers	-	414 497	-	(414 497)	**-**
Amortisation	-	(166 423)	-	(2 932)	**(169 355)**
Other changes of value	(3 884)	3 206	-	(2 112)	**(2 790)**
Net carrying amount as at 31 December 2009	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
As at 1 January 2009					
Purchase price (gross carrying amount)	6 923	1 828 366	241 080	314 458	**2 390 827**
Accumulated amortisation and impairment allowances	-	(857 140)	(76 360)	(104 549)	**(1 038 049)**
Net carrying amount	**6 923**	**971 226**	**164 720**	**209 909**	**1 352 778**
As at 31 December 2009					
Purchase price (gross carrying amount)	3 414	2 254 339	344 695	180 126	**2 782 574**
Accumulated amortisation and impairment allowances	-	(1 023 887)	(79 762)	(106 348)	**(1 209 997)**
Net carrying amount	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**

The Group does not produce any software internally. In the period from 1 January 2010 to 31 December 2010, the Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 630 492 thousand (in the period from 1 January 2009 to 31 December 2009: PLN 448 694 thousand).

(in PLN thousand)

As at 31 December 2010 and as at 31 December 2009, there were no restrictions as regards the Group legal rights to intangible assets as cash flow hedges.

The table below presents data concerning goodwill included in the Group's financial statements as at 31 December 2010 and 31 December 2009.

Net goodwill	31.12.2010	31.12.2009
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	51 158	51 158
Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
PKO BP Inwestycje - Nowy Wilanów Sp. z o.o.	21 233	49 412
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP Inwestycje - Sarnia Dolina Sp. z o.o.	-	7 014
Total	**229 740**	**264 933**

As at 31 December 2010, the Group conducted mandatory goodwill impairment tests in accordance with the model developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of operations of particular entities.

Test models (with the exception of PKO BP BANKOWY PTE where the model is based on actuarial estimates) are based on discounted future cash flows and on the assumptions that the shares will be held in the future and recovery value is equal to value in use. The forecasts related to cash flows are developed on the basis of financial plans of entities covering a period of 3 to 5 years, using differentiated discount rates tailored to the specific nature of operations of the particular entities.

The aforesaid tests indicated a need for goodwill impairment write-downs in 2010 concerning shares in PKO BP Inwestycje – Sarnia Dolina Sp. z o.o. in a full amount. Moreover, in 2010, goodwill was reduced in relation to the acquisition of shares in PKO BP Inwestycje – Nowy Wilanów Sp. z o.o., in proportion to the disposed part of the cash-generating units to which the goodwill was allocated (i.e. project stage understood as a separate multi-apartment building or group of buildings developed by the Company).

(in PLN thousand)

29. Tangible fixed assets

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 assets as at the beginning of the period	**2 444 010**	**2 430 397**	**72 073**	**207 251**	**731**	**454 305**	**5 608 767**
Increases, of which:	**4 009**	**42 828**	**20 092**	**126 967**	**118**	**5 392**	**199 406**
Purchases and other changes	1 834	40 643	19 903	124 578	118	4 034	191 110
Currency translation differences	2 175	2 185	189	2 389	-	1 358	8 296
Decreases, of which:	**(22 572)**	**(274 676)**	**(12 183)**	**(33 714)**	**(56)**	**(18 540)**	**(361 741)**
Disposals and sales	(15 820)	(246 740)	(3 647)	(97)	(56)	(14 806)	(281 166)
Other	(405)	(1 648)	(8 385)	(33 617)	-	(3 734)	(47 789)
Transfer from fixed assets to fixed assets held for trading	(6 347)	(26 288)	(151)	-	-	-	(32 786)
Transfers from capital expenditure on fixed assets	**59 786**	**115 988**	**-**	**(187 236)**	**-**	11 462	**-**
Gross value of fixed assets at the end of the period	**2 485 233**	**2 314 537**	**79 982**	**113 268**	**793**	**452 619**	**5 446 432**
Accumulated depreciation as at the beginning of the period	**(693 034)**	**(1 778 135)**	**(27 233)**	**-**	**(409)**	**(330 406)**	**(2 829 217)**
Increases, of which:	**(83 217)**	**(205 336)**	**(12 587)**	**-**	**(126)**	**(32 503)**	**(333 769)**
Depreciation for the period	(82 525)	(191 587)	(12 495)	-	(126)	(31 918)	(318 651)
Currency translation differences	(471)	(851)	(85)	-	-	(559)	(1 966)
Other	(221)	(877)	(7)	-	-	(26)	(1 131)
Transfer from fixed assets to fixed assets held for trading	-	(12 021)	-	-	-	-	(12 021)
Decreases, of which:	**14 948**	**272 377**	**7 541**	**-**	**1**	**16 566**	**311 433**
Disposal and sales	13 265	245 701	2 115	-	1	13 282	274 364
Other	44	1 588	5 424	-	-	3 284	10 340
Transfer from fixed assets to fixed assets held for trading	1 639	25 088	2	-	-	-	26 729
Accumulated depreciation at the end of the period	**(761 303)**	**(1 711 094)**	**(32 279)**	**-**	**(534)**	**(346 343)**	**(2 851 553)**
Impairment allowances							
Impairment allowances at the beginning of the period	**(1 163)**	**(685)**	**(8)**	**-**	**-**	**-**	**(1 856)**
Increases, of which:	**(149)**	**(12 023)**	**-**	**(17 246)**	**-**	**-**	**(29 418)**
Other	(149)	(2)	-	(17 246)	-	-	(17 397)
Transfer from fixed assets to fixed assets held for trading	-	(12 021)	-	-	-	-	(12 021)
Decreases, of which:	**179**	**12 653**	**8**	**-**	**-**	**-**	**12 840**
Other	179	632	8	-	-	-	819
Transfer from fixed assets to fixed assets held for trading	-	12 021	-	-	-	-	12 021
Impairment allowances at the end of the period	**(1 133)**	**(55)**	**-**	**(17 246)**	**-**	**-**	**(18 434)**
Net book value	**1 722 797**	**603 388**	**47 703**	**96 022**	**259**	**106 276**	**2 576 445**
Opening balance	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**
Closing balance	**1 722 797**	**603 388**	**47 703**	**96 022**	**259**	**106 276**	**2 576 445**

As at 31 December 2010, the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 48 425 thousand (as at 31 December 2009: PLN 43 604 thousand). In the years ended 31 December 2010 and 31 December 2009, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges.

(in PLN thousand)

For the year ended 31 December 2009	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	**2 346 187**	**2 382 497**	**81 853**	**560 319**	**32 009**	**430 035**	**5 832 900**
Increases, of which:	**9 078**	**26 912**	**1 009**	**148 160**	**607**	**6 902**	**192 668**
Purchases and other changes	9 078	26 912	1 009	148 160	607	6 902	192 668
Decreases, of which:	**(43 601)**	**(284 638)**	**(17 254)**	**(18 051)**	**(31 885)**	**(21 372)**	**(416 801)**
Disposals and sales	(29 347)	(280 307)	(15 417)	-	(31 885)	(19 232)	(376 188)
Currency translation differences	(3 028)	(2 736)	(185)	(2 108)	-	(1 520)	(9 577)
Other	(11 226)	(1 595)	(1 652)	(15 943)	-	(620)	(31 036)
Transfers from assets under construction to tangible fixed assets	**132 346**	**305 626**	**6 465**	**(483 177)**	**-**	**38 740**	**-**
Gross value of fixed assets at the end of the period	**2 444 010**	**2 430 397**	**72 073**	**207 251**	**731**	**454 305**	**5 608 767**
Accumulated depreciation as at the beginning of the period	**(628 830)**	**(1 884 212)**	**(26 671)**	**-**	**(7 839)**	**(318 654)**	**(2 866 206)**
Increases, of which:	**(83 087)**	**(174 441)**	**(12 620)**	**-**	**(803)**	**(32 236)**	**(303 187)**
Depreciation for the period	(82 628)	(173 960)	(12 498)	-	(803)	(29 908)	(299 797)
Other	(459)	(481)	(122)	-	-	(2 328)	(3 390)
Decreases, of which:	**18 883**	**280 518**	**12 058**	**-**	**8 233**	**20 484**	**340 176**
Disposal and sales	15 400	277 662	11 109	-	8 233	18 435	330 839
Other	2 808	1 473	817	-	-	1 318	6 416
Currency translation differences	675	1 383	132	-	-	731	2 921
Accumulated depreciation at the end of the period	**(693 034)**	**(1 778 135)**	**(27 233)**	**-**	**(409)**	**(330 406)**	**(2 829 217)**
Impairment allowances							
Impairment allowances at the beginning of the period	**(1 216)**	**(119)**	**-**	**(700)**	**-**	**-**	**(2 035)**
Increases	-	(603)	(8)	-	-	-	(611)
Decreases	53	37	-	700	-	-	790
Impairment allowances at the end of the period	(1 163)	(685)	(8)	-	-	-	(1 856)
Net book value	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**
Opening balance	**1 716 141**	**498 166**	**55 182**	**559 619**	**24 170**	**111 381**	**2 964 659**
Closing balance	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**

In the years 2010 and 2009, the Group did not recognize in the income statement any significant compensation from third parties due to impairment or loss of tangible fixed assets.

(in PLN thousand)

Operating lease – lessor

As at the balance date the total value of future lease receivables within minimal lease payment under operating lease are as follows:

Total value of future lease payments under non-cancellable operating lease	31.12.2010	31.12.2009
For the period:		
up to 1 year	4 326	5 069
from 1 year to 5 years	4 507	8 334
above 5 years	7 539	7 759
Total	**16 372**	**21 162**

The average agreement period for operating lease agreements where the Group is a lessor amounts to 36 months. The lessee bears service and insurance costs.

As at the balance date the assets in lease under operating lease are as follows:

Means of transport	2010	2009
Gross value as at the beginning of the period	14 983	20 274
Changes in the period	7 338	(5 291)
Gross value at the end of the period	22 321	14 983
Accumulated depreciation as at the beginning of the period	(5 246)	(6 104)
Depreciation for the period	(3 553)	(3 284)
Other changes in depreciation	456	4 142
Impairment allowances as at the end of the period	(8 343)	(5 246)
Net book value	**13 978**	**9 737**

Investment properties	2010	2009
Gross value as at the beginning of the period	-	-
Changes in the period	2 327	-
Gross value at the end of the period	2 327	-
Accumulated depreciation as at the beginning of the period	-	-
Depreciation for the period	(55)	-
Other changes in depreciation	(198)	-
Impairment allowances as at the end of the period	(253)	-
Net book value	**2 074**	**-**

30. Other assets

	31.12.2010	31.12.2009
Settlements of payment cards transactions	204 677	230 400
Accruals and prepayments	170 978	112 543
Trade receivables	86 592	67 888
Settlements of financial instruments	39 750	33 865
Receivables from the state budget due to distribution of court fee stamps	9 311	13 800
Receivables from unsettled transactions related to derivatives	7 121	20 598
Settlements of investment securities turnover	5 022	9 551
Receivables relating to foreign exchange activities	-	336
Other*	90 430	86 445
Total	**613 881**	**575 426**
including financial assets **	352 473	376 438

* Included in 'Other' are i.al. receivables arising from internal operations, receivables arising from other transactions with financial, non-financial and public entities.
** Financial assets include all items of 'Other assets', with the exception of 'Accruals and prepayments' and 'Other'.

(in PLN thousand)

31. Amounts due to the central bank

	31.12.2010	31.12.2009
Up to 1 month	3 370	6 581
Total	**3 370**	**6 581**

32. Amounts due to banks

	31.12.2010	31.12.2009
Loans and advances received	4 068 332	3 597 839
Other banks' deposits	1 027 518	1 399 985
Current accounts	44 379	26 545
Other money market deposits	93 646	121 679
Total	**5 233 875**	**5 146 048**

33. Other financial liabilities designated at fair value through profit and loss

As at 31 December 2010 and 31 December 2009 the Group had no other financial liabilities valued at fair value through profit and loss.

34. Amounts due to customers

	31.12.2010	31.12.2009
Amounts due to retail clients	**95 107 854**	**87 557 401**
Current accounts and overnight deposits	46 416 011	37 730 475
Term deposits	48 398 185	49 559 096
Other	293 658	267 830
Amounts due to corporate entities	**31 826 551**	**27 834 542**
Current accounts and overnight deposits	11 264 473	8 895 727
Term deposits	18 454 432	17 286 459
Loans and advances received	1 856 819	1 420 517
Other	250 827	231 839
Amounts due to state budget entities	**6 046 810**	**9 680 991**
Current accounts and overnight deposits	2 689 369	3 355 764
Term deposits	3 349 821	6 279 377
Other	7 620	45 850
Total	**132 981 215**	**125 072 934**

35. Debt securities in issue

	31.12.2010	31.12.2009
Debt securities in issue		
Bonds issued by:		
PKO Finance AB	3 187 766	-
BFL SA	111 101	289 251
KREDOBANK SA	-	109
Total	**3 298 867**	**289 360**

	31.12.2010	31.12.2009
Debt securities in issue by maturity:		
Up to 1 month	24 901	139 520
From 1 month to 3 months	86 200	120 120
From 3 months to 1 year	23 389	29 611
From 1 year to 5 years*	3 164 377	109
Total	**3 298 867**	**289 360**

*A significant item in the position comprises a liability due to the Eurobonds issue in the nominal value of EUR 800 000 thousand.

As at 31 December 2010, the average interest rate of securities issued by PKO Finance AB was 3.73% and of securities issued by BFL – 5.36%. As at 31 December 2009, the interest rate of securities issued by KREDOBANK SA and BFL amounted to 22% and 5.77%, respectively.

36. Subordinated liabilities

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

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

as at 31 December 2009

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance (PLN thousand)
Subordinated bonds	1 600 700	PLN	5.30%	30.10.2017	1 612 178

change in subordinated liabilities

	2010	2009
As at the beginning of the period	**1 612 178**	**1 618 755**
Increases, of which:	**82 191**	**99 575**
accrued interest	82 191	99 575
Decreases, of which:	**(82 590)**	**(106 152)**
repayment of interest	(82 590)	(106 152)
Subordinated liabilities as at the end of the period	**1 611 779**	**1 612 178**

(in PLN thousand)

37. Other liabilities

	31.12.2010	31.12.2009
Accounts payable	304 515	227 492
Deferred income	345 302	291 704
Other liabilities relating to:	**1 443 017**	**1 047 427**
liabilities due to legal settlements	283 408	137 194
liabilities relating to investment activities and internal operations	196 687	12 689
liabilities due to suppliers	162 137	148 896
liabilities relating to settlements of security transactions	181 456	276 221
interbank settlements	174 854	182 275
liabilities arising from foreign currency activities	131 849	47 934
financial instruments settlements	39 683	36 325
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22 310	22 310
liabilities relating to payment cards	20 430	1 468
liabilities arising from transactions with non-financial institutions	12 022	7 951
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	4 844	3 570
liabilities arising from other settlements	4 177	8 058
other*	209 160	162 536
Total	**2 092 834**	**1 566 623**
of which financial liabilities **	1 538 372	1 112 383

* Item 'other' includes: liabilities from sale of Treasury stamps, liabilities arising from bank transfers and other payment orders, payables to insurance companies.

** Financial liabilities include all items of 'Other liabilities' with the exception of 'Deferred income' and 'Other'.

As at 31 December 2010 and 31 December 2009, none of the Group entities had overdue contractual liabilities.

38. Provisions

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, including:	**8 128**	**368 295**	**111 721**	**114 150**	**602 294**
Short term portion	**8 128**	**27 418**	**111 721**	**114 150**	**261 417**
Long term portion	**-**	**340 877**	**-**	**-**	**340 877**
Increase/reassessment	722	43 497	140 292	6 591	**191 102**
Use	(987)	-	-	(3 466)	**(4 453)**
Release	(337)	-	(169 764)	(35 696)	**(205 797)**
Currency translation differences	-	-	69	-	**69**
Other changes and reclassifications	(47)	-	2	520	**475**
As at 31 December 2010, including:	**7 479**	**411 792**	**82 320**	**82 099**	**583 690**
Short term portion	**7 479**	**29 628**	**82 320**	**82 023**	**201 450**
Long term portion	**-**	**382 164**	**-**	**76**	**382 240**

*Included in 'Other provisions' is: restructuring provision amounting to PLN 65 861 thousand and provision for potential claims on receivables sold amounting to PLN 11 430 thousand.

(in PLN thousand)

For the year ended 31 December 2009	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2009, including	**9 352**	**365 186**	**78 250**	**113 228**	**566 016**
Short term portion	**9 352**	**46 648**	**78 250**	**113 228**	**247 478**
Long term portion	**-**	**318 538**	**-**	**-**	**318 538**
Increase/reassessment	389	3 529	172 205	17 413	**193 536**
Use	(1 034)	-	(2 296)	(14 288)	**(17 618)**
Release	(15)	(396)	(135 934)	(2 829)	**(139 174)**
Currency translation differences	-	-	(504)	-	**(504)**
Other changes and reclassifications	(564)	(24)	-	626	**38**
As at 31 December 2009, including:	**8 128**	**368 295**	**111 721**	**114 150**	**602 294**
Short term portion	**8 128**	**27 418**	**111 721**	**114 150**	**261 417**
Long term portion	**-**	**340 877**	**-**	**-**	**340 877**

* Included in "Other provisions' is: restructuring provision amounting to PLN 72 604 thousand and provision for potential claims on receivables sold amounting PLN 31 589 thousand.

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

39. Share capital

As compared to 31 December 2009, there were no changes in the amount of the share capital of PKO Bank Polski SA in the year ended 31 December 2010.

As at 31 December 2010, 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 2009: PLN 1 250 000 thousand, 1 250 000 thousand ordinary shares with nominal value of PLN 1 each). Issued shares of PKO Bank Polski SA are not preferred shares.

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	510 000 000	PLN 1	PLN 510 000 000
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**

On 10 November 2004, based on a Resolution dated 30 August 1996 on commercialization and privatization (Journal of Laws 2002, No. 171, item 1397 with subsequent amendments) and Par. 14, Resolution 1 of the Ministry of the State Treasury dated 29 January 2003 on specific rules for categorization of authorized employees into groups, setting a number of shares to be allocated on each of such groups, and procedures for acquiring shares by authorized employees (Journal of Laws No. 35, item 303), the parent company of the Group has issued its shares to its employees. As a result, employees received 105 000 000 shares, which constituted 10.5% of the share capital of the Bank (currently 8.4% of the share capital of the Bank).

As at 31 December 2010, 609 490 thousand shares were subject to public trading (as at 31 December 2009: 609 490 thousand shares).

As at 31 December 2010 and 31 December 2009, the subsidiaries, jointly controlled entities and associates of the Bank did not hold shares of PKO Bank Polski SA.

Information on the shareholders of PKO Bank Polski SA is presented in Note 1 'General information'.

(in PLN thousand)

40. Other capital

	31.12.2010	31.12.2009
Share capital, of which:		
Reserve capital	12 212 177	12 149 682
Other reserves	3 412 239	3 405 087
General banking risk fund	1 070 000	1 070 000
Total other reserves	**16 694 416**	**16 624 769**
Share in other comprehensive income of an associate	976	705
Financial assets available for sale	(25 171)	(11 762)
Cash flow hedges	217 924	119 276
Total other capital from comprehensive income	**193 729**	**108 219**
Total other capital	**16 888 145**	**16 732 988**

OTHER NOTES

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

As at 31 December 2010 and 31 December 2009, the Group 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.

42. Pledged assets

The Group had the following pledged assets:

Liabilities from sell-buy-back transactions (SBB)

	31.12.2010	31.12.2009
Treasury bonds:		
nominal value	458 322	314 760
carrying amount	445 460	294 542
Treasury bills:		
nominal value	-	46 730
carrying amount	-	46 555

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).

	31.12.2010	31.12.2009
The value of the fund	489 891	442 092
Nominal value of the hedge	515 000	455 000
Type of the hedge	Treasury bonds	Treasury bonds
Maturity of the hedge	25.01.2021	24.11.2010
Carrying value of the hedged asset	506 992	464 532

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

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.

	31.12.2010	31.12.2009
Guarantee Fund for the Settlement of Stock Exchange Transactions	6 950	8 421

Each direct participant that holds the status of settlements-making participant is obliged to make payments to the settlement fund that 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 addition, KREDOBANK SA, an entity consolidated using the full method, had the following pledged assets:

	31.12.2010	31.12.2009
Bonds issued by the Ministry of Finance of Ukraine, hedged as collateral for loans received from National Bank of Ukraine		
in UAH thousand	-	50 000
equivalent in PLN thousand	-	17 790

43. Contingent liabilities

Underwriting programs

As at 31 December 2010, the Bank's underwriting agreements covered the following 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	**304 000**	2013.07.31	Bonds Issue Agreement*
Company B	corporate bonds	**200 000**	2012.01.02	Bonds Issue Agreement*
Company C	corporate bonds	**155 000**	2024.12.31	Bonds Issue Agreement*
Company D	corporate bonds	**74 900**	2015.12.30	Bonds Issue Agreement*
Company E	corporate bonds	**13 000**	2018.12.31	Bonds Issue Agreement*
Entity A	municipal bonds	**4 000**	2025.12.31	Bonds Issue Agreement*
Total		**750 900**		

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

As at 31 December 2009, the Bank's underwriting agreements covered the following 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	**500 000**	2025.12.31	Bonds Issue Agreement*
Company B	corporate bonds	**199 786**	2010.11.15	Bonds Issue Agreement*
Company C	corporate bonds	**119 915**	2012.01.02	Bonds Issue Agreement*
Company D	corporate bonds	**44 500**	2016.12.30	Bonds Issue Agreement*
Company E	corporate bonds	**13 000**	2018.12.31	Bonds Issue Agreement*
Entity A	municipal bonds	**15 000**	2025.12.31	Bonds Issue Agreement*
Total		**892 201**		

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

No securities under the underwriting program have limited transferability, are quoted on the stock exchange or traded on a regulated market.

(in PLN thousand)

Contractual commitments

As at 31 December 2010 contractual commitments concerning intangible assets amounted to PLN 1 100 thousand (as at 31 December 2009: PLN 1 748 thousand).

Loan commitments

	31.12.2010	31.12.2009
Financial sector	752 074	783 978
Non-financial sector	27 747 336	24 786 905
Public sector	1 005 614	1 814 276
Total	**29 505 024**	**27 385 159**
of which: irrevocable loan commitments	7 001 338	6 985 527

Loan commitments have been presented in nominal values.

Guarantees issued

Guarantees and sureties	31.12.2010	31.12.2009
Financial sector	2 234 228	22 587
Non-financial sector	4 792 355	5 101 594
Public sector	253 771	373 300
Total	**7 280 354**	**5 497 481**

In the years ended 31 December 2010 and 31 December 2009, the Bank and its subsidiaries 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 Group's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 38 'Provisions'.

Contingent liabilities by maturity as at 31 December 2010

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loan commitments	16 631 759	314 035	3 994 998	2 923 109	5 641 123	**29 505 024**
Guarantee liabilities issued	1 649 878	974 119	1 828 614	2 550 325	277 418	**7 280 354**
Total	**18 281 637**	**1 288 154**	**5 823 612**	**5 473 434**	**5 918 541**	**36 785 378**

Contingent liabilities by maturity as at 31 December 2009

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loan commitments	15 085 902	313 335	5 111 897	2 191 153	4 682 872	**27 385 159**
Guarantee liabilities issued	1 366 141	1 505 984	1 541 703	1 083 653	-	**5 497 481**
Total	**16 452 043**	**1 819 319**	**6 653 600**	**3 274 806**	**4 682 872**	**32 882 640**

(in PLN thousand)

Contingent liabilities (by nominal value)

	31.12.2010	31.12.2009
Financial	403 874	843 627
Guarantees	3 726 067	3 736 394
Total	**4 129 941**	**4 580 021**

Assets pledged as collateral for contingent liabilities

As at 31 December 2010 and 31 December 2009 the Group had no assets pledged as collateral for contingent liabilities.

Right to sell or pledge collateral established for the Group

As at 31 December 2010 and 31 December 2009, there was no collateral established for the Group which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

44. Legal claims

As 31 December 2010, the total value of court proceedings in which the Bank is a defendant was PLN 308 304 thousand (as at 31 December 2009: PLN 232 234 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 60 207 thousand (as at 31 December 2009: PLN 71 114 thousand).

The most significant disputes of the 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 Organization (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange' fees for transactions made using Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of interchange fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, in the amount of PLN 16 597 thousand. As at 31 December 2010, the Bank recognized a liability for the above amount. On 19 January 2007, the Bank filed an appeal from the decision of the President of UOKiK to the regional court. At the end of October 2007, the President of UOKiK referred the case to the Regional Court in Warsaw, the Court for Competition and Consumer Protection, including the appeals of the banks against Settlement of the Decision; the banks' complaints against the immediate enforcement clause issued for the Decision as well as the banks' complaints against the costs of the proceedings. The Court has commenced the activities stipulated by the Code of Civil Procedure and i.al. issued a call to the parties to provide their reply to the appeals. On 21 January 2008 the Regional Court in Warsaw, the Court for Competition and Consumer Protection issued a resolution (in case of the Bank's appeal to the Decision of UOKiK President No. DAR 15/2006 as of 29 December 2006), in which it decided to suspend execution of the Decision above in article I (a court order to abandon joint establishing interchange fee rates). On 12 November 2008, the District Court in Warsaw, the Competition and Consumers Protection Court issued a verdict changing sections I, II, III and V of the Decision appealed against. The Court ruled that the banks participating in the proceedings, including PKO Bank Polski SA, had not committed an act of unfair competition by being party to an agreement restricting competition on the market of acquiring outsourcing services associated with the settlement of the consumers' liabilities to acceptors with respect to payment for goods and services purchased by the consumers with the use of credit and debit cards in the territory of Poland. The agreement in question set out common interchange fees on transactions concluded with the use of VISA and MasterCard cards in Poland.On 12 January 2009, the President of the Office for Competition and Consumer Protection (UOKiK) appealed against the verdict of the Court of Competition and Consumer

(in PLN thousand)

Protection reversing the decisions of the UOKiK President. The Bank submitted the reply to the appeal on 13 February 2009. On 22 April 2010, the Court of Appeal reversed the judgment of the Court of Competition and Consumer Protection.

With reference to the Decision of UOKiK President as of 12 December 2008 imposing a fine on PKO Bank Polski SA for the unfair advertisement of the 'Max Lokata' term deposit, as at the balance date the Bank recognised a provision in the amount of PLN 5 712 thousand as at 31 December 2008. On 2 January 2009, the Bank appealed against the verdict to the Court of Competition and Consumer Protection. On 10 March 2010, the Court of Competition and Consumer Protection issued a decision dismissing the Bank's appeal and sustaining the decision of UOKiK (Office of Competition and Consumer Protection) dated 12 December 2008. The decision of the SOKiK (Court of Competition and Consumer Protection) was delivered to the Bank's agent for litigation on 19 April 2010. On 4 May 2010, the Bank appealed against the judgment. As at 31 December 2010, the liability remained on an unchanged level.

On 9 February 2011, the decision of the court of the second instance was issued. In this decision, the Court of Appeals dismissed the Bank's appeal from the decision of the court of the first instance (the District Court in Warsaw, the Competition and Consumer Protection Court). The latter decision dismissed the Bank's appeal from the decision of the Chairman of the Office for Competition and Consumer Protection of 14 December 2008. This means that the Bank is obliged to fulfil the duties imposed on it by decision of the Chairman of the Office for Competition and Consumer Protection of 14 December 2008 within the deadline specified therein.

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

As at the date of these financial statements, three administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatization claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties claims were submitted by their former owners (court proceedings are pending). Until 31 December 2010 there had been no further developments with respect to this issue.

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

45. Supplementary information to the consolidated 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 three months from the date of acquisition. These amounts are presented in their nominal values.

	31.12.2010	31.12.2009
Cash and balances with the central bank	6 182 412	7 094 350
Current receivables from financial institutions	2 256 269	1 898 043
Total	**8 438 681**	**8 992 393**

(in PLN thousand)

Cash flow from interests and dividends, both received and paid

Interest income - received	2010	2009
Income from loans and advances	7 139 112	6 573 215
Income from securities at fair value through profit and loss	473 267	362 718
Income from placements	164 434	178 479
Income from investment securities	513 639	474 861
Income from trading securities	133 245	94 558
Other interest received	2 596 549	1 707 633
Total	**11 020 246**	**9 391 464**

Interest expense – paid	2010	2009
Interest expense on deposits	(3 111 424)	(2 525 411)
Interest expense on loans and advances	(70 829)	(108 734)
Interest expense on debt securities in issue	(101 423)	(108 654)
Other (mainly interests on debt securities premium, interests on cash pledge liabilities, interests on accounts of special allocation funds)	(1 408 249)	(1 338 489)
Total	**(4 691 925)**	**(4 081 288)**

Dividend income - received	2010	2009
Dividend income from subsidiaries, jointly controlled entities and associates	104 232	96 179
Dividend income from other entities	5 663	5 381
Total	**109 895**	**101 560**

Dividend expense - paid	2010	2009
Dividend paid to shareholders of the parent company	(2 375 000)	(1 000 000)
Dividend paid to non-controlling shareholders	-	(32 620)
Total	**(2 375 000)**	**(1 032 620)**

Cash flow from operating activities - other adjustments

Other adjustments	2010	2009
Interest accrued, discount, premium – on available for sale debt securities decreased by deferred tax	(463 264)	(512 927)
Disposal and impairment allowances for tangible fixed assets and intangible assets	73 142	(58 997)
Valuation, impairment allowances for investments in jointly controlled entities and associates	57 593	237 383
Hedge accounting	98 648	119 276
Currency translation differences from foreign operations	(1 211)	(51 378)
Total	**(235 092)**	**(266 643)**

(in PLN thousand)

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

Gains (losses) on disposal and liquidation of tangible fixed assets and intangible assets from investing activities	2010	2009
Income from sale and disposal of tangible fixed assets and intangible assets	(6 820)	(17 236)
Costs of sale and disposal of tangible fixed assets and intangible assets	2 873	7 723
Total	**(3 947)**	**(9 513)**

Interests and dividends	2010	2009
Interest from investment securities of the available for sale portfolio, presented in the investing activities	(432 046)	(461 061)
Dividends received, presented in the investing activities	(5 411)	(5 192)
Interest paid from loans granted, presented in financing activities	23 630	41 166
Total	**(413 827)**	**(425 087)**

Change in amounts due from banks	2010	2009
Change in the balance of the statement of financial position	(283 977)	1 340 544
Change in impairment allowances on amounts due from banks	(1 816)	(1 002)
Exclusion of the change in the balance of cash and cash equivalents	358 226	(535 308)
Total	**72 433**	**804 234**

Change in loans and advances to customers	2010	2009
Change in the balance of the statement of financial position	(14 095 534)	(15 464 694)
Change in impairment allowances on amounts due from customers	(919 546)	1 019 248
Total	**(15 015 080)**	**(14 445 446)**

Change in amounts due to banks	2010	2009
Change in the balance of the statement of financial position	84 616	(1 838 790)
Transfer of loans and advances received from banks/repayment of these loans and advances - to financing activities	(16 763)	339 656
Total	**67 853**	**(1 499 134)**

Change in amounts due to customers	2010	2009
Change in the balance of the statement of financial position	7 908 281	22 133 653
Transfer of long-term loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities	(408 967)	(1 041 134)
Total	**7 499 314**	**21 092 519**

Change in allowances and provisions	2010	2009
Change in the balance of the statement of financial position	(16 374)	36 227
Change in impairment allowances on amounts due from banks	1 816	1 002
Change in impairment allowances on loans and advances to customers	919 546	(1 019 248)
Change in the balance of deferred tax provisions related to valuation of the available-for-sale portfolio included in deferred income tax	(20 202)	(32 104)
Total	**884 786**	**(1 014 123)**

(in PLN thousand)

Change in other liabilities and subordinated liabilities	2010	2009
Change in the balance of the statement of financial position	526 211	(101 153)
Transfer of repayment of interest on loans and advances to non-financial entities, presented in financing activities	39 332	43 022
Transfer of the self - issue interests payment	82 590	106 152
Total	**648 133**	**48 021**

46. Transactions with the State Treasury and related entities

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

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

	2010	2009
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognized for this period	120 371	157 393
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	106 608	98 885
Difference between income recognized for this period and income received in cash – 'Loans and advances to customers'	13 763	58 508

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001 (Journal of Laws 2000, No.122, item 1310). The coverage of the so called 'old portfolio' housing loan receivables by the guarantees of the State Treasury resulted in the neutralization of the default risk on these loans. The State Treasury guarantees are realized when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee. PKO Bank Polski SA receives commission for settlements relating to redemption of interest on housing loans.

	2010	2009
Fee and commission income	6 590	6 771

As of 1 January 1996, the Bank became the general distributor of court fee stamps and receives commission from the State Budget.

	2010	2009
Fee and commission income	26 255	21 664

Dom Maklerski PKO BP 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 PKO Bank Polski SA on 11 February 2003. Under this agreement, Dom Maklerski PKO BP SA receives a fee for providing the services of an agent for the issue of bonds.

	2010	2009
Fee and commission income	31 842	40 127

(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	31.12.2010						31.12.2009					
	Total receivables	Total liabilities	Contingent liabilities and commitments – guarantee and finance	Interest income	Fee and commission income	Interest expenses	Total receivables	Total liabilities	Contingent liabilities and commitments-guarantee and finance	Interest income*	Fee and commission income	Interest expenses
Entity 1	349 633	-	260 851	5 067	639	(15)	357 919	-	286 807	7 127	426	(223)
Entity 2	268 908	-	520 418	10 201	628	(2 224)	414 164	-	400 225	13 843	1 189	(2 475)
Entity 3	154 846	128 924	407 670	19 133	883	(2 222)	327 619	141 797	245 258	10 345	1 060	(1 965)
Entity 4	120 000	481 611	200 000	12 620	790	(7 268)	200 000	179 408	85 000	5 953	1 188	(6 345)
Entity 5	91 040	-	8 002	3 518	270	(2)	38 272	-	11 644	2 512	363	(85)
Entity 6	66 421	38 943	155 000	3 219	9	(137)	78 498	-	-	4 307	6	(485)
Entity 7	60 246	28 101	89 754	2 699	355	(766)	35 905	25 192	4 139	-	401	(951)
Entity 8	57 438	-	24 562	4 366	38	(381)	59 466	39 944	106 898	2 656	19	(3 540)
Entity 9	39 603	-	-	353	5	(7)	41 082	-	-	751	7	(9)
Entity 10	36 409	65 092	-	2 407	10	(1 498)	54 613	-	-	3 632	5	(1 969)
Entity 11	34 011	-	-	1 812	6	(81)	42 978	-	-	2 593	5	(133)
Entity 12	23 790	-	3 601	1 424	72	-	29 469	-	945	1 470	120	-
Entity 13	23 620	-	580	1 484	29	(176)	22 911	-	2 089	1 368	7	-
Entity 14	15 182	-	-	592	-	-	10 181	-	-	17	-	-
Entity 15	12 250	-	-	506	8	-	10 109	-	2 391	284	7	-
Other entities' significant exposures	65 852	1 136 793	2 843 915	22 908	4 720	(70 552)	2 184 730	3 540 719	2 138 693	53 476	4 774	(66 213)
Total	**1 419 249**	**1 879 464**	**4 514 353**	**92 309**	**8 462**	**(85 329)**	**3 907 916**	**3 927 060**	**3 284 089**	**110 334**	**9 577**	**(84 393)**

In 2010 and 2009, no significant impairment charges on these exposures were recognised in the income statement.

(in PLN thousand)

47. Related party transactions

Transactions of the parent company with associates and jointly controlled entities accounted for using the equity method

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

31 December 2010

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total costs	including interest and fee and commission costs	Contingent liabilities and commitments
CENTRUM HAFFNERA Sp. z o.o.	-	-	2 478	9	9	59	59	-
Centrum Obsługi Biznesu Sp. z o.o.	30 799	30 799	22 285	753	752	558	557	-
Centrum Majkowskiego Sp. z o.o.	-	-	4 765	6	6	93	93	-
Kamienica Morska Sp. z o.o.	-	-	66	6	6	-	-	-
Sopot Zdrój Sp. z o.o.	209 785	209 785	4 049	5 617	5 617	60	60	-
Promenada Sopocka Sp. z o.o.	43 805	43 805	691	1 165	1 165	-	-	-
Bank Pocztowy SA	-	-	105	146	131	1 962	419	1 330
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	16 178	1	1	152	141	-
Agencja Inwestycyjna CORP SA	61	-	87	628	-	2 425	-	-
Kolej Gondolowa 'Jaworzyna Krynicka' SA	5 824	5 824	538	74	74	9	9	8 375
Total	**290 274**	**290 213**	**51 242**	**8 405**	**7 761**	**5 318**	**1 338**	**9 705**

31 December 2009

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total costs	including interest and fee and commission costs	Contingent liabilities and commitments
CENTRUM HAFFNERA Sp. z o.o.	-	-	151	12	12	321	321	4 108
Centrum Obsługi Biznesu Sp. z o.o.	32 627	32 627	23 313	1 146	1 146	686	686	-
Centrum Majkowskiego Sp. z o.o.	-	-	4 904	5	5	151	151	-
Kamienica Morska Sp. z o.o.	-	-	328	5	5	-	-	-
Sopot Zdrój Sp. z o.o.	229 852	229 852	6 999	10 196	10 196	27	27	-
Promenada Sopocka Sp. z o.o.	45 555	45 555	689	1 926	1 926	1	1	-
Bank Pocztowy SA	-	-	294	28	28	3 229	3 229	1 156
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	437	1	1	47	47	-
Agencja Inwestycyjna CORP SA	-	-	58	-	-	1 784	-	-
Kolej Gondolowa 'Jaworzyna Krynicka' SA	-	-	4	5	5	46	46	-
Total	**308 034**	**308 034**	**37 177**	**13 324**	**13 324**	**6 292**	**4 508**	**5 264**

48. Remuneration – key management of the parent company

a) short-term employee benefits.

Remuneration received from PKO Bank Polski SA

	2010	2009
The Management Board of the Bank		
Short-term employee benefits	6 831	1 854
The Supervisory Board of the Bank		
Short-term employee benefits	621	279
Total	**7 452**	**2 133**

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

	2010	2009
The Management Board of the Bank		
Short-term employee benefits	137	1 139
The Supervisory Board of the Bank		
Short-term employee benefits	-	21
Total	**137**	**1 160**

(in PLN thousand)

b) post-employment benefits.

As at 31 December 2010 and 31 December 2009, no post-employment benefits were granted.

c) other long-term benefits.

As at 31 December 2010 and 31 December 2009, no 'other long-term benefits' were granted.

d) benefits due to termination of employment.

As at 31 December 2010, benefits paid due to termination of employment amounted to PLN 1 440 thousand. As at 31 December 2009, no benefits were granted due to termination of employment.

e) share-based payments

As at 31 December 2010 and 31 December 2009, no benefits were granted in the form of share-based payments.

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

	31.12.2010	31.12.2009
Employees	1 468 436	1 384 420
The Management Board members	199	135
The Supervisory Board members	2 400	2 466
Total	**1 471 035**	**1 387 021**

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

Remuneration received by members of the Management Board and the Supervisory Board of the PKO Bank Polski SA Group subsidiaries

	2010	2009
The Management Board		
Short-term employee benefits	14 099	15 584
The Supervisory Board		
Short-term employee benefits	539	3 435
Total employee benefits	**14 638**	**19 019**

49. Changes to the entities of the Group

The information below concerns share purchase transactions with subsidiaries, which were concluded within the year of 2010.

a) concerning KREDOBANK SA

On 22 July 2010 the 20th issue of KREDOBANK SA shares was registered. PKO Bank Polski SA participated in the increase in the share capital of KREDOBANK SA within the 20th share issue, purchasing shares with a total nominal value of UAH 367 497 thousand (PLN 148 873 thousand), which constituted 99.83% of the issue. Non-controlling shareholders acquired shares of total nominal amount of UAH 503 thousand constituting 0.14% of the shares issue. After the said issue was registered, PKO Bank Polski SA's share in the registered capital of KREDOBANK SA and the share of votes on the Company's General Shareholders' Meeting increased from 99.4948% to 99.5655%.

b) concerning WISŁOK Inwestycje Sp. z o.o.

On 26 February 2010, all the shares in possession of PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, in the entity WISŁOK Inwestycje Sp. z o.o. changed its holder and became the property of the entity JEDYNKA SA with headquarters in Rzeszów due to the fact that all the criteria included in Contingent Agreement of Shares Sale dated from 23 November 2009 have been met. The selling price of the shares amounted to PLN 3 952 thousand.

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

In 2010, the increase in the share capital of BFL Nieruchomości Sp. z o.o. in the total amount of PLN 3 300 thousand, including: on 5 March, amount of PLN 2 000 thousand, 7 September, amount of PLN 800 thousand and 9 November, amount of PLN 500 thousand, was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 10 400 thousand and consists of 20 800 shares of PLN 500 nominal value each.

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

As at 31 December 2010, Bankowy Fundusz Leasingowy SA held a total of 99.9952% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

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

In 2010, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 6 400 thousand, including: on 27 April by an amount of PLN 2 700 thousand and on 10 November by an amount of PLN 3 700 thousand, was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 22 700 thousand and consists of 45 400 shares of PLN 500 nominal value each.

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

As at 31 December 2010, Bankowy Fundusz Leasingowy SA held a total of 99.9978% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

e) concerning PKO BP Inwestcje – Sarnia Dolina Sp. z o. o.

In 2010 (on 23 April and 19 August), PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, made an additional payment of PLN 448 thousand to PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.

f) concerning PKO BP Faktoring SA

On 29 September 2010, the increase in the share capital of PKO BP Faktoring SA in the total amount of PLN 1 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 7 500 thousand and consists of 7 500 shares of PLN 1 thousand nominal value each.

All the shares in the increased share capital were taken up by Bankowe Towarzystwo Kapitałowe SA - a subsidiary company of PKO Bank Polski SA, for a price equal to PLN 2 000 thousand.

As at 31 December 2010, Bankowe Towarzystwo Kapitałowe SA held a total of 99.9867% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

g) concerning changes in the names of PKO BP Inwestycje Sp. z o. o. Group entities

As part of the process of unification of the names and symbols of the PKO BP Inwestycje Sp. z o. o. Group companies, the following companies changed their names in 2010:

- the company PKO Inwestycje – Międzyzdroje Sp. z o. o. changed its name to PKO BP Inwestycje – Rezydencja Flotylla Sp. z o. o. on 26 March 2010, the change was registered with the National Court Register,
- the company Baltic Dom 2 Sp. z o. o. changed its name to PKO BP Inwestycje – Sarnia Dolina Sp. z o. o. on 7 April 2010, the change was registered with the National Court Register,

- the company Wilanów Inwestments Sp. z o. o. changed its name to PKO BP Inwestycje – Nowy Wilanów Sp. z o. o.: on 13 October 2010, the change was registered with the National Court Register,
- the company Pomeranka Sp. z o. o. changed its name to PKO BP Inwestycje – Neptun Park Sp. z o. o.: on 15 October 2010, the change was registered with the National Court Register,

and the following events relating to associates:

h) concerning Bank Pocztowy SA

On 14 June 2010, Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. was registered in the National Court Register. The Company's share capital amounts PLN 2 000 thousand and is divided into 100 shares with a par value of PLN 20 thousand each. All the Company's shares were taken up by Bank Pocztowy SA – a company associated with PKO Bank Polski SA.

On 17 June 2010, Centrum Operacyjne Sp. z o.o. was registered in the National Court Register. The Company's share capital amounts to PLN 3 284 thousand and is divided into 250 shares. All the Company's shares were taken up by Bank Pocztowy SA – a company associated with PKO Bank Polski SA.

50. 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.

Categories of valuation at fair value of financial assets and liabilities stated at fair value in the statement of financial position.

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

1) **Level 1:** Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Group 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 whose fair value is determined with use of valuation models, where all significant entry data is observable on the market directly (as prices) or indirectly (based on prices). The Group classified to that category the following items:
   - debt securities valuated to the curve or those whose price comes from Bloomberg platform and brokered system of Reuters but for which market is illiquid,
   - non-treasury debt securities issued by other financial entities, local government bodies, non-financial entities quoted on the stock exchange or traded on a regulated OTC market,
   - securities issued by Ministry of finance of Ukraine in Kredobank SA portfolio
   - derivative instruments.

(in PLN thousand)

3) **Level 3:** Financial assets and liabilities whose fair value is determined with use of valuation models, for which available data is not derived from observable markets. The Group classified to this category shares not quoted on Warsaw Stock Exchange (WSE), equity securities portfolio and debt securities of KREDOBANK SA.

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 the classification of financial assets and liabilities measured in the period at fair value divided into a three-level hierarchy as at 31 December 2010 and as at 31 December 2009:

Assets and liabilities valued at fair value as at 31 December 2010	Carrying amount	Level 1	Level 2	Level 3
Trading assets	**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	**1 719 085**	**718**	**1 718 367**	**-**
Hedging instruments	153 921	-	153 921	-
Trade instruments	1 565 164	718	1 564 446	-
Financial assets desiganted at fair value through profit and loss	**10 758 331**	**3 048 210**	**7 710 121**	**-**
Debt securities	10 758 331	3 048 210	7 710 121	-
Investment securities available for sale	**10 219 400**	**5 746 686**	**4 463 428**	**9 286**
Debt securities	10 123 419	5 659 991	4 463 428	-
Equity securities	95 981	86 695	-	9 286
Financial assets at fair value - total	**24 200 465**	**10 244 429**	**13 946 750**	**9 286**
Derivative financial instruments	**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**	**-**

Assets and liabilities valued at fair value as at 31 December 2009	Carrying amount	Level 1	Level 2	Level 3
Trading assets	**2 212 955**	**890 480**	**1 322 475**	**-**
Debt securities	2 202 847	880 372	1 322 475	-
Shares in other entities	10 108	10 108	-	-
Derivative financial instruments	**2 029 122**	**72**	**2 029 050**	**-**
Hedging instruments	352 261	-	352 261	-
Trade instruments	1 676 861	72	1 676 789	-
Financial assets desiganted at fair value through profit and loss	**12 360 690**	**92 882**	**12 263 650**	**4 158**
Debt securities	12 360 690	92 882	12 263 650	4 158
Investment securities available for sale	**7 944 317**	**3 858 601**	**4 077 869**	**7 847**
Debt securities	7 848 570	3 768 733	4 077 869	1 968
Equity securities	95 747	89 868	-	5 879
Financial assets at fair value - total	**24 547 084**	**4 842 035**	**19 693 044**	**12 005**
Derivative financial instruments	**1 544 370**	**-**	**1 544 370**	**-**
Hedging instruments	25 312	-	25 312	-
Trade instruments	1 519 058	-	1 519 058	-
Financial liabilities at fair value - total	**1 544 370**	**-**	**1 544 370**	**-**

In the course of 2010 and 2009, there were no significant transfers between level 1 and 2.

(in PLN thousand)

The following tables present a reconciliation of the fair value of level 3 fair value hierarchy during the measurement period (for 2010 and 2009).

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
Opening balance as at 1 January 2010	**4 158**	**7 847**	**12 005**
Gains or losses	(3 885)	1 182	(2 703)
in financial result	(3 885)	262	(3 623)
total in other comprehensive income	-	920	920
Purchase	-	4 950	4 950
Sales	(273)	(3 664)	(3 937)
Settlement	-	-	-
Transfer to or from level 3	-	(1 029)	(1 029)
Closing balance as at 31 December 2010	**-**	**9 286**	**9 286**
Total gains or losses for the period in the financial result for assets held at the end of the period	**(3 885)**	**1 182**	**(2 703)**

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
Opening balance s at 1 January 2009	**8 630**	**20 007**	**28 637**
Gains or losses	603	3 263	3 866
in financial result	603	3 263	3 866
Purchase	-	15 419	15 419
Sales	(5 075)	(28 612)	(33 687)
Settlement	-	(2 230)	(2 230)
Closing balance as at 31 December 2009	**4 158**	**7 847**	**12 005**
Total gains or losses for the period in the financial result for assets held at the end of the period	**603**	**3 263**	**3 866**

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

The Group holds certain financial instruments which are not stated 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 using various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates. Such a model includes certain simplifying assumptions and therefore is sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair value.

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 applies to following groups of financial instruments:

– loans and advances to customers: a portion of the housing loans portfolio (the so-called ‘old portfolio’), loans with no specified repayment schedule, which are due at the moment of valuation

- amounts due to clients: liabilities with no specified payment schedule, other specific products for which no active market exists, such as housing plan passbooks and bills of savings,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans and advances granted and taken on interbank market at a variable interest rate (change of interest rate maximum on a three month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities,
- debt securities in issue (at variable interest rate), issued by KREDOBANK and BFL.

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

The fair value of deposits and other amounts due to customers other than banks, with specified maturities, has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products.

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

The fair value of the obligation from issuance of PKO Finance AB bonds was calculated using Bloomberg data.

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.

Receivables on financial lease have been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance date.

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the Group's statement of financial positions as at 31 December 2010 and 31 December 2009:

(in PLN thousand)

	31.12.2010		31.12.2009	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with the central bank	6 182 412	6 182 412	7 094 350	7 094 350
Amounts due from banks	2 307 032	2 310 677	2 023 055	2 023 055
Loans and advances to customers	130 668 119	132 354 672	116 572 585	112 051 297
corporate loans	44 842 815	45 730 364	42 338 393	41 168 107
consumer loans	24 129 437	24 276 727	22 295 745	21 754 627
mortgage loans	61 695 867	62 347 581	51 938 447	49 128 563
Other financial assets	352 473	352 473	376 438	376 438
Amounts due to the central bank	3 370	3 370	6 581	6 581
Amounts due to other banks	5 233 875	5 233 592	5 146 048	5 143 801
Amounts due to clients	132 981 215	132 769 766	125 072 934	125 046 649
due to corporate entities	31 826 551	31 617 979	27 834 542	27 832 985
due to state budget entities	6 046 810	6 046 896	9 680 991	9 681 139
due to retail clients	95 107 854	95 104 891	87 557 401	87 532 525
Liabilities related to own issue	3 298 867	3 298 867	289 360	289 360
Subordinated liabilities	1 611 779	1 617 238	1 612 178	1 618 093
Other financial liabilities	1 538 372	1 538 372	1 112 383	1 112 383

51. 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 acting by the Polish Bank Association, PKO Bank Polski SA takes part in developing regulations and market standards.

52. Sale of impaired loan portfolio

The Group did not enter any securitisation transactions, although:

– in the second and third quarter of 2009, the Bank terminated the operations related to packaging sell of 3 packages: package I and II are 59 thousand of retail receivables at the total amount of PLN 628 million, package III – 3 thousand of economic receivables at the total amount of PLN 885 million,

– in the first half of 2010, the parent company performed a subsequent sale of 58 thousand retail receivables classified as 'loss' in relation to individuals who do not conduct business activities. The debt portfolio exposure amounted to PLN 634 million.

– in the second half of 2010, consecutive batch sales were carried out:

a) in the third quarter, 1.4 thousand receivables from institutional clients classified as 'loss', with a total value of PLN 307 million;

b) in the fourth quarter, 62 thousand retail receivables classified as 'loss' that arose in relation to individuals who do not engage in business activity. The debt portfolio of PLN 493 million in total was sold.

– the total carrying amount of relevant provisions as at 31 December 2010 amounted to PLN 11 430 thousand (as at 31 December 2009 they amounted to PLN 31 589 thousand). The parent company did not receive any securities as a result of the aforesaid transactions.

53. Description of differences between the previously published financial statements and these financial statements

In 2010 there were no significant changes as compared to previously published financial statements.

54. Influence of macroeconomic situation on the Group's results

In 2010 the Group's operations and financial position were significantly affected by the macroeconomic developments, including a recovery in the economic growth in Poland, following an improvement in the economic situation in the USA and the euro area after a sudden economic slowdown in 2009 resulting from the global economic crisis. While the situation in the real economy gradually stabilized, in the course of 2010 an increased volatility could be noted in the financial markets, particularly in Europe, due to the deteriorating financial position of the public sectors and the banking sectors in peripheral countries of the euro area (Greece, Ireland, Portugal, Spain) and instability in Hungary. The strongest turbulences occurred in May (the Greek crisis) and in November 2010 (an escalation of the banking crisis in Ireland). In the environment of a sudden deterioration in the situation in the financial markets (a strong weakening of the euro, an increase in CDS rates and the profitability of the Treasury bonds issued by the peripheral countries of the euro area), Member States and institutions of the European Union implemented measures aimed at preventing the crisis from spilling over to the entire euro area. In 2010, the growth trend continued in Poland, which was one of the fastest growing economies in the region. The economic growth was supported by the strengthening of private consumption in the environment of a growth in employment and the continuation of infrastructural projects. On the other hand, throughout the year, the concerns regarding the sustainability of the observed economic recovery dampened the recovery of investment activities in enterprises which translated into a slump in investment which continued for the second year in a row. Turbulences in the European financial markets brought about strong exchange rate volatility of the euro and the Polish złoty.

At the same time, 2010 saw an improvement in the field of transactions in the interbank market, while the increase in the banking sector's capital base translated into its increased stability and growth potential.

PKO Bank Polski SA successfully passed the stress tests conducted in mid-2010 as part of the mandate of the European Council of Finance Ministers, coordinated by the Committee of European Banking Supervisors in cooperation with the European Central Bank, national regulators and the European Commission. The tests, which are theoretical tests of resilience in the case of a potential deterioration in the macroeconomic situation, showed that the Bank significantly exceeded the minimum ratios adopted for the tests. It is worth mentioning that the Group has no exposures to debt securities issued by the governments of the peripheral countries of the euro area and the Hungarian government.

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

The Group's high level of equity, resulting, *inter alia,* from a share issue conducted in the second half of 2009, combined with significant additional sources of financing obtained in 2010, namely the issue of 5-year Eurobonds with a nominal value of EUR 800 million and an interest rate of 3.733% per annum (the issue most successfully placed by any Polish issuer except the State Treasury) enabled the further stable development of business activities in all operating segments.

In 2010, the Group earned the best financial results in its history. At the same time, the Group is the leader of the banking sector in terms of total assets, equity, loans granted and deposits accepted. The high financial results were achieved due to the strong growth, compared with the prior year, of net interest income and fee and commission income and the stable level of administrative expenses. At the same time, there was a significant growth in the Group's loan portfolio and core deposits.

The financial results achieved 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, organic growth, synergies and leveraging the potential of the entire Group.

Given its involvement in Kredobank SA, the Group is exposed to the effects of risks typical for the Ukrainian market. The Ukrainian banking sector suffered from the global economic crisis much more strongly than the Polish market. After the sudden recession in 2009, in 2010 the Ukraine recorded a growth in GDP. A more stable economic situation resulted in an increase in salaries, in real terms, and stabilization of the exchange rates of the Ukrainian currency. In 2010, the IMF continued providing financial assistance to the Ukraine (the *Stand-by Arrangement* programme) and towards the end of the year, the IMF granted a second loan to the Ukraine as part of this programme. In spite of the gradual stabilization, the Ukrainian banking sector continued to face difficulties, resulting from the low economic growth combined with the low income of households, a high level of unemployment and low economic activity of enterprises.

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

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

55. Risk management in the Group

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

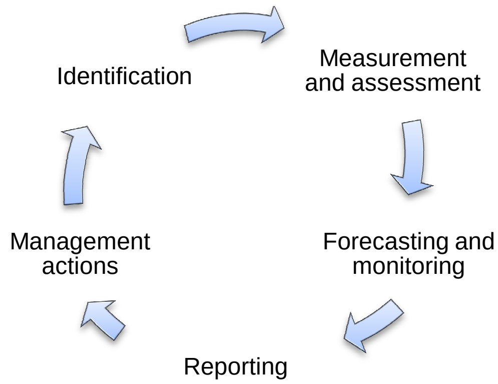
The following types of risk which are subject to risk management have been identified in the Group: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk, including strategic risk, and reputation risk. Derivatives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

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

The process of banking risk management in the Group consists of the following stages:

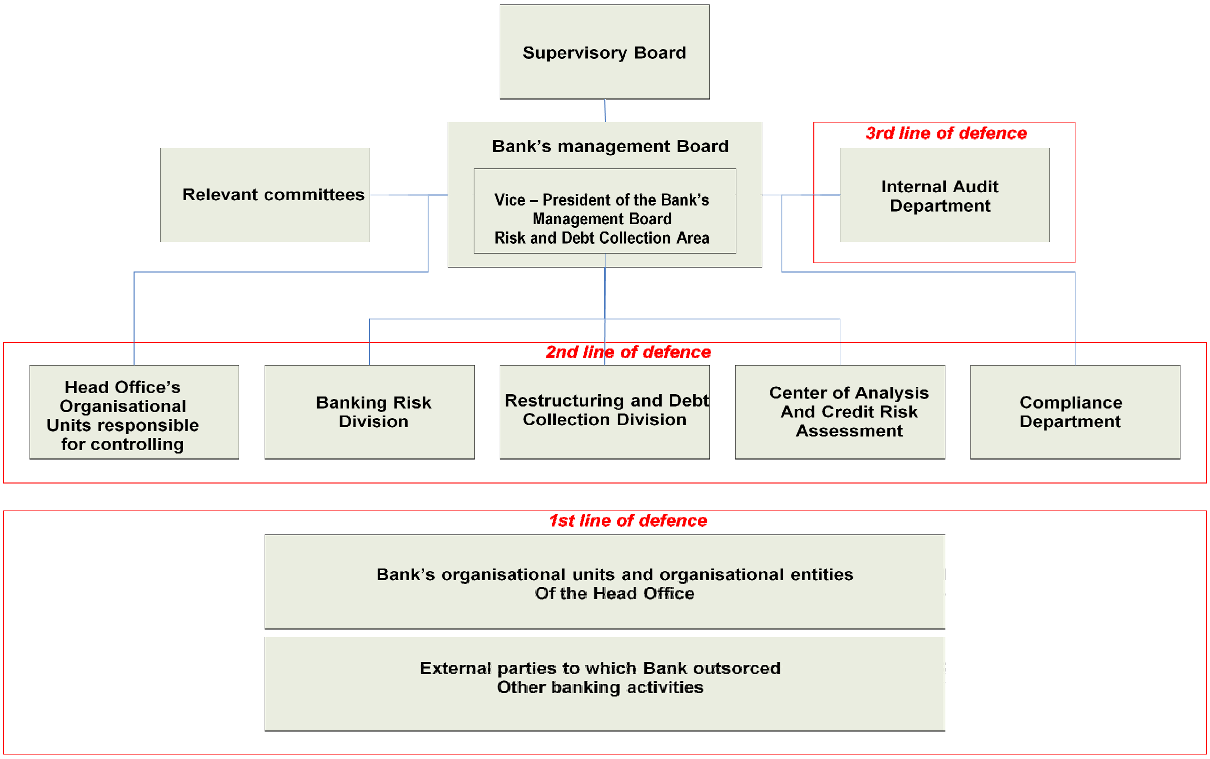
– risk identification – the identification of current and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the Group. The types of risk which are perceived as material in the banking activity are identified within the risk identification process;
– risk measurement and assessment – defining risk assessment tools adequate to the type, 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 assumptions providing a fair risk assessment;
– risk forecasting and monitoring – preparing risk level forecasts and monitoring deviances from forecasts and adopted reference points (for example 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 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 aim of taking management actions is to form the risk management process and risk level.

The risk management process is described on the chart below.



Risk management in the Group is based on the following principles:
- the Group manages all of the identified types of banking risk;
- the risk level is monitored on a current basis;
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis;
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis;
- the risk management process supports the pursuit of the Group'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 organizationally 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 organizational units of the Bank. The organization of risk management is presented in the chart below:



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

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk 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 organization of risk management;
3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organizational 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 President of the Management Board of the Bank.

The first line of defense is being performed in the organizational units of the Bank, the organizational units of the Head Office and entities of the Group and concerns the activities of those units and entities which may generate risk. The units, cells and entities of the Group 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 defense. At the same time the Group's entities are obliged to have comparable and cohesive systems of risk control (taking into account the specific business characteristic of each entity and market conditions).

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

The third line of defence is being performed 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 organizational 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 (*Centrum Analiz i Oceny Ryzyka Kredytowego*) 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:

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

ALCO and BCC are committees chaired by the Vice-President of the Bank's Management Board who is in charge of the Risk and Debt Collection Area.

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.

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 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 (Operating Risk Committee) supports the Bank's Management Board in the process of managing operating risk by:

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

Moreover, KRO prepares operating risk management recommendations for member companies of the PKO BP SA Group, which are submitted to the Group member as part of the Bank’s corporate governance.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities’ risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

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

PKO Bank Polski SA’s top priority is to maintain its strong capital position and to further increase its stable sources of financing, which are a precondition for increasing the loan portfolio.

In consequence, in 2010, the Bank:

- continued actions aimed at obtaining New deposits from its clients,
- in October, obtained via its PKO Finance AB company funds from the issuance of 5-year bonds under the EMTN programme, in the amount of EUR 800 million,
- took into account factors related to the financial crisis (inter alia, in respect of stress test scenarios) in the bank risk measurement methods.

In 2010, the Bank implemented the T Recommendation requirements, in particular in respect of:

- separating the sales functions from the functions related to the assessment of credit risk,
- monitoring the timeliness of repayment of loan liabilities by loan recipients who drew liabilities with other banks;
- introducing new rules for evaluating the security accepted in respect of loan transactions with individual clients, taking into account the liquidity, value, accessibility and control of the security over the period of the loan;
- introducing the obligation to notify clients of the risks and of all costs related to the loan agreement before it is concluded,
- changing the algorithm for evaluating creditworthiness of clients by taking into account the applicant’s debt to net income ratio, and by accounting for debt related to charge cards in the total debt.

The significance of the individual types of risk is established at the Bank’s level as well as at the particular subsidiaries of the PKO Bank Polski SA Group 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 as well as on a given entity’s of the Group and the whole Group`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. Similar assessment is conducted periodically in the entities of the Group. In particular, monitoring is conducted if significant change in activities took place or the profile of the Bank or the Group changed.

56. Credit risk

Definitions, aims and principles

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

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

The Bank and subsidiaries of the Group apply the following principles of credit risk management:

– each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
– credit risk relating to potential and concluded loan transactions is measured when loan application is analysed and on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
– credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
– terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
– loan granting decisions are made only by authorised persons, within their authority,
– credit risk is diversified by geographical location, by industry, by product and by clients,
– expected credit risk is mitigated by setting collateral, appropriate credit margins from customers 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 i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Financial Supervision Authority.

The Group entities, which have significant credit risk levels (KREDOBANK SA, BFL SA Group) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

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

The BFL SA Group and KREDOBANK SA measure credit risk regularly and the results of such measurements are submitted to the Bank.

KREDOBANK SA and the BFL SA Group have units responsible for risk in their organizational structures, which are in particular responsible for:

– developing methods of credit risk assessment, recognizing provisions and allowances,
– controlling and monitoring credit risk during the lending process,
– the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making at KREDOBANK SA and the BFL SA Group is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

Appropriate organizational units of the Banking Risk Division participate in managing the credit risk in the Group companies by giving their opinions on projects and periodically reviewing internal regulations of the companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

In 2010, KREDOBANK SA centralized the credit risk assessment functions and implemented a pilot version of the early warning system, Early Warning System (EWS) which relates to loans granted to legal entities. It also implemented a system of mobile phone short text messages (SMS) for notifying customers: a preventive text message – three days before repayment deadline, and a text message – on the third day after the loan becomes outstanding. It carried out actions to systematize the monitoring of lending operations, in particular, by developing a database of the current loan insurance agreements. It established a Restructuring Committee to increase the effectiveness of decision-making in respect of the restructuring of loans.

The main directions of the BFL SA Group credit risk management policy comprise constructing a secure lease portfolio which guarantees positive consolidated results of the BFL Group, capital security and efforts to reduce the share of non-performing loans in the portfolio. The policies defined, inter alia, the criteria for identifying undesirable industries, clients and specific entities and exposure limits in respect of specific industries and concentration limits for customers. The BFL SA Group's goal is to develop lease activities through the banking distribution channel.

Portfolio risk measurement

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 IAS);
- coverage ratio of non-performing loans with impairment allowances (according to IAS)
- cost of risk.

PKO Bank Polski SA extends regularly the scope of credit risk measures used, taking account of the internal rating-based method (IRB) requirements, and extends the use of risk measures to cover the whole 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 unfavorable 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.

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. As of 1 September 2010, the Bank implemented a scoring method for credit risk evaluation of clients in the SME segment, and a dedicated software application. The said clients are covered not only by the rating method, but also by the scoring method under which the Bank assesses credit risk in two dimensions: credit capacity and creditworthiness.

Implementation of the scoring method for SME customers will result in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness.

The 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 to support the Early Warning System (EWS) in August 2010.

Credit risk management tools

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 characterized 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 from the recommendations of S and T,
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients; the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organizational structure).
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given institutional 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 and the Group entities' collateral policy is meant to secure properly the credit risk, to which the Group 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,

(in PLN thousand)

– 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 internal regulations of Group's subsidiary entities.

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: trade receivables, bank accounts, movable property, real estate or securities.

When signing a leasing agreement, BFL SA Group, as a proprietor of leased objects, treats them as collateral.

Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports for i.a. ALCO, the Central Credit Committee, the Management Board and the Supervisory Board. Risk reporting comprises reporting on credit portfolio exposure on regular basis. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for two Group entities (KREDOBANK SA and the BFL SA Group), which have significant credit risk levels.

The Group's exposure to credit risk

Amounts due from banks	Exposure	
	31.12.2010	31.12.2009
Amounts due from banks impaired	28 559	27 496
of which valued with an individual method	28 089	27 013
Amounts due from banks not impaired	2 307 398	2 022 668
neither past due nor impaired	2 307 047	2 022 256
past due but not impaired	351	412
past due up to 4 days	351	412
past due over 4 days	-	-
Gross total	**2 335 957**	**2 050 164**
Impairment allowances	**(28 925)**	**(27 109)**
Total receivables by carrying amount (net)	**2 307 032**	**2 023 055**

(in PLN thousand)

Loans and advances to customers	Exposure 31.12.2010	Exposure 31.12.2009
Loans and advances impaired	10 887 174	9 108 150
of which valued with an individual method	5 899 231	5 355 887
Loans and advances not impaired	124 637 615	111 401 559
neither past due nor impaired	120 260 937	106 581 588
past due but not impaired	4 376 678	4 819 971
past due up to 4 days	2 027 160	2 810 055
past due over 4 days	2 349 518	2 009 916
Gross total	**135 524 789**	**120 509 709**
Impairment allowances	**(4 856 670)**	**(3 937 124)**
Total receivables by carrying amount net	**130 668 119**	**116 572 585**

Investment securities – debt securities	Exposure 31.12.2010	Exposure 31.12.2009
Debt securities impaired	21 259	20 592
of which valued with an individual method	21 259	20 592
Debt securities not impaired	10 123 419	7 857 027
neither past due nor impaired	10 123 419	7 857 027
with external rating	5 864 172	5 083 116
with internal rating	4 259 247	2 773 911
Total gross	**10 144 678**	**7 877 619**
Impairment allowances	**(21 259)**	**(19 155)**
Total instruments by carrying amount (net)	**10 123 419**	**7 858 464**

Other assets – other financial assets	Exposure 31.12.2010	Exposure 31.12.2009
Other assets impaired	132 213	159 906
Other assets not impaired	345 483	355 294
neither past due nor impaired	345 191	353 963
past due but not impaired	292	1 331
Gross total	**477 696**	**515 200**
Impairment allowances	**(125 223)**	**(138 762)**
Total other assets by carrying amount net	**352 473**	**376 438**

(in PLN thousand)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Group as at 31 December 2010 and as at 31 December 2009, without taking into consideration values of collateral and the resulting improvement in the credit risk exposure by carrying amount.

Items of the statement of financial position	31.12.2010	31.12.2009
Current account in the central bank	**3 782 717**	**4 625 073**
Amounts due from banks	**2 307 032**	**2 023 055**
Trading assets – debt securities	**1 491 053**	**2 202 847**
issued by the State Treasury	1 483 144	2 198 840
issued by local government bodies	7 390	2 208
issued by banks	-	1 799
issued by financial institutions	10	-
issued by non-financial institutions	509	-
Derivative financial instruments	**1 719 085**	**2 029 122**
Other financial instruments designated at fair value through profit and loss - debt securities	**10 758 331**	**12 360 690**
issued by the State Treasury	6 631 702	5 362 314
issued by central banks	3 997 780	6 994 218
issued by local government bodies	128 849	-
issued by non-financial institutions	-	4 158
Loans and advances to customers	**130 668 119**	**116 572 585**
Financial entities (other than banks)	2 972 158	2 441 962
corporate loans	2 972 158	2 441 962
Non-financial entities	123 858 597	109 184 382
consumer loans	24 129 437	22 295 745
mortgage loans	61 695 223	51 938 447
corporate loans	38 033 937	34 950 190
State budget entities	3 837 364	4 946 241
corporate loans	3 836 720	4 946 241
mortgage loans	644	-
Investment securities available for sale - debt securities	**10 123 419**	**7 858 464**
issued by banks	50 858	90 086
issued by non-financial institutions	1 435 074	775 657
issued by the State Treasury	5 813 314	4 992 500
issued by local government bodies	2 824 173	2 000 221
Other assets - other financial assets	**352 473**	**376 438**
Total	**161 202 229**	**148 048 274**

Off-balance sheet items	31.12.2010	31.12.2009
Irrevocable liabilities granted	7 001 338	6 985 527
Guarantees granted	4 554 377	4 018 748
Letters of credit granted	229 946	230 078
Guarantees of issue (underwriting)	2 496 031	1 248 655
Total	**14 281 692**	**12 483 008**

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

Taking the type of Group's business activity and the amount of credit and leasing debts into consideration, the most important portfolios are managed by the Bank and Bankowy Fundusz Leasingowy SA. Information about credit quality of loans granted by the Bank and the BFL SA Group is presented below.

(in PLN thousand)

The Bank uses the following classification:

- for corporate clients (corporate loans) who are not individually impaired – internal rating classes form A (first-rate) to F (acceptable)
- for other non-financial clients (consumer and housing loans) who are not individually impaired – internal rating classes form A (first-rate) to E (acceptable).

The following loan portfolios are covered by the rating system:

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

Financial assets neither past due nor impaired	**31.12.2010**	**31.12.2009**
Amounts due from banks	**2 307 047**	**2 022 256**
of which:		
with rating	2 215 818	1 852 652
without rating	91 229	169 604
Loans and advances to customers	**120 260 937**	**106 581 588**
with rating	115 489 715	100 703 384
without rating	4 771 222	5 878 204
PKO Bank Polski SA	**118 036 993**	**104 558 956**
with rating – financial, non-financial and budget sector (corporate loans)	36 648 989	34 077 422
A (first rate)	1 053 966	955 973
B (very good)	2 683 977	3 042 110
C (good)	6 165 665	4 960 747
D (satisfactory)	10 691 018	10 191 790
E (average)	7 460 009	7 024 072
F (acceptable)	8 594 354	7 902 730
with rating – non-financial sector (consumer and mortgage loans)	77 811 902	65 674 943
A (first rate)	43 929 181	13 744 126
B (very good)	13 666 144	23 597 457
C (good)	12 303 034	18 830 587
D (average)	3 536 471	3 985 809
E (acceptable)	4 377 072	5 516 964
without rating – non-financial sector (other consumer and mortgage loans)	3 576 102	4 806 591
The BFL SA Group	**1 858 253**	**1 667 560**
with rating	1 028 824	951 019
A2(first rate)	2 858	10 697
A3 (very good)	109 326	89 883
A4 (good)	132 142	154 388
A5 (satisfactory)	284 998	206 962
A6(average)	391 914	304 653
B1 (acceptable)	94 634	140 180
B2 (poor)	12 065	40 631
C (bad)	887	3 625
without rating	829 429	716 541
without rating: customers of non-financial and financial sector of other entities of the PKO Bank Polski SA Group	365 691	355 072
Other assets – other financial assets	**345 191**	**353 963**
Total	**122 913 175**	**108 957 807**

(in PLN thousand)

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

With regard to the portfolio managed by Bankowy Fundusz Leasingowy, in case of exposures, the value of which is below certain level, simplified procedures are applied, i.e. these are not rated.

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

31 December 2010

Rating/ portfolio	trading assets				at fair value through profit and loss			available for sale		Held to maturity	Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by financial institutions	issued by non-financial institutions	issued by the State Treasury	issued by local government bodies	issued by central banks	issued by the State Treasury	issued by other banks	issued by the State Treasury	
AAA	-	-	-	-	-	-	-	-	-	-	-
AA- to AA+	-	-	-	-	-	-	-	-	-	-	521 466
A- to A+	1 483 144	-	-	-	6 631 702	-	3 997 780	5 659 991	-		1 292 018
BBB- to BBB+	-	-	-	-	-	-	-	-	50 858	-	350 470
BB- to BB+	-	-	-	-	-	-	-	-	-	-	2 066
B- to B+	-	-	-	-	-	-	-	-	-	-	43 685
CCC- to CCC+	-	-	-	-	-	-	-	-	-	-	-
without rating	-	7 390	10	509	-	128 849	-	-	-	-	91 229
Financial assets rated differently in entities of the Group	-	-	-	-		-		153 323	-	-	6 113
Total	**1 483 144**	**7 390**	**10**	**509**	**6 631 702**	**128 849**	**3 997 780**	**5 813 314**	**50 858**	**-**	**2 307 047**

31 December 2009

Rating/ portfolio	trading assets			at fair value through profit and loss			available for sale			Held to maturity	Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by non-financial institutions	issued by the State Treasury	issued by other non-financial entities	issued by central banks	issued by the State Treasury	Issued by non-financial institutions	issued by other banks	issued by the State Treasury	
AA- to AA+	-	-	-	-	-	-	-	-	-	-	667 171
A- to A+	2 198 840	-	-	5 362 314	-	6 994 218	4 966 301	-	-	9 894	975 256
BBB- to BBB+	-	-	-	-	-	-	-	-	50 901	-	131 868
BB- to BB+	-	-	-	-	-	-	-	-	39 185	-	-
B- to B+											67 976
CCC- to CCC+	-	-	-	-	-	-	-	-	-	-	1 059
without rating	-	2 208	1 799	-	-	-	-	-	-	-	169 604
Financial assets rated differently in entities of the Group	-	-	-	-	4 158	-	16 305	530	-	-	9 322
Total	**2 198 840**	**2 208**	**1 799**	**5 362 314**	**4 158**	**6 994 218**	**4 982 606**	**530**	**90 086**	**9 894**	**2 022 256**

(in PLN thousand)

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

Entities with rating	31.12.2010	31.12.2009
	carrying amount	carrying amount
A (first rate)	10 233	98 658
B (very good)	304 834	771 797
C (good)	987 295	842 518
D (satisfactory)	1 216 372	226 150
E (average)	951 813	167 318
F (acceptable)	573 439	667 470
G (weak)	215 261	-
TOTAL	**4 259 247**	**2 773 911**

Concentration of credit risk within the Group

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

- the largest borrowers,
- the largest capital groups,
- industries,
- geographical regions,
- currencies,
- exposures with established mortgage collateral.

Concentration by the biggest business entities

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

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

As at 31 December 2010 and 31 December 2009, those concentration limits had not been exceeded.

As at 31 December 2010, the level of concentration risk with respect to individual exposures was low – the biggest exposure to a single entity was equal to 8.5*%; 6.1*% and 5.1%of the Bank's own consolidated funds.

Among 20 of the biggest borrowers of the Group there are exclusively PKO Bank Polski SA clients.

* Concentration in respect of the entities exempted from concentration limits

(in PLN thousand)

Total exposure of the Group to the 20 largest non-banking sector clients:

31.12.2010			31.12.2009			
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*		Share in the loan portfolio**
1.	736 873	0.54%	1.	1 542 437	***	1.28%
2.	464 247	0.34%	2.	744 334		0.62%
3.	350 441	0.26%	3.	544 230		0.45%
4.	334 671	0.25%	4.	415 957		0.35%
5.	326 815	0.24%	5.	358 614		0.30%
6.	297 702	0.22%	6.	340 278		0.28%
7.	287 418	0.21%	7.	328 965		0.27%
8.	281 790	0.21%	8.	316 892		0.26%
9.	256 297	0.19%	9.	301 523		0.25%
10.	250 000	0.18%	10.	296 439		0.25%
11.	243 947	0.18%	11.	295 076		0.24%
12.	230 999	0.17%	12.	275 120		0.23%
13.	229 921	0.17%	13.	256 380		0.21%
14.	223 904	0.17%	14.	250 000		0.21%
15.	218 157	0.16%	15.	249 806		0.21%
16.	214 447	0.16%	16.	245 140		0.20%
17.	212 636	0.16%	17.	241 129		0.20%
18.	209 785	0.15%	18.	232 169		0.19%
19.	199 078	0.15%	19.	231 779		0.19%
20.	195 894	0.14%	20.	229 852		0.19%
Total	**5 765 022**	**4.25%**	**Total**	**7 696 120**		**6.38%**

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

Concentration by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a group of borrowers amounted to 0.87%. Top 5 of the biggest capital groups contains only the clients of PKO Bank Polski SA.

As at 31 December 2010, the concentration of credit risk by the largest capital groups was low. The greatest exposure of the Group towards a capital group amounted to 12.5%* and 6.7% of the Groups own consolidated funds.

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

31.12.2010			31.12.2009		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
***1	1 183 394	0.87%	1	1 625 430	1.35%
2	898 546	0.66%	2	1 356 212	1.13%
3	892 191	0.66%	3	1 439 703	1.19%
4	871 694	0.64%	4	1 078 403	0.89%
5	848 561	0.63%	5	736 516	0.61%
Total	**4 694 386**	**3.46%**	**Total**	**6 236 264**	**5.17%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees, interest receivable, debt securities, off-balance sheet and capital exposures.
**The value of the loan portfolio does not include off-balance sheet and capital exposures.
***Concentration in respect of the entities exempted from concentration limits (Banking Law, art. 71 item 3)

Concentration of credit risk by industry

As compared with 31 December 2009 the exposure of the Group in industry sectors has increased by over PLN 2.3 billion. The total exposure in the four largest industry sectors: 'Industrial processing', 'Wholesale and retail trade, repair of cars, motorcycles...', 'Maintenance and rental of real estate...' and 'Public administration and national defense...' amounted to approx. 67% of the total loan portfolio covered by an analysis of the sector.

* Concentration in respect of the entities excluded from concentration limits.

(in PLN thousand)

Analysis of exposure to industry segments is presented in the table below.

Section	Description	31.12.2010		31.12.2009	
		Exposure	Number of entities	Exposure	Number of entities
D	Industrial processing	25.20%	12.89%	24.71%	10.78%
G	Wholesale and retail trade, repair of motor vehicles and personal and household goods	19.20%	25.76%	16.88%	23.70%
K	Property management, lease and services related to the running of business activities	15.24%	9.09%	13.36%	8.65%
L	Public administration and national defense. obligatory social security and public health insurance	7.71%	0.51%	10.58%	0.41%
F	Construction	7.56%	12.25%	6.71%	10.82%
E	Electricity, gas and water production and supply	1.68%	0.14%	2.86%	0.17%
Other exposure		23.41%	39.36%	24.90%	45.47%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

Concentration of credit risk by geographical regions

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

As at 31 December 2010, the largest concentration of the Group's loan portfolio was in the mazowiecki region. More than half of the Group'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.

Region	31.12.2010	31.12.2009
Poland		
mazowiecki	16.97%	18.49%
śląsko-opolski	13.01%	12.52%
wielkopolski	10.20%	9.79%
małopolsko-świętokrzyski	9.36%	8.99%
dolnośląski	7.71%	7.54%
zachodnio-pomorski	6.88%	6.32%
lubelsko-podkarpacki	6.83%	6.50%
pomorski	6.41%	6.45%
łódzki	6.27%	5.68%
kujawsko-pomorski	4.98%	4.66%
warmińsko-mazurski	3.56%	3.45%
podlaski	3.13%	2.92%
other	3.55%	5.24%
Ukraine	**1.14%**	**1.45%**
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2010, the share of currency exposures, other than PLN, in the total credit portfolio of the Group amounted to 23.6%. The greatest parts of currency exposures of the Group are those in CHF and they are related to Bank's credit portfolio. In case of the Group's entities the situation is different, i.e. in the BFL SA currency portfolio, the EUR exposure constitutes the largest part (74.1% of the currency portfolio) and in KREDOBANK SA loans granted in USD constitute approx. 78.0% of the currency portfolio an 40.8% of the whole entity's portfolio.

A decrease in the share of loans denominated in foreign currencies in 2010 results from concentration of new sales of mortgage loans in the Polish currency.

(in PLN thousand)

Concentration of credit risk by currency

Currency	31.12.2010	31.12.2009
PLN	76.43%	75.60%
Foreign currencies, of which:	23.57%	24.40%
CHF	16.85%	17.69%
EUR	4.73%	4.35%
USD	1.44%	1.77%
UAH	0.54%	0.58%
GBP	0.01%	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 has implemented internal limits with regard to:

- portfolio of exposures with established mortgage collateral,
- portfolio of loans granted to individual clients.

As at 31 December 2010, these limits have not been exceeded.

Renegotiated receivables

The purpose of the restructuring activity of the Group is to maximize the effectiveness of non-performing loan management. The aim is to receive the highest possible recoveries and, at the same time, incur the minimal costs relating to these recoveries which, in the case of enforcement proceedings.

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

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

Financial assets	Carrying amount	
	31.12.2010	31.12.2009
Loans and advances to customers, by gross value	**135 524 789**	**120 509 709**
including renegotiated:	**347 700**	**219 004**
Financial entities	89	-
corporate loans	89	-
Non-financial entities	347 611	219 004
consumer loans	765	4 268
mortgage loans	4 855	12 568
corporate loans	341 991	202 168

(in PLN thousand)

Past due financial assets

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

Financial Assets	31.12.2010				31.12.2009			
	up to 1 month	over 1 month - up to 3 months	over 3 months	Total	up to 1 month	over 1 month - up to 3 months	over 3 months	Total
Loans and advances to clients	3 259 441	1 021 127	96 110	**4 376 678**	3 561 426	1 239 420	19 125	**4 819 971**
financial sector	-	-	102	**102**	40	174	-	**214**
non-financial sector	2 657 540	1 021 127	96 008	**3 774 675**	3 238 860	1 239 246	19 125	**4 497 231**
budget sector	601 901	-	-	**601 901**	322 526	-	-	**322 526**
Amounts due from banks	351	-	-	**351**	412	-	-	**412**
Other assets – other financial assets	-	292	-	**292**	-	156	1 175	**1 331**
Total	**3 259 792**	**1 021 419**	**96 110**	**4 377 321**	**3 561 838**	**1 239 576**	**20 300**	**4 821 714**

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 loan exposures the expected cash flows exceed 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

	31.12.2010	31.12.2009
Amounts due from banks	**28 089**	**27 013**
Loans and advances to customers	**5 899 231**	**5 355 887**
Financial entities	41 188	40 712
corporate loans	41 188	40 712
Non-financial entities	5 850 521	5 299 099
consumer loans	91 982	40 500
mortgage loans	903 038	761 205
corporate loans	4 855 501	4 497 394
State budget entities	7 522	16 076
corporate loans	7 522	16 076
Financial assets available for sale	**21 376**	**20 616**
issued by financial entities	8	8
issued by non-financial entities	21 368	20 608
Total	**5 948 696**	**5 403 516**

As at 31 December 2010, financial assets individually determined to be impaired were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes, transfers of receivables and property right for cash,- with a fair value of PLN 5 050 520 thousand (as at 31 December 2009 the amount was PLN 3 808 288 thousand),
- for investment securities available for sale: blank promissory notes, guarantee, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Group took into account the following factors:

- delay in payment of the amounts due by the debtor,
- -the debt being declared as due and payable,
- -enforcement proceedings against the debtor,
- -declaration of the debtor's bankruptcy or filling a petition to declare bankruptcy,
- -the amount of the debt being challenged by the debtor,
- -commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending the debtor's activities,
- -a decline in debtor's rating to a level indicating a significant threat to the repayment of debt
- ('G';'H' rating),

- restructuring actions taken and payment relief applied
- additional impairment indicators identified for exposures to housing cooperatives arising from
- housing loans of the so called 'old portfolio', covered by State Treasury guarantees,
- expected future cash flows from the exposure and the related collateral,
- expected future economic and financial position of the client,
- the extent of execution of forecasts by the client.

Allowances for credit losses

PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan 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 any indications of impairment of loan 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 given loan exposure. The events considered as constituting 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 evidence of impairment will be recognized, if the discount 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 Group applies three methods of estimating impairment:

- the individualized method applied in respect of individually significant loans, which show the indications of impairment or are restructured,
- the portfolio method applied in respect of individually insignificant loans, in the case of which indications of individual impairment have been recognized,
- 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 recognized 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 individualized 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 realization;
- 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.

(in PLN thousand)

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 Group:

- uses the individualized method in respect of the individually significant loan exposures which show indications of individual impairment or those relating to debtors whose other exposures show such indications,
- 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.

<u>With regard to other credit exposures</u>

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 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 individualized 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 loan portfolio and loan impairment allowances of the PKO Bank Polski SA Group is presented in Note 23 ‘Loans and advances to customers’.

Credit risk of financial institutions

As at 31 December 2010, the largest exposures of PKO Bank Polski SA Group were as follows:

	Interbank portfolio*			
Counterparty	**Type of instrument**			**Total**
	Deposits	**Securities**	**Other derivatives**	
Counterparty 1	396 030	-	-	396 030
Counterparty 2	229 437	-	5 285	234 722
Counterparty 3	-	-	61 291	61 291
Counterparty 4	-	-	55 803	55 803
Counterparty 5	16 308	-	(157)	16 308
Counterparty 6	-	-	12 895	12 895
Counterparty 7	-	-	12 347	12 347
Counterparty 8	-	-	11 393	11 393
Counterparty 9	213	-	8 377	8 590
Counterparty 10	6 711	-	-	6 711
Counterparty 11	-	-	6 500	6 500
Counterparty 12	5 527	-	5	5 532
Counterparty 13	-	-	4 641	4 641
Counterparty 14	-	-	2 496	2 496
Counterparty 15	-	-	2 220	2 220
Counterparty 16	-	-	2 165	2 165
Counterparty 17	-	-	1 419	1 419
Counterparty 18	-	-	1 331	1 331
Counterparty 19	-	-	993	993
Counterparty 20	-	-	862	862

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

(in PLN thousand)

The table below presents the greatest exposures of the PKO Bank Polski SA Group on the interbank market as at 31 December 2009:

Interbank portfolio*				
Counterparty	Type of instrument			Total
	Deposit	Securities	Other derivatives	
Counterparty 1	308 115	-	(4 648)	308 115
Counterparty 2	287 574	-	-	287 574
Counterparty 3	237 073	-	68	237 141
Counterparty 4	142 515	-	-	142 515
Counterparty 5	77 451	-	(21 743)	77 451
Counterparty 6	-	-	72 529	72 529
Counterparty 7	-	-	72 284	72 284
Counterparty 8	-	-	45 798	45 798
Counterparty 9	-	-	42 354	42 354
Counterparty 10	-	-	41 953	41 953
Counterparty 11	41 492	-	(2 102)	41 492
Counterparty 12	-	-	41 232	41 232
Counterparty 13	-	41 082	-	41 082
Counterparty 14	-	-	38 250	38 250
Counterparty 15	607	-	32 454	33 061
Counterparty 16	-	-	28 920	28 920
Counterparty 17	-	-	23 408	23 408
Counterparty 18	20 000	-	(2 724)	20 000
Counterparty 19	-	-	15 089	15 089
Counterparty 20	-	-	14 038	14 038

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

** Counterparty names presented in the above table are consistent with counterparty names presented in the table with the largest exposures of the PKO Bank Polski SA Group on the interbank market as at 31 December 2010.

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 2010 the Bank had signed master agreements (in accordance with ISDA/ Polish Banks Association standards) with 26 local banks and 45 foreign banks and credit institutions. Additionally the Bank was a party of 45 CSA agreements (Credit Support Annex)/Polish Banks Association Agreements with established collateral and 3 ISMA agreements (International Securities Market Association).

Geographical location of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2010 and 31 December 2009 come from countries (classified by location of registered office):

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

Counterparty structure by rating

Counterparty structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties 1 to 20 was accepted as at 31 December 2010, while for counterparties 21 to 34 as at 31 December 2009.

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

Credit risk of financial institutions on retail markets

In addition to the interbank market exposure discussed above, as at 31 December 2010 the Group had an exposure to financial institutions on the aforesaid retail market (over PLN 5 million). The structure of this exposure is presented in the table below:

	Nominal value of exposure (in thousand PLN)		Country
	Statement of financial position item	Off-balance	
Counterparty 35	129 739	488 559	Ukraine
Counterparty 36	79 206	-	Slovenia
Counterparty 37	50 000	86	Poland
Counterparty 38	39 603	-	Slovenia
Counterparty 39	23 762	-	Slovenia
Counterparty 40	-	1 500 000	Poland

Management of foreclosed collateral

Foreclosed collateral as a result of restructuring or debt collection activities is either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analyzed in order to determine whether they can be used by the Group for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2010 and 31 December 2009, respectively, were designated for sale.

Activities undertaken by the Group are aimed at selling foreclosed 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 Group, 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 Group.

The Group takes steps to broadly disseminate to the public the information about assets being sold by publishing it on the Group's website; placing announcements in the national press; using internet portals (e.g. to carry out internet auctions), sending offers. In addition, Group 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 Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realization of collateral.

The carrying amounts of assets taken over in exchange for debts as at 31 December 2010 and 31 December 2009 amounted to PLN 56 585 thousand and PLN 55 334 thousand respectively. The above mentioned amounts are presented in Note 30, 'Other assets', in line item 'Other' (PLN 11 188 thousand and PLN 4 005 thousand respectively) and in 'Materials' in the note 27 'Inventories' (PLN 45 397 thousand and PLN 51 329 thousand respectively).

57. Interest rate risk

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

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

In the process of interest rate risk management, the Group uses 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 following currencies: PLN, EUR, USD, CHF and GBP by ±50 basis points and by ±200 basis points,

2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, a bend of yield curve of peak and twist types, the 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 recognized on the transaction date.

Measures of interest rate gap are determined for other Group entities using similar methods to those used for determining the interest rate gap for the Bank itself, taking into account the specific nature of the entities.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (PLN thousand)								**31.12.2010**
The Group Periodic Gap	40 074 163	16 872 118	(23 857 194)	(13 908 620)	(2 867 293)	538 212	329 000	**17 180 386**
The Group Cumulative Gap	40 074 163	56 946 281	33 089 087	19 180 467	16 313 174	16 851 386	17 180 386	-
PLN (PLN thousand)								**31.12.2009**
The Group Periodic Gap	26 078 583	28 008 165	(28 778 134)	(11 719 649)	(1 755 068)	1 598 803	268 068	**13 700 768**
The Group Cumulative Gap	26 078 583	54 086 748	25 308 614	13 588 965	11 833 897	13 432 700	13 700 768	-
USD (USD thousand)								**31.12.2010**
The Group Periodic Gap	304 316	(161 359)	(166 953)	(139 043)	11 781	54 871	94 404	**(1 983)**
The Group Cumulative Gap	304 316	142 957	(23 996)	(163 039)	(151 258)	(96 387)	(1 983)	-
USD (USD thousand)								**31.12.2009**
The Group Periodic Gap	117 747	(208 620)	(166 316)	(145 008)	31 720	65 766	127 461	**(177 250)**
The Group Cumulative Gap	117 747	(90 873)	(257 189)	(402 197)	(370 477)	(304 711)	(177 250)	-
EUR (EUR thousand)								**31.12.2010**
The Group Periodic Gap	661 080	(308 414)	78 172	(223 242)	19 577	(592 387)	40 700	**(324 514)**
The Group Cumulative Gap	661 080	352 666	430 838	207 596	227 173	(365 214)	(324 514)	-
EUR (EUR thousand)								**31.12.2009**
The Group Periodic Gap	(338 541)	82 100	(46 202)	(83 143)	7 144	21 090	2 740	**(354 812)**
The Group Cumulative Gap	(338 541)	(256 441)	(302 643)	(385 786)	(378 642)	(357 552)	(354 812)	-
CHF (CHF thousand)								**31.12.2010**
The Group Periodic Gap	302 630	(552 592)	(3 600)	(4 460)	(40)	1 520	6 770	**(249 772)**
The Group Cumulative Gap	302 630	(249 962)	(253 562)	(258 022)	(258 062)	(256 542)	(249 772)	-
CHF (CHF thousand)								**31.12.2009**
The Group Periodic Gap	(72 200)	(230 734)	1 937	(6 517)	1 280	875	6 044	**(299 315)**
The Group Cumulative Gap	(72 200)	(302 934)	(300 997)	(307 514)	(306 234)	(305 359)	(299 315)	-

As at the end of 2010 and 2009, the PKO Bank Polski SA Group had a positive cumulative gap in PLN in all the time spans.

The main tools used in interest rate risk management include:

- procedures for interest rate risk management,
- limits and thresholds for interest rate risk,
- defining allowable transactions for interest rates.

The Group 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.

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

As at 31 December 2010 and 31 December 2009, the exposure of the PKO Bank Polski SA Group to the interest rate risk mainly comprised of the exposure of the Bank. Interest rate risk generated by the other Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly changed by exposure of the Group, in which the biggest part has the exposure of KREDOBANK SA.

Exposure of the Group to interest rate risk was within accepted limits.

VaR of the Bank and stress tests analysis of the Group's exposure to the interest rate risk (for all currencies) are presented in the following table:

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon (PLN thousand)*	39 004	17 086
Parallel movement of interest rate curves by +200 base points (in PLN thousand) (stress tests)	522 641	233 304

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market in which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 30 150 thousand as of 31 December 2010 and approx. PLN 40 048 thousand as of 31 December 2009, respectively.

As at 31 December 2010, the interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 39 004 thousand, which accounted for approximately 0.24 % of the value of the Bank's own funds. As at 31 December 2009, VaR for the Bank amounted to PLN 17 086 thousand, which accounted to approximately 0.10% of the Bank's own funds*.

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

58. Currency risk

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

The objective of managing the currency risk is to mitigate the risk of incurring losses arising from the structure of the Bank's currency mismatch to an acceptable level by shaping the structure of balance and off-balance sheet items.

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

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

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

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

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

The main tools used in currency risk management in the Group include:

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

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

Methods of currency risk management in other entities of the Group are defined by internal regulations implemented by these entities. The regulations are developed by the Group entities, which are characterized by high level of currency risk measure outcomes. The regulations are issued after consultation with the Bank and take into account recommendations issued by the Bank to the Group entities.

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

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon (in PLN thousand)*	3 171	1 092
Change of CUR/PLN by15% (in PLN thousands) (stress-tests)	6 081	697

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day interest rate VaR which amounted to approx. PLN 182 thousand as of 31.12.2010 and PLN 64 thousand as of 31.12.2009.

The level of the currency risk was low both in 2010 and 2009.

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

	31.12.2010	31.12.2009
	Currency position	**Currency position**
USD	(78 916)	(31 811)
GBP	48 073	1 501
CHF	(18 820)	(3 634)
EUR	(4 035)	26 489
Other (Global Net)	11 257	12 101

The volume of currency positions is a key factor determining the level of currency risk on which the Group 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 Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 December 2010 amounted to approx. 0.02%).

The Bank prepares daily, weekly, monthly, quarterly and semi-annually reports addressing currency risk whereas monthly reports for the last months of a quarter, quarterly and semi-annually reports concern the Group as well. Reports gather the information on currency exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

(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 – 31.12.2010				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which:					
Cash and balances with the central bank	5 563 983	373 306	17 420	227 703	**6 182 412**
Amounts due from banks	248 565	1 113 541	637 132	336 719	**2 335 957**
Loans and advances to customers	103 869 753	6 285 663	22 910 754	2 458 619	**135 524 789**
Securities	22 207 655	133 968	-	161 666	**22 503 289**
Tangible assets	8 448 191	-	-	223 295	**8 671 486**
Other assets and derivatives	3 672 430	120 470	491	122 908	**3 916 299**
TOTAL ASSETS (GROSS)	144 010 577	8 026 948	23 565 797	3 530 910	**179 134 232**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(8 313 676)	(152 029)	(358 477)	(649 549)	**(9 473 731)**
TOTAL ASSETS (NET)	**135 696 901**	**7 874 919**	**23 207 320**	**2 881 361**	**169 660 501**
LIABILITIES AND EQUITY, of which					
Amounts due to the central bank	3 370	-	-	-	**3 370**
Amounts due to other banks	1 471 161	618 794	3 125 225	18 695	**5 233 875**
Amounts due to customers	122 932 057	5 577 720	1 067 586	3 403 852	**132 981 215**
Debt securities in issue	111 101	3 187 766	-	-	**3 298 867**
Provisions	574 043	6 131	669	2 847	**583 690**
Subordinated liabilities	1 611 779	-	-	-	**1 611 779**
Other liabilities and derivatives and deferred tax liabilities	4 221 714	246 579	1 079	118 765	**4 588 137**
Equity	21 359 568	-	-	-	**21 359 568**
TOTAL LIABILITIES AND EQUITY	**152 284 793**	**9 636 990**	**4 194 559**	**3 544 159**	**169 660 501**
CONTINGENT LIABILITIES GRANTED	**33 334 068**	**2 519 541**	**123 465**	**808 304**	**36 785 378**

	Currency translated to PLN – 31.12.2009				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which:					
Cash and balances with the central bank	6 559 322	285 671	17 237	232 120	**7 094 350**
Amounts due from banks	259 619	1 143 695	190 444	456 406	**2 050 164**
Loans and advances to customers	91 383 795	5 090 291	21 479 796	2 555 827	**120 509 709**
Investment securities	22 481 403	39 587	-	28 438	**22 549 428**
Tangible assets	8 423 563	-	-	201 498	**8 625 061**
Other assets and derivatives	3 664 200	110 121	367	110 199	**3 884 887**
TOTAL ASSETS (GROSS)	132 771 902	6 669 365	21 687 844	3 584 488	**164 713 599**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(7 447 737)	(111 175)	(188 753)	(487 249)	**(8 234 914)**
TOTAL ASSETS (NET)	**125 324 165**	**6 558 190**	**21 499 091**	**3 097 239**	**156 478 685**
LIABILITIES AND EQUITY, of which:					
Amounts due to the central bank	6 581				**6 581**
Amounts due to other banks	1 846 331	415 729	2 740 971	143 017	**5 146 048**
Amounts due to customers	115 854 902	5 109 126	925 009	3 183 897	**125 072 934**
Debt securities in issue	289 251	-	-	109	**289 360**
Provisions	601 215	374	-	705	**602 294**
Subordinated liabilities	1 612 178	-	-	-	**1 612 178**
Other liabilities, derivatives and deferred tax liabilities	3 099 326	166 610	61	47 423	**3 313 420**
Equity	20 435 870	-	-	-	**20 435 870**
TOTAL LIABILITIES AND EQUITY	**143 745 654**	**5 691 839**	**3 666 041**	**3 375 151**	**156 478 685**
CONTINGENT LIABILITIES GRANTED	**29 542 617**	**2 164 022**	**306 355**	**869 646**	**32 882 640**

59. Liquidity risk

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

The objective of liquidity risk management is to shape the structure of the Bank's statement of financial position and contingent liabilities and commitments that will ensure the continuous and future (and potential) liquidity of the Bank, taking into account the nature of its activities and requirements which may occur due to changes in market environment.

The Group'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.

The Group makes use of the following liquidity risk measures:

- the contractual liquidity gap method and the liquidity gap in real terms method,
- the surplus liquidity method,
- analysis of stability of deposit and loan portfolios,
- stress tests.

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

- procedures for liquidity risk management, emergency plans in particular,
- 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 Bank and the entities of the Group accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Methods of liquidity risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by high levels of liquidity risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank.

Liquidity gaps in real terms presented below include the table of assets and liabilities and have additionally been adjusted to real values with the aim to present the liquidity position of the Group in real terms. The main adjustments concern the following:

- core deposits outside interbank market and their maturity – clients deposits (current and saving accounts, deposits) have been classified to proper time schedules with regard to their stability (sustaining appropriate balance and renewability after the maturity day),
- core loans in current accounts for non-financial entities and their maturity – loans in current account have been classified to proper time schedule, with regard to renewability of the loans,
- liquid securities and their maturity – liquid securities have been classified up to 1 month according to possible date of liquidity (pledge, sales).

(in PLN thousand)

	a'vista	0 – 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.12.2010								
The Group - adjusted gap	3 207 473	14 102 549	(949 842)	(106 638)	3 800 570	5 160 414	(1 014 208)	**24 200 318**
The Group - cumulative adjusted gap	3 207 473	17 310 022	16 360 180	16 253 542	20 054 112	25 214 526	24 200 318	-
31.12.2009								
The Group - adjusted gap	6 844 999	15 325 981	(3 472 120)	475 847	3 890 259	7 836 616	(683 106)	**(30 218 476)**
The Group - cumulative adjusted gap	6 844 999	22 170 980	18 698 860	19 174 707	23 064 966	30 901 582	30 218 476	**-**

*Data brought to comparability.

In all time horizons, the PKO Bank Polski SA Group's cumulative[1] liquidity gap as at 31 December 2010 and 31 December 2009 was positive. This means a surplus of assets receivable over liabilities payable.

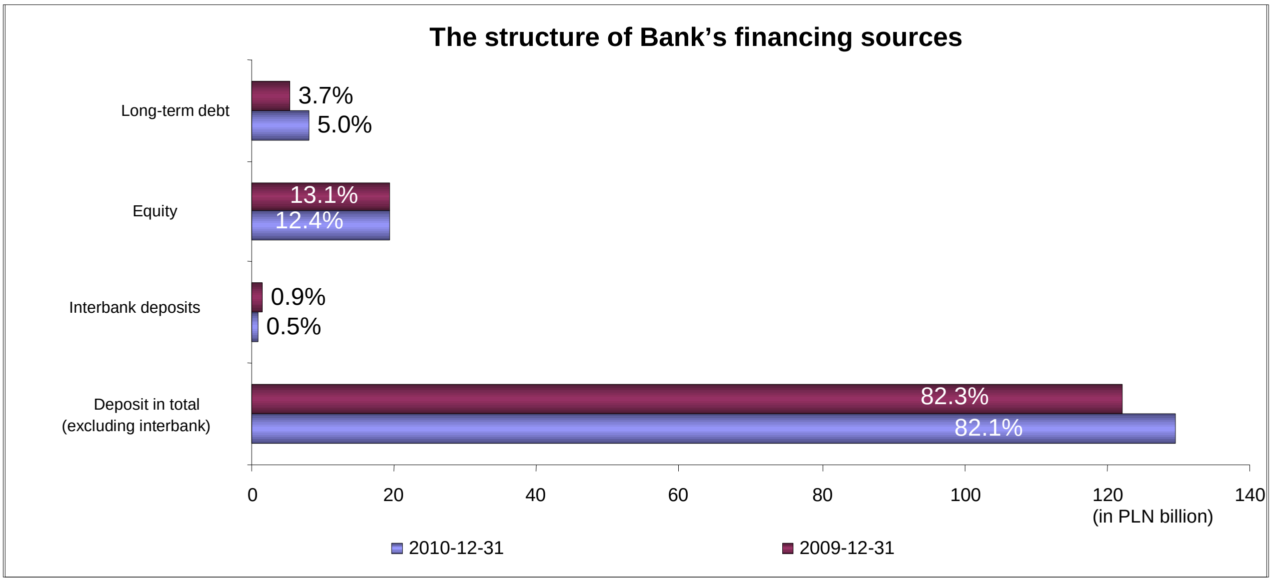
The table below presents liquidity reserve of the Bank as at 31 December 2010 and 31 December 2009.

	31.12.2010	31.12.2009
Liquidity reserve to 1 month* (in PLN million)	10 151	16 030

*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 2010, the level of core deposits constituted approximately 95.2% of all deposits of the Bank's (excluding interbank market), which is approximately 0.3 p.p. lower as compared to the level as at the end of 2009.

The chart below presents the structure of the Bank's financing sources as at 31 December 2010 and as at 31 December 2009:



*The Group's liquidity gap in real terms has been determined as the sum of the Bank's liquidity gap in real terms and contractual liquidity gaps of the remaining entities of the PKO Bank Polski SA Group.

(in PLN thousand)

Outstanding contractual liabilities of the Group as at 31 December 2010 by maturity

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 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 banks	1 175 530	99 282	518 099	4 268 099	196 449	6 257 459	**5 233 875**
Derivative financial instruments	1 189 058	2 380 039	8 932 706	18 247 660	3 058 444	33 807 907	**2 404 795**
Amounts due to customers	82 510 946	17 377 623	31 661 703	1 877 178	1 608 955	135 036 405	**132 981 215**
Debt securities in issue	25 000	95 000	122 469	3 658 117	-	3 900 586	**3 298 867**
Subordinated liabilities	-	-	80 835	323 563	1 762 592	2 166 990	**1 611 779**
Other liabilities	1 984 551	41 329	42 972	16 136	6 343	2 091 331	**2 092 834**
Off-balance sheet liabilities – financial liabilities granted	16 631 759	314 035	3 994 998	2 923 109	5 641 123	29 505 024	**-**
Off-balance sheet liabilities – guarantee liabilities issued	1 649 878	974 119	1 828 614	2 550 325	277 418	7 280 354	-

Outstanding contractual liabilities of the Group as at 31 December 2009 by maturity

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	6 581	-	-	-	-	6 581	**6 581**
Amounts due to banks	1 544 583	194 536	287 966	3 155 324	189 908	5 372 317	**5 146 048**
Derivative financial instruments	991 914	2 195 028	7 412 837	14 926 893	2 773 816	28 300 488	**1 544 370**
Amounts due to customers	72 246 082	20 462 087	29 552 945	3 358 205	728 239	126 347 558	**125 072 934**
Debt securities in issue	140 050	122 886	31 975	130	-	295 041	**289 360**
Subordinated liabilities	-	-	84 997	255 224	1 940 921	2 281 142	**1 612 178**
Other liabilities	1 298 593	9 630	228 613	16 662	13 126	1 566 624	**1 566 623**
Off-balance sheet liabilities – financial liabilities granted	15 085 902	313 335	5 111 897	2 191 153	4 682 872	27 385 159	**-**
Off-balance sheet liabilities – guarantee liabilities issued	1 366 141	1 505 984	1 541 703	1 083 653	-	5 497 481	-

(in PLN thousand)

Non-current and 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	6 182 412			**6 182 412**
Amounts due from banks	2 324 738	11 219	(28 925)	**2 307 032**
Trading assets	873 046	630 603	-	**1 503 649**
Derivative financial instruments	652 640	1 066 445	-	**1 719 085**
Other financial instruments designated at fair value through profit and loss	8 533 646	2 224 685	-	**10 758 331**
Loans and advances to customers	25 865 842	109 658 947	(4 856 670)	**130 668 119**
Investment securities available for sale	3 614 202	6 627 107	(21 909)	**10 219 400**
Inventories	356 639	208 494	(34 858)	**530 275**
Other assets	1 517 897	4 644 073	(389 772)	**5 772 198**
TOTAL ASSETS	**49 921 062**	**125 071 573**	**(5 332 134)**	**169 660 501**

Liabilities				
Amounts due to the central bank	3 370		-	**3 370**
Amounts due to other banks	1 856 924	3 376 951	-	**5 233 875**
Derivative financial instruments	843 518	1 561 277	-	**2 404 795**
Amounts due to customers	124 025 037	8 956 178	-	**132 981 215**
Debt securities in issue	134 490	3 164 377	-	**3 298 867**
Subordinated liabilities	-	1 611 779	-	**1 611 779**
Other liabilities	2 008 051	758 981	-	**2 767 032**
TOTAL LIABILITIES	**128 871 390**	**19 429 543**	**-**	**148 300 933**
EQUITY	**-**	**21 359 568**		**21 359 568**
TOTAL LIABILITIES AND EQUITY	**128 871 390**	**40 789 111**	**-**	**169 660 501**

Non-current and current assets and liabilities of the Bank as at 31 December 2009

	Short term	Long term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	7 094 350	-	-	**7 094 350**
Amounts due from banks	2 049 848	316	(27 109)	**2 023 055**
Trading assets	1 534 181	678 774	-	**2 212 955**
Derivative financial instruments	683 976	1 345 146	-	**2 029 122**
Other financial instruments designated at fair value through profit and loss	12 360 510	180	-	**12 360 690**
Loans and advances to customers	26 618 614	93 891 095	(3 937 124)	**116 572 585**
Investment securities available for sale	3 309 874	4 665 909	(21 572)	**7 954 211**
Inventories	265 217	421 872	(34 014)	**653 075**
Other assets	1 331 776	4 517 882	(271 016)	**5 578 642**
TOTAL ASSETS	**55 248 346**	**105 521 174**	**(4 290 835)**	**156 478 685**

Liabilities				
Amounts due to the central bank	6 581	-	-	**6 581**
Amounts due to other banks	4 636 480	509 568	-	**5 146 048**
Derivative financial instruments	514 054	1 030 316	-	**1 544 370**
Amounts due to customers	124 995 298	77 636	-	**125 072 934**
Debt securities in issue	289 251	109	-	**289 360**
Subordinated liabilities	-	1 612 178	-	**1 612 178**
Other liabilities	2 359 346	11 998	-	**2 371 344**
TOTAL LIABILITIES	**132 801 010**	**3 241 805**	**-**	**136 042 815**
EQUITY	**-**	**20 435 870**	**-**	**20 435 870**
TOTAL LIABILITIES AND EQUITY	**132 801 010**	**23 677 675**	**-**	**156 478 685**

60. 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 BP SA), investing activities and from other operations as part of banking activities generating a position in equity 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 optimizing 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 BP SA broken down into the banking portfolio and the trading portfolio, and by monitoring the utilization thereof.

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

Other price risk

Taking into consideration other price risks, at the end of the year 2010, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

These risks are immaterial – a capital requirement, pursuant to Resolution No 76/2010 of the Financial Supervision Authority (with further amendments), to cover the above mentioned risk was at the year 2010 lower than PLN 1 million.

61. Derivative instruments risk

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

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

The Bank prepares daily, weekly, monthly, quarterly and semi-annually reports addressing the risk of derivative instruments, whereas monthly reports for the last month of a quarter, quarterly and semi-annual reports concern the Group as well. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

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 (ISDA – (International Swaps and Derivatives Accociation), ZBP (Polish Bank Association)) specifying, among others, settlement mechanisms.

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

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

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

In the measurement of other Group members' derivative-related risk, information on the companies' positions in specific instruments is used, as indicated by the Bank.

The derivative risk is managed as part of managing other types of financial risks and credit risk. The Bank pays special attention to monitoring of risk related to currency options and credit risk related to the Banks' receivable from the client stemming from derivative instruments.

Methods of derivative risk management in the other Group entities are defined by internal regulations implemented by these entities which take up a position in financial instruments or intend to take up such a position in instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group entities.

62. Operational risk

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

The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Group to events which are beyond its control.

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

The main tools for managing the operational risk are as follows:
- control instruments;
- human resources management instruments (proper staff selection, enhancement of professional qualification of employees, motivation packages);
- setting threshold values of Key Risk Indicators (KRI);
- tolerance and operational risk limits;
- contingency plans;
- insurance;
- outsourcing.

The other Group entities manage the operational risk in accordance with the rules implemented by the Bank PKO Bank Polski SA, taking into account the specific nature of the business conducted by the Group entities. During the year 2010, Group entities continued to develop key operational risk ratios and introduced trainings concerning this type of risk.

In order to manage the operating 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.

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT software 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).

Measurement of operational risk in 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 operating risk comprises:

- KRI calculation,
- calculation of VaR for operating risk,
- scenario-based analyses.

The Bank regularly monitors:

- under the system-based operating risk management activities :
  - tolerance of operating risk,
  - limits for operating risk,
  - effectiveness and timeliness of actions taken to reduce or transfer the operating risk,
- under the on-going operating risk management activities:
  - KRI values,
  - operating events and their effects, broken down by areas of the Bank activities,
  - effects of actions taken following external control recommendations or internal audits,
  - quality of the internal functional controls.

The dominant impact on the operational risk profile in the year 2010 is exercised by the following three entities: PKO Bank Polski SA, BFL SA Group and KREDOBANK SA. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk.

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

- information on the operating 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.

Each month, information on operating risk is prepared and forwarded to members of the Bank's Management Board and organizational 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.

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 characterized by too high 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.

63. Compliance risk

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

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

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

The rules concerning the process of compliance risk management adopted by all Group entities is inherent within the Group.

The Bank performs an identification and assessment of compliance risk. In order to identify compliance risk, information on cases of non-compliance and their origins are being used, including information based on internal audits results, functional control and external controls.

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 prepares reports concerning compliance 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:

- cases of incompliance;
- the most important adjustment procedures performed by the Bank.

Compliance risk management involves in particular:

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

64. Strategic risk

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

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

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

- external factors;

- factors related to the growth and development of the banking operations;
- factors related to the management of human resources;
- factors related to investment activities;
- factors related to the organization's culture.

Monitoring the strategic risk level are performed at least on an annual basis.

The reports on the level of strategic risk are prepared on an annual basis and are addressed to the Bank's Management Board and managing directors in the Bank's Head Office.

The strategic risk management in the Bank relates in particular to activities taken up in the situation of higher level of strategic risk.

65. Reputation risk

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

The objective of managing the reputation risk is to protect the Group'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 organizational units of the Banking Risk Division.

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

66. Capital adequacy

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

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

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

- identifying and monitoring of all of significant risks;
- assessing internal capital to cover the individual risk types and total internal capital;
- monitoring, reporting, forecasting and limiting of capital adequacy;

– performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses;
– using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

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

The capital adequacy ratio of the Bank as compared to 31 December 2009 (comparable data calculated in accordance with the amended regulations concerning rules of calculating capital requirements as well as own funds) decreased by 2.34% and reached the level of 12.47%, which has been mainly caused by the increase in items decreasing the Bank's own funds; simultaneously there was observed an increase of capital requirements because of credit risk, which was mainly due to high dynamics in the growth of the loan portfolio.

In spite of the fact that the capital adequacy ratio has decreased, the level of capital adequacy of the Group remained in 2010 on the level significantly above the statutory limits.

Own funds for the capital adequacy requirements

Own funds for the purposes of capital adequacy are calculated in accordance with the Banking Law and Resolution No. 381/2008* of the Polish Financial Supervision Authority of 17 December 2008 on decreasing core funds, amended by Resolution No. 367/2010 of the Commission of 12 October 2010, which is applicable to the data as of 31 December 2010. The comparability of data for 2009 was ensured in accordance with the provisions of the aforesaid Resolution.

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 Act, Article 127, Point 2c.

Basic funds are reduced by deducting the following items:

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

Supplementary funds are comprised of the following items:

1) subordinated liabilities,
2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 80% of their pre-tax value.

* Resolution no. 381/2008 of the Polish Financial Supervision Authority of 17 December 2008 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 connections with its subsidiaries or other companies in calculation of own funds.

(in PLN thousand)

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 failing below nil, the amount is subtracted from the basic funds.

In addition, the following items are included in the calculation of consolidated own funds:

1) goodwill of subsidiaries (which decreases the value of own funds),
2) non-controlling interests in equity (which increase the value of own funds),
3) currency translation differences from foreign operations (negative differences decrease original own funds, whereas positive differences increase additional own funds).

In 2010, the value of the Groups own funds decreased by PLN 254 190 thousand, which was mainly due to the increase in value of deductions of the Group's own funds i.e. intangible assets by approx. PLN 229 460 thousand and unrealised losses on debt and equity instruments classified as available for sale by approx. PLN 14 657 thousand with simultaneous decrease in income from previous year by PLN 136 509 thousand. The Bank's net profit for 2009 reduced by deducting dividends paid (of PLN 57 152 thousand) has been included in own funds.

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

GROUP'S OWN FUNDS	31.12.2010	31.12.2009
Basic funds (Tier 1 capital)	**15 960 255**	**16 253 084**
Share capital	1 250 000	1 250 000
Reserve capital	12 212 177	12 149 682
Other reserves	3 412 239	3 405 087
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Net profit for the current period in the part verified by a registered auditor after deduction of forecasted charges	-	-
Profits from previous years	112 297	248 806
Unrealised losses on debt and equity instruments classified as available for sale	(67 406)	(52 749)
Intangible assets, of which:	(1 802 037)	(1 572 577)
goodwill of subsidiaries	(229 740)	(264 933)
Equity exposures	(118 285)	(142 371)
Negative currency translation differences from foreign operations	(110 720)	(110 123)
Non-controlling interest	1 990	7 329
Supplementary funds (Tier 2 capital)	**1 512 546**	**1 489 959**
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)	29 158	30 298
Positive currency translation differences from foreign operations	973	1 332
Equity exposures	(118 285)	(142 371)
Short-term equity (Tier 3 capital)	**145 928**	**129 876**
TOTAL EQUITY	**17 618 729**	**17 872 919**

Capital requirements (Pillar 1)

Since 31 December 2010, the Group calculates capital requirements in accordance with Resolution No. 76/2010 of the Banking Supervision Authority dated 10 March 2010, amended Resolution No. 369/2010 dated 12 October 2010 (CRD II): in respect of credit risk – using the standardized approach; in respect of operational risk – in the Bank – using the standardized approach, for the Group – using the basic indicator approach and in respect of market risk – using the basic approach. The 2009 data have been standardised pursuant to the provisions of the Resolution.

(in PLN thousand)

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

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

An increase in the capital requirement in 2010 in respect of credit risk resulted from a significant increase in the volume of loan portfolio in (statement of financial position and off-balance-sheet exposure) by approx. 11.5%. An increase in the capital requirement in respect with market risk resulted mainly from an increase in the value of issue underwriting liabilities approx. by 100 %.

The tables below show the Group's exposure to credit risk and other types of risk. The values have been calculated according to the requirement of CRD II.

Capital requirements	31.12.2010	31.12.2009
Credit risk	**9 821 710**	**8 497 504**
credit risk (banking book)	9 756 757	8 427 715
counterparty risk (trading book)	64 953	69 790
Market risk	**422 154**	**204 148**
equity securities risk	767	2 390
specific risk of debt instruments	341 058	168 088
general risk of interest rates	80 329	33 670
Operational risk	**1 057 922**	**952 075**
Total capital requirements	**11 301 786**	**9 653 727**
Capital adequacy ratio	**12.47%**	**14.81%**

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

- in case of exposure of the statement of financial position – a product of a carrying amount, a risk weight of the assigned exposure according to the standard method of credit risk requirement calculation and 8% (considering recognised collateral),
- in case of contingent liabilities granted – a product of liability (considering value of allowances on the liability), a product risk weight, a risk weight of the assigned off- balance sheet exposure according to the standard method of credit risk requirement calculation and 8% (considering recognised collateral),
- in case of off-balance sheet transactions (derivative instruments) – product of risk weight of the assigned off-balance sheet transaction according to the standard method of credit risk requirement calculation, the value of the statement of financial position equivalent and 8% (the value of the statement of financial position equivalent 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 2010 is as follows:

(in PLN thousand)

Type of instrument	Carrying amount	Risk-weighted value
Banking book	163 897 606	110 839 073
Trading book	5 762 895	1 976 896
Total instruments in the statement of financial position	**169 660 501**	**112 815 969**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk-weighted value
Banking book	34 289 347	11 654 884	10 662 583
Trading book	2 496 031	2 496 031	2 295 917
Total off-balance sheet instruments	**36 785 378**	**14 150 915**	**12 958 500**

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	65 615 762	1 401 166	457 802
Trading book	212 165 405	1 994 358	811 914
Total derivatives	**277 781 167**	**3 395 524**	**1 269 716**

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

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 2009 is as follows (comparable data, calculated in accordance with regulations used for the data as at 31 December 2010):

Type of instrument	Carrying amount	Risk-weighted value
Banking book	150 587 660	95 800 218
Trading book	5 891 025	1 179 946
Total instruments in the statement of financial position	**156 478 685**	**96 980 164**

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	31 633 985	10 785 210	9 014 580
Trading book	1 248 655	1 248 655	951 029
Total off-balance sheet instruments	**32 882 640**	**12 033 865**	**9 965 609**

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	47 224 887	1 643 096	531 636
Trading book	134 168 429	1 947 141	872 369
Total derivatives	**181 393 316**	**3 590 237**	**1 404 005**

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

Internal capital (Pillar 2)

The Group calculates internal capital in accordance with Resolution No 383/2008 of the Financial Supervision Authority of 17 December 2008 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 (Financial Supervision Authority's Journal of Laws 2008, No. 8, item 37).

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

In the first half of 2010, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

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

– credit risk, including default and concentration risk,
– currency risk,
– interest rate risk,
– liquidity risk,
– operational risk,
– business risk (including strategy risk).

The total internal capital of each of the Group's entities is the sum of internal capital amount necessary to cover all of the significant risks for each of the entities.

The total internal capital of the Group is the sum of internal capital of the Bank and internal capitals of all of the Group's entities.

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

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

Disclosures (Pillar 3)

In accordance with § 6 of 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 Journal of Laws 2008, No. 8, item 39), the Powszechna Kasa Oszczędności 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 authorization 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

67. 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 12 May 2008.
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 2010 to PLN 1 140 thousand (2009: PLN 1 225 thousand); total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the certifying services, including the review of the financial statements amounted in 2010 to PLN 560 thousand (2009: PLN 560 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to rendering PKO Bank Polski SA other services amounted in 2010 to PLN 1 066 thousand (2009: PLN 2 492 thousand).

68. Events after the reporting period

On 12 January 2011, the increase in the share capital of Bankowe Towarzystwo Kapitałowe SA. in the total amount of PLN 3 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 24 244 thousand and consists of 242 439 shares of nominal value of PLN 100 each.

All the shares in the increased share capital were acquired by PKO Bank Polski SA.

On 27 January 2011, the increase in the share capital of BFL Nieruchomości Sp. z.o.o in the total amount of PLN 1000 thousand was registered with National Court Register. All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.

On 27 January 2011, the increase in the share capital of Bankowy Leasing Sp. z.o.o in the total amount of PLN 6 600 thousand was registered with National Court Register. All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.

Signatures of all Members of the Bank's Management Board

01.03.2011	Zbigniew Jagiełło	President of the Board	.... (signature)
01.03.2011	Piotr Alicki	Vice-President of the Board	.... (signature)
01.03.2011	Bartosz Drabikowski	Vice-President of the Board	.... (signature)
01.03.2011	Krzysztof Dresler	Vice-President of the Board	.... (signature)
01.03.2011	Jarosław Myjak	Vice-President of the Board	.... (signature)
01.03.2011	Wojciech Papierak	Vice-President of the Board	.... (signature)
01.03.2011	Jakub Papierski	Vice-President of the Board	.... (signature)

Signature of person responsible for
maintaining the books of account

01.03.2011
Danuta Szymańska

Director of the Bank

(signature)

PRICEWATERHOUSECOOPERS

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http://www.pwc.com/pl

Independent Registered Auditor's Opinion
To the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

We have audited the accompanying consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter called "the Group"), of which Powszechna Kasa Oszczędności Bank Polski SA is the parent company (hereinafter called "the Parent Company"), with its registered office at 15 Puławska Street, in Warsaw, which comprise:

(a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 169,660,501 thousand;

(b) the consolidated income statement for the period from 1 January to 31 December 2010, showing a net profit attributable to equity holders of the parent company of PLN 3,216,883 thousand;

(c) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010 showing a total net comprehensive income of PLN 3,297,105 thousand;

(d) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 923,698 thousand;

(e) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net decrease in cash and cash equivalents of PLN 553,712 thousand;

(f) additional information on adopted accounting policies and other explanatory notes.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report of the Group in accordance with the applicable regulations. The Management Board and members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the Director's Report of the Group meet the requirements set out in the Accounting Act of 29 September 1994 (*Journal of Laws* of 2009, No. 152, item 1223 with further amendments, hereinafter called "the Accounting Act").
.
Our responsibility was to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Accounting Act;

(b) National Standards on Auditing issued by the National Chamber of Registered Auditors;

(c) International Standards on Auditing

PRICEWATERHOUSECOOPERS

Independent Registered Auditor's Opinion
To the General Shareholders' Meeting and the Supervisory
Board of Powszechna Kasa Oszczędności Bank Polski SA (cont.)

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

The information in the Group Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited consolidated financial statements.

In our opinion, and in all material respects, the accompanying consolidated financial statements:

(a) have been prepared in accordance with the applicable accounting principles (policies) on the basis of properly maintained consolidation documentation;

(b) comply in form and contents with the relevant laws applicable to the Group;

(c) give a fair and clear view of the Group's financial position as at 31 December 2010 and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Antoni F. Reczek
President of the Management Board

Registered Auditor of the Group, Principal Registered Auditor
No. 90011

Warszawa, 2 March 2011

PKO Finance AB (publ)

Annual report

for the period January 1, 2011 -- December 31, 2011

(Org. nr. 556693-7461)

/o

Management report

The company is a wholly owned subsidiary of Powszechna Kasa Oszczednosci Bank Polski Spólka Akcyjna ("PKO Bank").
The company has no employees.

Business

The company will directly or indirectly, own and administer securities and engage in other financial activities that do not require a permit including granting of loans and other activities related thereto.

The financial year

The company has entered into a Programme for the issuance of Loan Participating Notes (the "Programme"). Under the Programme, the company may from time to time issue loan participation notes in series. The sole purpose of issuing each series will be to finance loans to the parent company. The company will charge certain rights under the loans to the parent company for the benefit of the note holders.

In accordance with the Programme Participation Notes with a nominal value of € 800 000 000 have been issued during 2010 and CHF 250 000 000 during this year. The Participation Notes run with fixed interest and have been used to finance loans to the parent company on basically the same terms.

Starting from January 1, 2011 the company has changed its reporting currency from SEK to EUR.

Corporate governance report

The Company has established routines in order to secure the accuracy of the financial reports which among other procedures include the audit of the Annual report by the elected auditors.

In view of the limited activities and low number of transactions the Board of Directors considers the control system described above to be appropriate.

Future activities of the company

The future activities of the company are linked to the development of the financial markets and the macroeconomic environment.

Proposal for appropriation of profits

The following profit is to be appropriated by the annual general meeting of shareholders

Retained earnings	EUR	51 448
The profit of the year	EUR	94 833
		146 281

The Board of Directors proposes that the profit is appropriated as follows

To be carried forward	EUR	146 281

For further information please refer to the accompanying profit and loss statement, balance sheet and notes.

Profit and loss statement Note 1

Amounts in EUR		2011	2010
Administration fee from parent company		170 000	60 000
Other expenses	Note 3	-57 429	-53 311
Income before financial items		**112 571**	**6 689**
Interest income long term loan to parent company		33 696 745	**6 078 994**
Interest expenses LPN-borrowing		-33 678 754	**-6 075 761**
Curr. Exch. Losses etc.		-1 358	-95
Income before taxes		**129 204**	**9 827**
Current taxes		-34 371	-2 589
Net income		**94 833**	**7 238**

Balance sheet

Note 1

Amounts in EUR		2011-12-31	2010-12-31
Assets			
Financial fixed assets			
Loan to parent company	Note 2	1 003 946 391	798 962 585
Current assets			
Receivable parent company		-	60 000
Taxes receivable		-	7
Prepaid expenses		14 323	13 852
Accrued interest income, parent company		9 353 223	5 890 981
Bank funds		321 186	128 378
		9 688 732	6 093 218
Total assets		**1 013 635 123**	**805 055 803**
Liabilities and equity			
Equity	Note 5,6		
Restricted equity			
Share capital (5000 shares with quote value SEK 100)		55 474	55 474
Unrestricted equity			
Retained earnings		51 448	44 210
Current profit		94 833	7 238
Total unrestricted equity		146 281	51 448
Total equity		**201 755**	**106 922**
Long-term liabilities			
LPN-loan	Note 4	1 004 025 784	799 039 430
Short term liabilities			
Current tax liability		37 004	2 583
Accrued interest expense		9 353 223	5 890 981
Other accrued expenses		17 357	15 887
Total short-term liabilities		9 407 584	5 909 451
Total liabilities		**1 013 433 368**	**804 948 881**
Total liabilities and equity		**1 013 635 123**	**805 055 803**
Pledged assets			
Loan to parent company		1 013 299 614	804 853 566
Commitments		None	None

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Note 1 Accounting and valuation principles

The annual report has been prepared in accordance with the Annual Accounts Act and the recommendations of the Accounting Standards Board except for BFNAR 2008:1.

Assets and liabilities are valued at cost and nominal value respectively, if nothing else is stated.

Current income taxes includes taxes payable or receivable relating to current year and adjustments regarding current taxes in previous years. Tax receivables/payables are estimates of amounts expected to be received/paid from the tax office.

The long-term loan and long-term borrowing have been valued using the effective interest method. This means that the difference between discounted value (book value) and nominal value is amortized over the term of the loan and borrowing respectively. These amortizations are included in the interest income and interest expense that consequently are shown on an effective interest basis.

Assets and liabilities denominated in foreign currencies have been valued at current rate.

Note 2 Loan to parent company

The € 800 000 000 loan is due for payment on October 21, 2015 and the CHF 250 000 000 loan on July 7, 2016.

Note 3 Other costs

Includes audit fee to PwC with € 11 698 (€ 11 698)

Note 4 LPN-loan

The € 800 000 000 loan is due for payment on October 21, 2015 and the CHF 250 000 000 loan on July 7, 2016.

Note 5 Equity

	Share capital	*Retained earnings*	*Current earnings*	*Total equity*
Opening balance	55 474	44 210	7 238	106 922
Profit carried forward		7 238	-7 238	0
Current income	-		94 833	94 833
Total	55 474	51 448	94 833	201 755

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Not 6 Parent company

The company is a wholly owned subsidiary of Powszechna Kasa Oszczednosci Bank Polski Spólka Akcyjna ("PKO Bank"), Warsaw, Poland.

Stockholm

Artur Osytek
Chairman

Magnus Sundström
Managing Director

Iwona Jankowska

Our audit report was issued 2012-
Öhrlings PricewaterhouseCoopers AB

Sussanne Sundvall
Authorized auditor

Audit report

To the annual generalmeeting of PKO Finance AB (publ), Corporate Identity Number 556693-7461

Report on the annual accounts

We have audited the annual accounts for PKO Finance AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of annual accounts in accordance with the Annual Accounts Act and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these accounts based on our audit.We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the company as of 31 December 2011 and of its financial performance for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual general meeting adopt the income statement and balance sheet.

Report on other legal and legal and regulatory requirements

In addition to our audit of the annual accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of PKO Finance AB (publ)

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Swedish Companies Act

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit.We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Swedish Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the of Directors or the Managing Director is liable to the company.We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 28 February 2012

Öhrlings PricewaterhouseCoopers AB

Sussanne Sundvall
Authorised Public Accountant

SWORN TRANSLATION FROM SWEDISH

PKO Finance AB (Publ)

Annual accounts for the period 1 January 2010 – 31 December 2010

(Organisation registration number 556693-7461)

ADMINISTRATION REPORT

The company is a wholly owned subsidiary of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna („PKO Bank").

Business

The business of the company is to directly or indirectly own, manage and trade in securities and conduct other financial businesses that do not require a permit, including credit financing and other related businesses.

The company has no employees.

Financial year

In 2008 the company entered into the Programme for the Issuance of Loan Participation Notes. Under this programme the company can issue Loan Participation Notes in various series. The sole purpose of this borrowing is to finance lending to the parent company. According to the Programme's conditions the company pledges its rights under the loans to the parent company to the holders of the Loan Participation Notes issued.

Under the aforementioned Programme for the Issuance of Loan Participation Notes during the year the company has issued Loan Participation Notes for the total amount of €800 000 000. The loan with fixed interest rate has been used to finance lending to the parent company basically under the same conditions.

Expected future developments

The company's activity in the future depends on the development of the financial markets and the macroeconomic environment.

Proposal for the allocation of the profit for the year

The Annual General Meeting has to decide about the allocation of the profit for the year

amounting to	SEK	462 421

The Board of Directors proposes that the accrued profit as shown above be allocated in the following way:

Carried over into a new account	SEK	462 421

The company's profit and position in other respects are shown in the following income statement and balance sheet and notes.

[initialled]

INCOME STATEMENT Note 1

Amount in SEK		2010	2009
Compensation for administration from the parent company		539 572	570 521
Other external costs	Note 4	-479 416	-336 749
Profit before financial incomes and costs		**69 156**	**233 772**
Interest income long-term claim to the parent company		54 667 603	-
Interest expenses bond loan		-54 638 532	-
Exchange losses - net		-704	-23 485
Pre-tax profit		**88 523**	**210 287**
Tax cost for the year		-23 282	-55 310
Profit for the year		**65 241**	**154 977**

[initialled]

BALANCE SHEET Note 1

Amount in SEK		2010	2009
Assets			
Financial fixed assets			
Loan to the parent company	Note 2	7 184 966 661	-
Current assets			
Receivables parent company	Note 3	539 572	-
Tax asset		64	64
Pre-paid costs		124 851	125 000
Accrued income parent company		52 976 825	-
Cash and bank balances		1 155 478	902 426
Total current assets		54 796 790	1 027 490
Total assets		**7 239 763 451**	**1 027 490**
Liabilities and equity			
Equity	Notes 6,7		
Restricted equity		500 000	500 000
Share capital (5000 shares of quota value SEK100)			
Non-restricted equity			
Profits brought forward		397 180	242 203
Profit for the year		65 241	154 977
Total non-restricted equity		462 421	397 180
Total equity		**962 421**	**897 180**
Long-term liabilities			
Bond loan	Note 5	7 185 657 723	-
Current liabilities			

Tax liability	23 282	55 310
Accrued interest expense	52 976 825	-
Other accrued costs	143 200	75 000
Total current liabilities	53 143 307	130 310
Total liabilities	**7 238 801 030**	**130 310**
Total liabilities and equity	**7 239 763 451**	**1 027 490**
Pledged assets		
Loan to the parent company	**7 247 272 825**	+
Contingent liabilities	**None**	**None**

[initialled]

NOTES

Note 1 Accounting and valuation principles

The annual accounts have been drawn up in accordance with the Annual Accounts Act and the general advice issued by the Swedish Accounting Standards Board, BFNAR 2008:1.

Assets and liabilities are reported at cost and their nominal value respectively unless otherwise stated.

The income tax reported includes tax to be paid or received for the current year and adjustments concerning current tax for previous years. These tax liabilities/ assets are valued at the amount to be paid to or received from the Swedish Tax Agency in the judgment of the company.

Loan to the parent company as well as bond loan have been reported in accordance with the effective interest method which means that difference between discounted (book) value and nominal value of loan or bond loan amortized over the life of the respective bond. These amortizations are included in reported interest income/ interest expense which therefore reflect effective interest of respective loans.

Assets and debts in foreign currency have been valued according to the exchange rate on the balance sheet date.

Note 2 Loan to the parent company

The whole amount is due to be paid in 2015.

Note 3 Receivables parent company

The amount per 31 December 2010 was paid to the company on 28 January 2011.

Note 4 Other costs

The item *Other costs* includes costs of SEK 75 000 (75 000) relating to the audit by PricewaterhouseCooper.

Note 5 Bond loan

The whole amount is due to be paid on 21 October 2015.

Note 6 Equity

	Share capital	*Profit brought forward*	*Profit for the year*	*Total equity*
Amount at start of financial year	500 000	242 203	154 977	897 180

Profit brought forward		154 977	-154 977	0
Profit for the year			65 241	65 241
Total	500 000	397 180	65 241	962 421

[initialled]

Note 7 Consolidated accounts

The company is a wholly owned subsidiary of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna („PKO Bank"), Warsaw, Poland.

Stockholm, 21 February 2011

[Signature]	[Signature]
Artur Osytek	Magnus Sundström
Chairman	Managing Director

[Signature]

Iwona Jankowska 22 February 2011

Our audit report was presented on 2011-

Öhrlings PricewaterhouseCoopers AB

[Signature]

Susanne Sundvall

Authorised Public Accountant

[Logo PricewaterhouseCoopers]

AUDIT REPORT

To the annual general meeting of the shareholders of

PKO Finance AB (Publ)

Organisation registration number 556693-7461

We have audited the annual accounts, the accounting records and the administration of the Board of Directors and the Managing Director of PKO Finance AB (Publ) for 2010. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express the opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director and significant estimates made by Board of Directors and the Managing Director when preparing the annual accounts as well as evaluating the overall presentation if the information in the annual accounts. As a basis for our opinion concerning discharge from liability we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the Managing Director. We also examined whether any Board member or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The administration report is consistent with the other parts of the annual accounts.

We recommend to the annual general meeting of shareholders that the income statement and balance sheet be accepted, that the profit be allocated in accordance with the proposal in the administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 22 February 2011

Öhrlings PricewaterhouseCoopers AB

[Signature]

Susanne Sundvall

Authorised Public Accountant

Registry no 95 /11

I, Tatiana Szostak, registered as sworn translator in English and Swedish at the Ministry of Justice (licence no TP/1806/06) confirm that this is a true translation of the document in Swedish presented to me.
Wyszków, 3.04.2011

mgr Tatiana Szostak
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