BANK
POLSKA KASA OPIEKI
SPOLKA AKCYJNA

Consolidated Financial Statements
of Bank Pekao S.A. Group
for the year ended 31 December 2008

Warsaw. March 2009

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(in PLN thousand)

Consolidated Income Statement

	Note	2008 Continuing operations	2008 Discontinued operations	2008 Total	2007 Continuing operations	2007 Discontinued operations	2007 Total
Interest income	11	8 238 672	-	8 238 672	4 671 639	-	4 671 639
Interest expense	11	(3 729 074)	(113)	(3 729 187)	(1 953 537)	(2 916)	(1 956 453)
Net interest income		**4 509 598**	**(113)**	**4 509 485**	**2 718 102**	**(2 916)**	**2 715 186**
Fee and commission income	12	2 852 488	556	2 853 044	2 471 332	47 332	2 518 664
Fee and commission expense	12	(511 116)	(112)	(511 228)	(309 924)	(4 432)	(314 356)
Net fee and commission income		**2 341 372**	**444**	**2 341 816**	**2 161 408**	**42 900**	**2 204 308**
Dividend income	13	5 398	-	5 398	237	120	357
Result on financial instruments at fair value	14	57 060	(30)	57 030	21 547	265	21 812
Result on investment securities	15	78 405	-	78 405	37 958	-	37 958
Foreign exchange result		586 093	-	586 093	329 857	-	329 857
Other operating income	16	433 153	1	433 154	180 606	11	180 617
Other operating expenses	16	(124 713)	(99)	(124 812)	(91 804)	(49)	(91 853)
Net other operating income		**308 440**	**(98)**	**308 342**	**88 802**	**(38)**	**88 764**
Gain on sale of discontinued operations	34	-	436 172	436 172	-	-	-
Net provision charges for financial assets and contingent liabilities and commitments	18	(293 715)	-	(293 715)	(192 346)	-	(192 346)
Administrative costs	17	(3 787 113)	(643)	(3 787 756)	(2 736 513)	(17 108)	(2 753 621)
Operating profit		**3 805 538**	**435 732**	**4 241 270**	**2 429 052**	**23 223**	**2 452 275**
Share of profit (loss) of associates and joint venture entities valued at the equity method	20	104 708	-	104 708	152 876	-	152 876
Profit before income tax		**3 910 246**	**435 732**	**4 345 978**	**2 581 928**	**23 223**	**2 605 151**
Income tax expense	21	(721 690)	56	(721 634)	(437 563)	(5 111)	(442 674)
Income tax expense on gain on sale of discontinued operations		-	(83 408)	(83 408)	-	-	-
Net profit		**3 188 556**	**352 380**	**3 540 936**	**2 144 365**	**18 112**	**2 162 477**
1. Attributable to equity holders of the Company		3 175 584	352 380	3 527 964	2 137 366	18 112	2 155 478
2. Attributable to minority interest		12 972	-	12 972	6 999	-	6 999
Earnings per share (in PLN per share)							
- basic for the period	22	12.12	1.34	13.46	12.17	0.10	12.27
- diluted for the period	22	12.11	1.34	13.45	12.16	0.10	12.26

(in PLN thousand)

Consolidated Balance Sheet

	Notes	31 Dec 2008	31 Dec 2007
Assets			
Cash and due from Central Bank	24	9 933 637	5 121 210
Debt securities eligible for rediscounting at Central Bank		840	1 108
Loans and receivables from banks	25	7 908 626	16 960 034
Financial assets held for trading	26	2 744 415	3 165 113
Derivative financial instruments (held for trading)	27	4 440 541	1 922 958
Other financial instruments at fair value through profit or loss	28	4 713 116	3 777 729
Loans and receivables from customers	29	79 077 983	66 658 037
Net investments in financial leases	30	3 437 383	3 043 768
Hedging instruments	31	157 899	40 672
Investment securities	32	15 128 906	17 620 419
1. Available for sale		13 249 845	17 033 529
2. Held to maturity		1 879 061	586 890
Assets classified as held for sale	34	141 783	65 068
Investments in associate	35	308 756	388 169
Intangible assets	36	745 661	688 559
Property plant and equipment	37	1 906 036	2 021 052
Investment properties	38	70 852	58 559
Income taxes		388 337	421 486
1. Current tax receivable		4 626	2 493
2. Deferred tax assets	21	383 711	418 993
Other assets	39	835 991	2 142 210
Total assets		**131 940 762**	**124 096 151**
Liabilities			
Amounts due to Central Bank	41	4 817 499	1 485 921
Amounts due to other banks	42	10 175 521	8 456 191
Financial liabilities held for trading	43	405 979	491 382
Derivative financial instruments (held for trading)	27	5 145 498	1 661 282
Amounts due to customers	44	90 889 048	89 944 078
Hedging instruments	31	373	28 965
Debt securities in issue	45	2 470 702	3 716 778
Liabilities classified as held for sale	34	-	55 291
Current income tax payable		304 569	53 169
Deferred tax liabilities	21	2 547	324
Provisions	46	306 739	379 828
Other liabilities	47	1 385 849	3 075 647
Total liabilities		**115 904 324**	**109 348 856**
Equity			
Share capital	51	262 213	261 867
Other capital and reserves	52	12 194 504	12 393 624
Retained earnings and current year profit	52	3 490 596	2 011 297
Total equity attributable to the Company's equity holders		**15 947 313**	**14 666 788**
Minority interest		89 125	80 507
Total equity		**16 036 438**	**14 747 295**
Total equity and liabilities		**131 940 762**	**124 096 151**

(in PLN thousand)

Consolidated Statement of changes in equity

For the period from 1 January 2008 to 31 December 2008 and for the period from 1 January 2007 to 31 December 2007

	Equity attributable to the Company's equity holders										Minority interest	Total equity
	Share Capital	Other reserve capital							Prior and current profit	Equity attributable to the Company's equity holders		
		Total reserves	Share premium	*General banking risk fund*	*Other reserve capital*	*Revaluation reserves from financial instruments*	*Exchange differences from translation of foreign entities*	*other*				
Equity as at 1st January 2008	**261 867**	**12 393 624**	***9 063 248***	***1 237 850***	***2 083 585***	***(278 594)***	***-23 091***	***310 626***	**2 011 297**	**14 666 788**	**80 507**	**14 747 295**
Management share options	**346**	**45 673**	***42 025***	**-**	**-**	**-**	**-**	***3 648***	**-**	**46 019**	**10**	**46 029**
Options exercised (share issue)	346	42 025	*42 025*	-	-	-	-		-	42 371	-	**42 371**
Revaluation of management share options	-	3 648	-	-	-	-	-	*3 648*	-	3 648	*10*	**3 658**
Valuation of financial instrument	**-**	**312 920**	**-**	**-**	**-**	***312 920***	**-**	**-**	**-**	**312 920**	**-**	**312 920**
Revaluation of available –for-sale investments net of deferred tax	-	175 172	-	-	-	*175 172*	-	-	-	175 172	-	175 172
Revaluation of hedging financial instruments net of deferred tax	-	137 748	-	-	-	*137 748*	-	-	-	137 748	-	**137 748**
Appropriation of retained earnings and current year profit	**-**	**(468 577)**	**-**	**-**	***(504 357)***	**-**	**-**	***35 781***	**1 479 299**	**1 010 722**	**8 608**	**1 019 330**
Dividend paid	-	(1 032 357)	-		*(1 032 357)*	-	-		(1 484 884)	(2 517 241)	(4 364)	**(2 521 605)**
Appropriation of profit (including corrections of consolidation)	-	563 780	-	-	*528 000*	-	-	*35 781*	(563 781)	-	-	**-**
Current year net profit	-	-	-	-	-	-	-	-	*3 527 964*	3 527 964	12 972	**3 540 936**
Other	**-**	**(89 136)**	***559***	**-**	**-**	**-**	***(89 695)***	**-**	**-**	**(89 136)**	**-**	**(89 136)**
Foreign exchange differences from translation of foreign entities	-	(89 695)	-	-	-	-	*(89 695)*	-	-	(89 695)	-	**(89 695)**
Sale of Bank's own shares	-	559	*559*	-	-	-	-	-	-	559	-	**559**
Equity as at 31st December 2008	**262 213**	**12 194 504**	***9 105 832***	***1 237 850***	***1 579 227***	***34 326***	***(112 786)***	***350 055***	**3 490 596**	**15 947 313**	**89 125**	**16 036 438**

Consolidated Statement of Changes in Shareholders' Equity

	Equity attributable to the Company's equity holders										Minority interest	**Total equity**
	Share Capital	Other reserve capital							Prior and current	**Equity attributable to the Company's equity holders**		
		Total reserves	Share premium	*General banking risk fund*	*Other reserve capital*	*Revaluation reserves from financial instruments*	*Exchange differences from translation of foreign entities*	*other*	profit			
Equity as at 1 January 2007	**166 808**	**7 028 137**	***1 395 885***	***1 137 850***	***4 243 313***	***(15 141)***	***(12 190)***	***278 420***	**1 680 938**	**8 875 883**	**16 744**	**8 892 627**
Management share options	**295**	**35 973**	***31 623***	**-**	**-**	**-**	**-**	***4 350***	**-**	**36 268**	**-**	**36 268**
Options exercised (share issue)	295	31 623	*31 623*	-	-	-	-		-	**31 918**	-	**31 918**
Revaluation of management share options	-	4 350	-	-	-	-	-	*4 350*	-	**4 350**	-	**4 350**
Valuation of financial instrument	**-**	**(263 453)**	**-**	**-**	**-**	***(263 453)***	**-**	**-**	**-**	**(263 453)**	**-**	**(263 453)**
Revaluation of available –for-sale investments net of deferred tax	-	(212 958)	-	-	-	*(212 958)*	-	-	-	**(212 958)**	-	**(212 958)**
Revaluation of hedging financial instruments net of deferred tax	-	(50 495)	-	-	-	*(50 495)*	-	-	-	**(50 495)**	-	**(50 495)**
Appropriation of retained earings and current year profit	**-**	**286 612**	**-**	***100 000***	***158 756***	**-**	**-**	***27 856***	**330 359**	**616 971**	**3 692**	**620 663**
Dividend paid	-	-	-			-	-		(1 503 928)	**(1 503 928)**	(3 307)	**(1 507 235)**
Appropriation of profit	-	286 612	-	*100 000*	*158 756*	-	-	*27 856*	(286 612)	**-**	-	**-**
Consolidation adjustments concerning retained earnings	-	-	-	-	-	-	-	-	(34 579)	**(34 579)**	-	**(34 579)**
Current year net profit	-	-	-	-	-	-	-		2 155 478	**2 155 478**	6 999	**2 162 477**
Merger of Pekao 285	**94 764**	**5 487 454**	***7 635 740***	**-**	***(2 148 286)***	**-**	**-**	**-**	**-**	**5 582 218**	**60 475**	**5 642 693**
Share capital issued	94 764	-		-	-	-	-	-	-	**94 764**	-	**94 764**
Share Premium	-	5 388 665	*5 388 665*	-	-	-	-	-	-	**5 388 665**	-	**5 388 665**
Recognition of minority acquisition	-	-	*2 247 075*	-	*(2 247 075)*	-	-	-	-	**-**	-	**-**
First time consolidation of Pekao 285 subsidiaries	-	98 789	-	-	*98 789*	-	**-**	-	-	**98 789**	60 475	**159 264**
Other	**-**	**(181 099)**	**-**	**-**	***(170 198)***	**-**	***(10 901)***	**-**	**-**	**(181 099)**	**(404)**	**(181 503)**
Acquisition of HVB Ukraina and merger of UniCreditBank	-	(173 907)	-	-	*(173 907)*	-		-	-	**(173 907)**	-	**(173 907)**
Foreign exchange differences from translation of foreign entities	-	(10 901)	-	-		-	*(10 901)*	-	-	**(10 901)**	-	**(10 901)**
Other	-	3 709	-	-	*3 709*	-	-	-	-	**3 709**	(404)	**3 305**
Equity as at 31 December 2007	**261 867**	**12 393 624**	***9 063 248***	***1 237 850***	***2 083 585***	***(278 594)***	***(23 091)***	***310 626***	**2 011 297**	**14 666 788**	**80 507**	**14 747 295**

(in PLN thousand)

Consolidated Statement of Cash Flow

	2008	2007
Cash flow from operating activities - indirect method		
Net profit (loss)	**3 527 964**	**2 155 478**
Adjustments:	**(4 820 719)**	**6 444 463**
Depreciation expense	413 043	338 750
Share of profit of associates	(104 708)	(152 876)
Gains (losses) on foreign exchange differences	(338 490)	306 767
Gains (losses) on investing activities	(74 235)	(64 280)
Impairment provisions	-	(18 211)
Interest and dividend	(78 857)	(835 297)
Change in loans and advances from banks	(352 545)	2 204 613
Change in financial assets as held for trading and other financial instruments at fair value through profit or loss	(514 689)	10 034 807
Change in derivative financial instruments	(2 517 583)	(1 396 316)
Change in loans and advances from customers and debt securities eligible for rediscounting at Central Bank	(12 419 678)	(2 240 973)
Change in net investment in the finance lease	(393 615)	(2 077 161)
Change in investment securities available for sale	2 867 342	(1 071 198)
Change in deferred tax assets	(36 113)	345 078
Change in other assets	868 390	(402 332)
Change in amounts due to banks	5 050 908	672 622
Change in liabilities as held for trading	(85 403)	(618 698)
Change in derivative financial instruments and other financial liabilities at fair value through profit or loss	3 484 216	1 157 082
Change in amounts due to customers	944 970	1 249 445
Change in debt securities in issue	49 346	(150 633)
Change in provisions	(73 089)	51 393
Change in other liabilities	(1 769 038)	(325 947)
Income tax paid	(583 963)	(973 277)
Current tax	843 072	442 780
Net cash flows from operating activities	**(1 292 755)**	**8 631 616**
Cash flows from investing activities		
Investing activity inflows	**24 768 473**	**42 121 088**
Sale of subsidiaries and associates	87	22 598
Sale of investment securities	24 589 216	40 399 084
Proceeds from sale of intangible assets and property. plant and equipment	11 349	2 203
Other investing inflows	167 821	671 163
Merger of “Pekao 285”	-	1 026 040
Investing activity outflows	**(24 242 440)**	**(44 032 328)**
Purchase of subsidiaries and associates	(5 182)	-
Purchase of investment securities	(23 731 036)	(43 528 315)
Purchase of intangible assets and property, pant and equipment	(506 222)	(416 162)
Other investing outflows	-	(87 851)
Net cash flows used in investing activities	**526 033**	**(1 911 240)**
Cash flows from financing activities		
Financing activity inflows	**254 915**	**3 152 126**
Issue of debt securities	211 985	3 116 153
Issue of shares	42 371	35 973
Sale of own shares	559	-
Financing activity outflows	**(4 079 719)**	**(4 247 524)**
Redemption of debt securities	(1 562 478)	(2 743 596)
Dividends and other payments to shareholders	(2 517 241)	(1 503 928)
Net cash flows from financing activities	**(3 824 804)**	**(1 095 398)**
Total net cash flows	**(4 591 526)**	**5 624 978**
Net change in cash and cash equivalents	**(4 591 526)**	**5 624 978**
Cash and cash equivalents at the beginning of the period	**16 258 315**	**10 633 337**
Cash and cash equivalents at the end of the period	**11 666 789**	**16 258 315**

Notes to the consolidated financial statements

1. General information

These consolidated financial statements of the Capital Group of Bank Pekao S.A.("the Group") cover the period from 1 January 2008 to 31 December 2008 and include the comparatives data:

- for the balance sheet as at 31 December 2007.
- for the profit and loss account for the period from 1 January 2007 to 31 December 2007.

Comparative data for the profit and loss account for the period from 1 January 2007 to 31 December 2007 does not include comparative data relating to an organized part of Bank BPH ("Pekao 285") merged with Bank Pekao S.A. on 29 November 2007 and subsidiaries and associates acquired from Bank BPH S.A. Group.
Financial data relating to HVB Ukraine merged with UniCredit Bank on 30 March 2007 was included in profit and loss account from the date of acquisition.

Bank Pekao S.A. („the Bank") head quartered in Warsaw, 00-950 Grzybowska Street 53/57 was initially recorded in the Commercial Register on 29 October 1929 maintained by the District Court in Warsaw and has been continuously in operation since that time.

Bank Pekao S.A. is registered in the National Court Registry – Enterprise Registry managed by the Warsaw District Court XII Economic Division of the National Court Registry in Warsaw under the reference number KRS 0000014843.

The Bank's identification number is REGON 000010205.

The Bank and entities within the Group were established for and unlimited timeframe.

The Bank Pekao Group is a part of the Bank UniCredit S.p.A Group with its seat in Roma, Italy.

Shares of the Bank are quoted on the Warsaw Stock Exchange Securities of the Bank traded on a regulated market are classified in banking sector.

Bank Pekao S.A. is a universal commercial bank offering a wide range of banking services to both individual and corporate clients. Its operations are denominated in both PLN and foreign currencies and it actively participates in both domestic and foreign financial markets. Moreover the Group through its subsidiaries provides financial service, leasing, factoring and undertakes other investment activities.

2. Business combinations

No business combinations occurred in 2008.

The following business combinations were completed by the Group in 2007:

a) merger of the organized part of Bank BPH S.A. into the operations of Bank Pekao S.A.
b) merger of UniCredit Bank Ltd. with Commercial Bank HVB Ukraina.

These transactions have been classified as business combinations under common control and such have been accounted for using the book value accounting method, which is the accounting policy adopted for these types of transactions within the UniCredit Group.

Acquiror recognized the assets and liabilities of acquiree at their carrying values at the transfer date, adjusted only to unify the accounting policy applied by acquiree. As result of such transaction neither goodwill nor any excess of the fair value of the net assets over the cost of the business combination was recognized. In applying the book value accounting method, the comparative figures of the Group for the comparative periods presented has not been restated.

Merger of the organized part of Bank BPH S.A. into Bank Pekao S.A.

Background of the Transaction

On 12 November 2006 the Management Board of Bank Pekao passed a resolution on the intention to integrate Bank Pekao with an organized part of Bank BPH, to be completed through a division of Bank BPH, and the simultaneous transfer of selected assets and liabilities in the form of an organized part of the enterprise, hereafter referred to as “Pekao 285”, in exchange for shares in Bank Pekao S.A., which will be taken up by the shareholders of Bank BPH S.A.

On 15 November 2006 the Management Boards of Bank Pekao and Bank BPH signed the Division Plan of Bank BPH S.A., in accordance with art. 533 § 1 and art. 534 of the Commercial Code (“KSH”), which resolved that the division of Bank BPH will be carried out under art. 529 § 1 item 4 of the KSH. and will result in a transfer of an organized part of the enterprise to Bank Pekao S.A., hereafter referred to as **“**Bank BPH Spin-off”.

On 31 January 2007 Bank Pekao and Bank BPH filed a joint application with the Banking Supervision Commission “the BSC”. The BSC’s consent to the Bank BPH Spin-off was granted on 3 October 2007.

Effective date of the Transaction

The Bank BPH Spin-off transaction became effective on 29 November 2007 when the appropriate District Court registered the issue of 94 763 559 of Bank Pekao ordinary bearer shares of I series.

Accounting for the Transaction

In applying the book value accounting method Bank Pekao recognized the assets and liabilities of Pekao 285 at their carrying values at the transfer date, adjusted only to unify the accounting policy applied by Bank BPH. The carrying value of Pekao 285 total assets at 29 November 2007 amounted to PLN 54 332 601 thousand. As both Bank Pekao and Bank BPH prepare their financial statements under IFRS as adopted by the EU, minor adjustments to unify the accounting policies were recognized ordered at the transfer date.

In applying the book value accounting method to this transaction neither goodwill nor any excess of the fair value of the net assets over the cost of the business combination.

The difference between the carrying amount of Pekao 285’s net assets transferred, being PLN 5 626 136 thousand, and the nominal value of the shares issued by Bank Pekao, being PLN 94 764 thousand, was recognized in equity by the Group as described below.

The transaction resulted in a 6.63% acquisition of minority interests by UniCredit Group; the acquisition of this minority interest is accounted for separately in equity by Bank Pekao as described below.

The results of operations of Pekao 285 have been consolidated with effect from 29 November 2007. The comparative figures of the Group for the comparative periods presented has not been restated.

The above accounting policy is consistent with the policy of UniCredit Group applicable to intragroup transactions and, in the opinion of the Management Board of the Bank, results in the most appropriate reflection of the economic substance of the Bank BPH Spin-off transaction, which was carried out as a consequence of an internal reorganization of the Polish banks within the UniCredit Group.

Shareholders’ equity instruments issued for the transaction

The merger transaction was completed by issuing ordinary shares of Bank Pekao to the shareholders of Bank BPH in exchange for their contribution of the Pekao 285 assets and liabilities to Bank Pekao.

As a result of this transaction Bank Pekao share capital was increased by PLN 94 764 thousand, through an issue 94 763 559 ordinary bearer shares of I series of nominal value of PLN 1,0 per each share. The amount of PLN 5 388 665 thousand, representing the difference between the carrying amount of Pekao 285 net assets transferred and the nominal value of I series shares was recognized in the Group’s equity.

The share exchange ratio was determined at 1:3.3, being 1 ordinary share of Bank Pekao issued for every 3.3 shares of Bank BPH held by its shareholders registered as of the reference date of 7 December 2007. A fractional number of shares held was rounded down to the nearest whole number and a supplementary cash payment corresponding to the market value of the fraction being rounded down was paid by Bank Pekao.

(in PLN thousand)

The fair value of series I ordinary share for the purposes of the supplementary cash payments was set at PLN 256.69 per share. This fair value was established based on the average market price quotation for Bank Pekao's shares for the 30 day trading sessions, for which quotations were held, preceding the reference date of 7 December 2007. The average market price was an arithmetic average calculated from average daily prices weighted by traded volumes.

As a result of the fractional ratio payments, Bank Pekao acquired 5,010 series I shares representing 0.0019 % of Bank's share capital. The Bank may not exercise voting rights on these shares. These shares may be sold to an investor selected by the Bank at its discretion.

Costs directly related to the issue of series I shares incurred by the Bank amounted to PLN 336 thousand and were recorded as a decrease in the Group's equity.

Acquisition of minority interest by UCI

As a result of the Pekao 285 transfer to Bank Pekao, UniCredit Group's ownership share in the equity of Bank Pekao increased from 52,73% before the transfer to 59,36% after the transfer, thus representing a 6,63% minority interest acquisition by UniCredit Group. This minority interest acquisition was accounted for at the UCI consolidated level at fair value with the excess of fair value over the carrying value of the 6,63% of Bank Pekao recorded through the equity of UCI Group.

As a consequence, Bank Pekao recorded a corresponding transfer reflecting the minority interest acquisition by decreasing "Other reserves" in the amount of PLN 2,247.1 million, representing the difference between the book value of the 6,63% net assets and the market value of the 6,63% Bank Pekao shares on 29 November 2007, and a corresponding increase in "Supplementary capital" of the Bank.

Assets and Liabilities recognized at acquisition date

The following assets and liabilities were transferred from Bank BPH to Bank Pekao on 29 November 2007:

Item name	**Amount as at 29.11.2007**
Assets	
Cash and amounts due from Central Bank	600 578
Financial assets as held for trading	1 325 239
Receivables due from banks	4 570 078
Receivables due from customers	32 624 062
Other financial assets	12 894 447
Property. plant and equipment	557 794
Intangible assets	55 798
Other assets	1 704 605
Total assets	**54 332 601**
Liabilities	
Amounts due to banks	5 214 236
Amounts due to customers	36 901 050
Debt securities in issue	3 539 124
Provisions	467 189
Financial liabilities as held for trading	898 707
Other liabilities	1 686 159
Total equity	5 626 136
Total equity and liabilities	**54 332 601**

Merger of UniCredit Bank Ltd. with the Commercial Bank HVB Ukraina S.A

Background of the Transaction

On 30 March 2007 Bank Pekao S.A. acquired 100% shares in Commercial Bank HVB Ukraine. The purchase price amounted to PLN 326,108 thousand and value of acquired net assets PLN 152,450 thousand. (equivalent of UAH 264,303 thousand using average NBP exchange rate).

On 3 September 2007 UniCredit Bank Ltd. and Commercial Bank HVB Ukraina S.A. were merged. Both entities are wholly owned subsidiaries of Bank Pekao.

All formal requirements of the merger process were fulfilled on 4 February 2008 following the registration of the changes to the Statute of UniCredit Bank Ltd. embracing the increase of the share capital by an amount of hryvna 109 834 200 by the National Bank of Ukraine

The new shares of UniCredit Bank Ltd. with the nominal value of 1 hryvna each and the total nominal value of hryvna 109 834 200 have been acquired by Bank Pekao in exchange for 1 098 342 shares of Commercial Bank HVB Ukraina S.A of nominal value of 100 hryvna each, with total nominal value of hryvna 109 834 200.

Assets recognized at acquisition date

Commercial Bank HVB Ukraina S.A assets transferred to UniCredit Bank Ltd. as an effect of the transaction are as follows (PLN '000) as of 3 September 2007:

No..	Item	Amount
1.	Cash and due from banks	497 158
2.	Due from customers	1 179 545
3.	Financial assets held for trading	17 940
4.	Financial assets available for sale	3 557
5.	Intangible fixed assets	734
6.	Tangible fixed assets	3 252
7.	Other assets	1 750
8.	Due to banks	(808 453)
9.	Due to customers	(669 955)
10.	Liabilities due to debt securities issued	(43 557)
11.	Other liabilities	(14 801)
12.	Total net assets	167 169

(*) The PLN/UAH rate of 0.5574 per table no. 170/A/NBP/2007 from 3 September 2007 of National Bank of Poland.

(in PLN thousand)

3. Group structure

The Group consists of Bank Pekao S.A. and the following subordinated entities:

Name of company	Location	Core activity	% of Shareholder's share capital/ voting power 31.12.2008	31.12.2007
Entities fully consolidated				
UniCredit Bank Ltd.	Luck, Ukraine	Banking	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Financial	100.00	100.00
Pekao Leasing Sp. z o.o.	Warsaw	Leasing	100.00	100.00
Pekao Faktoring Sp. z o.o.	Lublin	Financial	100.00	100.00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Financial	65.00	65.00
Pekao Telecentrum Sp. z o.o. (before: Drukbank Sp. z o.o.)	Warsaw	Not operating	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Financial services	100.00	100.00
Pekao Bank Hipoteczny S.A. (before: BPH Bank Hipoteczny S.A.) (*)	Warsaw	Banking	100.00	100.00
Pekao Leasing Holding S.A. (before: BPH PBK Leasing S.A.)	Warsaw	Leasing	80.10	80.10
Final Holding Sp. z o. o.	Warsaw	Holding management	100.00	100.00
Finanse plc (*)	London	Financial brokerage	100.00	100.00
Indirect subsidiary - subsidiary of UniCredit Bank Ltd				
BDK Consulting Sp. z o.o.	Luck, Ukraine	Consulting, hotel and transport services	99.99	99.99
Indirect subsidiaries - subsidiaries of Pekao Leasing Holding S.A. (before BPH PBK Leasing S.A.)				
Pekao Leasing i Finanse S.A. (before: BPH Leasing S.A.)	Warsaw	Leasing	80.10	80.10
Pekao Auto Finanse S.A. (before: BPH Auto Finanse S.A.)	Warsaw	Car lease and fleet management	80.10	80.10
Indirect subsidiaries - subsidiaries of Final Holding Sp. z o. o.				
PKBL S.A. (In liquidation)	n.a.	Not operating	84.51/84.79	84.51/84.79
Final S.A.	Dąbrowa Górnicza	Metal industry	-	99.82/99.84
Subsidiary entities not consolidated full method				
Indirect subsidiaries - subsidiaries of Bank Pekao S.A.				
Pekao Property S.A. (before BPH Real Estate S. A.	Warsaw	Real estate	100.00	100.00
Centrum Usług Księgowych Sp. z o. o.	Cracow	Accountant services	-	100.00
Property Sp. z o. o. (in liquidation) (ex. PBK Property Sp. Z o.o. (in liquidation))	Warsaw	Real estate	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call centre	100.00	98.00

(in PLN thousand)

Name of company	Location	Core activity	% of Shareholder's share capital/ voting power 31.12.2008	31.12.2007
Indirect subsidiary - subsidiary of Property Sp. z o.o.				
FPB Media Sp. z o. o.	Warsaw	Real estate	100.00	100.00
Indirect subsidiaries - subsidiaries of Pekao Property S.A. (before BPH Real Estate S.A.				
Metropolis Sp. z o. o.	Warsaw	Real estate - venture capita	100.00	100.00
Jana Kazimierza Development Sp. z o. o.	Warsaw	Real estate - venture capita	100.00	100.00

The Group of the Bank Pekao S.A. owns the following associated entities:

Name of company	Location	Core activity	% of Shareholder's share capital/ voting power 31.12.2008	31.12.2007
Central Poland Fund LLC	Wilmington. Delaware, USA	Financial brokerage	53.19	53.19
Xelion. Doradcy Finansowi Sp. z o.o.	Warsaw	Supporting, financial and insurance	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Financial brokerage	49.00	49.00
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate management	25.00	25.00
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	34.44	34.44
Biuro Informacji Kredytowej S.A.	Warsaw	Credit information services	-	30.70
CPF Management	Tortola, British Virgin Islands	Financial brokerage	40.00	40.00
Bankowe Doradztwo Podatkowe Sp. z o. o.	Cracow	Tax advisory	-	74.00/48.68
Polish Banking System S.A.	b.d.	In liquidation	48.90	48.90
PPP Budpress Sp. z o. o.	b.d.	In liquidation	36.20	36.20

(*) Percentage shares in entities which make up the Pekao S.A. Capital Group at the General Shareholder Meeting/General Partner Meeting are the following:

- Final Holding Sp. z o. o. – a subsidiary of Bank Pekao S.A. - holds 0.04 % share in Pekao Bank Hipoteczny S.A. Total share of the Group in Pekao Bank Hipoteczny S.A. (before: BPH Bank Hipoteczny S.A). equity is 100%.
- Final Holding Sp. z o. o. – a subsidiary of Bank Pekao S.A. - holds 0.02 % share in equity of Finanse plc. Total share of the Group in Finanse plc equity is 100%.

As at 31 December 2008:

The Group has over 50% of votes/potential voting rights in the Central Poland Fund LLC. Group does not control the entity due to the provisions in this company's articles of association.

The Group has 50% of votes in Xelion. Doradcy Finansowi Sp. z o.o. entity. Due to the provisions in this company's articles of association this entity is classified by the Group as an associated entity.

As at 31 December 2008 the composition of the Capital Group was changed as compared to December 31, 2008 which was due to the divestment of two subsidiaries: Final S.A. and Centrum Uslug Ksiegowych Sp. z o. o. Moreover the Bank sold all the shares of its associated entity Doradztwo Podatkowe Sp. z o.o.

As at 31 December 2008, the Group did not held any shares in joint-ventures entities.

4. Information about the members of the Management Board and the Supervisory Board

Members of the Management Board of Bank Pekao S.A.

	31.12.2008		31.12.2007
1.	Jan Krzysztof Bielecki President of the Management Board, CEO	1.	Jan Krzysztof Bielecki President of the Management Board, CEO
2.	Luigi Lovaglio First Vice President of the Management Board, GM	2.	Luigi Lovaglio First Vice President of the Management Board, GM
3.	Diego Biondo Vice President of the Management Board	3.	Przemysław Gdanski Vice President of the Management Board
4.	Paolo Iannone Vice President of the Management Board	4.	Paolo Iannone Vice President of the Management Board
5.	Marco Iannaccone Vice President of the Management Board	5.	Christopher Kosmider Vice President of the Management Board
6.	Andrzej Kopyrski Vice President of the Management Board	6.	Katarzyna Niezgoda Vice President of the Management Board
7.	Katarzyna Niezgoda Vice President of the Management Board	7.	Grzegorz Piwowar Vice President of the Management Board
8.	Grzegorz Piwowar Vice President of the Management Board	8.	Marian Wazynski Vice President of the Management Board
9.	Marian Wazynski Vice President of the Management Board		

During the period covered by the financial statements to the date of publication of these financial statements there were changes in the Management Board of the Bank as follows.

On 9 May 2008, Mr Przemyslaw Gdański, Vice President of the Bank resigned from his position.

On 4 June 2008 the Supervisory Board appointed Mr. Andrzej Kopyrski to the position of Vice President of the Management Board for the current term of office of the Management Board

On 4 June 2008 Mr. Christopher Kosmider resigned from the position of Vice President and Member of the Management Board of Bank Pekao S.A.

On 11 December 2008 the Supervisory Board appointed Mr. Diego Biondo and Mr. Marco Iannaccone to the position of Vice President of the Management Board for the current common term of office of the Management Board.

Mr. Paolo Iannone resigned from the position of Vice President and Member of the Management Board of the Bank effective 1 January 2009.

The members of the Management Board shall be appointed for the common term, which shall last three years.

Members of the Supervisory Board of Bank Pekao S.A.

	31.12.2008		31.12.2007
1.	Jerzy Woznicki Chairman	1.	Jerzy Woznicki Chairman
2.	Paolo Fiorentino Deputy Chairman, Secretary	2.	Paolo Fiorentino Deputy Chairman, Secretary
3.	Federico Ghizzoni Deputy Chairman	3.	Federico Ghizzoni Deputy Chairman
4.	Pawel Dangel	4.	Pawel Dangel
5.	Fausto Galmarini	5.	Fausto Galmarini
6.	Oliver Greene	6.	Oliver Greene
7.	Enrico Pavoni	7.	Enrico Pavoni
8.	Leszek Pawlowicz	8.	Leszek Pawlowicz
9.	Krzysztof Pawlowski	9.	Krzysztof Pawlowski

During 2008 to the date of publication these financial statements there were no changes in the composition of the Supervisory Board of the Bank.

5. Going concern

The financial statements have been prepared on a going concern basis on the assumption that the Group will continue its business operations substantially unchanged in scope during a period not shorter than one year from the balance sheet date. As at the date of signing the financial statements the Management Board of the Bank is not aware of any facts or circumstances that would indicate this basis of preparation to be inappropriate.

6. Approval of the financial report

These consolidated financial statements were approved by the Supervisory Board of the Bank for issue on 12 March 2009.

7. Accounting Policies

7.1. Statement of Compliance

Consolidated financial statements of the Group have been prepared and present fairly in all material respects the financial position of the Group as at 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

7.2. Basis of preparation of consolidated financial statements

The consolidated financial statements include the requirements of all the International Accounting Standards, International Financial Reporting Standards and related Interpretations, except for the Standards and Interpretations mentioned below, which are subject to the approval of the European Union, or have been approved by the European Union but have been or will become effective subsequent to the balance sheet date.

The Group has not elected to early adopt any new Standards and Interpretations that have been approved by the European Union and which will become effective after the balance sheet date. Moreover, as of the balance sheet date the Group has not completed the assessment of the possible impact of the Standards and Interpretations that will become effective after the balance sheet date, on the Group consolidated financial statements for the period of initial application.

(in PLN thousand)

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
Amendment to IFRS 2 *Share-based Payment*	The amendments to the Standard clarify the definition of *vesting* conditions and introduce the concept of *non-vesting* conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation.	The Group has not yet completed its analysis of the impact of the improved Standard	1 January 2009
IFRS 8 *Operating Segments*	The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance.	Currently the Group presents segment information in respect of its business and geographic segments (see note 10) as it is under the management approach. The Standard will have no significant effect on the profit or loss or equity.	1 January 2009
Revised IAS 1 *Presentation of Financial Statements*	The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income).	The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.	1 January 2009
Revised IAS 23 *Borrowing Costs*	The revised Standard removes the option to expense borrowing costs and requires the capitalization of borrowing costs that relate to qualifying assets (those that take a substantial period of time to get ready for use or sale).	Revised IAS 23 is not relevant to the Group's financial statements as the Group does not have any qualifying assets for which borrowing costs would be capitalised. .	1 January 2009
Amendments to IAS 27, *Consolidated and Separate Financial Statements*	The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established. In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment.	The amendments to IAS 27 are not expected to have any impact on these separate financial statements.	1 January 2009

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements*	The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions.	The amendments are not relevant to the Group's financial statements as none of the Group entities have in the past issued puttable instruments that would be affected by the amendments.	1 January 2009
IFRIC 13 *Customer Loyalty Programmes*	The Interpretation explains how entities that grant loyalty award credits to customers who buy goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations.	The Group does not expect the Interpretation to have any impact on the consolidated financial statements. .	1 July 2008

Standards and interpretations not yet endorsed by the EU (*)

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Revised IFRS 1 *First Time Adoption of IFRS*	The revised version restructures the format of the IFRS without changing the standard's technical content. The revised version moves the exemptions and exceptions contained in the main body of the standard to different appendices.	The Group has not yet completed its analysis of the impact of the revised standard.	1 January 2009

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
Revised IFRS 3 *Business Combinations*	The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including: • All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration. • Subsequent change in contingent consideration will be recognized in profit or loss. • Transaction costs, other than share and debt issuance costs, will be expensed as incurred. • The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.	As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard. .	1 July 2009
Revised IAS 27 *Consolidated and Separate Financial Statements*	In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.	The Group has not yet completed its analysis of the impact of the revised Standard.	1 July 2009

(in PLN thousand)

Standard/Interpretation	Nature of impending change in accounting policy	Possible impact on financial statements	Effective date for periods beginning as the date or after that date
Amendment to IAS 39 *Reclassification of Financial Assets: Effective Date and Transition*	The amendment clarifies the effective date when reclassification of non-derivative financial assets out of the fair value through profit and loss or out of available-for-sale categories is permitted (applies to reclassifications in circumstances allowed by amendments to IAS 39 issued on 27 November 2008). The amendments described above are applicable on or after 1 July 2008 and no reclassification shall be applied retrospectively. Any reclassification made on or after 1 November 2008 shall take effect only from the date when the reclassification is made and hence may not be applied retrospectively.	The Group reclassified financial instruments from October 1, 2008 (see Note 33).	1 July 2008
IFRIC 12 *Service Concession Arrangements*	The Interpretation provides guidance to private sector entities on certain recognition and measurement with respect to accounting for public-to-private service concession arrangements.	IFRIC 12 is not relevant to the Group's operations as none of the Group's entity has concluded a concession arrangement.	1 January 2008
IFRIC 15 *Agreements for the Construction of Real Estate*	IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases: 1. the agreement meets the definition of a construction contract in accordance with IAS 11.3; 2. the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and 3. the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses. In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery).	The Group has not yet completed its analysis of the impact of the new Interpretation as this must be assessed on a contract by contract basis. .	1 January 2009

Standard/Interpretation	**Nature of impending change in accounting policy**	**Possible impact on financial statements**	**Effective date for periods beginning as the date or after that date**
IFRIC 17 *Distributions of Non-cash Assets to Owners*	The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss.	As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders it is not possible to determine the effects of application in advance.	1 July 2009
IFRIC 18 *Transfers of Assets from Customers*	The Interpretation applies to agreements in which an entity receives an item of property, plant and equipment from a customer that the entity must use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both. This Interpretation also applies to agreements in which the entity receives cash from customer when that amount of cash must be used only to construct or acquire an item of property. The entity that received a contribution within the scope of the interpretation recognises this item as an asset if it determines that the transferred item meets the definition of an asset. The corresponding amount will be recognised as revenue. The exact timing of the revenue recognition will depend on the facts and circumstances of each particular arrangement.	The Group has not yet completed its analysis of the impact of the new Interpretation.	1 July 2009

(*) These interpretations will be in force after UE's approval.

The consolidated financial statements are prepared based on the principle of historical cost with the exception of derivative financial instruments, financial assets available for sale and financial assets at fair value through profit or loss which have been recognized at fair value.

During the reporting period the Group did not change significantly the accounting principles in the scope of assets and liabilities valuation and income measurement, as compared to the accounting principles adopted in prior period. In the fourth quarter of 2008 the Bank made use of the amendments introduced in the IAS 39 „Financial Instruments: Recognition and Measurement" and in the IFRS 7 "Financial Instruments: Disclosures", which under certain conditions allow for reclassification of financial instruments into other categories.

In relation to this and in line with the policy adopted by the UniCredit Group, the Bank has reclassified a part of its securities portfolio.

The reclassification, effective of 1 October 2008 considered a part of the debt securities portfolio:

- a part of corporate commercial papers were transferred from the available for sale category to the loans and receivables category,
- a part of the sovereign debt portfolio was transferred from the trading category into the held to maturity category.

The reclassification from the financial assets available for sale category to the loans and receivables category concerned the financial assets, which at the moment of reclassification met the definition of loans and receivables according to IAS 39. The reclassification was done due to a change of the Bank's intentions.

The reclassification of financial assets from the held for trading category to the financial assets held to maturity category was done due to the current financial crisis, which was considered to represent a rare circumstance, substantiating the possibility of the reclassification. The Bank has the intention and ability to hold those assets until maturity.

The change of accounting principles relating to the reclassification of the financial assets did not require the restatement of the comparative period.

The amount of financial assets reclassified based on the IAS 39 is presented (See Note 33).

The accounting principles as described below have been consistently applied for all the historical periods presented apart from data relating to the integration with BPH and to the change of the IAS 39 described below.

The principles have been applied consistently by all the Group entities.

The consolidated financial statements have been prepared in Polish Zloty, and all amounts unless indicated otherwise are stated in PLN thousand.

7.3. Consolidation policies

The consolidated financial statements include the financial statements of the Bank and the financial statements of its subsidiaries, prepared as at 31 December 2008. Financial statements of subsidiaries are prepared for the same reporting date as the statements of the parent company.

All balances and transactions between entities in the Group, including unrealized profits resulting from transactions within the Group, have been fully eliminated. Unrealized losses are also eliminated, unless there is permanent impairment, which is adjusted in the consolidated financial statements.

Subsidiaries in liquidation and subsidiaries immaterial to the financial and economic presentation of the Group results have been excluded from the consolidation.

Subsidiaries

Subsidiaries are entities controlled - directly and indirectly by the Bank. Control is the ability to manage financial and operating policies in order to gain economic profits. Control is usually connected with the possession of a majority of votes in the governing bodies. The subsidiaries are consolidated in the period from the date of the Group's taking control until the date that control ceases.

On the date of taking control the subsidiaries assets and liabilities are measured in fair value. Any surplus over the cost is recognized as goodwill. If the cost is lower than the fair value of net assets of subsidiaries the difference is recognized in the profit and loss account.

These principles do not apply to business combinations of entities under the common control. In these cases assets and liabilities are disclosed at their book value.

Recognizing business combinations of entities under common control using book values

The accounting for business combinations among entities under common control is excluded specifically from the scope of IFRS. As such, following the applicable guidance in IAS 8 “Accounting Policies”. Changes in Accounting Estimates and Errors”, in the absence of any specific guidance within IFRS the Bank made an accounting policy election to be applied consistently to all business combinations of entities under common control, to recognize such transactions using the book values to account for transfers of businesses occurring between entities within the UCI group, of which the Bank is a member. The elected accounting policy of the Bank is as follows:

The combined entity recognizes the assets, liabilities and equity of the combining enterprises at their existing carrying value adjusted only as a result of aligning the combining enterprises’ accounting policies. There is no recognition of any new goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost.

The difference between the book value amount of the net assets received and the consideration paid if any are recognized in the Bank’s equity.

In applying the book value method of accounting comparative periods are not restated.
If the transaction results in the acquisition of minority interests, the acquisition of any minority interest is accounted for separately.
There is no guidance in IFRS as to how to determine the percentage of minority interests acquired from the perspective of a subsidiary. As such the Bank uses the same basis as the ultimate parent for determining the minority interests acquired.

Associated entities

Associated entities are entities in which the Group has significant influence but are not subsidiaries or joint venture entities. The Group usually determines significant influence by possession of 20% to 50 % of the total number of the voting rights in governing bodies. The financial statements of an associated entity are the basis for the valuation of shares held by the group using the equity method. Balance sheet dates of the associates and of the Group are the same and both entities apply consistent accounting policies.

An investment in an associate entity is presented in the balance sheet at cost plus subsequent changes in the Group’s share in the net assets of the entity minus any impairment write-offs. The profit and loss account reflects the share in the results of activities of the associate entity. In case of a change recognized directly in the equity of the associate entity the Group recognizes its share in each change and discloses it (if appropriate) in the statement of changes in equity. Any distributions by an associate are deducted from the carrying value of the investment in associate.

When the share of the Group in the losses of the associate becomes equal to or larger than the share of the Group in such associate entity the Group discontinues recognition of further losses unless it incurred an obligation or made a payment on behalf of the associate.

Unrealized profits and losses on transactions between the Group and its associate entities are eliminated in proportion with the Group’s shares in associates.

Participation in joint ventures

The Group’s participation in joint ventures is recognized using the equity method in accordance with the principles described for investments in associated entities.

7.4. Accounting estimates and judgments applying accounting polices

Preparing financial statements in accordance with IFRS requires the Management Board of the Bank to make certain estimates and to adopt certain assumptions which affect the amounts presented in the financial statements and in explanatory notes.

The estimates which were made as for each balance sheet date reflect the conditions which existed at those dates (e.g. market prices interest rates foreign exchange rates). While the estimates are based on the best knowledge regarding current conditions and activities which the Group will undertake the actual results may differ from such estimates.

Principal assumptions/subjective judgments adopted in making estimates by the Group pertain primarily to:

Impairment of financial assets

The assumptions presented herein regarding measurement of impairment of credit and loans are described in this note 7.7. in the part titled “Impairment of financial assets”.

Impairment of other non-current assets

At each balance sheet date the Group reviews its assets for indications of impairment. Where such indications exist the Group makes a formal estimation of the recoverable value. In the event of the carrying value of a given asset being in excess of its recoverable value, its impairment is stated and a write-off is made to adjust its value to the level of recoverable value. Recoverable value is the lower of the following two values: fair value of the given asset or cash generating unit less costs of disposal or the value in use determined for each asset separately.

If there are indications of impairment of common property i.e. assets which do not generate cash independently from other assets or groups of assets and the recoverable value of the individual asset included among common property cannot be determined the Group determines the recoverable value at the level of the cash generating unit to which the given asset belongs.

Estimation of value-in-use of a non-current asset (or cash generating unit) requires assumptions to be adopted regarding among others future cash flows which the Group may obtain from the given non-current asset (or cash generating unit) any changes of amounts or times of occurrence of these cash flows and other factors such as lack of liquidity. Adoption of a different measurement assumption could affect the carrying value of some of the investments.

Measurement of derivatives and debentures available for sale that do not have a quoted market price

The fair value of non-optional derivatives and debentures available for sale that do not have a quoted market price on an active market are measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for the valuation include where possible data from observable markets. The Group also adopts assumptions regarding the contracting party credit risk if they affect the valuation of instruments. Adoption of a different measurement assumption could affect the carrying value of financial instruments.

Measurement of management options

The assumptions adopted regarding measurement of management options are described in the section entitled “Employees benefits” in the Note 48.

Calculation of retirement and sickness pension severance payments provision

The severance payments provision is determined on an individual basis separately for each employee in accordance with the projected unit credit method.

The basis for the calculation of a provision for an employee is the expected amount of retirement or pension severance pay - dependent on:

- the basis of the amount of retirement or pension severance pay and the percentage factor depending on the amount of years of employment in accordance with the GBA,
- the expected increase in the calculation basis until the retirement age.

The amount calculated as above is discounted using an actuarial technique taking into account the probability of the given person's reaching retirement age as an employee of the Group and the financial discount.

The probability of the given person's reaching retirement age includes: possibility of dismissal from work, the risk of complete incapacitation for work and the risk of death.

(in PLN thousand)

The financial discount is based on the rate of profitability of securities free from risk(bonds) and denominated in the currency with which employee benefits are paid out.

Goodwill

On the yearly basis, following the impairment triggers analysis, the Bank performs impairment tests relating to the goodwill, which was taken over together with the merged part of Bank BPH S.A.

7.5. Valuation of foreign currency

Functional and presentation currency

The financial statements of individual Group entities including the Bank's Branch in Paris are presented in their functional currency i.e. in the currency of the primary economic environment in which a given entity operates.

The consolidated financial report is presented in Polish Zloty. The Zloty is the functional currency and the presentation currency of the parent business entity.

The average NBP exchange rate is applied as at the balance sheet date.

Transactions and balances

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of monetary assets and liabilities expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences due to non-monetary items such as equity instruments classified to financial assets designated for fair value valuation through the profit and loss account are accounted for together with changes in the fair value of the profit and loss account.

Exchange rate differences due to non-monetary items such as equity instruments classified to financial assets available for sale are included in the revaluation reserve.

Companies of the Group

On consolidation assets and liabilities of foreign business entities are translated into the Polish currency i.e. to the presentational currency as per the closing exchange rate for the balance sheet date. Revenues and expenses in the profit and loss account are recalculated as per average exchange rates calculated on the basis of the exchange rates of the reporting period except for situations where exchange rates fluctuate significantly such that the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such situations revenue and expenses are translated on the basis of the exchange rate from the date of transaction.

Financial statements of the Bank's Paris Branch and the Group foreign subsidiaries have been converted from the functional currencies of these entities into PLN using the following exchange rates:

for conversion of the balance sheet items as at 31 December 2008 and 31 December 2007 the following exchange rates published by the National Bank of Poland respectively 31 December 2008 and 31 December 2007 have been applied:

	31.12.2008	31.12.2007
PLN for 1 UAH	0.3730	0.4814
PLN for 1 EUR	4.1724	3.5820

for conversion of profit and loss account items for the period from 1 January 2008 to 31 December 2008 and the period from 1 January 2007 to 31 December 2007 the following arithmetic means of exchange rates published by the National Bank of Poland as at the end of each month of respectively the period from 1 January 2008 to 31 December 2008 and the period from 1 January 2007 to 31 December 2007 have been applied:

	2008	2007
PLN for 1 UAH	0.4525	0.5456
PLN for 1 EUR	3.5321	3.7768

The foreign exchange differences from the valuation of foreign entities are accounted for as a separate component of equity.

Goodwill arising on acquisition of the entity operating abroad as well as any adjustments of the balance sheet value of assets and liabilities to fair value arising on acquisition of the entity operating abroad are treated as assets and liabilities of an overseas entity i.e. they are expressed in the functional currency of the overseas entity and translated at the closing exchange rate as described above.

7.6. Profit and loss account

Interest income and expense

The Group recognizes interest income and expense related to financial instruments measured at amortized cost using the effective interest rate method. Also interest income on financial assets available for sale is recognized using the effective interest method.

The effective interest rate is the rate which exactly discounts the estimated future cash inflows and payments made in the expected period until expiry of the financial instrument and in a shorter period where justified to the net carrying value of the financial asset or liability. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement points which are an integral part of the effective interest rate transaction costs and all other premiums and discounts.

Interest income contains interest as well as commissions received or receivables in respect of loans inter-bank deposits and securities held-to-maturity and available for sale taken up in the calculation of the effective interest rate.

On discovery of an impaired financial asset measured at amortized cost and financial assets available for sale interest income continues to be recognized in the profit and loss account but is calculated on the basis of a revised value net of any provision for impairment. For the calculation of interest income on the newly determined fair value that interest rate is used according to which future cash flows were discounted for the purpose of impairment measurement.

Costs of the reporting period applicable to payables due to interest on customer accounts and to commitments for issuing the Group’s securities are accounted for in the profit and loss account using the effective interest rate.

Fee and commissions income and expense

Commissions received or paid in relation to banking operations carried out on customer accounts operations on payment cards as well as brokerage factoring and selling activities are recognized in the profit and loss account at the time the service is rendered while other fees and commissions are recognized on an accrual basis.

The Group distinguishes between two basic types of fees and commissions related to credit operations:

- origination fees and commissions;
- commitment fees and commissions.

Origination fees and commissions are included in the effective interest rate calculation and constitute interest income.

Commitment fees and commissions are recognized on a straight line basis throughout the life of the facility they relate to and constitute fee and commission income.

In case of loans and advances without a defined repayment schedule and without a defined interest rate schedule (e.g. overdraft facilities and credit cards) fees and commissions are recognized on an accrual basis throughout the life of the facility using the straight line method and constitute fee and commission income.

Foreign exchange gains(losses)

The foreign exchange gains(losses) is calculated taking into account foreign exchange gains and losses both realized and unrealized arising from the daily valuation of assets and liabilities denominated in foreign currencies and recorded under foreign exchange income and cost. The exchange rate used for valuation of a given foreign currency used for valuation is the average exchange rate set by the President of the National Bank of Poland on the balance sheet date. Moreover the trade margins realized on foreign exchange transactions with the Group's clients are reported under foreign exchange gains (losses).

Foreign exchange gains (losses) also includes exchange differences resulting from the valuation of net investments in foreign entities on the date of sale of the given investment. Until the date of sale foreign exchange differences arising from valuation of net assets in a foreign entity are recognized under other equity.

Other operating income and expenses

Other operating income include mainly gains realized on sale/liquidation of items of fixed assets and assets repossessed for debt amounts of uncollectible debts recovered amounts of received damages, penalties and fines, income on rental of real estate write backs of provisions for court litigations and repossessed assets. Other operating costs comprise primarily the costs of sold or liquidated property, plant and equipment and assets seized for debts; debt collection costs; provisions for receivables under dispute and assets seized for debts and donations.

7.7. Valuation of the assets and liabilities, derivatives financial instruments

Financial assets

Financial assets are classified under the following categories:

- *financial assets valued at fair value through the profit and loss*

This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition for fair value valuation through the profit and loss.

Financial assets held for trading include in particular: debt and equity securities loans and receivables purchased or classified here with the aim of selling in the short term. The classification also includes derivative instruments that are not hedged instruments.

To the financial assets at the moment of initial disclosure as financial assets at fair value through profit or loss the debt securities are classified which were appointed by the Group in the aim of elimination or significant decrease of incoherent valuation and the disclosure between the securities and derivatives economically secured against the interest rate risk of these securities. Otherwise these securities would be classified to the "held for sale" portfolio the valuation effect disclosed in the equity and the derivatives valuation economically secured these securities would be disclosed at profit and loss account. These inconsistency of the general ledger elimination is caused by the disclosure of the debt securities at the financial assets portfolio held for valuation of fair value through profit and loss account.

- *held-to-maturity.*

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than those that:

a) the entity designates as at fair value through profit or loss upon initial recognition;

b) the entity designates as available for sale; and

c) meet the definition of loans and receivables.

The financial assets of that category are valued at amortized cost using the effective interest rate. Recognition of amortized cost taking into account the effective interest rate is recorded in interest income.

- *loans and receivables*

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

a) those that the entity intends to sell immediately or in the near term which shall be classified as held for trading and those that the entity upon initial recognition designates as at fair value through profit or loss;
b) those that the entity upon initial recognition designates as available for sale; or
c) those for which the holder may not recover substantially all of its initial investment other than because of credit deterioration which shall be classified as available for sale.

This category contains debt securities bought from the issuer for which there is no active market credits, loans receivables, resulting from reverse repo transactions and other receivables received and granted. Loans and receivables are measured at amortized cost using the effective interest rate and taking into account any impairment.

- *available for sale*

These are financial assets with a non-defined holding period. The portfolio is composed of debt and equity securities as well as loans and receivables not accounted for in other categories. Interest on assets available for sale is calculated using the effective interest rate method and accounted for in the profit and loss account.

Financial assets available for sale are measured at fair value and profits and losses resulting from a change of fair value in relation to amortized cost are charged to the revaluation reserve. The revaluation reserve item is carried to the profit and loss account upon sale of an asset or its impairment. In the event of impairment of the asset previously recognized surpluses from fair value measurement decrease the "Revaluation reserve". If the amount of previously recognized increases is insufficient to cover permanent impairment the difference is charged to the profit and loss account under the heading “Provision write-off’s and revaluation”.

Dividends due from equity instruments are accounted for in the profit and loss account at the moment of establishing the entity’s right to receive payments.

Standardized purchase and sale transactions of financial assets valued at fair value through the profit and loss statement held for trading (with the exclusion of derivative instruments) held to maturity and available for sale are recognized and excluded from the books by the Group on the day of the transaction settlement i.e. the day of the receipt or delivery of the asset.

Changes in the fair value of the asset to be received between the date of the transaction and the date of the settlement are recognized in the same way as assets available for sale.

Loans are recognized at the time of disbursement to the debtor.

Derivative instruments are recognized or excluded from the books on the date of the transaction.

Impairment of financial assets

For each balance sheet date the Group assesses whether there is objective evidence of impairment of a given financial asset or of a group of such assets. Impairment of a financial asset or of a group of financial assets was incurred only if there is objective evidence for the impairment due to events that followed the initial recording of the specific asset (“the loss event”) and when the events affect the expected cash flows regarding these assets and the flows may be estimated in a reliable way.

Objective evidence for impairment of financial assets includes – as per the Group’s principles – information on the following loss events:

- substantial financial problems of the issuer or debtor;
- failure to keep to the contract terms e.g. failing to repay or delay in repayment interest or part of capital;
- the Group’s granting concessions or privileges to the debtor for economic and legal reasons following financial problems of the debtor which in other circumstances would not be taken into account;
- high probability of bankruptcy or of another financial reorganization of the debtor;
- disappearance of the active market for the particular financial assets due to financial difficulties,
- observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group including:
  – adverse changes in the payment status of borrowers in the group or
  – national or local economic conditions that correlate with defaults on the assets in the group.

The Group classifies credit receivables by size into the individual and group portfolios.

In the individual portfolio each credit exposure is subjected to an impairment test. If there is objective evidence of impairment the carrying amount of the receivable is reduced. If for a given exposure no objective evidence of impairment exists the exposure is included in the credit portfolio subject to group assessment.

In a group portfolio groups of similar credit risk characteristics are identified which are then assessed collectively for impairment.

If there is any objective evidence of impairment of financial assets classified as loans and receivables or as investments held-to-maturity then the amount of the impairment is the difference between the carrying amount of an asset and the current value of estimated future cash flows (excluding future credit losses that were not incurred) discounted using an original effective interest rate established with the initial recognition of a given financial asset. The carrying amount of the asset is then reduced through use of the allowance account and the amount of loss is recognized in the profit and loss account.

Calculation of the present value of estimated cash flows related to the impaired collateralized financial asset also takes into consideration the cash flows resulting from the liquidation of the collateral reduced by the costs of repossession and disposal.

Expected future cash flows related to the group of financial assets for impairment on a group basis are estimated on the basis of the historical cash recoveries recorded for assets of similar risk characteristics.

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations so as to take into consideration the influence of current conditions and to exclude factors in the historical period that are not presently valid.

If in the next period the amount of impairment is lower due to an event taking place after the impairment (e.g. an improvement in the debtor’s credit rating) then the reduction of impairment is reversed through an appropriate adjustment of an amount on the allowance account. The amount of the reversal is recognized in the profit and loss account.

Sale and re-purchase agreements

Repo and reverse-repo transactions as well as sell-buy back and buy-sell back transactions are security sale or purchase operations with promise of repurchase or resale at an agreed date and price.

Sales transactions with the repurchase promise granted (repo and sell-buy back) are recorded at the transaction date in payables to other banks or in payables to customers due to deposits. The purchased securities with the resale promise granted (reverse-repo and buy-sell back) are recorded as receivables from banks or as credits and loans granted to customers.

The difference between the selling and buying price is treated as interest expense/income respectively and accounted for over the duration of the contract using the effective interest rate.

Derivative financial instruments and hedge accounting

The Group conducts operations in derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS) exchange rate transactions (FRA, IRS, CAP) derivative transactions based on securities prices exchange rates and stocks indices. Companies of the Group do not apply hedge accounting therefore all the above mentioned instruments are classified to the trading portfolio. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently valued to fair value. The fair value is established on the basis of quotations of the instruments in active markets as well as on the basis of valuation techniques including the models based on discounted cash flows and options valuation models depending on which of the valuation models is appropriate. Positive valuation of derivative financial instruments is presented in the balance sheet in the item of “Derivative financial instruments” on assets side and on the liabilities side if the fair value is negative. Changes in the financial instruments valuation to fair value are reflected in the profit and loss account.

In case of purchasing a financial instrument which has an embedded derivative component the whole or part of cash flows related to such a financial instrument changes in the way similar to that where the embedded derivative instrument was separately on its own. The embedded derivative instrument is reported separately from the basic contract. This occurs under the following conditions:

- the financial instrument is not included in assets for trading or in assets designated for fair value valuation through the profit and loss account whose revaluation results are reflected in financial income or cost of the reporting period,
- the nature of the embedded instrument and the related risks are not closely tied to the nature of the basic contract and to the risks resulting from it,
- a separate instrument. whose characteristics correspond to the features of the embedded derivative instrument would meet the definition of the derivative instrument,
- it is possible to reliably establish the fair value of the embedded derivative instrument.

In case of contracts that are not financial instruments with a component of an instrument meeting the above conditions the built-in derivative instrument is classified in accordance with assets or liabilities of derivatives financial instruments with respect to profit and loss account in harmony of derivative financial instruments valuation.

The method of recognition of the changes in the fair value of an instrument depends on whether a derivative instrument is classified as held for trading or is designated as a hedging item under hedge accounting.

The changes of fair value of the derivative financial instruments held for trading are recognized directly in the profit and loss statement.

The Group designates under the condition of meeting the IAS 39 criteria some of the derivative instruments as hedging items for the future highly probable cash flows concerning the hedged item.

At the moment the hedge relationship is established the Group formally designates and documents the hedge relationship as well as the objective of the risk management and strategy of the established hedge relationship. The documentation contains the identification of the hedging instrument the hedged item the character of the risk being hedged and the way of measurement of the hedge effectiveness.

The changes in the fair value of the derivative financial instruments classified as cash flow hedging instruments are recognized:

- directly in the item „revaluation reserve" in the part constituting the effective hedge relationship, \
- in the profit and loss account in the part representing in-effective hedge relationship.

The amounts cumulated in the revaluation reserve are transferred to the profit and loss account in the period in which the hedged item is reflected in the profit and loss.

The Group ceases to apply hedge accounting when the hedging instrument matures or is disposed of. In such cases the accumulated profits or losses related to that hedging item are transferred from the revaluation reserve to the profit and loss account, provided the hedge relationship was effective and would remain intact until the forecasted hedged transaction occurred.

If the forecasted hedged transaction is no longer deemed highly probable the cumulative profits or losses relating to changes in valuation of the hedging instruments recognized in the revaluation reserve are transferred to the profit and loss account of the given period.

Financial Liabilities

The Group's financial liabilities are classified to the following categories:

- financial liabilities at fair value through profit and loss carried at fair value,
- financial liabilities not at fair value through profit and loss are carried at amortized cost using the effective interest rate.

Financial liabilities not at fair value through profit and loss consist of amounts due to banks and customers loans from other banks own debts securities issued.

Derecognition of financial instruments

A financial instrument is derecognized when the contractual rights to the cash flows expires or the Group transfers all the risk and rewards of a financial instrument.

Most often the Group derecognizes loans in the event of:

- discontinuation of execution proceedings,
- death of the borrower,
- conclusion of bankruptcy procedures,
- unconditional cancellation of a part of the loan.

7.8. Valuation of other consolidated balance sheet items

Intangible assets

Intangible assets are deemed to include assets which fulfil the following requirements:

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties both separately and together with their accompanying contracts, assets or liabilities, or
- arise from contractual titles or other legal titles irrespective of whether those are transferable or separable from the business entity or other rights and obligations.

Goodwill

Goodwill on acquisition of a business entity is initially recognized at cost which is the surplus of the costs of business combination of business entities over the share of the acquiring entity in the net fair value of identifiable assets, liabilities and contingent liabilities. After the initial recognition goodwill is presented at cost less any accumulated impairment losses.

As at the date of acquisition, the acquired goodwill is allocated to each of the cash generating units which may benefit from the synergies of business combination. Impairment is determined by estimating the recoverable value of the cash generating unit to which the given goodwill pertains. In the event of the recoverable value of the cash generating unit being less than the carrying value an impairment write-off is made. If the goodwill is a part of the cash generating unit and a part of activity of that unit is sold then in measuring the profit or loss on selling such activity goodwill related to the activity sold is included in the carrying value of the sold part of activity. In such circumstances goodwill is measured on the basis of the relative value of the activity sold and the value of the remaining part of the cash generating unit. Impairment test is made once a year. Ascertained impairment during the test is not subjected for the future adjustments. Goodwill on acquisition of subsidiaries is presented among intangible assets and goodwill on acquisition of associates is presented under the heading “Investments in associates”.

Other intangible assets

Intangible assets are assets controlled by the Group which do not have a physical form which are identifiable and represent future economic benefits for the Group directly attributable to such assets.

These are mainly:

- computer software licenses,
- copyrights,
- costs of completed development work.

Intangibles acquired in a separate transaction are recognized at cost. Intangibles acquired in transactions of acquisition of a business entity are recognized at fair value as at the date of acquisition. After initial recognition this category of intangibles is treated using the historic cost model. The useful life of intangible assets is assessed and considered to be limited or indefinite. In the case of amortization being calculated from assets with limited useful life such costs are indicated in the profit and loss account under the heading “General and administrative expenses”. An intangible asset with an indefinite useful life is not be amortized.

With the exception of development costs intangible assets generated by the Group on its own resources are not recognized in assets and outlays incurred for their generation are recognized in the profit and loss account for the year in which they were incurred.

As regards intangible assets with limited useful life the Group makes a judgment as to whether there are indications of their impairment. Where it is found that such indications exist the Group estimates the recoverable value of such intangible assets and impairment is recognized. Useful lives are also subject to review annually and where necessary adjusted starting from the next financial year.

For intangible assets of an indefinite useful life and investments in tangible assets the Group performs a test for impairment on an annual basis irrespective of whether there are indications of impairment.

Research costs are charged to the profit and loss account at the time they are incurred. Outlays for development of a given project are carried forward to the next period where they will generate probable future economic benefits. After the initial recognition of outlays for development work the historic cost model is applied which requires that assets be recognized at cost less accumulated amortization and accumulated impairment write-offs. All outlays carried forward to the next period are amortized throughout the expected period of profits arising from the project.

Costs of development work are reviewed for any impairment on an annual basis – if an asset has not yet been commissioned or more often – when during a reporting period indications of impairment appear indicating that their carrying value may not be recoverable.

Loss or profit due to derecognition of intangible assets are measured as the difference between the net sales income and carrying value of the given asset and are recognized in the profit and loss account upon derecognition of the asset.

Property, plant and equipment

Fixed assets are controlled fixed assets and include outlays to construct assets. Fixed assets include fixed assets with an expected period of use above one year maintained to serve the Group's needs or to be transferred to other entities based on lease contracts or for other administrative purposes.

Fixed assets are recorded at historical cost reduced by depreciation/amortization and impairment write-downs. Historical cost is made up of the purchase price/cost of creation and costs directly related to the purchase of assets.

Each component part of property plant and equipment whose purchase price or generation cost is material in comparison with the purchase price or generation cost of the entire item is depreciated separately. The Group separates the initial value of property plant and equipment into its significant parts.

Costs of modernization of property plant and equipment increase their carrying value or are recognized as a separate item of property plant and equipment only when it is probable that such expenditures will ensue with an inflow of economic benefits to the Group and the cost of such expenses can be reliably measured.

Service and maintenance costs of tangible assets are charged to the profit and loss account in the reporting period in which they are incurred.

The cost of external financing for the purchase or construction of fixed assets is recognized as a cost in the period in which it is incurred.

Depreciation and amortization charge

The depreciation charge for fixed assets and the amortization charge for intangible assets are applied using the straight line method using defined depreciation rates throughout the period of their useful lives Depreciable amount is the cost of an asset or other amount substituted for cost less its residual value Depreciation rates defined for balance sheet purposes are periodically verified with results of verification effective starting from the year following the year of verification.

Balance sheet amortization depreciation and amortization rates applied to the basic groups of fixed tangible assets, investment properties and intangible assets are as follows:

a/ depreciation rates used for fixed assets

Buildings; cooperative ownership right to an apartment cooperative right to non-residential property	1.5% - 10.0%
Technical equipment and machines	4.5% - 30.0%
Means of transport	12.5% - 30.0%

b/ amortization rates for intangible assets

Software licenses, copyrights	10.0% - 50.0%
Costs of completed development works	33.3%
Other intangible assets	33.0%

c/ depreciation rates for investment properties

Buildings	1.5% - 10.0%

Land, fixed assets under construction and intangible assets in progress are not subject to amortization or depreciation.

Amortization and depreciation charges are recognized as Group General and administrative expenses while any impairment write-off's are included in other operating expense.

Investment property

Initially investment property assets are recognized at cost including the transaction costs. After the initial entry investment property assets are measured in accordance with requirements of the purchasing price model.

Investment property assets are derecognized when disposed of or in the case of permanent decommissioning of a property when no further benefits from its sale are expected. Any profits or losses due to derecognition of an investment property are charged to the profit and loss account in the period in which such derecognition occurred.

Non-current assets held for sale

Non-current assets held for sale include assets whose carrying value is to be recovered by way of their resale and not in their continued use. Only those assets are classified as held for sale that are available for immediate sale in their present condition whose sale is highly probable i.e. the decision has been made to fulfill the plan of selling the given asset an active programme has been launched to find a buyer and to complete the selling plan. Also such an asset is offered for sale at a price which is rational in reference to its present fair value and it is expected that the sale will be treated as sale completed within one year from the date of the asset's classification in this category.

Non-current assets held for sale are recognized at the lower of carrying value and fair value less the costs of selling such assets. For assets classified in this category depreciation is not applied.

Leases

The Group is a party to lease contracts on the basis of which it grants non-current assets or intangible assets to third parties in exchange for payment over an agreed period of time.

The Group is also a party to lease contracts under which it takes benefits from a third party's non-current assets or intangible assets in exchange of payment over an agreed period of time.

Operating lease

In the case of lease contracts contracted by the Group as a lessor the subject of the lease is presented in the balance sheet due to the fact that there was no transfer of all the risks and rewards incidents deriving from the ownership on lease.

In the case of lease contracts contracted by the Group as a lessee the subject of the lease is not recognized in the balance sheet.

The whole amount of operating lease payments is recognized as an income or costs in the profit and loss account using the straight-line method throughout the period of the lease.

Financial lease

Group as a lessor

In the case of lease contracts under which there is a transfer of all risks and rewards relating to ownership of assets under a lease the item that is the subject of the lease is not recognized in the balance sheet. A receivable equal to the minimum lease payments is recognized in the balance sheet. Lease payments are allocated between financial income and a reduction in the amount of the balance sheet receivables in order to achieve a fix rate of return on the outstanding balances.

Agreements that do not fulfill the criteria for financial lease agreements are recognized as revenues in the profit and loss account on a straight line basis over the lease period.

Group as a lessee

For lease contracts where essentially all risks and rewards relating to ownership of the lease are transferred the lease is recognized as a fixed asset and a liability is recognized in the amount equal to the present value of minimum lease payments as at the date of commencement of the lease. Lease payments are allocated between the financial costs and a reduction in the balance of the liability in order to attain a fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the profit and loss account.

Assets under finance lease contract are depreciated in the manner defined for the Group’s fixed assets. However if it is uncertain whether the ownership of the subject of the contract has been transferred then fixed assets leased under finance lease contracts are depreciated over the shorter of the expected useful life or the initial period of lease.

Agreements that do not fulfill the criteria for financial lease agreements are recognized as costs in the profit and loss account on a straight line basis over the lease period

Prepayments

Prepayments refer to particular expenditure types that will be recognized in the profit and loss proportionally to time elapsed in the future reporting periods. Prepayments are presented in the balance sheet as “Other assets”.

Provisions

Provisions are established when the Group has an obligation (legal or constructive) resulting from past events and where it is probable that the fulfilment of such obligation will cause a necessity of transfer of assets representing economic benefits and it is possible to reliably estimate the amount of such liability. In the event that the time value of the money-over-time is significant the amount of provisions is established by discounting forecasted future cash flows to the present value using a rate of discount reflecting current market evaluations of money-over-time and any risk related to the given obligation.

Provisions also includes provisions related to actuarial long-term employee benefits. All provisions are charged to the profit and loss account.

Employee benefits provisions

The amount of provision for retirement payment is established on the basis of an actuarial valuation performed by an independent actuary at least every two years.

The provision for restructuring costs is established when general criteria for recognition of provisions are met as well as detailed criteria for the obligation to establish restructuring provisions as per IAS 37.

The amount of employment restructuring provision is established by the Group on the basis of the best available estimates of direct outlays which necessarily result from restructuring and are not connected with the Group’s current activities.

Provisions established are recognized on the liabilities side under the “Provisions” heading and accordingly in the profit and loss account as remuneration costs.

Deferred income and accrued costs

Deferred income and accrued costs refers mainly to commission income settled on a straight line basis and other income charged in advance; that will be recognized in profit and loss in the future periods.

Accrued costs include accrued costs resulting from services provided for the Group by contractors which will be settled in future periods and accrued payroll and employee benefits (including annual and Christmas bonuses, other bonuses and awards and utilized holiday leave).

Deferred income and accrued costs are presented in the balance sheet under “other liabilities”.

Equity of the Capital Group

Equity is comprised of the capital and funds generated by the companies of the Capital Group in accordance with the binding legal regulations i.e. the appropriate laws Articles of Association. Equity also includes retained profit (loss). The items comprising the equity of subordinated entities other than statutory capital are added to the appropriate positions of the parent entity's equity to the extent in which the Parent entity owns the subsidiaries.

The equity of the Capital Group includes only those parts of the subsidiaries' equity which were created after the date of purchase of shares or stocks by the parent entity.

In particular this applies to the change in equity resulting from profit or loss or from revaluation.

a) Statutory capital relates only to the capital of the Bank as the Parent entity and is presented at nominal value specified in the Statute and in the entry in the Enterprises Registry.
b) Reserve capital is created from appropriations of profits and premiums arising on the issue of shares in accordance with the Statutes of the companies. Moreover the change of the value of the minorities shareholding caused by the increase of the share of the parent company in the share capital of the Bank was reflected as an increase of this item according to the accounting principles applied by Unicredit Group;
c) Revaluation reserve includes: the effects of revaluation of financial assets available for sale the effect of the valuation of the cash flow hedging derivatives and the value of deferred tax for items that comprise temporary differences. Revaluation reserve is presented net in the balance sheet.
d) Other reserve capital utilized in accordance with the purposes defined in the Statute is created from appropriations of profits. Moreover the Other reserve capital was reduced by the value of the minority acquisition with the opposite (increase) entry in the Reserve capital;
e) Exchange rate differences include differences arising from recalculation of the result of a foreign branch at the weighted average exchange rate for the balance sheet date in relation to the average NBP exchange rate and from valuation of net assets in foreign entities.
f) Bonds convertible into equity includes the equity fair value of financial instruments issued as part of transactions settled in equity instruments in accordance with IFRS 2.
g) General banking risk provision created in the Bank represents accumulated appropriations of net profit after tax in accordance with the terms of the Banking Law of 29 August 1997.
h) Retained earnings comprises the total retained profits and uncovered losses of the companies consolidated under the full method.
i) Net profit/loss which constitutes profit/loss presented in the profit and loss statement for the relevant . Net profit is after accounting for income tax.

Minority interest

Minority interest equity is the share in the equity of the subsidiary entity consolidated under the full method and belonging to entities other than those comprising the Capital Group.

Share-based payments

The Bank operates employee participation programs under which senior and lower management staff important to realization of the Group's strategy are granted pre-emptive rights to buy shares of the Bank and shares of a dominant entity of UniCredit S. p. A. (see Note 48).

Transactions settled in equity instruments of the Bank Pekao S.A.

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as at the granting date. The fair value is established on the basis of the Black-Scholes model for appraisal of dividend-yielding stock options according to expectations of the Management Board concerning the number of rights to be exercised. The amount of the employee share program is adjusted as at every balance sheet date if expectations of the Management Board change concerning the number of rights to be exercised. No efficiency/results data except those related to the price of shares ("market conditions") are taken into account in the assessment of transactions settled in capital instruments.

The cost of share-based payments is recognized together with the accompanying increase of the value of equity in the period in which effectiveness/performance conditions were fulfilled ending on the date when certain employees acquire full rights to the benefits (“vesting date”). The accumulated cost recognized for transactions settled in equity instruments for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank’s Management Board for that date based on best available estimates of the number of equity instruments – will be eventually vested.

In the event of modifications of conditions for granting remuneration settled in equities as part of fulfilment of the minimum requirement costs are recognized if such conditions have not changed. Also, costs are recognized resulting from each increase in the value of the transaction resulting from modifications measured for the date of change.

In the event a right is cancelled it is treated in such way as if the rights were acquired on the date of cancellation and any unrecognized costs resulting from such rights are immediately recognized. In the case however where the cancelled share right is replaced by a new share right the cancelled right and the new right are treated as if they are a modification of the original right.

The diluting effect of options issued is taken into account when establishing the amount of earnings per share as additional dilution of shares (see Note 22).

Share options and shares of UniCredit S. p. A.

The Pekao Group entities joined the UniCredit-wide long term incentive program. The aim of the program is to offer the selected key employees of the Group the share options and performance shares of UniCredito Italiano S.p.A.

The fair value of the instruments granted to the Pekao Group employees was established following the Group-wide applied Hull and White model.

The expenses related to the services granted by the employees in return for the granted rights are recognized in “Wages and salaries” costs.

In the moment of realization of the instruments the Group will be obliged to pay to UniCredit S.p.A. the amount equal to the initial fair value of those instruments that actually vested.

7.9. Income tax and other taxes

Income tax

For purposes of financial reporting, the provision for deferred income tax is established using the balance-sheet liabilities method in reference to all temporary differences as at the balance sheet date between the taxable amount of assets and liabilities, and their carrying value as presented in the financial statements.

The deferred tax provision is recognized in reference to all positive temporary differences:

- except for situations where the deferred income tax provision arises from depreciation of goodwill or from the initial recognition of an asset or liability in a transaction other than merger of entities, and at the point of the transaction it has no influence on the gross financial result, nor for the taxable income or deductible loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and participation in joint ventures – except for situations where the dates of reversal of temporary differences are subject to control and where it is probable that in the foreseeable future the temporary differences will not be reversed.

The deferred tax asset is recognised on all negative temporary differences and carryforward of unused tax losses and tax credits in an amount that is probable that the taxable income will be available against which above mentioned differences can be utilised:

- except for situations where deferred tax assets concerning negative temporary differences originate from initial recognition of an asset or liability in a transaction other than merger, and at the point the transaction it has no influence on the gross financial result, nor for the taxable income or deductible loss, and

- in the case of negative temporary differences resulting from investments in subsidiaries or associates and participation in joint ventures, the deferred tax asset is recognized in the balance sheet only in such amount, in which it is probable that the above temporary differences will be reversed and taxable income will be available against which the negative temporary differences can be utilized.

The carrying value of a deferred tax asset is verified for each balance sheet date, and is reduced accordingly to the extent that it is no longer probable that the taxable income will be achieved sufficient for partial or full realization of a deferred income tax asset.

Deferred tax assets and deferred tax provisions are measured at tax rates which are predicted to be in force in the period in which an asset is realized or a provision is dissolved, assuming as the basis the tax rates (and tax regulations) which are legally or actually in place as of the balance sheet date.

The income tax regarding items directly recognized in equity is recognized in equity.

The entities composing the Group offset deferred tax assets and deferred tax provisions, where they have legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

Current income tax is assessed at the tax rate in force and is calculated on the basis of the gross profit determined on the basis of relevant accounting regulations, adjusted by non-taxable income and non-deductible expenses.

Other taxes

Income, costs, and assets are recognized and reduced by the amount of VAT, tax on civil law acts, and other taxes on sales, except where:

- the tax on sale, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item, and

- receivables and payables are presented with the amount of sales tax taken into account.

The net amount of sales tax recoverable from or payable to the tax authorities is recognized on the face of the balance sheet as a part of receivables or liabilities.

7.10. Other positions

Contingent liabilities and commitments

The Group enters into transactions which are not recognized in the balance sheet as assets or liabilities upon signing but they cause contingent liabilities and promises. Contingent liabilities are characterized as being:

- a potential obligation whose existence will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond control of the Group (e.g. disputes in progress);
- a current obligation which arises as a result of past events but is not recognized in the balance sheet as it is improbable that it will be necessary to incur expenses to fulfill the obligation or the obligation amount cannot be reliably measured (eg: unused credit lines, guarantees and letters of credit issued).

Cash and cash equivalents

Cash and cash equivalents in the Cash Flow Statement include "Cash, due from Central Bank" (except for the NBP bonds) and amounts current amounts due from banks with maturity up to three months.

8. Purposes and rules of financial risk management

The risk management policy of the Group has a goal of optimizing the structure of the balance sheet and off-balance sheet positions under the consideration of all risks in relation to income and other risks interest rate, liquidity risk, foreign exchange rate risks) that the Group encounters in conducting its daily activity. Risks are monitored and controlled with reference to profitability and equity coverage and are regularly reported in accordance with rules briefly presented below.

The Bank's Management Board is responsible for achieving the strategic goals set within the risk management policy. The Asset, Liability and Risk Committee controls the capital adequacy of the Group as well as the liquidity risk and the market risk (interest rate and foreign exchange rate risks) related to the external banking supervision limits and to the internal limits of the Group.
The accounting policy for derivative instruments was presented at Note 7.7.

Credit risk

Credit risk is one of the basic risks associated with the activities of the Group. The percentage share of loans in the Group's balance sheet makes it necessary to maintain this risk at a safe level.

The process of credit risk management is centralized and then managed mainly by units belonging to Risk Management Division located either in the Bank's Head Office or in its local units. Integration of various risks in the Risk Management Division in which apart from credit risk, market and operational risk are allocated, facilitates the effective management of all credit-related risks. The process covers all credit functions – credit analysis, underwriting, monitoring and loan administration, restructuring and vindication. Each function follows the credit policy of the Bank and its guidelines that are reviewed and endorsed annually by the Management Board and the Supervisory Board of the Bank. The integrity and efficiency of the credit functions is achieved through standardized use of various credit methods and methodologies supported by advanced IT tools. These tools are integrated into the ledger system of the Bank. Group procedures facilitate credit risk mitigation. In particular those related to transaction risk evaluation, establishing collateral, setting authorization limits for granting loans and limiting of exposure to some areas of business activity in line with current client's segmentation scheme in the Bank.

The Group's lending activity is limited by the restrictions of the Banking Law as well as internal limits. These refer in particular to concentration limits for specific sectors of the economy share of large exposures in the loan portfolio of the Group and exposure limits for particular foreign countries, banks, and domestic financial institutions. Entitlement to make credit decisions to limitation of some business fields and internal or external caution standards includes not only credit but also loans and guarantees and derivatives transactions and debt securities as well. Protection of the quality of the Group's loan portfolio is also enhanced by periodic reviews and continuous monitoring of loan repayments and the financial condition of the borrowers.

(in PLN thousand)

Concentration of credit risk

The Banking Law establishes maximum limits for banks. According to article 71.1 of the Law the total balance sheet and off-balance sheet exposure of a bank to the risks associated with a single borrower or a group of related borrowers may not exceed 20% of a bank’s equity when at least one of those entities is related to the bank or 25% when no relation between those entities and the bank exists. Moreover, article 71.2 of the Law specifies a maximum total exposure limit with entities whose individual exposure exceeds 10% of a bank’s equity at a level of 800% of this equity.

As at 31 December 2008 no exposures exceeded the limit set forth by articles 71.1 and 71.2.

a) Concentration by entity:

	as at 31.12.2008
Exposure to 10 largest clients of the Group	**% of portfolio**
Client 1	1.3%
Client 2	1.3%
Client 3	1.3%
Client 4	1.2%
Client 5	0.8%
Client 6	0.7%
Client 7	0.7%
Client 8	0.7%
Client 9	0.7%
Client 10	0.6%
Total	**9.3%**

In the table above 23% provides for a credit exposure with the risk of the State Treasury. Other exposures are due to transactions with large corporate clients (77%). None of the exposures mentioned above were classified as non-performing.

b) Concentration by capital group:

	as at 31.12.2008
Exposure to 5 largest capital groups which are the Group’s clients	**% of portfolio**
Group 1	2.1%
Group 2	1.8%
Group 3	1.3%
Group 4	1.2%
Group 5	1.2%
Total	**7.6%**

c) Concentration by industrial sector:

In order to mitigate credit risk associated with industrial sector concentration the Group employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration limits for particular sectors monitoring the loan portfolio and gathering appropriate information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Dzialalnosci - PKD). Concentration limits are determined on the basis of investment risk quality of the Group’s lending exposure current economic trends in particular sectors the Group’s equity and the total exposure to particular sectors. A monthly comparison of the Group’s exposure to particular sectors with the current limits allows timely identification of the sectors in which the concentration of sector risk may become excessive. If such a situation arises an analysis of the economic situation of that sector is performed considering the current and predicted trends and the quality of the current exposure to that sector. These measures enable the Group to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

(in PLN thousand)

The table below presents the structure of the Group's exposure by industrial sectors.

	% of portfolio	
Sector description	**31.12.2008**	**31.12.2007**
Construction and real estate management	18.3%	15.4%
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	14.1%	15.3%
Financial intermediation	13.9%	16.9%
Transport, storage and communication	7.2%	6.1%
Other manufacturing and recycling	7.2%	6.6%
Electricity, gas and water supply	5.9%	7.2%
Manufacture of basic metals and fabricated metal products	4.7%	4.2%
Manufacture of food products; beverages and tobacco	4.6%	5.0%
Renting and business activities; computer and related activities, research and development	4.6%	5.7%
Public administration and defence; compulsory social security	3.9%	3.3%
Manufacture of pulp, paper and paper products; publishing and printing	2.8%	2.1%
Manufacture of pulp, paper and paper products; publishing and printing	2.6%	2.1%
Manufacture of transport equipment	2.2%	2.5%
Other sectors	8.0%	7.6%
Total	**100.0%**	**100.0%**

(in PLN thousand)

Exposure to credit risk

The table below presents the Group's exposure to credit risk by terms of past due:

	Loans and advances from banks		Loans and advances from customers	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Gross carrying amount exposure individually impaired				
Past due:				
- not past due	51 027	848	357 190	821 544
- up to 1 month	-	-	21 333	105 997
- between 1 month and 3 months	10 165	-	21 106	63 999
- between 3 months and 1 year	34 826	-	360 708	218 603
- between 1 year and 5 years	-	-	962 427	1 101 054
- above 5 years	-	6 553	680 428	930 272
Total gross amount	**96 018**	**7 401**	**2 403 192**	**3 241 469**
Allowance for impairment				
- not past due	(46 023)	(841)	(148 967)	(335 496)
- up to 1 month	-	-	(8 593)	(40 223)
- between 1 month and 3 months	(9 000)	-	(6 710)	(49 387)
- between 3 months and 1 year	(19 459)	-	(232 648)	(164 584)
- between 1 year and 5 years	-	-	(828 274)	(897 380)
- above 5 years	-	(6 553)	(568 050)	(806 596)
Total allowance	**(74 482)**	**(7 394)**	**(1 793 242)**	**(2 293 666)**
Net carrying amount individually impaired	**21 536**	**7**	**609 950**	**947 803**
Gross carrying amount exposure collectively impaired				
- not past due	-	2 024	145 659	146 038
- up to 1 month	-	-	16 333	33 000
- between 1 month and 3 months	-	9 800	23 003	34 062
- between 3 months and 1 year	-	-	460 568	284 642
- between 1 year and 5 years	9 955	-	855 838	1 019 154
- above 5 years	9 409	8 098	812 674	1 002 155
Total gross amount	**19 364**	**19 922**	**2 314 075**	**2 519 051**
Allowance for impairment				
- not past due	-	-	(72 638)	(67 829)
- up to 1 month	-	-	(9 093)	(15 512)
- between 1 month and 3 months	-	(9 800)	(13 061)	(15 583)
- between 3 months and 1year	-	-	(286 150)	(180 123)
- between 1 year and 5 years	(9 924)	-	(697 269)	(876 401)
- above 5 years	(7 613)	(7 716)	(750 540)	(983 751)
Total allowance	**(17 537)**	**(17 516)**	**(1 828 752)**	**(2 139 199)**
Net carrying amount collectively impaired	**1 827**	**2 406**	**485 323**	**379 852**

(in PLN thousand)

	Loans and advances from banks		Loans and advances from customers	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Gross carrying amount but not impaired				
- not past due	7 898 210	16 966 446	79 637 338	66 888 922
- up to 30 days	-	-	1 846 417	1 474 384
- 30 – 60 days	-	-	311 731	271 938
- 60 – 89 days	-	-	112 918	157 081
Total gross amount	**7 898 210**	**16 966 446**	**81 908 404**	**68 792 325**
IBNR:				
- not past due	(8 778)	(4 385)	(336 638)	(335 032)
- up to 30 days	-	-	(71 746)	(39 102)
- 30 – 60 days	-	-	(47 728)	(21 523)
- 60 – 89 days	-	-	(35 525)	(26 958)
Total IBNR	**(8 778)**	**(4 385)**	**(491 637)**	**(422 615)**
Net carrying amount exposure with no impairment	**7 889 432**	**16 962 061**	**81 416 767**	**68 369 710**
Total loans and advances	**7 912 795**	**16 964 474**	**82 512 040**	**69 697 365**

Collaterals

Pekao Group has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations in the Bank. The Group emphasises the importance of this in relation to the effective implementation of Basel II therein.

The most commonly accepted collateral underlying loans and guarantees in Pekao Group is as follows:

Collaterals	Principles of the assessment of collateral value
Mortgage: - Commercial - Residential	Collateral value defined as the fair market value as endorsed by a real estate expert. Other evidenced sources of evaluation are acceptable e.g. binding purchase offer bidding process documentation etc.
Registered Pledge / Transfer of ownership:	
- Inventories	Value is defined as well evidenced sources e.g. amount derived from pledge agreement amount disclosed in last financial statement insurance policy value commodities' indexes value disclosed through foreclosure procedure supported with evidence files e.g. bailiffs'/receiver estimations.
- Machines and Appliances	Value is defined as expert assessment or current value based upon other sound sources e.g. binding purchase offer list of debtor's fixed assets value evidenced by bailiff or court receiver etc.
- Cars	Value is defined under tables and indexes that are provided by e.g. insurance companies proving the car value referred to its producer age initial price etc. or other sound assessment sources e.g. insurance policy value.
- Other	Value is defined individually for each collateral given. Its assessment shall be derived from sound source that follows above listed guidelines.
Securities and Cash	Value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.

Collaterals	Principles of the assessment of collateral value
Transfer of Receivables:	
- Clients with investment grade (rating) assigned by ECAI or internal rating system of the Bank	Value is defined upon individually assessed claims' amount.
- Other Clients	Value is defined upon individually assessed claims' amount.
Guarantees / Surities (incl. drafts) / Accession to debt:	
- Banks and Sovereigns	Up to guaranteed amount.
- Providers with investment grade (rating) assigned by ECAI or internal rating system of the Bank	Up to guaranteed amount.
- Others	Individually assessed fair market value.

Above disclosed principles on the collateral value assessment are being used within update process of credit assets measurement under International Accounting Standards that are introduced in Pekao Group.

Emergency plan and sensitivity analysis for residential mortgage secured loans

Group Pekao holds documented rules for proceedings on residential mortgage secured loans in case of material and adverse changes at the real estate market or the negative macroeconomic scenarios are to realize. This is a ground for prompt reaction of the Group when such events occur at the real estate market on Poland.

Maximum credit exposure

The Group's maximum credit exposure with no collateral and other factors limitating the credit risk:

	31.12.2008	31.12.2007
Cash and due from Central Bank	9 933 637	5 121 210
Loans and receivables from banks and from customers	86 987 449	83 619 179
Financial assets held for trading	2 744 415	3 165 113
Derivative financial instruments (held for trading)	4 440 541	1 922 958
Other financial instruments at fair value through profit or loss	4 713 116	3 777 729
Net investments in financial leases	3 437 383	3 043 768
Hedging instruments	157 899	40 672
Investment securities	15 128 906	17 620 419
Total	**127 543 346**	**118 311 048**
Liabilities due for credits	29 939 290	32 358 650
Other contingent liabilities	6 759 675	6 380 879
Total	**36 698 965**	**38 739 529**
Total credit exposure	**164 242 311**	**157 050 577**

Overall characteristics of internal models used within the rating system

The Group uses internally developed rating models for large/middle corporate and dedicated rating model for SME clients. The rating model for large/middle corporate bases on the quantitative (financial statement) and qualitative (environment/relationships managers information) parts which are combined in statistical model and predicts the probability of default in one-year horizon. The rating model for SME bases on same principles extended with information from its behavioural models. The model for SME comprises of three separate models dedicated for:

(in PLN thousand)

a) full accountancy SME

b) simplified accountancy SME

c) private entrepreneurs

The final rating is obtained after applying several rules warning signals and classifications from Group internal monitoring tools. The master scale for both models consists from seventeen rating grades. The performance of rating models is monitored continuously and fine tuned if necessary .

The back testing of the models is carried out annually. The rating model classifies customers based on their creditworthiness independently from the nature of the transaction. Hence the model can be characterized as one-dimensional at a point-in-time. For credit risk purposes and those especially related to Group commitments arising on implementation of Basel II rules the Group applies Standard & Poor as the eligible external credit agency.

The mapping of internal rating to Standard & Poor master scale is as follows:

S & P Rating	PD Min	PD Max	PD Mid	PEKAO Min	PEKAO Max	PEKAO Rating
AAA	0.0001%	0.002%	0.001%	0.0001%	0.04%	Pk1
AA+	0.002%	0.006%	0.003%	0.0001%	0.04%	Pk1
AA	0.006%	0.013%	0.010%	0.0001%	0.04%	Pk1
AA-	0.013%	0.024%	0.018%	0.0001%	0.04%	Pk1
A+	0.024%	0.045%	0.033%	0.0001%	0.04%	Pk1
A	0.045%	0.076%	0.060%	(0.04%	0.08%]	Pk2
A-	0.076%	0.120%	0.095%	(0.08%	0.12%]	Pk3
BBB+	0.120%	0.190%	0.151%	(0.12%	0.19%]	Pk4
BBB	0.190%	0.308%	0.240%	(0.19%	0.28%]	Pk5+
BBB-	0.308%	0.507%	0.395%	(0.28%	0.63%]	Pk5/Pk5-
BB+	0.507%	0.834%	0.650%	(0.63%	0.94%]	Pk6+
BB	0.834%	1.383%	1.070%	(0.94%	1.25%]	Pk6
BB-	1.383%	2.311%	1.788%	(1.25%	2.00%]	Pk6-
B+	2.311%	3.861%	2.987%	(2.00%	4.25%]	Pk7+/Pk7
B	3.861%	7.560%	4.990%	(4.25%	7.50%]	Pk7-/Pk8+
B-	7.560%	17.353%	11.454%	(7.50%	11.50%]	Pk8
CCC	17.353%	26.290%	26.290%	(11.50%	20.00%]	Pk8-
D	26.290%	100.000%	100.000%	(20.00%	99.00%]	Pk9

(in PLN thousand)

Overall characteristics of monitoring process

Loans for large corporates are continually monitored constantly by business units and designated risk units of the Group. The monitoring process for mid-corporates and SME's is based on an internally developed systemic tool which is a combination of a statistical model and qualitative information from internal and external sources. Business units are extensively involved in this process. The Group applies also a monitoring tool for its retail customers used for monitoring and soft collection purposes.

Overall characteristics of provisioning model

The Group establishes loss allowances in line with International Accountancy Standards. Impairment of loans is recognized under an individual and collective approach with reference to a certain credit threshold of either customer separately on balance sheet and off balance sheet exposure. The Group establishes allowances for incurred but not reported losses applying a statistical model of expected loss.

Credit risk management in the Subsidiaries located outside Republic of Poland

The process of credit risk management in UniCredit Bank Ltd. (Ukraine) is consistent with the Credit Policy of Bank Pekao S.A. Group and adopted to local environment in Ukraine. Since 2003 such a credit policy is annually approved by the statutory bodies of UniCredit Bank Ltd. and issued in the form of internal regulation bounding within UniCredit Bank Ltd.

Bank Pekao S.A. is exercising strict supervision and control over underwriting process in UniCredit Bank Ltd. All credit decisions are taken by the Management Board of UniCredit Bank Ltd., however for credits or total exposures above USD 5 million (or its equivalent in other currencies), only upon positive opinion of Bank Pekao S.A. The credit underwriting scheme is compliant with the standards of credit risk management that are currently enforced in Bank Pekao S.A.

The table below presents customer credit portfolio of UniCredit Bank Ltd.:

	31.12.2008		31.12.2007	
	Corporate	Retail	Corporate	Retail
Performing loans				
- not past due	2 851 383	371 412	1 933 237	296 374
- up to 30 days	27 498	46 356	528	1 654
- 30-60 days	13 019	19 118	-	1 654
- 60-89 days	48	9 985	-	4 657
Total gross amount	2 891 948	446 871	1 933 765	304 339
Allowance for IBNR	48 855	7 752	38 870	4 648
Net carrying amount of performing loans	2 843 093	439 119	1 894 895	299 691

	31.12.2008 Corporate and retail	31.12.2007 Corporate and retail
Impaired loans		
Individually impaired		
Gross amount	9 765	9 965
Impairment allowance	7 312	3 577
Net carrying amount of individually impaired	2 453	6 388
Collectively impaired		
Gross amount	68 416	27 766
Impairment allowance	45 893	20 763
Net carrying amount of collectively impaired	22 523	7 003

(in PLN thousand)

Majority of the credit portfolio is attributable to corporate clients which include the largest companies in Ukraine. Top 25 borrowers, being international groups, represents 61% of corporate segment exposures and 45% of overall Bank's lending. Lending activity in corporate is driven by working capital and investment loans

At the end of 2008 there was significant slowdown of Ukrainian economy as a result of steep fall in domestic and external demand due to the slump of global commodity prices, sharp economic slowdown in major trading partners, frozen credit activity and UAH depreciation. Real GDP growth decreased, industrial production shrunk and UAH exchange rate depreciated significantly against US dollar. Banks other than UniCredit Bank Ltd. had to limit substantially or stop granting new loans after the domestic banking system faced a liquidity crunch.

The assessment of this exposure is of a particularly complex nature in light of the current market conditions and the resulting difficulties when forecasting future earnings. In addition, the parameters and the information used to assess the carrying value of the Group's loan portfolio in Ukraine are heavily influenced by the macroeconomic and market environment, which could be rapidly affected, as it has been in the past few months, by unforeseeable developments.

Recognising the climate of significant uncertainty in the Ukrainian macroeconomic environment and increased credit risk the management of UniCredit Ltd. and Pekao strengthened further its controls and monitoring on subsidiary's activities.

Credit portfolio neither impaired nor past-due

	as at 31 December 2008			
Gross carrying amount but not impaired	**Corporate/SME**		**Retail**	
- not past due	56 028 664		23 568 109	
- up to 30 days	593 786		1 280 129	
- 30 – 60 days	143 521		181 229	
- 60 – 89 days	36 068		76 898	
Total gross Mount	**56 802 039**		**25 106 366**	
IBNR:		**coverage ratio**		**Coverage ratio**
- not past due	(269 113)	0.48	(67 525)	0.29
- up to 30 days	(13 221)	2.23	(58 525)	4.57
- 30 – 60 days	(13 620)	9.49	(34 108)	18.82
- 60 – 89 days	(5 568)	15.44	(29 957)	38.96
Total IBNR	**(301 522)**	**0.53**	**(190 115)**	**0.76**
Net carrying amount exposure with no impairment	**56 500 517**		**24 916 250**	

(in PLN thousand)

as at 31 December 2007

Gross carrying amount but not impaired	Corporate/SME		Retail	
- not past due	45 142 489		21 746 433	
- up to 30 days	565 287		909 097	
- 30 – 60 days	143 541		128 397	
- 60 – 89 days	91 346		65 735	
Total gross Mount	**45 942 663**		**22 849 662**	
IBNR:		**coverage ratio**		**Coverage ratio**
- not past due	(266 061)	0.59	(68 971)	0.32
- up to 30 days	(6 684)	1.18	(32 418)	3.57
- 30 – 60 days	(5 163)	3.60	(16 360)	12.74
- 60 – 89 days	(6 245)	6.84	(20 713)	31.51
Total IBNR	**(284 153)**	0.62	**(138 462)**	**0.61**
Net carrying amount exposure with no impairment	**45 658 510**		**22 711 200**	

Market risk

In its activities the Group is exposed to market risk i.e. interest rate And foreign exchange movements and equity price risks of securities held by the Group as well as other risks resulting from changes in market conditions.

The main tool applied for market risk measurement is Value at Risk (VaR).

In normal market conditions VaR reflects level of one-day loss which won't be achieved with 99% degree of probability. Model is statistically verified on a current basis by comparison between VaR and daily profit or loss. Analysis for 2007 and also for 2008 confirmed model's adequacy.

The table below presents the trading portfolio market risk exposure of the Bank measured as Value at Risk in the year 2008 and 2007.

VaR in ths PLN	30.06.2008	Min Y	Avg Y	Max Y
Foreign exchange risk	83	8	147	1 286
Interest rate risk	8 649	2 070	5 154	14 473
Trading portfolio	8 649	2 105	5 157	14 473

VaR in ths PLN	31.12.2007	Min Y	Avg Y	Max Y
Foreign exchange risk	20	5	153	1 916
Interest rate risk	4 301	1 016	2 408	9 888
Trading portfolio	4 301	1 027	2 424	9 888

Interest rate risk

The classification of assets and liabilities according to their exposure to interest rate risk is as follows:

1. Assets and financial liabilities exposed to fair value risk related to interest rate

- Debt securities with fixed interest rate.
- Loans with fixed interest rate.
- Client deposits with fixed interest rate.
- Liabilities due to the issue of securities.

2. Assets and liabilities exposed to Cash flow risk related to interest rate

- Debt securities with variable interest rate.
- Loans with variable interest rate.
- Client deposits with variable interest rate.

3. Assets and financial liabilities not directly exposed to the interest rate risk

- Equity securities

The Group is exposed to interest rate risk due to transactions in which notional amounts are recognized off-balance and which fair values are recognized as assets or liabilities off the balance sheet. These transactions include derivative transactions, Forward Rate Agreements (FRA), Interest Rate Swaps (IRS), interest rate options (Cap/Floor), currency swaps and foreign currency forward contracts.

In managing the interest rate risk of the banking book the Group aims to maximize the economic value of capital employed and achieving the planned interest result within the accepted limits. The financial position of the Group in relation to changing interest rates is monitored through the interest rate gap (repricing gap) duration analysis simulation analysis and stress testing. As of 31 December 2008 interest rate increased by 100 bp. assuming perfect elasticity of the Group's administered rates to the market rates changes would result in a change of the net interest income by 2.98% and change of the economic value of equity by 2.7% (As at 31 December 2007 adequately 2.39% and 6.25%). Other entities in the Group do not influence significantly these values.

(in PLN thousand)

The table below presents the assets, liabilities and off-balance sheet exposures of the Group classified as at 31 December 2008 by interest rate risk criterion:

	up to1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
Balance sheet items	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
Assets:	**65 969 132**	**6.43**	**23 896 612**	**6.42**	**13 028 186**	**6.10**	**10 675 621**	**7.09**	**4 752 512**	**5.35**	**13 618 699**	**131 940 762**	**5.75**
Cash due from Central Bank	4 911 014	4.73	1 688 709	5.91	-	-	-	-	-	-	3 333 914	9 933 637	3.34
Debt securities eligible for rediscounting in the Central Bank	125	5.25	715	5.25	-	-	-	-	-	-	-	840	5.25
Amounts due from banks	4 649 589	5.02	407 509	6.46	2 369 615	3.79	14 165	5.96	-	-	467 748	7 908 626	4.43
Financial assets held for trading	216 590	3.89	243 324	6.31	1 666 482	5.75	421 590	5.34	196 429	5.48	-	2 744 415	5.57
Other financial instruments at fair value through profit or loss	-	-	2 379 509	6.93	614 571	7.75	576 699	5.73	1 142 337	4.90	-	4 713 116	6.40
Loans and advances from customers	52 428 863	6.94	17 929 498	6.43	5 350 897	7.76	2 163 158	13.20	384 386	9.36	821 181	79 077 983	6.99
Net investments in financial leases	3 374 888	3.34	15 453	12.54	8 362	7.78	36 717	8.37	1 963	-	-	3 437 383	3.44
Securities available for sale	44 249	2.30	957 444	5.85	2 727 159	4.80	6 862 901	5.45	2 658 092	5.50	-	13 249 845	5.34
Securities held to maturity	343 814	6.19	274 451	6.25	291 100	5.31	600 391	6.38	369 305	1.43	-	1 879 061	5.19
Other	-	-	-	-	-	-	-	-	-	-	8 995 856	8 995 856	-
Liabilities:	**77 990 654**	**3.26**	**14 724 699**	**5.92**	**12 266 987**	**5.32**	**3 326 548**	**2.71**	**443 467**	**5.06**	**23 188 407**	**131 940 762**	**3.17**
Amounts due to banks	6 105 896	5.05	4 056 324	5.47	2 807 482	5.00	2 023 317	2.88	-	-	-	14 993 019	4.86
Amounts due to customers	71 483 316	3.11	10 484 668	6.20	8 295 187	5.88	502 096	0.94	123 781	3.98	-	90 889 048	3.71
Liabilities arising from debt securities issued	401 442	3.82	183 707	-	1 164 318	2.04	721 235	3.19	-	-	-	2 470 702	2.51
Other	-	-	-	-	-	-	79 900	5.28	319 686	5.48	23 188 407	23 587 993	0.09
Gap	**(12 021 522)**		**9 171 913**		**761 199**		**7 349 073**		**4 309 045**		**-9 569 708**	**-**	
Off-balance sheet exposures													
Assets	49 943 476		39 940 813		58 555 055		29 126 867		9 664 440		-	187 230 651	
Liabilities	53 623 595		36 632 055		59 691 334		27 603 921		10 350 284		-	187 901 189	
Gap	**(3 680 119)**		**3 308 758**		**(1 136 279)**		**1 522 946**		**(685 844)**		**-**	**(670 538)**	
Total Gap	**(15 701 641)**		**12 480 671**		**(375 080)**		**8 872 019**		**3 623 201**		**-9 569 708**	**(670 538)**	

(in PLN thousand)

The table below presents the assets, liabilities and off-balance sheet exposures of the Group classified as at 31 December 2007 by interest rate risk criterion:

	up to1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
Balance sheet items	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
Assets:	**63 872 210**	**6.74**	**21 848 535**	**6.26**	**8 723 445**	**7.68**	**13 161 558**	**7.35**	**3 872 969**	**5.45**	**12 617 434**	**124 096 151**	**6.06**
Cash due from Central Bank	771 602	4.73	1 688 709	4.28	-	-	-	-	-	-	2 660 899	5 121 210	2.12
Debt securities eligible for rediscounting in the Central Bank	347	5.25	761	5.25	-	-	-	-	-	-	-	1 108	5.25
Amounts due from banks	12 601 436	5.27	1 339 308	5.15	830 174	4.84	-	-	-	-	2 189 116	16 960 034	4.56
Financial assets held for trading	755 141	5.71	754 361	5.54	297 695	6.19	978 611	5.80	361 874	5.41	17 431	3 165 113	5.67
Other financial instruments at fair value through profit or loss	-	-	2 571 746	5.23	13 809	7.70	652 877	6.99	539 297	4.45	-	3 777 729	5.43
Loans and advances from customers	46 401 259	7.24	13 969 028	6.89	4 307 319	9.36	1 781 132	14.06	199 299	6.71	-	66 658 037	7.48
Net investments in financial leases	1 255 346	8.52	133 457	9.22	600 073	8.39	1 051 504	8.04	3 388	8.15	-	3 043 768	8.36
Securities available for sale	1 677 607	4.65	1 391 165	5.39	2 659 198	5.86	8 535 193	6.12	2 769 111	5.55	1 255	17 033 529	5.78
Securities held to maturity	409 472	4.91	-	-	15 177	4.35	162 241	4.91	-	-	-	586 890	4.90
Other	-	-	-	-	-	-	-	-	-	-	7 748 733	7 748 733	-
Liabilities:	**85 063 710**	**2.28**	**7 651 572**	**4.24**	**7 065 869**	**4.37**	**2 606 408**	**9.40**	**314 853**	**5.70**	**21 393 739**	**124 096 151**	**2.29**
Amounts due to banks	4 788 531	5.14	1 288 435	5.68	1 930 201	4.06	1 878 947	11.98	55 998	5.75	-	9 942 112	6.30
Amounts due to customers	79 871 496	2.10	5 937 028	3.80	3 627 791	3.45	477 483	2.23	30 280	5.07	-	89 944 078	2.27
Liabilities arising from debt securities issued	361 000	5.97	382 621	5.90	1 460 915	7.02	116 182	0.88	-	-	1 396 060	3 716 778	3.97
Other	42 683	2.64	43 488	6.14	46 962	5.17	133 796	6.10	228 575	5.77	19 997 679	20 493 183	0.13
Gap	**(21 191 500)**		**14 196 963**		**1 657 576**		**10 555 150**		**3 558 116**		**(8 776 305)**	**-**	
Off-balance sheet exposures													
Assets	57 148 566		42 565 525		80 496 962		43 374 248		8 505 427		-	232 090 728	
Liabilities	58 776 664		44 584 223		80 427 976		40 463 109		7 518 194		-	231 770 166	
Gap	**(1 628 098)**		**(2 018 698)**		**68 986**		**2 911 139**		**987 233**		**-**	**320 562**	
Total Gap	**(22 819 598)**		**12 178 265**		**1 726 562**		**13 466 289**		**4 545 349**		**(8 776 305)**	**320 562**	

(in PLN thousand)

Currency risk

The objective of currency risk management is to create a currency profile of the balance sheet and off-balance items which will remain within external and internal limits

The Group's exposure to currency risk is measured for internal purposes on a daily basis by means of the Value at Risk (VaR) model as well as the stress testing analysis that is supplementary to the VaR method.

The table below presents foreign currency exposure by the separate asset, liabilities and off balance-sheet by foreign currency transactions.

as at 31 December 2008

	PLN	EUR	USD	CHF	Other	**Total**
Assets:						
Cash, due from Central Bank	8 878 694	687 614	161 877	27 531	177 921	**9 933 637**
Debt securities eligible for rediscounting in The Central Bank	840	-	-	-	-	**840**
Loans and advances from banks	4 697 219	2 584 594	375 705	7 606	243 502	**7 908 626**
Financial assets held for trading	2 494 622	193 605	55 782	-	406	**2 744 415**
Derivative financial instruments	3 829 219	255 999	341 346	7 341	6 636	**4 440 541**
Other financial instruments at fair value through profit or loss	2 353 892	432 625	1 926 599	-	-	**4 713 116**
Loans and advances from customers	55 905 593	11 387 640	4 146 950	7 199 519	438 281	**79 077 983**
Net investments in financial lease	2 543 383	598 559	8 865	277 378	9 198	**3 437 383**
Securities available for sale	11 408 792	268 940	1 175 319	-	396 794	**13 249 845**
Securities held to maturity	1 675 212	182 597	21 252	-	-	**1 879 061**
Investments in associates	308 756	-	-	-	-	**308 756**
Other	3 962 613	147 340	60 085	35	76 486	**4 246 559**
Total	**98 058 835**	**16 739 513**	**8 273 780**	**7 519 410**	**1 349 224**	**131 940 762**
Liabilities:						
Amount due to Central Bank	4 817 499	-	-	-	-	**4 817 499**
Amounts due to banks	4 445 292	4 683 496	431 617	141 641	473 475	**10 175 521**
Amounts due to customers	75 603 470	8 644 460	5 743 810	113 775	783 533	**90 889 048**
Derivative financial instruments	4 239 217	400 756	495 248	4 943	5 334	**5 145 498**
Liabilities arising from debt securities issued	2 039 974	76 063	324 881	-	29 784	**2 470 702**
Provisions	276 429	22 031	7 250	227	802	**306 739**
Other	17 414 624	315 127	110 952	53 430	241 622	**18 135 755**
Total	**108 836 505**	**14 141 933**	**7 113 758**	**314 016**	**1 534 550**	**131 940 762**
Net exposure	**(10 777 670)**	**2 597 580**	**1 160 022**	**7 205 394**	**(185 326)**	**-**
Off-balance sheet assets	25 231 264	17 191 563	4 853 800	825 072	951 922	**49 053 621**
Off-balance sheet liabilities	15 116 953	19 758 250	6 055 031	8 058 560	783 623	**49 772 417**

(in PLN thousand)

as at 31 December 2007

	PLN	EUR	USD	CHF	Other	**Total**
Assets:						
Cash, due from Central Bank	4 429 788	373 976	115 576	7 827	194 043	**5 121 210**
Debt securities eligible for rediscounting in The Central Bank	1 108	-	-	-	-	**1 108**
Loans and advances from banks	11 271 697	3 490 828	1 941 091	15 907	240 511	**16 960 034**
Financial assets held for trading	2 883 239	41 639	106 671	-	133 564	**3 165 113**
Derivative financial instruments	1 726 865	80 506	108 410	550	6 627	**1 922 958**
Other financial instruments at fair value through profit or loss	2 394 567	392 457	990 705	-	-	**3 777 729**
Loans and advances from customers	48 914 541	8 429 442	2 418 835	6 275 799	619 420	**66 658 037**
Net investments in financial lease	2 500 763	358 209	3 896	161 393	19 507	**3 043 768**
Securities available for sale	14 613 002	805 427	1 200 615	-	414 485	**17 033 529**
Securities held to maturity	413 102	156 511	17 277	-	-	**586 890**
Investments in associates	388 169	-	-	-	-	**388 169**
Other	3 946 850	404 661	553 938	110 351	421 806	**5 437 606**
Total	**93 483 691**	**14 533 656**	**7 457 014**	**6 571 827**	**2 049 963**	**124 096 151**
Liabilities						
Amounts due to the Central Bank	1 485 921	-	-	-	-	**1 485 921**
Amounts due to banks	4 329 822	2 438 725	1 438 175	72 554	176 915	**8 456 191**
Amounts due to customers	72 512 908	9 989 785	6 177 908	143 979	1 119 498	**89 944 078**
Derivative financial instruments	1 443 043	87 430	124 326	396	6 087	**1 661 282**
Liabilities arising from debt securities issued	2 982 983	98 667	332 562	-	302 566	**3 716 778**
Provisions	366 015	9 608	4 169	8	28	**379 828**
Other	17 365 640	545 887	98 476	26 668	415 402	**18 452 073**
Total	**100 486 332**	**13 170 102**	**8 175 616**	**243 605**	**2 020 496**	**124 096 151**
Net exposure	**(7 002 641)**	**1 363 554**	**(718 602)**	**6 328 222**	**29 467**	**-**
Off-balance sheet assets	22 636 495	11 488 888	8 966 203	913 064	669 839	**44 674 489**
Off-balance sheet liabilities	15 592 986	12 581 777	7 952 637	7 283 224	646 314	**44 056 938**

Liquidity risk

The objective of managing liquidity risk is:

- to ensure and maintain the Group's solvency with respect to current and future planned payables taking into account the cost of acquiring liquidity and return on the Group's equity,
- to avoid any crisis situations,
- to outline solutions that would allow the Group to overcome such a situation in case of a crisis.

The Group invests primarily in treasury securities of the Polish government, financial instruments of countries and financial institutions with the highest ratings, and those with high levels of liquidity. Due to their liquidity characteristics, regularly monitored these financial instruments would assist the Group to overcome crisis situations.

In accordance with to the Banking Supervisory Board recommendations, the Group introduced internal liquidity indicators that reflect the ratios of total adjusted maturing assets to total adjusted maturing liabilities.

In addition, the Group employs procedures to protect against a liquidity risk increase and against any substantial deterioration of the Group's financial liquidity.

The emergency plan in case of deterioration of financial liquidity of the Group takes into consideration four levels of liquidity risk depending on the amount and duration of cash outflow from the non-banking client accounts. The plan also determines the sources from which the expected cash outflows will be covered and states to what extent the Group's Management is responsible for making necessary decisions in order to restore the required liquidity level. Both the emergency plan and the possibility of obtaining cash from sources specified in this plan are subject to periodic verification.

The liquidity gaps presented below include among others adjustments of core deposits and their maturities which is the main element distinguishing the adjusted from the unadjusted gap.

Both gap versions take into account off-balance cash flows including those of credit lines. Off-balance cash flows are generated by derivatives, granted credit lines, guarantees etc. Granted credit lines are treated as potential cash outflows. However potential cash inflows resulting from maturing loans utilised as part of credit lines are not included which implies a negative liquidity gap character and it is a conservative approach to liquidity risk assessment in the Group.

Moreover, these gaps are static i.e. they do not show an impact of changes in balance (e.g. new deposits) off-balance volumes or non-capital cash flows on the Bank's liquidity profile.

Pursuant to KNB Resolution No 9 of 13 March 2007 on fixing liquidity norms binding for banks, from January 2008 the Bank started calculating regulatory liquidity norms on a daily basis.

As of 31 December 2008, liquidity norms were within the recommended limits, besides liquidity ratio up to 1 month for total FCY b/s.

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31 December 2008 by observed maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**27 958 800**	**11 009 906**	**24 478 209**	**35 974 687**	**32 519 160**	**131 940 762**
Cash , due from Central Bank	8 246 930	-	-	1 686 707	-	9 933 637
Debt securities eligible for rediscounting in the Central Bank	125	715	-	-	-	840
Amounts due from banks	3 998 218	454 387	605 021	2 772 066	78 934	7 908 626
Financial assets held for trading	2 744 415	-	-	-	-	2 744 415
Other financial instruments valued at fair value through profit or loss	-	-	625 500	2 979 273	1 108 343	4 713 116
Loans and advances from customers	12 124 785	9 023 920	15 700 863	16 931 934	25 296 481	79 077 983
Net investments in financial leases	138 064	210 019	870 618	2 218 682	-	3 437 383
Securities held for sale	42 225	6 502	1 709 222	8 794 080	2 697 816	13 249 845
Securities held to maturity	141 263	268 812	262 005	591 945	615 036	1 879 061
Other	522 775	1 045 551	4 704 980	-	2 722 550	8 995 856
Liabilities	**18 115 778**	**8 608 807**	**16 854 137**	**18 576 966**	**69 785 074**	**131 940 762**
Amounts due to banks	5 854 352	3 915 898	834 145	3 794 087	594 538	14 993 020
Amounts due to customers	11 336 947	3 429 365	6 305 820	13 172 222	56 644 694	90 889 048
Liabilities arising from debt securities issued	295 184	4 951	559 910	1 610 657	-	2 470 702
Other	629 295	1 258 593	9 154 262	-	12 545 842	23 587 992
Gap	**9 843 022**	**2 401 099**	**7 624 072**	**17 397 721**	**(37 265 914)**	**-**
Off-balance sheet items						
Assets	29 578 413	5 233 447	7 480 005	6 642 727	1 456 390	50 390 982
Liabilities	34 635 134	5 496 050	11 295 750	11 966 222	18 193 700	81 586 856
Gap	**(5 056 721)**	**(262 603)**	**(3 815 745)**	**(5 323 495)**	**(16 737 310)**	**(31 195 874)**
Gap total	**4 786 301**	**2 138 496**	**3 808 327**	**12 074 226**	**(54 003 224)**	**(31 195 874)**

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31 December 2007 by observed maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**33 135 287**	**10 158 844**	**21 141 265**	**35 894 079**	**23 766 676**	**124 096 151**
Cash , due from Central Bank	3 434 039	-	-	1 687 171	-	5 121 210
Debt securities eligible for rediscounting in the Central Bank	347	761	-	-	-	1 108
Amounts due from banks	14 314 138	1 338 048	1 010 306	256 312	41 230	16 960 034
Financial assets held for trading	3 165 113	-	-	-	-	3 165 113
Other financial instruments valued at fair value through profit or loss	-	-	12 526	3 272 742	492 461	3 777 729
Loans and advances from customers	11 306 421	7 501 704	13 967 276	17 174 645	16 707 991	66 658 037
Net investments in financial leases	97 351	171 392	747 938	2 027 087	-	3 043 768
Securities held for sale	8 450	316 845	1 667 797	11 283 613	3 756 824	17 033 529
Securities held to maturity	394 381	-	-	192 509	-	586 890
Other	415 047	830 094	3 735 422	-	2 768 170	7 748 733
Liabilities	**21 892 452**	**4 688 392**	**14 298 586**	**8 259 848**	**74 956 873**	**124 096 151**
Amounts due to banks	6 227 786	738 025	2 659 701	92 398	224 202	9 942 112
Amounts due to customers	14 910 038	2 827 514	4 441 340	5 768 513	61 996 673	89 944 078
Liabilities arising from debt securities issued	275 804	165 205	876 832	2 398 937	-	3 716 778
Other	478 824	957 648	6 320 713	-	12 735 998	20 493 183
Gap	**11 242 835**	**5 470 452**	**6 842 679**	**27 634 231**	**(51 190 197)**	**-**
Off-balance sheet items						
Assets	28 706 150	10 335 427	7 431 133	825 551	389 390	47 687 651
Liabilities	26 349 583	9 690 961	9 273 788	8 396 159	18 859 440	72 569 931
Gap	**2 356 567**	**644 466**	**(1 842 655)**	**(7 570 608)**	**(18 470 050)**	**(24 882 280)**
Gap total	**13 599 402**	**6 114 918**	**5 000 024**	**20 063 623**	**(69 660 247)**	**(24 882 280)**

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31 December 2008 by contractual maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**32 306 404**	**8 304 886**	**21 174 216**	**36 924 321**	**33 230 935**	**131 940 762**
Cash , due from Central Bank	8 246 930	-	-	1 686 707	-	9 933 637
Debt securities eligible for rediscounting in the Central Bank	125	715	-	-	-	840
Amounts due from banks	3 998 218	454 387	605 021	2 772 066	78 934	7 908 626
Financial assets held for trading	200 275	109 916	1 653 348	568 730	212 146	2 744 415
Other financial instruments valued at fair value through profit or loss	-	-	625 500	2 979 273	1 108 343	4 713 116
Loans and advances from customers	19 016 529	6 208 985	10 743 521	17 312 838	25 796 110	79 077 983
Net investments in financial leases	138 064	210 019	870 618	2 218 682	-	3 437 383
Securities held for sale	42 225	6 502	1 709 222	8 794 080	2 697 816	13 249 845
Securities held to maturity	141 263	268 812	262 005	591 945	615 036	1 879 061
Other	522 775	1 045 550	4 704 981	-	2 722 550	8 995 856
Liabilities	**73 855 829**	**16 083 644**	**16 548 370**	**8 254 637**	**17 198 282**	**131 940 762**
Amounts due to banks	5 854 352	3 915 898	834 145	3 794 087	594 538	14 993 020
Amounts due to customers	67 076 998	10 904 202	9 490 649	2 849 893	567 306	90 889 048
Liabilities arising from debt securities issued	295 184	4 951	559 910	1 610 657	-	2 470 702
Other	629 295	1 258 593	5 663 666	-	16 036 438	23 587 992
Gap	**(41 549 425)**	**(7 778 758)**	**4 625 846**	**28 669 684**	**16 032 653**	**-**
Off-balance sheet items						
Assets	29 578 413	5 233 447	7 480 005	6 642 727	1 456 390	50 390 982
Liabilities	30 354 254	5 226 071	18 054 701	21 757 545	8 264 043	83 656 614
Gap	**(775 841)**	**7 376**	**(10 574 696)**	**(15 114 818)**	**(6 807 653)**	**(33 265 632)**
Gap total	**(42 325 266)**	**(7 771 382)**	**(5 948 850)**	**13 554 866**	**9 225 000**	**(33 265 632)**

(in PLN thousand)

The table presents assets and liabilities of the Group as at 31 December 2007 by contractual maturity:

Balance sheet items	up to1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
Assets	**36 818 105**	**8 215 100**	**17 198 537**	**37 310 991**	**24 553 418**	**124 096 151**
Cash , due from Central Bank	3 434 039	-	-	1 687 171	-	5 121 210
Debt securities eligible for rediscounting in the Central Bank	347	761	-	-	-	1 108
Amounts due from banks	14 314 138	1 338 048	1 242 814	23 804	41 230	16 960 034
Financial assets held for trading	602 452	394 846	321 578	1 324 213	522 024	3 165 113
Other financial instruments valued at fair value through profit or loss	-	-	12 526	3 272 742	492 461	3 777 729
Loans and advances from customers	17 551 900	5 163 114	9 470 462	17 499 852	16 972 709	66 658 037
Net investments in financial leases	97 351	171 392	747 938	2 027 087	-	3 043 768
Securities held for sale	8 450	316 845	1 667 797	11 283 613	3 756 824	17 033 529
Securities held to maturity	394 381	-	-	192 509	-	586 890
Other	415 047	830 094	3 735 422	-	2 768 170	7 748 733
Liabilities	**83 103 844**	**8 505 783**	**12 393 785**	**4 706 864**	**15 385 875**	**124 096 151**
Amounts due to banks	6 227 786	738 025	2 659 701	92 398	224 202	9 942 112
Amounts due to customers	76 121 430	6 644 905	4 547 836	2 215 529	414 378	89 944 078
Liabilities arising from debt securities issued	275 804	165 205	876 832	2 398 937	-	3 716 778
Other	478 824	957 648	4 309 416	-	14 747 295	20 493 183
Gap	**(46 285 739)**	**(290 683)**	**4 804 752**	**32 604 127**	**9 167 543**	**-**
Off-balance sheet items						
Assets	28 607 490	9 535 027	6 037 541	809 727	389 389	45 379 174
Liabilities	26 831 199	10 032 788	12 019 718	15 580 786	7 515 784	71 980 275
Gap	**1 776 291**	**(497 761)**	**(5 982 177)**	**(14 771 059)**	**(7 126 395)**	**(26 601 101)**
Gap total	**(44 509 448)**	**(788 444)**	**(1 177 425)**	**17 833 068**	**2 041 148**	**(26 601 101)**

Business Risk

Business risk is defined as adverse, unexpected changes in business volume and/or margins that are not due to credit, market or operational risks.

Earnings at Risk concept is used in business risk calculation, which makes it possible to calculate unexpected negative deviation in the realised financial result from the level assumed in the financial plan. In compliance with the approach assumed by the Group, EaR is assessed in one-year time horizon at 99.97% confidence level.

Real Estate Risk

Real estate risk results from volatility in the Group's real estate portfolio market value. It covers the real estate portfolio of the Group. The risk does not cover real estates acquired through vindication or those constituting provisions.

Real estate risk is calculated in one-year time horizon with VaR under the variance-covariance method and at the assumed confidence level of 99.97%.

Financial Investment Risk

Financial investment risk stems from the Group's banking book equity holdings in companies.

The main risk factor that impacts financial investment risk is changes in value of equity shares in subsidiaries, associates, other directly dependent companies and indirectly dependent ones, which are not consolidated within the Group.

Financial investment risk is assessed based on Value-at-Risk method in one-year time horizon and at the assumed confidence level of 99.97%.

Capital management

Value of the Bank/Group depends vastly on possibilities of its growth, that is determined by own funds. Therefore, in the Bank the great concern is devoted to the policy of own funds developing.

In the policy of maintenance of own funds at an adequate level, Bank follows the subsequent rules:

1. Safe functioning – by means of balance preservation between ability to take the risk /which is limited by current own funds/ and the level of generated risk. To this end, Bank defines the level of capital which is necessary for covering each material risk occurring in its activities. If the amount of own funds necessary for covering regulatory capital requirements or internal capital is insufficient, then actions are undertaken, in order to decrease the level of risk. If there are no possibilities to perform such actions, the necessity of own funds increase is assumed.

2. Systematic and effective growth –under expansion of activities connected with the risk /capital requirements/ increase, Bank gathers appropriate amount of own funds as well as undertakes activities, which tend to capital strengthening by means of capital management optimization (in which limitation of offer of products, which absorb more capital – for example not granting the FX mortgages; reducing capital exposure in subsidiaries).

3. Creating value for shareholders through optimal usage of Bank's own funds – Bank has begun the process of capital allocation, which should reflect the point of view of a shareholder, who has invested his capital to Bank, and therefore to provide him safe and effective return from invested capital. It requires, from the one hand, capital allocation to products/clients/business lines/, provided the profits adequate to risk taken, and from the other hand, taking into consideration the cost of capital in business decisions.

In order to realize the above rules, Bank uses Tier 1 capital only, without additional supplying with Tier 2 capital (e.g. subordinated debt).

In Bank Pekao there is a formalized process for capital management and monitoring which was created within the ICAAP procedures. The Finance Division under the Chief Financial Officer is responsible for designing and implementing the capital management process in the Bank. The Management Board supported by the Asset-Liability and Risk Committee is ultimately responsible for capital management and approves the capital management process.

The capital management strategy defines objectives and general rules of the Bank in relation to capital adequacy management and monitoring such as guidelines on risk coverage sources, preferred structure of risk coverage capital, long-term capital targets, capital limit system, sources of additional capital in contingency situations and governance of capital management.

The capital management process is established to meet – among others – the following objectives:

- provide sufficient capital and similar resources to cover risk taken in order to protect depositors.
- maintain risk capital above minimum levels in order to provide further business expansion, offset changes to capital requirements and secure interests of shareholders.
- maintain the preferred capital structure in order to keep desirable quality of risk coverage capital.
- use of the capital absorption for risk-return analysis, risk-adjusted performance measurement, optimization of capital usage by different business activities and in result shareholders' value creation.

The Group's capital adequacy is controlled by the Management Board and the Asset-Liability and Risk Committee. Periodic reports on the scale and directions of changes of the capital adequacy ratio together with indication of potential threats are prepared for the Management Board and for the Asset-Liability and Risk Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Group. Analyses and evaluation of directions of business development activities are performed from the point of view of accordance with capital requirements. Forecasting and monitoring of risk weighted assets, own funds and capital adequacy ratio is the integral part of the planning and budgeting process.

New Capital Agreement regulations (Basel II) have been applied by Bank since January 1, 2008. These regulations are based on three pillars (minimal capital requirements, process of internal capital adequacy assessment, disclosures).

Regulatory capital requirements

A basic measure of capital adequacy is the capital adequacy ratio (CAR). The minimum capital adequacy ratio required by law equals to 8% both for the Bank and the Group. December 2008 CAR for the Group amounted to 12.22 %, which is by 4.22 p.p. higher than minimum value. Group's CAR meets also the recommendations of the Polish Financial Supervision Authority, which recommended to take firm and effective actions which would guarantee maintenance of capital adequacy ratio at a safe level, not lower than 10%.

Regulatory capital requirements calculation as of 31 December 2007 and 31 December 2008 is based on Resolution No. 1 of the Commission for Banking Supervision of March 13, 2007. December 2007 calculation was performed taking into consideration the specificity of the transition period, which was used by Bank Pekao S.A.. This means – among others – that the operational risk capital requirement was not taken into account in the total capital requirement.

The standardised approach is used for credit risk capital requirement calculation (in accordance with Annex No. 4 to Resolution No. 1/2007), and financial collateral comprehensive method is used for the credit risk mitigation (in accordance with Annex No. 17 to Resolution No. 1/2007)

The standardised approach is applied for operational risk capital requirement calculation (in accordance with Annex No. 14 to Resolution No. 1/2007)

(in PLN thousand)

The table below presents the basic data concerning Group capital adequacy as of 31 December 2008 and 31 December 2007.

Own funds	**31.12.2008**	**31.12.2007**
Share capital	262 213	261 867
Supplementary capital	9 409 524	9 331 159
Reserve capital	1 625 591	1 093 943
General banking risk fund	1 237 850	1 237 850
Net profit from the current period verified by external auditor reduced by the expected dividends (*)	1 766 481	521 716
Minority interest	89 125	80 507
Revaluation reserve arising from financial assets available for sale	(95 155)	(355 710)
Adjustment concerning intangible assets	(745 661)	(688 559)
Adjustment concerning investments in financial institutions	(305 582)	(300 464)
Foreign exchange differences	(112 786)	(23 091)
Losses of prior periods	(37 367)	(144 181)
Own funds	**13 094 233**	**11 015 037**
Capital adequacy ratio	**12.22%**	**12.12%**

* Net profit for 1st half 2008 and net profit for 2007 reduced by the expected dividends.

Internal capital adequacy assessment

Since January 2008 the Bank has applied methods designed internally. During the internal capital adequacy assessment the Bank takes into consideration following risk’s types:

- credit risk (including counterparty credit risk, concentration risk, country risk and residual risk),
- market risk (including interest rate risk in trading book, exchange rate risk, equity risk,
- commodity risk and volatility risk),
- liquidity risk (including liquidity mismatch risk, liquidity contingency risk, market liquidity risk, operational liquidity risk, funding risk and margin calls liquidity risk),
- interest rate risk in banking book,
- real estate risk,
- operational risk,
- financial investments risk
- compliance risk,
- reputation risk,
- strategic risk.

For each risk deemed material, the Bank develops and applies an assessment and measurement methodology.

Two approaches to risk assessment are applied by the Bank:

- qualitative, for risks which are hardly measurable or for which capital cannot absorb losses (compliance, liquidity, strategic and reputation risk),
- quantitative, for risks that can be measured by economic capital (remaining significant risks).

(in PLN thousand)

The target methodologies of risk measurement and its convergence into capital charge, to be applied by the Bank, are Value at Risk based models with assumptions resulting from risk appetite (99.97% confidence level and one year time horizon). These methodologies are introduced in compliance with guidelines provided by UniCredit Group and complemented by stress-tests or scenario analyses. For the time being the interim methodologies (standard approach plus stress testing) are applied instead of the target ones until the latter are completely developed and implemented.

In the first step economic capital is calculated separately for each of quantifiable material risks defined by the Bank. In the next step economic capital figures for individual risks are being aggregated into one aggregated economic capital figure including diversification effect. Taking into account diversification effect, total aggregated economic capital is not greater (is equal or smaller) than sum of individual risks economic capital figures.

Economic capital surplus can be used to cover non-measurable risks and serves as additional protection in case not all risks were adequately captured or diversification matrix could not be precisely measured.

Fair value of balance sheet financial instruments

Fair value valuation of financial instruments traded on active markets bases on available quotations of these instruments (mark-to-market).

Valuation of instruments traded on not regulated markets (over-the-counter) and illiquid instruments (i.e. with no direct quotations available) bases on quotations of other instruments from active market and is performed by their replication. Various valuation techniques are applied including present value estimations of future cash flows (mark-to-model).

As of 31 December 2008 and 31 December 2007 Group classified assets and liabilities recognized at fair value on three categories in terms of valuation methods:

Method 1: Mark-to-market based on prices quoted in active markets. Applies to securities quoted in active markets only.

Method 2: Mark-to-model for models which parameters base on prices of financial instruments quoted in relevant active markets. Applies to majority of derivatives including forwards for securities and to illiquid treasury bonds/bills.

Method 3: Mark-to-model for models which some parameters base on estimated risk factors. Applies to derivatives (mostly non-linear) in illiquid markets, commercial and municipal papers not quoted in active markets and derivatives carrying credit risk impairments.

As at 31 December 2008

	Method 1	Method 2	Method 3	Total
Assets:	**18 101 224**	**6 657 944**	**546 648**	**25 305 816**
Financial assets held for trading	2 576 630	22 799	144 986	2 744 415
Derivative financial instruments	-	4 232 175	208 366	4 440 541
Other financial instruments at fair value through profit or loss	4 087 621	625 495	-	4 713 116
Hedging derivative financial instruments	-	157 899	-	157 899
Available for sale	11 436 973	1 619 576	193 296	13 249 845
Liabilities:	**405 979**	**5 054 935**	**90 936**	**5 551 850**
Financial liabilities held for trading	405 979	-	-	405 979
Derivative financial instruments	-	5 054 562	90 936	5 145 498
Hedging derivative financial instruments	-	373	-	373

(in PLN thousand)

As at 31 December 2007

	Method 1	Method 2	Method 3	Total
Assets:	**18 722 136**	**3 731 929**	**3 485 936**	**25 940 001**
Financial assets held for trading	2 367 024	18 042	780 047	3 165 113
Derivative financial instruments	-	1 678 476	244 482	1 922 958
Other financial instruments at fair value through profit or loss	3 251 268	526 461	-	3 777 729
Hedging derivative financial instruments	-	40 672	-	40 672
Available for sale	13 103 844	1 468 278	2 461 407	17 033 529
Liabilities:	**491 382**	**1 445 175**	**245 072**	**2 181 629**
Financial liabilities held for trading	491 382	-	-	491 382
Derivative financial instruments	-	1 416 210	245 072	1 661 282
Hedging derivative financial instruments	-	28 965	-	28 965

There are certain financial instruments which are not recognized at fair value in the financial statements of the Group. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm’s length transaction.

In the case of certain groups of financial assets held on the basis of the amount of the payment due including impairment it has been assumed that fair value is equal to book value. This applies in particular to cash and cash equivalents current receivables and liabilities as well as other assets and liabilities.

As no quoted market price is readily available for the customer loans the fair value has been estimated using valuation techniques assuming that on initial recognition fair value is equal to book value. Fair value of non impaired loans is equal to the sum of future expected cash flows discounted to the balance sheet date. The discount rate is the sum of the appropriate market risk free rate, credit spread and sales margin (including fees income) for relevant loan product. The fair value of impaired loans is equal to the sum of expected recoveries discounted to the balance sheet date using the market risk free rate as the credit risk is incorporated into the average expected recoveries.

The fair value of central investment loan is presented on a net basis with the fair value financing and refinancing with the loan from NBP. On a gross basis the fair value adjustment at the end of December 2008 amounts to PLN 310 million for the loan and PLN 292 million for the refinancing (at 31 December 2007 the fair value adjustment amounts to PLN 385 million for the loan and PLN 365 million for the refinancing).

For investment in equity investments that do not have a quoted market price in an active market the fair value cannot be measured reliably. For those investments the carrying book value has been presented as the fair value in the table below. These investments consist of shares in financial sector companies companies taken over by the Bank through bad debt restructuring/conversion and miscellaneous other.

Equity shares in financial sector companies are associated with the performance of various banking and financial services and credit card payment settlements. these include BIK S.A. MTS-CeTO S.A. GPW S.A. Mastercard. These equity investments are long-term investments and at present the Bank is not planning to divest thereof.

(in PLN thousand)

As at 31.12.2008	Book value	Fair value	Increase/decrease of fair value over the book value
Assets			
Cash, due from Central Bank	9 933 637	9 933 637	-
Loans and advances from banks	7 908 626	8 019 810	112 014
Financial assets held for trading	2 744 415	2 744 415	-
Derivative financial instruments	4 440 541	4 440 541	-
Other financial instruments at fair value through profit or loss	4 713 116	4 713 116	-
Loans and advances from customers *	79 078 823	79 203 798	125 487
Net investments in financial leases	3 437 383	3 437 383	-
Hedging instruments	157 899	157 899	-
Securities available for sale	13 249 845	13 249 845	-
Securities held to maturity	1 879 061	1 861 731	(17 330)
Investments in associates	308 756	308 756	-
Total	**127 852 102**	**128 072 273**	**220 171**

In the above table the fair value of assets and liabilities of UniCredit Bank Ltd. is equal to their book value. As no reliable market parameters are available for the Ukrainian market at this time, the faire value was not calculated.

As at 31.12.2007	Book value	Fair value	Increase/decrease of fair value over the book value
Assets			
Cash, due from Central Bank	5 121 210	5 121 210	-
Loans and advances from banks	16 960 034	16 962 904	2 870
Financial assets held for trading	3 165 113	3 165 113	-
Derivative financial instruments	1 922 958	1 922 958	-
Other financial instruments at fair value through profit or loss	3 777 729	3 777 729	-
Loans and advances from customers *	66 659 145	66 675 431	16 286
Net investments in financial leases	3 043 768	3 043 768	-
Hedging instruments	40 672	40 672	-
Securities available for sale	17 033 529	17 033 529	-
Securities held to maturity	586 890	592 117	5 227
Investments in associates	388 169	388 169	-
Total	**118 699 217**	**118 723 600**	**24 383**

As no quoted market price is readily available for customer deposits the fair value of deposits has been estimated using valuation techniques assuming that on initial recognition fair value is equal to book value. The fair value of term deposits is equal to the sum of future expected cash flows discounted to the balance sheet date. The discounting rate is the sum of appropriate market risk free rate and sales margin. In case that the term deposit can be withdrawn before maturity and the fair value is below the notional value it is assumed that the fair value is equal to the notional value. For the current deposits it is assumed that the fair value is equal to the notional value.

In the amount of customers' deposits in the Bank the adjustment for the fair value as at 31 December 2008 amounted for PLN (33 939) thousand (as at 31 December 2007 amounted for PLN 66 397 thousand) and PLN (22 833) thousand (as at 31 December 2007 amounted for PLN (2 496) thousand) for the banks' deposits. Core deposits were not considered in the fair value of deposits.

In the amount of debt securities in issue in the Group the adjustment for the fair value as at 31 December 2008 amounted for PLN (35 686) thousand (as at 31 December 2007 amounted for PLN (92 852) thousand).

For the other financial liabilities the Group assumes that the carrying amount is similar to fair value.

Mark-to-model valuation base on the present value estimations of future cash flows model. Future floating cash flows are estimated using rates from relevant markets rates (depending on issue specification). Fixed and implied cash flows are discounted using zero-coupon curves relevant for the issuer or market .

9. Custodial activities

The Bank's custodial activities are performed pursuant to a decision by the Financial Supervision Authority. Our clients include Polish and international financial institutions, custodian and investment banks, insurance companies, mutual and pension funds, as well as non-financial institutions. Our custodial services include, in particular, settlement of transactions executed on domestic and international financial markets, custody of assets, handling of securities and cash accounts, asset valuation, and services related to dividend and interest payments.

In 2008, the Bank continued to provide domestic and foreign financial institutions with custodial services in the territory of Poland, securities lending to ensure liquidity of their settlements, and settlement of derivatives market transactions. In the same period, the Bank won new clients, including foreign custodian banks and brokerage firms operating as remote members of the WSE, for which it acts as the clearing agent. Furthermore, we held on to our market leader position in depositary receipt programmes, handling more than 50% of such programmes.

10. Segment reporting

Segmentation by industry is the primary segmentation basis in the Group. Segmentation of assets by location is supplementary.
The Group settles transactions between segments as if they were unrelated entities – using current market prices. Funds transfers between Bank's business divisions, providing services to retail and corporate customers, and the treasury unit are based on market prices with reference to the funds currency and maturity.

Industrial sectors

Segment reporting of the Group covers the following areas:

- Retail banking – includes retail clients and small and micro companies with annual turnover not exceeding PLN 10 million and consolidated subsidiaries assigned to retail activity.
- Corporate banking – includes medium and large companies and consolidated subsidiaries assigned to corporate activity.
- Treasury and Investment activities includes activities in the inter-bank market, debt securities and capital investments in companies, which are not a part of other segments and consolidated subsidiaries assigned to this activity.

Information presented on the next side includes data covering continuing and discontinued operations. The result and the balance sheet data information covering discontinued operations are allocated to corporate banking activity.

(in PLN thousand)

Information on main segments' results for 2008:

	Retail activity	Corporate activity		Treasury and Investment activity	Total Group (Continuing operations)	Total Group (Continuing and discontinued operations)
		Continuing operations	Discontinued operations			
External interest income	2 973 848	3 054 649	-	2 210 175	8 238 672	8 238 672
External interest expense	1 259 115	1 797 007	(113)	672 952	3 729 074	3 729 187
Net external interest income	**1 714 733**	**1 257 642**	**(113)**	**1 537 223**	**4 509 598**	**4 509 485**
Internal interest income	2 790 903	3 511 281	-	(6 302 184)	-	-
Internal interest expense	1 620 438	2 996 522	-	(4 616 960)	-	-
Net internal interest income	**1 170 465**	**514 759**	**-**	**(1 685 224)**	**-**	**-**
Net interest income	**2 885 198**	**1 772 401**	**(113)**	**(148 001)**	**4 509 598**	**4 509 485**
Non interest income	**2 076 358**	**1 201 422**	**436 488**	**98 988**	**3 376 768**	**3 813 256**
Total income	**4 961 556**	**2 973 823**	**436 375**	**(49 013)**	**7 886 366**	**8 322 741**
Allocated assets	34 671 071	48 183 247		36 670 719	119 525 037	119 525 037
Unallocated assets					12 415 725	12 415 725
Total assets					**131 940 762**	**131 940 762**
Allocated liabilities	56 484 914	39 552 113		12 065 208	108 102 235	108 102 235
Unallocated liabilities					23 838 527	23 838 527
Total liabilities					**131 940 762**	**131 940 762**

Information on main segments' results for 2007:

	Retail activity	Corporate activity		Treasury and Investment activity	Total Group (Continuing operations)	Total Group (Continuing and discontinued operations)
		Continuing operations	Discontinued operations			
External interest income	1 384 221	1 744 763	-	1 542 655	4 671 639	4 671 639
External interest expense	410 729	1 158 076	2 916	384 732	1 953 537	1 956 453
Net external interest income	**973 492**	**586 687**	**(2 916)**	**1 157 923**	**2 718 102**	**2 715 186**
Internal interest income	1 402 121	1 322 424	-	(2 724 545)	-	-
Internal interest expense	670 393	1 204 026	-	(1 874 419)	-	-
Net internal interest income	**731 728**	**118 398**	**-**	**(850 126)**	**-**	**-**
Net interest income	**1 705 220**	**705 085**	**(2 916)**	**307 797**	**2 718 102**	**2 715 186**
Non interest income	**2 032 366**	**517 142**	**43 246**	**90 301**	**2 639 809**	**2 683 055**
Total income	**3 737 586**	**1 222 227**	**40 330**	**398 098**	**5 357 911**	**5 398 241**
Allocated assets	32 867 988	39 676 183	57 932	42 931 628	115 475 799	115 533 731
Unallocated assets					8 562 420	8 562 420
Total assets					**124 038 219**	**124 096 151**

(in PLN thousand)

Allocated liabilities	51 237 668	41 696 245	55 291	10 486 099	103 420 012	103 475 303
Unallocated liabilities					20 620 848	20 620 848
Total liabilities					**124 040 860**	**124 096 151**

The assumption of the budget model is that the business lines are budgeted and monitored at the gross revenues level. The expenses are managed centrally through dedicated units and as such are not dedicated to the business lines

Segmentation by geographical region

Operating activity of the Group is concentrated in Poland through the network of branches and Group's companies.

In addition to Poland the Group performs some activities in the following countries:

- Ukraine – through the subsidiary companies of Bank Pekao S.A.
- France – through the branch of Bank Pekao S.A. in Paris.

Results generated by activities of the Group performed through the branch of Bank Pekao S.A. in Paris are insignificant in comparison to the result of the whole Group.

	Poland	**Ukraine**	**Total Group**
2008			
External revenue	8 094 775	227 966	8 322 741
Segment assets	115 562 095	3 962 942	119 525 037
2007			
External revenue	5 256 684	141 557	5 398 241
Segment assets	112 616 968	2 916 763	115 533 731

11. Interest income and expense

Interest income

	2008	2007
Income on placements in other banks	506 305	482 429
Income on other placements on money market	123 433	62 194
Income on loans and advances from customers	6 193 379	3 169 811
Income on investment securities	1 000 921	781 259
Income on financial assets held for trading	169 865	73 048
Income on financial assets designated at fair value through profit and loss	244 769	102 898
Total	**8 238 672**	**4 671 639**

Interest expense

	2008	2007
Expense on other banks' deposits	(282 519)	(126 788)
Expense on other deposits on the money market	(373 457)	(153 601)
Expense on customers' deposits	(2 599 470)	(1 299 454)
Expense on obtained loans	(280 910)	(299 811)
Expense due to the amortization of premium on securities	(44 798)	(58 618)
Expense on debt securities	(148 033)	(18 181)
Total	**(3 729 187)**	**(1 956 453)**

Total interest income for the year 2008, measured at amortized cost using the effective interest rate method, with reference to financial assets which are not valued at fair value through profit and loss, amounted to PLN 5 305 771 thousand (for the year 2007: PLN 3 374 071 thousand). Interest expense for the year 2008, calculated at amortized cost using the effective interest rate method, with reference to financial liabilities which are not valued at fair value through profit and loss, amounted to PLN 3 123 260 thousand (for the year 2007 PLN: 1 699 097 thousand).

(in PLN thousand)

12. Fee and commission income and expense

Fee and commission income

	2008	2007
Accounts maintenance and payment orders	986 607	672 660
Acquisition services	371 229	769 394
Payment cards	784 016	487 075
Credits and loans granted	292 975	211 787
Securities operations	104 744	196 132
Custody activity	58 646	33 647
Servicing of pension and investment funds	77 952	70 918
Guarantees, letters of credit and similar operations	45 395	33 821
Other	131 480	43 230
Total	**2 853 044**	**2 518 664**

Fee and commission expense

	2008	2007
Payment cards	(389 924)	(231 721)
Securities operations	(19 005)	(27 410)
Acquisition services	(31 777)	(16 030)
Custody activity	(5 263)	(4 897)
Accounts maintenance	(6 765)	(5 092)
Bank drafts and transfers	(25 296)	(7 204)
Management of pension funds	(3 720)	(3 041)
Other	(29 478)	(18 961)
Total	**(511 228)**	**(314 356)**

13. Dividend income

	2008	2007
Dividend income from the issuers:		
Securities classified as available for sale	5 053	251
Subsidiaries	16	-
Associates	285	-
Securities classified as held for trading	-	105
Securities classified as valued at fair value through profit and loss	44	1
Total	**5 398**	**357**

14. Result on financial instruments at fair value

a/ Result on assets and liabilities held for trading

	2008	2007
Derivative instruments	125 089	9 995
Equity instruments	(378)	204
Debt instruments	25 949	25 179
Total	**150 660**	**35 378**

b/ Result on financial assets and financial liabilities at fair value through profit and loss

	2008	2007
Debt instruments	(93 626)	(13 568)
Equity instruments	(4)	2
Total	**(93 630)**	**(13 566)**

(in PLN thousand)

Total result on financial instruments valued at fair value (a+b)	**57 030**	**21 812**

Total change in the fair value of financial instruments valued at fair value through profit and loss established using valuation techniques (where no established quotations were published on the active market) in the year 2008 was PLN 124 052 thousand (in the year 2007: PLN 13 981 thousand respectively).

15. Realized result on investment securities

Realized gains (losses) on financial assets and liabilities other than valued at fair value through profit and loss

	2008	2007
Realized profit		
Financial assets available for sale	98 493	40 771
Investments held to maturity	2 815	-
Debt securities in issue	1 267	80
Total	**102 575**	**40 851**
Realized losses		
Financial assets available for sale	(16 783)	(2 694)
Investments held to maturity	(1 556)	-
Debt securities in issue	(5 831)	(199)
Total	**(24 170)**	**(2 893)**
Net realized profit	**78 405**	**37 958**

The change in the fair value of financial assets available for sale recognized in the year 2008 directly in equity amounted to PLN 295 428 thousand (increase of equity) (in the year 2007 PLN 224 800 thousand (decrease of equity)).

Profits and losses from financial assets moved in the year 2008 from equity to profit and loss account amounted to PLN 81 710 thousand (profit) (in the year 2007, PLN 38 077 thousand profit).

16. Other operating income and expense

Other operating income	2008	2007
Gains on sale of due from customers, properties and other assets	132 277	29 746
Rent and other revenue	68 540	22 932
Recovery of prescribed, written-off against provisions and bad debts	33 246	15 245
Releases of provisions for liabilities	55 259	13 323
Income from waved liabilities	19 676	-
Gains on sale of equity investments	16 648	17 365
Recovery administrative costs	17 960	3 800
Credit insurance	20 143	17 002
Recovery of debt collection costs	11 366	5 884
Releases of provisions for other assets	10 362	20 369
Compensation, fees and penalties	3 185	4 712
Revenue from advisory services	-	1 646
Other	44 492	28 593
Total	**433 154**	**180 617**

(in PLN thousand)

Other operating expense	2008	2007
Debt recovery costs	(20 049)	(13 928)
Losses on disposal of due from customers, properties and other assets	(21 172)	(5 787)
Credit insurance	(15 421)	(14 544)
Customer complaints	(4 305)	(2 646)
Provision charges for liabilities	(5 629)	(24 267)
Impairment of intangible and tangible fixed assets and other assets	(6 529)	(3 843)
Donations	(3 639)	(3 059)
Debts written off's	(775)	(1 012)
Compensations, fees and penalties	(264)	(713)
Other	(47 029)	(22 054)
Total	**(124 812)**	**(91 853)**

17. Administrative costs

	2008	2007
Payroll and employee benefits	(1 857 840)	(1 410 380)
including:		
Wages and salaries	(1 578 907)	(1 183 148)
Insurance and other charges related to employees	(273 619)	(220 900)
Pension programs costs due to defined contributions programs	(1 666)	(1 981)
Cost of share-based payments	(3 648)	(4 351)
Other general and administrative expenses	(1 432 332)	(967 938)
Amortization and depreciation	(413 043)	(339 394)
Taxes and charges	(42 029)	(27 506)
Annual Bank Guarantee Fund fee	(16 300)	(8 403)
Polish Financial Supervision Authority (PFSA) fee	(26 212)	-
Total	**(3 787 756)**	**(2 753 621)**

18. Net provision charges for financial assets and contingent liabilities and commitments

	2008	2007
Provision charges		
Loans to clients and receivables from banks	(1 305 404)	(1 787 220)
Financial lease receivables	(49 780)	(29 772)
Financial assets available for sale	(1)	(12 079)
Investments held to maturity	(37)	(28)
Investments in subordinated	-	(4)
Derivative financial instruments	(71 831)	-
Contingent liabilities and commitments	(106 089)	(240 058)
Total	**(1 533 142)**	**(2 069 161)**
Provision releases		
Loans to clients and receivables from banks	1 035 644	1 631 713
Financial lease receivables	42 108	24 113
Financial assets available for sale	3 350	80
Investments held to maturity	37	118
Investments in subordinated	1 672	-

(in PLN thousand)

Contingent liabilities and commitments	156 616	220 791
Total	**1 239 427**	**1 876 815**
Net provision changes	**(293 715)**	**(192 346)**

(in PLN thousand)

19. Impairment

Year 2008	**Impairment at the end of previous period**	Increase: Impairment charges during period	Increase: Foreign exchange differences	Increase: Other	Decrease: Write off of assets from the balance sheet	Decrease: Release of the provisions	Decrease: Foreign exchange differences	Decrease: Other (*)	**Impairment charges balance at the end of the period**	Influence on the profit and loss statement
Impairment of the financial assets valued at the fair value through the profit and loss:										
Derivative financial instruments (**)	**-**	71 831	**-**	**-**	**-**	**-**	**-**	**-**	**71 831**	**71 831**
Impairment of the financial assets not valued at the fair value through the profit and loss:										
Financial assets available for sale	**21 852**	1	138	5 013	-	(3 350)	-	(4 721)	**18 933**	(3 349)
Loans to clients and receivables from banks valued at amortized cost	**4 675 368**	1 305 404	221 249	1 189	(53 392)	(1 043 277)	(174 164)	(910 005)	**4 022 372**	262 127
Financial lease receivables	**209 408**	49 780	-	2 283	(32 157)	(42 108)	-	(2 897)	**184 309**	7 672
Investments held to maturity valued at amortized cost	**104**	37	17	-	-	(37)	-	-	**121**	-
Impairment of:										
Fixed assets	**16 649**	452	361	309	-	(68)	-	(3 302)	**14 401**	384
Investment real estate property	**8 773**	550	546	110	-	-	-	-	**9 979**	550
Intangible assets	**11 331**	-	-	-	-	-	-	(119)	**11 212**	-
Goodwill		-	-	-	-	-	-	-	**-**	-
Other intangible assets	**11 331**	-	-	-	-	-	-	(119)	**11 212**	-
Impairment of the investments in associates	**4 910**	-	548	-	-	(1 672)	-	-	**3 786**	(1 672)
Other	**136 964**	5 527	-	929 532	(2 033)	(2 661)	(428)	(922 519)	**144 382**	2 866
Total	**5 085 359**	**1 433 582**	**222 859**	**938 436**	**(87 582)**	**(1 093 173)**	**(174 592)**	**(1 843 563)**	**4 481 326**	**340 409**

(*) The amount of PLN 910 005 thousand represents the credit risk allowance balance related to receivables classified to position "Assets classified as held for sale"
(**) in this the amount of PLN 26.2 million relating strictly to fx options and PLN 45.3 million for companies highlighting structural problems related to their industrial activity and with outstanding derivatives transactions within their exposures in the Bank.

(in PLN thousand)

Year 2007	**Impairment at the end of previous period**	Increase					Decrease				**Impairment charges balance at the end of the period**	Influence on the profit and loss statement
		Disposal due from the full method consolidation	Merger of "Pekao 285"	Impairment charges during period	Foreign exchange differences	Other	Write off of assets from the balance sheet	Release of the provisions	Foreign exchange differences	Other		
Impairment of the financial assets not valued at the fair value through the profit and loss:												
Financial assets available for sale	**7 591**	-	2 788	12 079	-	-	(427)	(80)	(99)	-	**21 852**	11 999
Loans to clients and receivables from banks valued at amortized cost	**3 694 842**	58 515	1 050 961	1 787 220	32 320	-	(216 672)	(1 631 713)	(99 852)	(253)	**4 675 368**	155 507
Financial lease receivables	**211 576**	39 769	-	29 772	-	-	(47 596)	(24 113)	-	-	**209 408**	5 659
Investments held to maturity valued at amortized cost	**202**	**-**	-	28	-	-	-	(118)	(8)	-	**104**	(90)
Impairment of:												
Fixed assets	**3 372**	865	12 884	475	-	57	-	-	(153)	(851)	**16 649**	475
Investment real estate property	**8 654**	-	-	-	-	350	-	-	-	(231)	**8 773**	-
Intangible assets	**11 212**	-	-	143	-	-	-	-	-	(24)	**11 331**	143
Goodwill	**-**	-	-	-	-	-	-	-	-	-	**-**	-
Other intangible assets	**11 212**	-	-	143	-	-	-	-	-	(24)	**11 331**	143
Impairment of the investments in associates	**2 234**	**-**	3 066	4	-	-	-	-	(364)	(30)	**4 910**	4
Other	**136 458**	119	16 755	3 617	445	1 916	(1 203)	(20 369)	-	(774)	**136 964**	(16 752)
Total	**4 076 141**	**99 268**	**1 086 454**	**1 833 338**	**32 765**	**2 323**	**(265 898)**	**(1 676 393)**	**(100 476)**	**(2 163)**	**5 085 359**	**156 945**

(in PLN thousand)

Write-downs and write-backs related to impairment of loans, advances and other financial assets and impairment reversals are presented in the profit and loss account under “Net provision charges for financial assets and contingent liabilities and commitments”. Write-downs for depreciation of other assets are presented under other operating expenses, reversals of write-downs for depreciation of other assets are presented under other operating income.

20. Share of profit (loss) of associates and joint venture entities valued at the equity method

	2008	2007
Entity name		
Xelion. Doradcy Finansowi Sp. Z o. o	(7 605)	(6 570)
Pioneer Pekao Investment Management S.A.	95 412	139 449
Krajowa Izba Rozliczeniowa S.A.	12 964	5 369
Pirelli Pekao Real Estate Sp. z o.o.	4 021	13 211
Central Poland Fund LLC	(84)	(263)
“Anica” System S.A.	-	1 113
Biuro Informacji Kredytowej	-	567
Total	**104 708**	**152 876**

21. Income tax

The Capital Group’s tax charge for the year 2008 amounting to PLN 805 042 thousand consists of the following positions:

- tax charge relating to continuing operations in the amount of PLN 721 690 thousand
- tax charge on gain on sale of discontinued operations in the amount of PLN 83 408 thousand
- tax charge relating to discontinued operations in the amount of PLN (56) thousand

The additional information notes placed below present the Group gross profit’s tax charge both for continuing operations as well as for discontinued activity.

Reconciliation between tax calculated by applying the current tax rate to accounting profit and the actual tax charge presented in the consolidated profit and loss account.

	2008	2007
Accounting gross profit	**4 345 978**	**2 605 151**
Tax at applicable tax rate at 19%	**825 736**	**494 979**
Tax effect of the permanent differences	**(20 694)**	**(52 305)**
Non taxable income	(25 052)	(54 049)
Non tax deductible costs	26 010	21 236
Impact of other tax rates applied under a different tax jurisdiction	4 914	2 686
Impact of utilised tax losses	(1 005)	(7 560)
Tax relieves not included in the profit and loss account	340	(4 282)
Other	(25 901)	(10 336)
The effective tax charge of the accounting profit	**805 042**	**442 674**

The applicable tax rate at 19% is the binding in Poland corporate income tax rate.

(in PLN thousand)

The basic components of income tax charge presented in the profit and loss account and in the net equity.

Consolidated profit and loss account	2008	2007
Current income tax	**(843 072)**	**(447 890)**
Current tax charge disclosed in the profit and loss account	(821 802)	(460 064)
Adjustments related to the tax from previous years	(10 742)	14 996
Other taxes (for example: withholding tax, income tax relating to foreign branches)	(10 528)	(2 822)
Deferred income tax	**38 030**	**5 216**
Due to the occurrence and reversal of timing differences	38 030	2 286
The tax charge resulting from partial or entire write off or reversal of prior write-offs of the deferred tax assets connected with the probability of taxable income realisation	-	2 930
Tax charge disclosed in the consolidated profit and loss account	**(805 042)**	**(442 674)**
Equity		
Deferred income tax	**(71 443)**	**60 998**
Due to the occurrence and reversal of timing differences	(71 443)	60 998
Tax charge disclosed in the consolidated equity	**(71 443)**	**60 998**
Total	**(876 485)**	**(381 676)**

(in PLN thousand)

Deferred income tax assets/liabilities

	As at 31 December 2007			Change in temporary differences in the year 2008				As at 31 December 2008		
				Changes recognized in		Change being the result of change in scope of consolidation and other changes				
	Total deferred tax	profit and loss account	equity	profit and loss account	equity	in profit and loss account	equity	Total deferred tax	profit and loss account	equity
				Deferred tax liability						
Income receivable from the securities	93 097	93 097	-	669	-	(429)	-	93 337	93 337	-
Income receivable from loans given	236 131	236 131	-	19 613	-	-	-	255 744	255 744	-
Upward revaluation of the financial assets	397 034	397 034	-	66 883	6 776	-	-	470 692	463 917	6 776
Accelerated depreciation	119 767	119 767	-	(4 805)	-	-	-	114 962	114 962	-
Investment relief	25 015	25 015	-	(663)	-	-	-	24 352	24 352	-
Other	23 528	23 528	-	(8 118)	-	(83)	-	15 327	15 327	-
Gross deferred tax liability	**894 572**	**894 572**	**-**	**73 579**	**6 776**	**(512)**	**-**	**974 414**	**967 639**	**6 776**
				Deferred tax asset						
Future costs related to securities	701	701	-	(499)	-	(17)	-	185	185	-
Future costs related to deposits and loans received	216 664	215 211	1 453	38 654	-	1 360	(1 453)	255 225	255 225	-
Unrealized losses on financial instruments	500 413	435 746	64 667	63 837	(64 667)	-	-	499 583	499 583	-
Income received to be accounted for over time from the loans and current accounts	98 059	98 059	-	25 344	-	(3 016)	-	120 387	120 387	-
Costs due to the loan provisions charges	353 813	349 909	3 904	6 698	-	3 046	(3 904)	359 653	359 653	-
Personnel costs provisions	84 298	84 032	266	(15 830)	-	(112)	(266)	68 090	68 090	-
Accruals	21 536	21 536	-	(2 102)	-	-	-	19 434	19 434	-
Uncovered losses from previous years	15 199	15 199	-	(15 032)	-	-	-	167	167	-
Other	22 558	22 558	-	10 539	-	(243)	-	32 854	32 854	-
Gross deferred tax assets	**1 313 241**	**1 242 951**	**70 290**	**111 609**	**(64 667)**	**1 018**	**(5 623)**	**1 355 578**	**1 355 578**	**-**
Deferred tax charge	**x**	**x**	**x**	**38 030**	**(71 443)**	**1 530**	**(5 623)**	**x**	**x**	**x**
Net deferred tax assets	**418 993**	**348 703**	**70 290**	**x**	**x**	**x**	**x**	**383 711**	**390 498**	**(6 787)**
Net provision for the deferred tax	**324**	**324**	**-**	**x**	**x**	**x**	**x**	**2 547**	**2 558**	**(11)**

(in PLN thousand)

	As at 31 December 2006			Changes recognized in		Increase being the result of merger with Bank BPH (including the consolidation of entities form Bank BPH Capital Group) recognized in		Change being the result of change in scope of consolidation and other changes		As at 31 December 2007		
	total deferred tax	profit and loss account	equity	profit and loss account	equity	profit and loss account	equity	in profit and loss account	equity	total deferred tax	profit and loss account	Equity
				Deferred tax liability								
Income receivable from the securities	300	300		41 359	(3 720)	51 438	3 720	-	-	93 097	93 097	-
Income receivable from loans given	240 734	240 734		(52 188)	-	47 585	-	-	-	236 131	236 131	-
Upward revaluation of the financial assets	117 068	117 068		87 400	(4 264)	192 551	4 264	15	-	397 034	397 034	-
Accelerated depreciation	118 535	118 535		(25 611)	-	26 705	-	138	-	119 767	119 767	-
Investment relief	8 120	8 120		16 895	-	-	-	-	-	25 015	25 015	-
Other	8 385	8 385		(29 422)	-	44 363	-	202	-	23 528	23 528	-
Gross deferred tax liability	**493 142**	**493 142**	**-**	**38 433**	**(7 984)**	**362 642**	**7 984**	**355**	**-**	**894 572**	**894 572**	**-**
				Deferred tax asset								
Future costs related to securities	24 619	24 619	-	(26 735)	(1 829)	2 817	1 829	-	-	701	701	-
Future costs related to deposits and loans received	207 730	207 730	-	(43 761)	1 453	50 995	-	247	-	216 664	215 211	1 453
Unrealized losses on financial instruments	120 431	117 521	2 910	132 828	49 220	185 382	12 537	15	-	500 413	435 746	64 667
Income received to be accounted for over time from the loans and current accounts	60 928	60 928	-	(3 902)	-	40 846	-	187	-	98 059	98 059	-
Costs due to the loan provisions charges	271 380	271 380	-	(8 902)	3 904	87 432	-	(1)	-	353 813	349 909	3 904
Personnel costs provisions	60 728	60 728	-	21 651	266	1 697	-	(44)	-	84 298	84 032	266
Accruals	11 553	11 553	-	(16 697)	-	26 849	-	(169)	-	21 536	21 536	-
Uncovered losses from previous years	17 050	17 050	-	(1 851)	-	-	-	-	-	15 199	15 199	-
Other	23 117	23 117	-	(8 982)	-	8 556	-	(133)	-	22 558	22 558	-
Gross deferred tax assets	**797 536**	**794 626**	**2 910**	**43 649**	**53 014**	**404 574**	**14 366**	**102**	**-**	**1 313 241**	**1 242 951**	**70 290**
Deferred tax charge	x	x	x	**5 216**	**60 998**	**41 932**	**6 382**	**(253)**	**-**	x	x	x
Net deferred tax assets	**304 394**	**301 484**	**2 910**	x	x	x	x	x	x	**418 993**	**348 703**	**70 290**
Net provision for the deferred tax	**-**	**-**	**-**	x	x	x	x	x	x	**324**	**324**	**-**

(in PLN thousand)

As at 31 December 2008 and 31 December 2007 there were no temporary differences related to investments in subsidiaries, branches, affiliates, and joint ventures, for which no deferred tax liability was created due to meeting the condition to control the timing of reversal of the differences and existence of high probability that the differences will not reverse in a foreseeable future.

The amount of negative temporary differences, unsettled tax losses, unused tax relieves, in relation to which no deferred tax asset was recognized in the balance sheet, along with the date those differences will elapse is presented in the below table.

Year when timing differences elapse	The amount of differences as at 31.12.2008	The amount of differences as at 31.12.2007
2008	-	3 410
2009	4 033	4 330
2010	-	-
2011	4 657	4 876
2012	2 520	2 520
2013	-	-
2014	-	-
Bezterminowo	33 111	58 570
Razem	**44 321**	**73 706**

22. Earnings per share from continuing and discontinued operations

Basic earnings per share

Basic earnings per share are calculated by dividing net profit attributable to ordinary shareholders of the holding company by the weighted average number of ordinary shares issued during the given period.

Earnings per share

	2008	2007
Net profit attributed to ordinary shareholders	3 527 964	2 155 478
Weighted average number of ordinary shares in the period	262 180 259	175 645 529
Earnings per each share (PLN per share)	13.46	12.27

Diluted earnings per share

Diluted earnings per share are calculated based on the respective profit of ordinary shareholders of the holding company by dividing the profit of such shareholders by the average weighted number of ordinary shares listed during a given period adjusted for all potentially diluting ordinary shares.

There are diluting instruments in the Group in the form of convertible bonds. For calculation purposes it is assumed that these will be converted into shares.

	2008	2007
Net profit attributed to ordinary shareholders	3 527 964	2 155 478
Weighted average number of ordinary shares in the period	262 180 259	175 645 529
Adjustments to the number of shares for the purpose of calculating the diluted earnings per share	103 533	194 360
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 283 792	175 839 889
Diluted earnings per each share (PLN per share)	13.45	12.26

(in PLN thousand)

23. Recommendation not to pay out dividend

Management Board of Bank Polska Kasa Opieki S.A., having received the positive opinion of the Supervisory Board, will submit to the Ordinary General Meeting the proposal of allocation to Bank's basic funds of the entire net profit for year 2008.

Such a recommendation will contribute to achieve an extraordinary high level of capital adequacy ratio what is especially important in the circumstances of volatility of the macroeconomic environment and allowing Bank to be in a privileged position to capture business opportunities moving forward.

The final distribution of Bank net profit for year 2008 is subject to approval of the Ordinary General Meeting.

24. Cash due from Central Bank

	31.12.2008	31.12.2007
Cash	3 157 812	2 570 892
Current account in the Central Bank	5 006 653	802 474
NBP bonds *	1 686 707	1 687 171
Interest	81 058	59 105
Other funds	1 407	1 568
Total	**9 933 637**	**5 121 210**

(*) The NBP bond is a non-quoted debt security with maturity on 1st March 2012 issued in relation to reduction of the obligatory reserve rate. The bond is not included under “cash” in the cash flows statement.

In the course of the day the Bank may use funds in the mandatory reserve account for ongoing payments pursuant to an instruction submitted to the National Bank of Poland. It must however. ensure that the average monthly balance in such accounts comply with the requirements described in the mandatory reserve declaration.

Funds on the mandatory reserve account bear interest in the amount of 0.9 of the rediscount rate for bills of exchange amounts as at 31 December 2008 5.25%. As at 31 December 2008 this interest amounted to 4.73%.

25. Loans and receivables from banks

	31.12.2008	31.12.2007
Current accounts	2 528 937	4 623 105
Deposits and advances from other banks	899 562	7 876 793
Loans and advances	2 041 917	484 388
Unquoted securities	1 531 430	13 684
Repo transactions	649 600	2 564 669
Funds in transit	309 378	1 345 259
Interest	48 599	81 431
Total gross	**8 009 423**	**16 989 329**
Provision for the impairment of receivables	(100 797)	(29 295)
Total net	**7 908 626**	**16 960 034**

The floating interest rate due from banks as at 31 December 2008 amounts to PLN 309 653 thousand (as at 31 December 2007: PLN 762 526 thousand) fixed interest rate due from banks amounts to PLN 7 341 793 thousand (as at 31December 2007: PLN 13 461 461 thousand).

(in PLN thousand)

As at 31 December 2008	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value
Current account	2 528 937	-	-	-	2 528 937
Deposits in other banks	839 562	60 000	(54 000)	-	845 562
Loans given	1 987 723	54 194	(19 459)	(26 315)	1 996 143
Unlisted securities	1 530 407	1 023	(1 023)	-	1 530 407
Repo transactions	649 600	-	-	-	649 600
Funds in transit	309 378	-	-	-	309 378
Interest	48 434	165	-	-	48 599
Total	**7 894 041**	**115 382**	**(74 482)**	**(26 315)**	**7 908 626**

* Includes the estimated impairment for losses incurred but not reported (IBNR)

As at 31 December 2007	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value
Current account	4 623 105	-	-	-	4 623 105
Deposits in other banks	7 876 793	-	-	-	7 876 793
Loans given	403 805	80 583	-	(28 454)	455 934
Unlisted securities	12 843	841	(841)	-	12 843
Repo transactions	2 564 669	-	-	-	2 564 669
Funds in transit	1 345 259	-	-	-	1 345 259
Interest	81 424	7	-	-	81 431
Total	**16 907 898**	**81 431**	**(841)**	**(28 454)**	**16 960 034**

*Includes the estimated impairment for losses incurred but not reported (IBNR)

26. Financial assets held for trading

	31.12.2008	31.12.2007
Debt securities	2 744 415	3 165 113
- issued by the State Treasury	2 599 428	2 385 068
- issued by local governments	-	4 503
- issued by non-financial entities	55 642	504 538
- issued by non bank financial entities	34 062	153 061
- issued by other banks	55 283	117 943
Stock and shares in other entities	-	-
Other financial instruments	-	-
Total financial assets held for trading	**2 744 415**	**3 165 113**

(in PLN thousand)

Financial assets held for trading - breakdown

	31.12.2008	31.12.2007
1. Debt securities		
a) with embedded instrument		
- quoted	3 853	4 459
- unquoted	-	-
b) other		
- quoted	2 572 776	2 263 553
- unquoted	167 786	897 101
2. Stock and shares		
- quoted	-	-
- unquoted	-	-
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total financial assets held for trading	**2 744 415**	**3 165 113**

(in PLN thousand)

Financial assets held for trading according to residual maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
As at 31 December 2008	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by the State Treasury	100 467	8.14	64 829	5.48	1 653 256	5.84	568 730	5.53	212 146	5.47	-	**2 599 428**	5.82
- issued by local governments	-	-	-	-	-	-	-	-	-	-	-	**-**	-
- issued by non-financial entities	30 298	6.08	25 252	6.12	92	14.02	-	-	-	-	-	**55 642**	6.11
- issued by non bank financial entities	34 062	5.64	-	-	-	-	-	-	-	-	-	**34 062**	5.64
- issued by other banks	35 448	5.37	19 835	5.54	-	-	-	-	-	-	-	**55 283**	5.43
Shares and stock in other entities													
- listed on the stock exchanges	-	-	-	-	-	-	-	-	-		-	-	
- not listed	-	-	-	-	-	-	-	-	-		-	-	
Total	**200 275**	**6.91**	**109 916**	**5.64**	**1 653 348**	**5.84**	**568 730**	**5.53**	**212 146**	**5.47**	**-**	**2 744 415**	**5.82**
Including interest	2 662	-	-	-	25 118	-	20 291	-	7 456	-	-	**55 527**	-

(in PLN thousand)

Financial assets held for trading according to residual maturities:

	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		undefined maturity	Total	
As at 31 December 2007	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by the State Treasury	111 402	10.99	151 808	5.40	275 621	5.80	1 324 213	5.73	522 024	5.20	-	**2 385 068**	5.85
- issued by local governments	-	-	-	-	4 503	15.00	-	-	-	-	-	**4 503**	15.00
- issued by non-financial entities	286 392	5.26	188 351	5.75	29 795	9.77	-	-	-	-	-	**504 538**	5.71
- issued by non bank financial entities	119 864	5.34	33 197	5.63	-	-	-	-	-	-	-	**153 061**	5.40
- issued by other banks	84 794	5.11	21 490	7.27	11 659	13.00	-	-	-	-	-	**117 943**	6.28
Shares and stock in other entities													
- listed on the stock exchanges	-	-	-	-	-	-	-	-	-	-	-	-	-
- not listed	-	-	-		-		-		-		-	-	-
Total	**602 452**	**6.32**	**394 846**	**5.69**	**321 578**	**6.56**	**1 324 213**	**5.73**	**522 024**	**5.20**	**-**	**3 165 113**	**5.83**
Including interest	2 718	-	818	-	1 241	-	18 468	-	8 716	-	-	**31 961**	-

27. Derivative financial instruments held for trading

Derivatives used by the Group

In its operations the Group uses different financial derivatives for managing the risk involved in the Group's business. The majority of derivatives used by the Group include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include either the obligation or right to purchase or sell foreign and domestic currency assets. Forward operations are based on the exchange rate specified during the transaction for a predefined date in the future. These transactions are valuated using the discounted cash flow models. Cash flows are discounted by zero-coupon curves relevant for the market.

Foreign exchange swaps combine the exchange of specific currencies as of the spot date and a reverse transaction as of the forward date with the exchange rates specified in advance during the conclusion of the contract. In these transactions an exchange of principals takes place. Foreign exchange swap transactions are mostly concluded in the process of managing the Group's currency liquidity. These transactions are valuated using the discounted cash flow models. Cash flows are discounted by zero-coupon curves relevant for the market.

Foreign exchange options with delivery are contracts where one of the parties the option buyer, purchases from the other party the option issuer at a so-called premium price the right without the obligation to buy (call option) or sell (put option) at a specified point in the future or during a specified time range a foreign currency amounts specified in the contract at the exchange rate set during the conclusion of the option.

In case of non-delivery options buyer of the option receives either amount of money equal to product of notional and difference between spot and strike price or nothing.

Barrier option with one barrier is type of option where the option exercise depends on the underlying crossing or reaching a given barrier level. Barrier may be reached starting from lower ("up") or from higher ("down") level of the underlying instrument. "In" options start their lives worthless and only become active in the event a predetermined knock-in barrier price is breached. "Out" options start their lives active and become null and void in the event a certain knock-out barrier price is breached.

Currency options are valuated on base of Garman-Kohlhagen model while barrier and Asian options on base of so-called extended Garman-Kohlhagen model. Parameters of the model base on market quotations of plain-vanilla at-the-money options and market spreads of out-of-the-money and in-the-money options (volatility smile) for standard maturities.

Derivatives relating to interest rates enable the Group and its customers to transfer modify or limit the interest rate risk.

Interest rate swaps are contracts where parties swap between themselves interest cash flows calculated on a specified nominal value of the base instrument currency. These transactions are valuated using the discounted cash flow models. Floating (implied) cash flows are estimated on base of respective IRS rates. Floating and fixed cash flows are discounted by relevant zero-coupon money market rates.

Forward rate agreements involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement. As the basis for settlements on value date the Parties will use the interest rate difference which will be in proportion to the nominal amount of the agreement and difference between the FRA rate (term rate as of the date of the transaction) and the reference rate. These transactions are valuated using the discounted cash flow model.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. These transactions are valuated using the discounted cash flow models. Valuation of Basis Swap transactions takes into account market quotations of basis spread as well.

In forward transactions on securities counterparties agree to buy or sell specified security on forward date for payment fixed on transaction date. This kind of transactions are valuated by valuation of the paper (mark-to-market or mark-to-model) and by valuation of the payment (discount method based on money market rate).

Interest rate options (cap/floor) are contracts where one of the parties the option buyer, purchases from the other party, the option issuer at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. These transactions are valuated using the Black model. Parameters of the model base on market quotations of plain-vanilla at-the-money options for standard maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on stock markets. Futures for stock market indices and shares are contracts listed on the Warsaw Stock Exchange. Contracts for indices refer to transactions based on MIDWIG indices.

These contracts are valuated at direct quotations from respective stock exchanges.

Derivatives embedded in other instruments

The group uses derivatives embedded in complex financial instruments, i.e. such as including both a derivative and base agreement, which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Brady bond options are derivatives embedded in balance sheet financial instruments. In this case, embedded financial instruments are closely related to the base contract and thus the embedded derivative does not need to be isolated or recognized and valuated separately.

The Bank has deposits and certificates of deposits on offer which include embedded derivatives. Because this kind of instruments are not closely related to their respective deposit agreements, the embedded derivative is isolated and classified into the trading portfolio. The valuation of that instrument is recognized in the profit and loss account.

Embedded derivatives are plain vanilla options and exotic options for shares, markets shares index and other market indexes including interest rates indexes, foreign exchange rates and its baskets.

All embedded options are immediately closed back-to-back on interbank market.

Currency options embedded in deposits are valuated as other currency options.

Plain vanilla options (excluding currency options, currency options for baskets) embedded in deposits are valuated on base of extended Black-Sholes model using statistical measure of volatility.

Exotic options, including basket options, are valuated by Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Parameters of the model are set using statistical measures.

The Group analyzed the loan agreement portfolio and the ordinary agreement portfolio in order to isolate embedded derivatives and decided that such agreements do not require isolation and separate treatment of embedded instruments.

Risk involved in financial derivatives

Market risk and credit risk are two main categories of derivatives-related risk.

At the beginning, financial derivatives usually have a small market value or no market value at all. This is due to the fact that derivatives require no initial net investment or require only minor net investments as compared with other agreements which react to changes in market conditions in a similar way.

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities prices of commodities currency exchange rates price index credit standing or credit index or another market parameter. This results in derivatives becoming more or less advantageous than instruments with similar residual maturity available on the market at the same time.

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement the Group uses the same method as for credit risk assessment. In order to control its credit risk levels the Group performs assessments of other contract parties using the same methods as for of credit decisions.

The following tables present nominal amounts of financial derivatives and fair values of such derivatives. Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments but need not necessarily indicate what future cash flow amounts will be or what the current fair value of such instruments is and therefore do not reflect the Group's credit or price risk level.

Derivatives become advantageous (assets) or disadvantageous (liabilities) due to fluctuations of market interest rates, indices or foreign exchange rates as compared with their terms.

As the result of significant increase of credit risk embedded in currency derivatives concluded with non-banking customers that occurred in 4th quarter 2008 the Bank performed a review of those derivatives as at 31 December 2008. Following the review appropriate allowance for credit risk was provided.

(in PLN thousand)

Financial derivatives held for trading as at 31 December 2008

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
Currency swaps	45 949 272	6 953 797	2 492 348	157 055	-	55 552 472	(1 638 951)	374 454
Purchase	22 406 742	3 473 971	1 189 353	74 671	-	27 144 737		
Sale	23 542 530	3 479 826	1 302 995	82 384	-	28 407 735		
Currency forward contracts	7 837 031	3 778 855	7 920 565	1 272 566	-	20 809 017	(296 178)	890 990
Purchase	3 956 075	1 945 084	4 120 643	667 692	-	10 689 494		
Sale	3 880 956	1 833 771	3 799 922	604 874	-	10 119 523		
Currency options	2 228 156	3 571 912	9 089 761	1 771 849	-	16 661 678	(391 714)	473 485
Purchase	1 119 615	1 788 992	4 534 516	886 669	-	8 329 792		
Sale	1 108 541	1 782 920	4 555 245	885 180	-	8 331 886		
Cross Currency IRS	-	-	384 351	11 100 431	1 515 227	13 000 009	(202 213)	340 008
Purchase	-	-	206 500	5 511 410	795 227	6 513 137		
Sale	-	-	177 851	5 589 021	720 000	6 486 872		
Interest rate transactions								
Interest rate swaps (IRS)	5 396 493	5 001 809	29 018 478	51 720 513	17 742 777	108 880 070	(2 472 035)	2 224 241
Purchase	3 116 436	2 224 597	15 496 862	25 599 495	9 371 019	55 808 409		
Sale	2 280 057	2 777 212	13 521 616	26 121 018	8 371 758	53 071 661		
Forward Rate Agreement (FRA)	-	-	24 944 480	-	-	24 944 480	(54 996)	36 977
Purchase	-	-	14 594 480	-	-	14 594 480		
Sale	-	-	10 350 000	-	-	10 350 000		

(in PLN thousand)

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Cap/Floor	-	-	-	1 428 050	227 286	1 655 336	(5 907)	5 907
Purchase	-	-	-	714 025	113 643	827 668		
Sale	-	-	-	714 025	113 643	827 668		
Other transactions								
Futures for debt securities	-	270 736	208 620	-	-	479 356	-	-
Purchase	-	-	208 620	-	-	208 620		
Sale	-	270 736	-	-	-	270 736		
Securities forward contracts	564 766	-	-	-	-	564 766	(2 689)	3 145
Purchase	257 414	-	-	-	-	257 414		
Sale	307 352	-	-	-	-	307 352		
Options embedded in deposits and structured certificates of deposit	508 262	10 254	1 254 148	2 875 060	-	4 647 724	(80 815)	91 334
Purchase	254 306	5 127	626 952	1 444 844	-	2 331 229		
Sale	253 956	5 127	627 196	1 430 216	-	2 316 495		
Total	**62 483 980**	**19 587 363**	**75 312 751**	**70 325 524**	**19 485 290**	**247 194 908**	**(5 145 498)**	**4 440 541**

(in PLN thousand)

Financial derivatives held for trading as at 31 December 2007

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
Currency swaps	21 405 604	11 786 400	3 160 393	55 998	-	36 408 395	(144 755)	240 532
Purchase	10 745 733	5 874 718	1 607 452	27 999	-	18 255 902		
Sale	10 659 871	5 911 682	1 552 941	27 999	-	18 152 493		
Currency forward contracts	6 857 757	24 354 884	7 542 742	868 847	-	39 624 230	(273 726)	365 217
Purchase	3 444 370	12 236 031	3 757 401	426 127	-	19 863 929		
Sale	3 413 387	12 118 853	3 785 341	442 720	-	19 760 301		
Currency options	379 067	7 051 703	12 872 460	2 640 048	-	22 943 278	(120 492)	116 990
Purchase	189 544	3 519 186	6 439 298	1 318 350	-	11 466 378		
Sale	189 523	3 532 517	6 433 162	1 321 698	-	11 476 900		
Cross Currency IRS	-	135 151	2 310 954	5 043 011	1 757 626	9 246 742	(113 670)	213 862
Purchase	-	67 544	1 236 418	2 489 773	861 021	4 654 756		
Sale	-	67 607	1 074 536	2 553 238	896 605	4 591 986		
Interest rate transactions								
Interest rate swaps (IRS)	4 478 666	14 682 340	33 599 862	55 605 512	14 971 615	123 337 995	(702 025)	676 347
Purchase	2 240 203	8 916 709	15 543 246	26 359 521	7 388 194	60 447 873		
Sale	2 238 463	5 765 631	18 056 616	29 245 991	7 583 421	62 890 122		
Forward Rate Agreement (FRA)	-	4 500 000	40 571 680	17 702 500	-	62 774 180	(52 657)	61 368
Purchase	-	2 500 000	22 867 620	9 740 000	-	35 107 620		
Sale	-	2 000 000	17 704 060	7 962 500	-	27 666 560		

(in PLN thousand)

Nominal values of base instruments and fair value of financial derivatives held for trading:

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Cap/Floor	4 000	36 742	63 775	785 237	223 286	1 113 040	(7 133)	4 057
Purchase	-	3 582	-	402 841	111 643	518 066		
Sale	4 000	33 160	63 775	382 396	111 643	594 974		
Other transactions								
Futures for debt securities	-	650 772	-	-	-	650 772	-	-
Purchase	-	401 184	-	-	-	401 184		
Sale	-	249 588	-	-	-	249 588		
Securities forward contracts	487 092	-	-	-	-	487 092	(1 752)	103
Purchase	292 876	-	-	-	-	292 876		
Sale	194 216	-	-	-	-	194 216		
Options embedded in deposits and structured certificates of deposit	-	280 674	755 539	3 028 983	-	4 065 196	(245 072)	244 482
Purchase	-	120 337	378 918	1 519783	-	2 019 038		
Sale	-	160 337	376 621	1 509 200	-	2 046 158		
Total	**33 612 186**	**63 478 666**	**100 877 405**	**85 730 136**	**16 952 527**	**300 650 920**	**(1 661 282)**	**1 922 958**

(in PLN thousand)

28. Other financial instruments at fair value through profit and loss

	31.12.2008	31.12.2007
Debt securities		
- issued by non bank financial entities	625 494	538 986
- issued by the State Treasury	4 087 575	3 238 693
Stock and shares in other entities	47	50
Total	**4 713 116**	**3 777 729**

Other financial instruments at fair value through profit and loss - breakdown

	31.12.2008	31.12.2007
1. Debt securities		
a) with embedded instrument		
- quoted	-	-
- unquoted	-	-
b) other		
- quoted	4 087 575	3 238 693
- unquoted	625 494	538 986
2. Stock and shares		
- quoted	47	50
- unquoted	-	-
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total	**4 713 116**	**3 777 729**

Debt securities have been designated by the Group as at fair value through profit and loss among other in order to eliminate or significantly reduce a measurement or recognition inconsistency between debt securities and derivatives economically hedging interest rate risk attributable to debt securities.

(in PLN thousand)

Other financial instruments at fair value through profit and loss according to residual maturities:

As at 31 December 2008	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by non bank financial entities	-		-		625 494	3.29	-		-		-	**625 494**	3.29
- issued by the State Treasury	-		-		-		2 979 243	6.24	1 108 332	5.44	-	**4 087 575**	6.02
Shares and stock in other entities													
- listed on the stock exchanges	-	-	-	-	-		-		-	-	47	**47**	-
- not listed	-		-		-		-		-		-	**-**	-
Total	**-**		**-**		**625 494**	**3.29**	**2 979 243**	**6.24**	**1 108 332**	**5.44**	**47**	**4 713 116**	**5.66**
Including interest	-		-		7 346		62 097		23 706		-	**93 149**	-

As at 31 December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by non bank financial entities	-		-		12 526	4.75	526 460	4.28	-		-	**538 986**	4.29
- issued by the State Treasury	-		-		-		2 746 282	5.12	492 411	4.83	-	**3 238 693**	5.07
Shares and stock in other entities													
- listed on the stock exchanges	-		-		-		-		-		50	**50**	-
- not listed	-		-		-		-		-		-		-
Total	**-**		**-**		**12 526**	**4.75**	**3 272 742**	**4.98**	**492 411**	**4.83**	**50**	**3 777 729**	**4.96**
Including interest	-		-		22		49 218		14 459		-	**63 699**	-

(in PLN thousand)

29. Loans and receivables from customers

	31.12.2008	31.12.2007
Loans	79 129 383	68 603 963
Payment cards receivables	703 411	604 290
Purchased receivables	1 323 625	980 324
Realized guarantees and commitments	83 132	40 366
Unquoted securities	1 382 977	60 993
Repo transactions	59 860	732 997
Receivables in transit	16 152	62 097
Interest	308 765	219 080
Total gross	**83 007 305**	**71 304 110**
Impairment provisions	(3 929 322)	(4 646 073)
Total net	**79 077 983**	**66 658 037**

31.12.2008	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges (*)	Total net value	Fair value
Loans given to						
State budget entities	2 123 552	2	-	(8 282)	2 115 272	2 115 137
non-banking Financial entities	1 889 858	54 996	(1 081)	(25 777)	1 917 996	1 913 063
Non-financial entities	49 234 154	2 801 107	(1 563 185)	(974 920)	49 497 156	49 550 258
General public	24 994 906	1 599 966	(114 290)	(1 241 788)	25 238 794	25 316 247
Interest	308 765	-	-	-	308 765	308 765
Total	**78 551 233**	**4 456 071**	**(1 678 556)**	**(2 250 767)**	**79 077 983**	**79 203 470**

(*) Includes the estimated impairment for losses incurred but not reported (IBNR)

Fixed interest rate loans and lending facilities extended to customers as at 31 December 2008 represented 7.74 % of the total loans and advances portfolio or PLN 6 397 927 thousand.

31.12.2007	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value	Fair value
Loans given to						
State budget entities	1 793 135	1 801	-	(6 834)	1 788 102	1 787 683
Non-banking financial entities	3 381 203	56 313	(42 016)	(29 819)	3 365 681	3 365 717
Non-financial entities	37 707 746	4 102 593	(2 030 930)	(1 360 895)	38 418 514	38 454 791
General public	22 746 937	1 295 302	(91 232)	(1 084 347)	22 866 660	22 847 052
Interest	219 080	-	-	-	219 080	219 080
Total	**65 848 101**	**5 456 009**	**(2 164 178)**	**(2 481 895)**	**66 658 037**	**66 674 323**

* Includes the estimated impairment for losses incurred but not reported (IBNR)

Fixed interest rate loans and lending facilities extended to customers as at 31 December 2007 represented 10.62 % of the total loans and advances portfolio or PLN 7 546 862 thousand.

Changes in impairment balances in the reporting periods ended 31 December 2008 are presented in the Note 19.

(in PLN thousand)

30. Net investments in financial leases

The Group conducts lease operations through its subsidiaries. Pekao Leasing Sp. z o.o. Pekao Leasing Holding S.A. and Bank UniCredit Ltd. The value of gross lease investments and minimum lease payments were respectively:

31.12.2008	Gross leasing investment	Present value of minimum lease payments
Up to 1 year	1 755 084	1 493 960
Between 1 and 5 years	2 153 257	1 979 037
Above 5 years	171 368	148 696
Total	**4 079 709**	**3 621 693**
Unrealized financial revenue	(458 016)	
Net leasing investment	3 621 693	
Non-guaranteed end value to the lessor	-	
Present value of minimum lease payments	3 621 693	
Provisions value	(184 310)	
Balance sheet value	**3 437 383**	

31.12.2007	Gross leasing investment	Present value of minimum lease payments
Up to 1 year	1 525 563	1 298 708
Between 1 and 5 years	2 129 049	1 887 210
Above 5 years	96 097	67 257
Total	**3 750 709**	**3 253 175**
Unrealized financial revenue	(497 534)	
Net leasing investment	3 253 175	
Non-guaranteed end value to the lessor	-	
Present value of minimum lease payments	3 253 175	
Provisions value	(209 407)	
Balance sheet value	**3 043 768**	

The Group is acting as a lessor in the financial leases embracing mainly means of transport, machines and equipment.

Moreover, where the Group is a lessee in a finance lease contract among the Group entities, the inter-company transactions relating to the finance lease are subject to consolidation eliminations.

31. Cash flow hedge (macro hedge)

The hedge relationship description

The Bank through the derivative interest rate swap (IRS) transactions hedges a part of it's interest rate risk exposure arising from the volatility of the cash flows related to the variable interest Polish zloty assets (with the exception of the debt securities classified as held to maturity).

Hedged items

Cash flows arising from variable rate assets.

Hedging instruments

A portfolio of IRS transactions (a short position – the Bank receives fixed flow of payments and pays a variable flow).

(in PLN thousand)

As at 31 December 2008 the net fair value of the hedging instruments amounted to PLN 157 526 thousand (as at 31 December 2007 +11 707 thousand).

Balance sheet disclosure

The effective part of the hedging instruments valuation is recognized in revaluation equity.
Interest on hedged items and hedging instruments is recognized as interest income.

	31.12.2008	31.12.2007
Gross revaluation equity (deferral of the p&l recognition of th changes in the fair value of hedging instrument of the effective hedge).	108 283	(62 340)
Period in which the cash flows related to the hedged items are expected to occur.	01.01.2009 – 20.11.2017	01.01.2008 –20.11. 2017

Changes in revaluation equity in 2008

Balance at the beginning of the period	(62 340)
Deferral of fair value changes of hedging instruments related to the part recognized as effective hedge	170 349
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation equity and presented in net profit or loss.	274
Balance at the end of the period	**108 283**

32. Investment securities

	31.12.2008	31.12.2007
Securities available for sale	**13 268 778**	**17 055 381**
Debt securities	13 235 238	17 035 714
- issued by central banks	556 445	554 092
- issued by other banks	-	1 273 447
- issued by other financial entities	76 803	230 452
- issued by non financial entities	14 434	620 804
- issued by the State Treasury	12 419 957	13 948 142
- issued by local governments	167 599	408 777
Stock and shares in other entities	33 540	19 667
Other financial instruments	-	-
Securities held to maturity	**1 879 182**	**586 994**
- issued by central banks	79 978	394 381
- issued by other financial entities	21 252	17 277
- issued by the State Treasury	1 777 952	175 336
Total Gross	**15 147 960**	**17 642 375**
Impairment of securities available for sale	(18 933)	(21 852)
Impairment of securities held to maturity	(121)	(104)
Total net	**15 128 906**	**17 620 419**

(in PLN thousand)

Securities available for sale - breakdown

	31.12.2008	31.12.2007
1. Debt securities		
a) with embedded instrument		
- quoted	201 501	175 706
- unquoted	-	-
b) other		
- quoted	11 227 318	12 905 329
- unquoted	1 801 914	3 950 038
2. Stock and shares		
- quoted	3 344	383
- unquoted	15 768	2 073
3. Other financial instruments		
- quoted	-	-
- unquoted	-	-
Total	**13 249 845**	**17 033 529**

Securities held to maturity - breakdown

	31.12.2008	31.12.2007
a) with embedded instrument		
- book value	-	-
- fair value	-	-
b) other		
- book value	1 879 061	586 890
- fair value	1 861 731	592 117
Total	**1 879 061**	**586 890**

Changes in investment securities

	31.12.2008	31.12.2007
Securities available for sale		
Balance at the beginning of the period	**17 033 529**	**12 574 657**
Decreases due from the full method consolidation	-	131 859
Merger of “Pekao 285”	-	863 736
Increase (purchase)	10 031 395	31 962 094
Decrease (sale and redemption)	(11 488 645)	(28 687 404)
Financial assets transferred into the CRD portfolio	(2 865 657)	-
Impairment charges during period	3 349	(12 079)
Changes in the fair value	208 705	(261 077)
Exchange rate differences	286 151	(351 123)
Other	41 018	812 866
Balance at the end of the period	**13 249 845**	**17 033 529**
Securities held to maturity		
Balance at the beginning of the period	**586 890**	**425 410**
Increase(purchase)	13 699 639	12 426 059
Decrease (sale and redemption)	(13 070 306)	(12 273 171)
Financial assets transferred from the TRD portfolio	602 507	-
Impairment charges during period	-	28
Exchange rate differences	29 793	(13 673)
Other	30 538	22 237
Balance at the end of the period	**1 879 061**	**586 890**
Total investment securities net	**15 128 906**	**17 620 419**

(in PLN thousand)

Securities available for sale according to maturities:

As at 31 December 2008	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		- above 5 years		- undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	-		-		-		556 445	5.73	-		-	**556 445**	5.73
- issued by other banks	-		-		-		-		-			**-**	
- issued by other financial entities	-		-		-		76 803	3.98	-		-	**76 803**	3.98
- issued by non financial entities	-		6 502	14.99	-		3 427	6.51	-		-	**9 929**	12.06
- issued by the State Treasury	42 225	3.57	-		1 657 342	6.24	8 041 686	5.13	2 678 704	5.61	-	**12 419 957**	5.37
- issued by local governments	-		-		51 880	6.80	115 719	6.61	-		-	**167 599**	6.67
Shares in other entities													
- listed	-		-		-		-		-		3 344	**3 344**	
- not listed	-		-		-		-		-		15 768	**15 768**	
Other financial instruments	-	-	-	-	-	-	-	-	-		-	**-**	
Total	**42 225**	**3.57**	**6 502**	**14.99**	**1 709 222**	**6.25**	**8 794 080**	**5.17**	**2 678 704**	**5.61**	**19 112**	**13 249 845**	**5.39**
Including interest	523		119		19 933		197 531		41 640			**259 746**	

(in PLN thousand)

Securities available for sale according to maturities:

As at 31 December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		- above 5 years		- undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	5 397	5.61	-		-		548 695	4.19	-		-	**554 092**	4.20
- issued by other banks	-		1 178	13.75	80 109	5.56	1 192 160	5.61	-		-	**1 273 447**	5.62
- issued by other financial entities	-		-		85 651	5.60	144 801	5.24	-		-	**230 452**	5.37
- issued by non financial entities	-		-		7 653	6.70	427 485	5.45	181 026	5.50	-	**616 164**	5.48
- issued by the State Treasury	3 053	4.31	315 667	5.00	1 345 773	5.75	8 710 837	5.98	3 572 811	5.72	-	**13 948 141**	5.87
- issued by local governments	-		-		148 611	4.92	259 635	5.32	531	4.82	-	**408 777**	5.17
Shares in other entities													
- listed	-		-		-		-		-		383	**383**	
- not listed	-		-		-		-		-		2 073	**2 073**	
Other financial instruments	-		-		-		-		-		-	**-**	
Total	**8 450**	**5.14**	**316 845**	**5.04**	**1 667 797**	**5.67**	**11 283 613**	**5.81**	**3 754 368**	**5.71**	**2 456**	**17 033 529**	**5.76**
Including interest	147		12 358		22 259		249 444		73 641			**357 849**	

(in PLN thousand)

Securities held to maturity according to maturities:

As at 31December 2008	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		- above 5 years		- undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	79 978	6.31	-		-		-		-		-	**79 978**	6.31
- issued by non bank financial entities	-		-		21 252	3.29	-		-		-	**21 252**	3.29
- issued by the State Treasury	61 285	5.20	268 812	5.37	240 753	5.40	591 945	5.15	615 036	4.78	-	**1 777 831**	5.09
Total	141 263	5.83	268 812	5.37	262 005	5.23	591 945	5.15	615 036	4.78	-	**1 879 061**	5.12
Including interest	243		80		894		17 166		13 159			**31 542**	

Securities held to maturity according to maturities:

As at 31December 2007	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
Debt securities													
- issued by central banks	394 381	5.61	-		-		-	-	-		-	**394 381**	5.61
- issued by non bank financial entities	-	-	-		-		17 277	4.28	-		-	**17 277**	4.28
- issued by the State Treasury	-	-	-		-		175 232	4.58	-		-	**175 232**	4.58
Total	**394 381**	**5.61**	**-**		**-**		**192 509**	**4.55**	**-**		**-**	**586 890**	5.26
Including interest	-		-		-		7 438		-			**7 438**	

(in PLN thousand)

33. Reclassification debt securities

Bank made use of the amendment introduced in the IAS 39 „Financial Instruments: Recognition and Measurement" (European Commission Resolution 1004/2008 dated 15 October 2008), which under certain conditions allows for reclassification of financial instruments into other categories.

On the basis of the analysis performed, the decision was made to move part of debt securities from the available for sale category into the loans and receivables category and from the held for trading category into the held to maturity category.

The reclassification was done due to the current financial crisis, which is considered to be a rare circumstance, and due to change of the Banks intentions regarding the reclassified part of the portfolio.

Reclassification was done as at 1 October 2008 according the fair value of the securities at that date.

The tables below present information concerning the reclassified financial assets.

	01.10.2008			31.12.2008		
	Nominal value	Book value	Fair Value	Nominal value	Book value	Fair Value
Financial assets transferred from the AFS into the loans and advances to customers	1 302 577	1 331 580	1 331 580	1 297 877	1 329 760	1 328 936
Financial assets transferred from the AFS into the loans and advances to banks	1 529 000	1 534 077	1 534 077	1 529 000	1 534 650	1 535 070
Financial assets transferred from the TRD into the HTM portfolio	563 669	602 507	602 507	563 669	615 036	581 149
Total	**3 395 246**	**3 468 164**	**3 468 164**	**3 390 546**	**3 479 446**	**3 445 155**

	01.10.2008	01.01-30.09.2008		01.10-31.12.2008	
	Average yield. (%)	Net interest income	Result on financial instruments at fair value	Net provision charges for financial assets	Net interest income
Financial assets transferred from the AFS into the loans and advances to customers	6.53	43 136	-	1 800	30 974
Financial assets transferred from the AFS into the loans and advances to banks	6.16	55 281	-	-	25 456
Financial assets transferred from the TRD into the HTM portfolio	4.78	17 611	(12 091)	-	8 703
Total	**-**	**116 028**	**(12 091)**	**1 800**	**65 133**

In case the Bank did not perform the reclassification, the Result on financial instruments through profit and loss and the Revaluation equity would have changed as follows:

(in PLN thousand)

31 December 2008	Result on financial instruments at fair value	Revaluation of the portfolio of financial assets available for sale
Financial assets transferred from the AFS into the loans and advances to customers	-	-824
Financial assets transferred from the AFS into the loans and advances to banks	-	419
Financial assets transferred from the TRD into the HTM portfolio	-33 886	-
Total	**-33 886**	**-405**

34. Assets held for sale and discontinued operations

In accordance with IFRS5 "Non-current Assets Held for Sale and Discontinued Operations", the Group classified fixed assets and assets included in the disposal group, which meet the criteria of classification held for sale, in the separate balance sheet item.

As of 31 December 2008 these include real estates and the other fixed assets which were the property of the Group.

The main components of the real estate category were the Bank's property located at Towarowa Street in Warsaw and the property at Marynarska Str. together with perpetual land lease rights.

The sale of the property located at Towarowa Str. was effectively executed in January 2009 when all necessary conditions related to the sale contract concluded with Bank BPH S.A. were met.

In 2008 the Bank' receivables, which inluded only exposures to corporates, medium and small enterprises, were reclassified to non-current assests held for sale.

The sale transaction had a form of actual sale to a securitization fund. The transaction was conclued in September 2008.

As of 31 December 2007, non-current assets held for sale and discontinued operations included the operations of Centralny Dom Maklerski Pekao S.A. involved in investment banking (CDM MIB).
This was sold to UniCredit CAIB Polska S.A. in January 2008.

Moreover, certain real properties and the other fixed assets owned by the Group were classified as held for sale.

Non-current assets and corresponding liabilities held for sale are presented below.

	31.12.2008	31.12.2007	
Item name	Assets	Assets and liabilities CDM MIB	Other fixed assets
Financial assets held for trading	-	7 199	-
Loans and receivables from customers	-	373	-
Investment securities available for sale	-	723	-
Tangible assets	118 321	463	7 136
Other assets	23 462	49 174	-
Total assets	141 783	**57 932**	7 136
Financial liabilities held for trading	-	19	-
Amounts due to customers	-	31 120	-
Other liabilities	-	24 067	-
Provisions	-	85	-
Total liabilities	**-**	**55 291**	**-**

(in PLN thousand)

	2008*/	2007
Income statement of the part of discontinued operations CDM MIB		
Interest expense	(113)	(2 916)
Fee and commission income	556	47 332
Fee and commission expense	(112)	(4 432)
Dividend income	-	120
Gains (losses) on financial instruments at fair value	(30)	265
Other operating income	1	11
Other operating expense	(99)	(49)
General and administrative expenses	(643)	(17 108)
Operating profit	**(440)**	**23 223**
Gross profit on discontinued operations	**(440)**	**23 223**
Income tax	56	(5 111)
Net profit on discontinued operations	**(384)**	**18 112**

*/ data to sale day

The disposal of discontinued operations CDM were settled as follows:

	2008
Profit from sale	443 596
Book value of sold net assets	7 424
Profit from sale before income tax	**436 172**

Changes in value of the assets classified as held for sale for the 2008 year are presented as follow:

Assets held for sale	Fixed assets	Assets and liabilities CDM MIB	Due from customers
Opening balance	7 599	57 932	-
Increases, including:	136 118	-	41 869
Transfer from investment property	1 135	-	-
Transfer from fixed assets	105 094	-	-
Transfer from loans and receivables from customers	-	-	41 869
Other	29 889	-	-
Decreases, including:	(1 934)	(57 932)	(41 869)
Transfer to fixed assets	(332)	-	-
Disposals	(1 602)	(57 932)	(41 869)
Closing balance	141 783	-	-

Liabilities pertaining to assets held for sale and discontinued operations	Fixed assets	Assets and liabilities CDM MIB	Due from customers
Opening balance		55 291	
Decreases, including:		(55 291)	
Disposals		(55 291)	
Closing balance		-	

The disposals during 2008 were settled as follows:

Income from sale	Property	Due from customers	Total
Profit from sale	582	104 549	105 131
Book value of sold net assets (including costs of sales)	1 602	41 869	43 471
Profit / Loss on sale	(1 020)	62 680	61 660

Changes in value of the assets classified as held for sale for the 2007 year are presented as follow:

	Property	Shares
Opening balance	8 784	-
Increase:	11 219	7 373
Transfer from Investment properties	3 100	-
Transfer from other balance sheet items	-	1 819
Transfer from Investments in associates	-	5 554
Foreign exchange differences	11	-
Other changes	8 108	
Decrease:	(12 404)	(7 373)
Transfer to fixed assets	(58)	-
Disposals	(12 194)	(7 373)
Other changes	(152)	-
Closing balance	7 599	-

Liabilities pertaining to assets held for sale

	Property	Shares
Opening balance	-	-
Increase:	55 291	916
Transfer liabilities positions	55 291	916
Disposals	-	(916)
Closing balance	55 291	-

The disposals during 2007 were settled as follows:

	Property	Shares	Total
Income from sale	39 453	23 418	62 871
Book value of sold net assets (including costs of sales)	12 195	6 053	18 248
Profit / Loss on sale	27 258	17 365	44 623

35. Investments in associates

Summary information about associated entities valued using equity method:

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
31 December 2008(*)						
Pirelli Pekao Real Estate Sp. z o.o	82 015	24 014	28 326	16 081	25.00	14 500
Krajowa Izba Rozliczeniowa S.A.	131 616	28 313	118 096	36 837	34.44	35 577
Pioneer Pekao Investment Management S.A.	501 890	41 393	608 007	194 719	49.00	225 644
Xelion. Doradcy Finansowi Sp. z o.o.	5 365	4 197	20 237	(15 211)	50.00	584
Central Poland Fund LLC**	714	-	-	(485)	53.19	405
Total						**276 710**
31 December 2007(*)						
Pirelli Pekao Real Estate Sp. z o.o. (preliminary date)	133 776	44 451	92 135	52 672	25.00	22 331
Krajowa Izba Rozliczeniowa S.A.	106 021	17 842	92 026	23 619	34.44	30 713
Pioneer Pekao Investment Management S.A.	269 585	22 688	138 252	207 315	49.00	229 959
Xelion. Doradcy Finansowi Sp. z o.o.	10 945	4 565	36 258	(13 140)	50.00	3 190
Central Poland Fund LLC(**)	1 746	-	-	(25)	53.19	418
Biuro Informacji Kredytowej S.A.	90 781	46 133	69 398	17 339	30.70	13 707
Total						**300 318**

(*) The data available as of the date of preparation of consolidated financial statements

(**) data are in USD thousand, book value of shares in PLN thousand

The Group has no shares at joint venture entities classified as equity method as at 31 December 2008 and 31 December 2007.

(in PLN thousand)

Summary information about associated entities not recognized using equity method:

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
31 December 2008(*)						
CPF Management (not operating)	-	-	-	-	40.00	-
Polish Banking System S.A. /in liquidation/	n/d	n/d	n/d	n/d	48.90	-
PPP Budpress Sp. z o.o. / in liquidation /	n/d	n/d	n/d	n/d	36.20	-
Total						**-**
31 December 2007*						
CPF Management (not operating)	-	-	-	-	40.00	-
Bankowe Doradztwo Podatkowe Sp. z o.o.	632	197	910	162	74.00/48.68	37
Polish Banking System S.A. /in liquidation/	n/d	n/d	n/d	n/d	48.90	-
PPP Budpress Sp. z o.o. / in liquidation /	n/d	n/d	n/d	n/d	36.20	-
Total						**37**

(*) The data available as of the date of preparation of consolidated financial statements

Summary information about the non-consolidated subsidiaries

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
31 December 2008(*)						
Pekao Property S.A. (d. BPH Real Estate S.A.)	30 827	666	3 685	1 724	100.00	24 376
Property Sp. z o.o. /w likwidacji/ (d. PBK Property Sp. z o.o. /w likwidacji/)	13 939	184	-	39	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	10 481	2 899	29 310	147	100.00	672
PKBL S.A. (w upadłości)	b.d.	b.d.	b.d.	b.d.	84.51/84.79	-
FPB Media Sp. z o.o. (**)	22 286	18 033	1 857	96	100.00	-
Metropolis Sp. .z o.o.	19 176	13 681	1 747	(31)	100.00	-
Jana Kazimierza Development Sp. z o.o.	161 576	161 459	59 144	46	100.00	-
Total						**32 046**

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
31 December 2007(*)						
Final Holding Sp. z o.o.	51 533	16	3	200	100.00	55 900
BPH Real Estate S.A.	28 906	469	3 845	2 530	100.00	24 376
Centrum Usług Księgowych Sp. z o.o.	190	70	488	16	100.00	50
PBK Property Sp. z o.o. /in liquidation/	13 859	144	-	488	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	9 375	3 384	29 066	621	98.00	490
PKBL S.A. /in liquidation/	n/d	n/d	n/d	n/d	84.51/84.79	-
Final S.A.	87 284	34 410	127 358	10 660	99.82/99.84	-
FPB Media Sp. z o. o	22 211	18 054	(727)	341	100.00	-
Metropolis Sp. z o. o.	18 818	13 292	193	348	100.00	-
Jana Kazimierza Development Sp. z o. o.	100 124	100 053	26 087	31	100.00	-
Total						**87 814**

(*) The data available as of the date of preparation of consolidated financial statements

(**) The data as of 30.11.2008

(in PLN thousand)

Changes in book value of investments in associated and joint-venture entities:

	31.12.2008	31.12.2007
Book value of subsidiaries at the beginning of the reporting period	**87 814**	**50**
Merger of "Pekao 285"	-	87 814
Purchase	182	-
Sale	(50)	-
Reclassification to„ Investment line-by-line"	(55 900)	-
Other	-	(50)
Book value of subsidiaries at the reporting date	**32 046**	**87 814**
Book value of associated entities at the beginning of the reporting period	**300 335**	**207 204**
Share in profit / (loss)	104 708	152 876
Dividends declared	(119 680)	(76 713)
Purchase	5 000	-
Sale	(37)	(22 598)
Merger of "Pekao 285"	-	37
Share in changes directly recognized in entities equity	-	23 211
Reclassification form „ Assets classified as held for sale"	(13 707)	-
Other	71	16 338
Book value of associated entities at the reporting date	**276 710**	**300 335**

36. Intangible assets

Intangible assets	31.12.2008	31.12.2007
a)intangible assets, including:	**691 101**	**633 999**
- development costs	3 076	14 575
- licenses	461 992	432 304
- other	6 055	4 763
- intangible assets under construction and advances for intangible assets	219 978	182 357
b) goodwill	**54 560**	**54 560**
Total	**745 661**	**688 559**

Goodwill of PLN 51 675 thousand - represents goodwill which has been transferred to Pekao on integration with Bank BPH S.A.

This represents goodwill arising on Bank BPH S.A.'s acquisition of Pierwszy Komercyjny Bank S.A. (PKBL) w Lublinie and relates to those branches of the former PKBL which have been transferred to the Bank in effect of the integration of the Banks.

Goodwill of PLN 2 885 thousand represents goodwill that arose as a result of Pekao Leasing i Finanse (former BPH Leasing) acquisition by Pekao Leasing Holding (former BPH PBK Leasing S.A.).

31 December 2008	Development cost	Licenses	Other(*)	Total
Gross book value				
Opening balance	**73 906**	**1 155 202**	**217 273**	**1 446 381**
Additions, including:	-	197 599	62 123	259 722
Acquisition	-	8 798	229 656	238 454
Other additions	-	6 794	14 474	21 268
Transfers from investments	-	182 007	(182 007)	-
Disposals, including:	(4 791)	(8 609)	(22 742)	(36 142)
Liquidation	(4 791)	(5 180)	(2 173)	(12 144)
Other disposals	-	(3 429)	(20 569)	(23 998)
Closing balance	**69 115**	**1 344 192**	**256 654**	**1 669 961**

(in PLN thousand)

31 December 2008	Development cost	Licenses	Other(*)	Total
Accumulated depreciation				
Opening balance	**59 331**	**722 528**	**19 192**	**801 051**
Amortization	11 408	164 852	2 628	178 888
Liquidation	(4 700)	(5 180)	(2 161)	(12 041)
Other changes in value	-	(250)	-	-250
Closing balance	**66 039**	**881 950**	**19 659**	**967 648**
Impairment write-offs				
Opening balance	**-**	**370**	**10 961**	**11 331**
Changes	-	(119)	-	(119)
Closing balance	**-**	**251**	**10 961**	**11 212**
Net book value				
Opening balance	**14 575**	**432 304**	**187 120**	**633 999**
Closing balance	**3 076**	**461 991**	**226 034**	**691 101**

* Other movements include in particular investments

The Group has no amounts of intangible assets whose deed title is restricted.

31 December 2007	Development cost	Licenses	Other(*)	Total
Gross book value				
Opening balance	**82 578**	**1 037 844**	**146 565**	**1 266 987**
Additions, including:	1 661	145 436	91 435	238 532
Increase due to first-time consolidation	676	12 924	29	13 629
Merger of “Pekao 285”	-	13 644	2 319	15 963
Acquisition	-	7 105	185 865	192 970
Other additions	-	-	15 970	15 970
Transfers from investments	985	111 763	(112 748)	-
Disposals, including:	(10 333)	(28 078)	(20 727)	(59 138)
Liquidation	(10 333)	(26 941)	(624)	(37 898)
Other disposals	-	(1 137)	(20 103)	(21 240)
Closing balance	**73 906**	**1 155 202**	**217 273**	**1 446 381**
Accumulated depreciation				
Opening balance	**54 953**	**577 178**	**14 760**	**646 891**
Decreases due from full method consolidation	518	11 344	-	11 862
Merger of “Pekao 285”	-	13 353	2 319	15 672
Amortization	14 193	147 915	2 660	164 768
Liquidation	(10 333)	(26 826)	(571)	(37 730)
Other changes in value	-	(436)	24	(412)
Closing balance	**59 331**	**722 528**	**19 192**	**801 051**
Impairment write-offs				
Opening balance	**-**	**251**	**10 961**	**11 212**
Write-down	-	119	24	143
Other changes	-	-	(24)	(24)
Closing balance	**-**	**370**	**10 961**	**11 331**
Net book value				
Opening balance	**27 625**	**460 415**	**120 844**	**608 884**
Closing balance	**14 575**	**432 304**	**187 120**	**633 999**

* Other movements include in particular investments

The Group has no amounts of intangible assets whose deed title is restricted.

(in PLN thousand)

37. Property plant and equipment

	31.12.2008	31.12.2007
Fixed assets:		
a) fixed assets, including:	**1 810 933**	**1 955 943**
Land and buildings	1 336 463	1 487 117
Machinery and equipment	379 354	374 262
Means of transport	57 587	60 045
Other fixed assets	37 529	34 519
b) Capital work in progress and prepayments for capital work in progress	**95 103**	**65 109**
Total	**1 906 036**	**2 021 052**

31 December 2008	Land and buildings	Machinery and equipment	Means of transport	Other tangible fixed assets	Total tangible fixed assets
Opening balance as at 1 January 2008	**2 332 257**	**1 394 664**	**111 828**	**399 239**	**4 237 988**
Increases, including:	59 086	133 088	27 274	17 034	236 482
Acquisitions	10 602	15 911	10 631	7 605	44 749
Transfer from tangibles assets under construction	41 888	110 591	60	8 203	160 742
Other	6 596	6 586	16 583	1 226	30 991
Decreases, including:	(147 156)	(69 948)	(26 035)	(23 485)	(266 624)
Liquidation and sale	(3 302)	(40 954)	(24 847)	(19 155)	(88 258)
Transfer to „Assets classified as held for sale”	(124 481)	(16 091)	-	(16)	(140 588)
Other	(19 373)	(12 903)	(1 188)	(4 314)	(37 778)
Closing balance	**2 244 187**	**1 457 804**	**113 067**	**392 788**	**4 207 846**
Depreciation					
Opening balance as at 1 January 2008	**842 793**	**1 011 745**	**46 858**	**364 108**	**2 265 504**
Increases, including:	93 954	121 550	19 042	10 901	245 447
Depreciation of the period	91 178	114 221	16 538	9 682	231 619
Other	2 776	7 329	2 504	1 219	13 828
Decreases, including:	(31 400)	(61 781)	(14 887)	(20 263)	(128 331)
Liquidation and sale	(2 370)	(40 249)	(14 055)	(18 020)	(74 694)
Transfer to „Assets classified as held for sale”	(22 150)	(12 820)	-	(16)	(34 986)
Other	(6 880)	(8 712)	(832)	(2 227)	(18 651)
Closing balance	**905 347**	**1 071 514**	**51 013**	**354 746**	**2 382 620**
Impairment write-downs					
Opening balance	**2 347**	**8 657**	**4 925**	**612**	**16 541**
Increases:	447	250	424	2	1 123
Decreases:	(417)	(1 971)	(882)	(101)	(3 371)
Closing balance	**2 377**	**6 936**	**4 467**	**513**	**14 293**
Net value					
Opening balance	**1 487 117**	**374 262**	**60 045**	**34 519**	**1 955 943**
Closing balance	**1 336 463**	**379 354**	**57 587**	**37 529**	**1 810 933**

(in PLN thousand)

31 December 2007	Land and buildings	Machinery and equipment	Means of transport	Other tangible fixed assets	Total tangible fixed assets
Opening balance as at 1 January 2007	**1 627 216**	**1 041 738**	**43 780**	**301 159**	**3 013 893**
Increases, including:	735 385	486 692	78 094	114 844	1 415 015
Increase due to first-time consolidation	1 323	15 713	41 152	6 064	64 252
Merger of "Pekao 285"	671 498	276 717	25 558	99 684	1 073 457
Acquisitions	15 548	13 662	2 455	1 192	32 857
Transfer from tangibles assets under construction	40 766	136 903	414	6 299	184 382
Other	6 250	43 697	8 515	1 605	60 067
Decreases, including:	(30 344)	(133 766)	(10 046)	(16 764)	(190 920)
Liquidation and sale	(3 381)	(84 274)	(8 448)	(13 801)	(109 904)
Transfer to „Assets classified as held for sale"	(4 846)	(2 480)	(1 141)	(442)	(8 909)
Other	(22 117)	(47 012)	(457)	(2 521)	(72 107)
Closing balance	**2 332 257**	**1 394 664**	**111 828**	**399 239**	**4 237 988**
Depreciation					
Opening balance as at 1 January 2007	**537 421**	**789 455**	**20 692**	**281 346**	**1 628 914**
Increases, including:	315 809	338 047	33 539	97 934	785 329
Increase due to first-time consolidation	669	10 990	12 151	4 741	28 551
Merger of "Pekao 285"	240 855	208 271	12 426	85 085	546 637
Depreciation of the period	66 279	90 280	8 386	7 958	172 903
Other	8 006	28 506	576	150	37 238
Decreases, including:	(10 437)	(115 757)	(7 373)	(15 172)	(148 739)
Liquidation and sale	(1 961)	(83 530)	(6 649)	(13 566)	(105 706)
Transfer to „Assets classified as held for sale"	(2 182)	(2 143)	(641)	(424)	(5 390)
Other	(6 294)	(30 084)	(83)	(1 182)	(37 643)
Closing balance	**842 793**	**1 011 745**	**46 858**	**364 108**	**2 265 504**
Impairment write-downs					
Opening balance	**2 915**	**350**	**-**	**-**	**3 265**
Increases, including	30	8 713	4 925	612	14 280
Merger of "Pekao 285"	30	8 574	3 668	612	12 884
Decreases:	(598)	(406)	-	-	(1 004)
Closing balance	**2 347**	**8 657**	**4 925**	**612**	**16 541**
Net value					
Opening balance	**1 086 880**	**251 933**	**23 088**	**19 813**	**1 381 714**
Closing balance	**1 487 117**	**374 262**	**60 045**	**34 519**	**1 955 943**

As at 31 December 2008 assets under construction amounted to PLN 94 893 thousand (as at 31 December 2007 PLN 60 148 thousand).

The amount received and recognized in the profit and loss in relation to fixed assets lost in the year 2008 was PLN 1 337 thousand (in the year 2007 PLN 1 154 thousand).

In 2008 and in 2007 there were no pledges or restrictions on legal titles to fixed assets.

Agreement Liabilities

As at 31 December 2008 the Group had agreements with its contractors for the future purchase of intangible assets in amount of PLN 57 908 thousand, including PLN 57 908 thousand in the 2009 and of property, plant and equipment in amount of PLN 57 660 thousand, including PLN 57 660 thousand in the 2009 (till the 31 December 2007 the Group had agreements with its contractors for the future purchase of intangible assets in amount of PLN 66 209 thousand, including PLN 66 209 thousand in the 2008 and of property, plant and equipment in amount of PLN 12 055 thousand, including PLN 12 055 thousand in the 2008).

(in PLN thousand)

38. Investment property

The Group measures investment property using the historical cost model.

There are no restrictions related to the right to sell and to transfer the profit attributable to investment property owned by the Group.

Changes in value of the investment property:

	31.12.2008	31.12.2007
Gross value		
Opening balance	**99 626**	**94 126**
Increase of balance	23 756	10 467
Acquisitions of real estate	7	145
Transfer from own real estate	9 522	9 690
Other changes	14 227	632
Decrease of balance	(2 143)	(4 967)
Transfer to „Assets of disposal group classified as held for sale"	(1 758)	-
Other changes	(385)	(4 967)
Closing balance	**121 239**	**99 626**
Depreciation write-offs		
Opening balance	**32 294**	**32 802**
Increase of balance	8 999	6 934
Transfer from own real estate	3 276	3 898
Other changes	3 187	546
Depreciation	2 536	2 490
Decrease of balance	(885)	(7 442)
Transfer to „Assets of disposal group classified as held for sale"	(623)	-
Other changes	(262)	(7 442)
Closing balance	**40 408**	**32 294**
Depreciation write-offs due to loss of value		
Opening balance	**8 773**	**8 654**
Increase of balance	1 206	350
Transfer from own real estate	110	350
Differences in exchange rates	546	-
Other changes	550	-
Decrease of balance	-	(231)
Differences in exchange rates	-	(231)
Closing balance	**9 979**	**8 773**
Net balance value		
Opening balance	**58 559**	**52 670**
Closing balance	**70 852**	**58 559**

The fair value of investment property as at 31 December 2008 amounted to PLN 92 579 thousand (as at 31 December 2007 amounted to PLN 73 624 thousand). Fair value was made on the assessment off a property surveyor holding a recognized and relevant professional qualification.

The following amounts of income and expenses were recognized in profit and loss in relation to investment property:

	2008	2007
Income on rental of investment property	3 966	4 320
Direct operational expenses (including repair and maintenance) related to investment property bringing rental income	(1 115)	(904)
Direct operational expenses (including repair and maintenance) related to investment property not bringing rental income	(155)	(22)

(in PLN thousand)

39. Other assets

	31.12.2008	31.12.2007
Prepaid expenses	109 895	147 957
Perpetual usufruct rights	17 325	17 620
Accrued income	28 283	33 154
Assets held to sale	918	6 845
Interbank and interbranch settlements	9 137	556 895
Other debtors	670 433	1 379 739
Total	**835 991**	**2 142 210**

Prepaid expenses represent expenditures, which will be amortized against profit and loss account in the future reporting periods.

Assets held for sale are repossessed assets that are presented at the amount of the debt in relation to which they were acquired, less specific provisions of these assets at the amount of differences between the amount of debt lower than the fair value of acquired assets. If the selling price of the asset acquired exceeds the amount of the debt, the surplus is the liability towards the debtor.

The Bank endeavours to sell repossessed real estate properties within 5 years and within 3 years for other repossessed assets. After the expiration of this time the Bank transfer the amount not disposed of assets to the appropriate items under fixed assets usufructed by the Bank.

The table below presents items of assets held for sale.

Item	31.12.2008	31.12.2007
Means of transport	117	135
Other assets	801	6 710
Total	**918**	**6 845**

40. Assets used to pledge liabilities

As at 31 December 2008 and 31 December 2007 the Group held financial assets used to pledge liabilities.

31.12.2008

Type of transaction	Pledge instrument	Book value of the pledge instrument	Nominal value of the pledge instrument	Value of the liabilities pledged with the pledge instrument
Repo	bonds	4 916 299	4 960 384	4 685 619
Sell-buy-back	bonds	2 009 231	1 994 623	2 010 912
The Bank Guarantee Fund	bonds, bills	253 028	240 040	-
Lombard and technical loan	bonds, bills	3 282 012	3 129 960	-
Other loans	bonds	556 445	530 000	547 339
Mortgage bonds issue	Mortgage backed receivables, bonds and hedging instruments	1 435 263	1 470 473	700 203

(in PLN thousand)

31.12.2007

Type of transaction	Pledge instrument	Book value of the pledge instrument	Nominal value of the pledge instrument	Value of the liabilities pledged with the pledge instrument
Repo	bonds	1 207 152	1 180 533	1 208 252
Sell-buy-back	bonds	2 582 140	2 587 015	2 583 122
The Bank Guarantee Fund	bonds, bills	149 636	155 030	-
Lombard and technical loan	bonds, bills	1 511 860	1 524 970	-
Mortgage bonds issue	Mortgage backed receivables, bonds and hedging instruments	1 167 129	1 192 404	735 090

41. Amounts due to Central Bank

	31.12.2008	31.12.2007
Received credits	1 469 675	1 485 921
Repo transactions	3 347 824	-
Total	**4 817 499**	**1 485 921**

42. Amounts due to other banks

	31.12.2008	31.12.2007
Current accounts	1 497 724	1 013 931
Bank deposits and other liabilities	5 049 042	3 371 445
Loans and advances	1 883 433	2 455 779
Due in transit	99 504	495 952
Repo transactions	1 620 036	1 083 127
Interest accrued	25 782	35 957
Total	**10 175 521**	**8 456 191**

As at 31 December 2008 the variable interest rate due to other banks amounts to PLN 484 131 thousand (as at 31 December 2007: PLN 715 526 thousand), fixed interest rate due to banks amounts to PLN 9 566 104 thousand (as at 31 December 2007: PLN 7 208 757 thousand).

43. Financial liabilities held for trading

	31.12.2008	31.12.2007
Short position in securities	405 979	491 382
Total	**405 979**	**491 382**

(in PLN thousand)

44. Amounts due to customers

	31.12.2008	31.12.2007
Amounts due to corporate customers	**40 622 418**	**42 256 666**
Current accounts and overnight deposits	16 031 243	21 429 021
Time deposits and other liabilities	24 418 859	20 130 001
Due in transit	84 977	636 414
Interest accrued	87 339	61 230
Amounts due to budget entities	**6 846 070**	**8 465 213**
Current accounts and overnight deposits	4 051 817	6 260 405
Time deposits and other liabilities	2 782 928	2 187 383
Due in transit	-	6 713
Interest accrued	11 325	10 712
Amounts due to individuals	**41 695 740**	**36 515 030**
Current accounts and overnight deposits	18 147 971	18 830 213
Time deposits and other liabilities	23 028 897	17 603 673
Due in transit	318 012	2
Interest accrued	200 860	81 142
Repo transactions	**1 724 820**	**2 707 169**
Time transactions	1 723 395	2 703 862
Interest accrued	1 425	3 307
Total	**90 889 048**	**89 944 078**

As at 31 December 2008 the variable interest rate amounts due to customers amounts to PLN 40 522 542 thousand (as at 31 December 2007 amounted to PLN 50 077 363 thousand), fixed rate amounts due to customers amounts to PLN 49 662 568 thousand (as at 31 December 2007 PLN 39 067 195 thousand).

45. Debt securities in issue

	31.12.2008	31.12.2007
Liabilities due to issue of bonds	50 009	911 367
Liabilities due to issue of certificates of deposit	1 716 883	2 049 588
Liabilities due to issue of mortgage-backed-securities	690 495	727 590
Interest accrued	13 315	28 233
Total	**2 470 702**	**3 716 778**

The Group never has defaulted on repayment of principal or interest or redemption of its own securities.

31.12.2008

Type of security	Issue currency	Nominal value	Maturity date	Interest terms
certificates of deposit	EUR	5 992	2009-06-30	Synthetic structure dependent on DJ EuroStoxx 50
certificates of deposit	EUR	32 891	2011-03-08	dependent on FTSE, EPRA and FTSE EPRA Euro indices Zero, DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	EUR	2 758	2011-03-08	Guaranteed interest (2%) + premium interest dependent on indices– FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	EUR	3 955	2010-09-27	Interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT

(in PLN thousand)

Type of security	Issue currency	Nominal value	Maturity date	Interest terms
certificates of deposit	EUR	26 357	2010-09-27	interest dependent on indices: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	7 865	2010-11-22	interest dependent on indices S&P 500, FTSE 100, Nikkei 225
certificates of deposit	PLN	144 729	2009-01-16	dependent on: equities, basket of 3 indicies: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	76 555	2009-06-18	dependent on: equities, basket of 3 indicies: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	33 396	2009-01-16	dependent on: equities, basket of 3 indicies: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	17 134	2009-06-18	dependent on: equities, basket of 3 indicies: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	4 150	2009-06-30	structure dependent on DJ EuroStoxx 50 index
certificates of deposit	PLN	181 446	2009-05-18	structure dependent on Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	141 802	2009-08-03	interest dependent on indices: Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	3 000	2009-05-18	structure dependent on Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	157 436	2010-06-11	dependent on Dow Jones Euro Stoxx 50, S&P GSCI Gold Index Excess Return, CECE Trade Index EUR, S&P GSCI Agricultural Index ER
certificates of deposit	PLN	153 733	2011-03-08	interest dependent on FTSE EPRA oraz FTSE EPRA EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	PLN	13 240	2011-03-08	guaranteed interest (4%) + bonus interest dependent on indices – FTSE EPRA and FTSE EPRAEPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	PLN	45 078	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	171 174	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	76 950	2010-11-22	interest dependent on: S&P 500, FTSE 100, Nikkei 225 indices
certificates of deposit	PLN	49 012	2010-03-02	interest dependent on: Russian Depository Index USD
certificates of deposit	PLN	75 747	2010-03-02	interest dependent on: WIG20 Index
certificates of deposit	USD	67 674	2009-01-16	interest dependent on: equities, a basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	25 092	2009-06-18	interest dependent on: equities, a basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	31 807	2009-01-16	guaranteed interest (3%) + interest dependent on indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	8 533	2009-06-18	guaranteed interest (3%) + interest dependent on indices: Nikkei 225; HSCEI; TWSE

(in PLN thousand)

Type of security	Issue currency	Nominal value	Maturity date	Interest terms
certificates of deposit	USD	412	2009-06-30	interest dependent on DJ EuroStoxx 50
certificates of deposit	USD	66 353	2009-05-18	interest dependent on DJ EuroStoxx 50, DJ EuroStoxx Select Divident 30
certificates of deposit	USD	35 660	2009-08-03	interest dependent on: DJ EuroStoxx 50, DJ EuroStoxx Select Divident 30
certificates of deposit	USD	31 736	2011-03-08	Dependent on: FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	USD	5 784	2011-03-08	Interest (guaranteed 4%) + bonus interest dewpendent on – FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	USD	8 805	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	30 995	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	17 149	2010-11-22	interest dependent on: S&P 500, FTSE 100, Nikkei 225
bonds convertible into shares	PLN	3	2012-12-31	
Bonds	PLN	5 000	2009-01-15	Fixed 7,24 %
Bonds	PLN	4 890	2009-01-30	Fixed 7,31 %
Bonds	PLN	5 000	2009-02-18	Fixed 7,38 %
Bonds	PLN	1 400	2009-01-08	Fixed 7,02 %
Bonds	PLN	4 650	2009-01-22	Fixed 7,07 %
Bonds	UAH	29 467	2010-01-18	Fixed 10,35 %
mortgage-backed securities	PLN	134 558	2012-06-02	wibor 6M+0,3%
mortgage-backed securities	PLN	257 730	2010-11-21	wibor 6M+0,25%
mortgage-backed securities	PLN	199 500	2011-03-28	wibor 6M+0,25%
mortgage-backed securities	PLN	100 000	2012-01-12	wibor 6M+0,25%

31.12.2007

Type of security	Issue currency	Nominal value	Maturity date	Interest terms
certificates of deposit	EUR	5 215	2009-06-30	Synthetic structure dependent on DJ EuroStoxx 50
certificates of deposit	EUR	34 799	2008-12-16	dependent on a basket of 3 crude materials (metals)
certificates of deposit	EUR	28 663	2011-03-08	dependent on FTSE, EPRA and FTSE EPRA Euro indices Zero, DJ EuroSTOXX, Nikkei225, S&P500, HSCE
certificates of deposit	EUR	2 421	2011-03-08	Guaranteed interest (2%) + premium interest dependent on indices– FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	EUR	3 396	2010-09-27	Interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	23 022	2010-09-27	interest dependent on indices: DXAEP, SPGTAQUE, SPGTINFE, DJGTT

(in PLN thousand)

Type of security	Issue currency	Nominal value	Maturity date	Interest terms
certificates of deposit	EUR	6 842	2010-11-22	interest dependent on indices S&P 500, FTSE 100, Nikkei 225
certificates of deposit	PLN	10 000	2008-03-31	interest dependent on: WIBOR 6M
certificates of deposit	PLN	158 841	2009-01-16	dependent on: equities, basket of 3 indicies: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	83 001	2009-06-18	dependent on: equities, basket of 3 indicies: Nikkei 225
certificates of deposit	PLN	35 579	2009-01-16	dependent on: equities, basket of 3 indicies: Nikkei 225
certificates of deposit	PLN	19 678	2009-06-18	dependent on: equities, basket of 3 indicies: Nikkei 225
certificates of deposit	PLN	4 510	2009-06-30	structure dependent on DJ EuroStoxx 50 index
certificates of deposit	PLN	184 972	2009-05-18	structure dependent on Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	144 497	2009-08-03	interest dependent on indices: Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	3 000	2009-05-18	structure dependent on Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	197 561	2008-12-16	dependent on a basket of 3 crude materials (metals)
certificates of deposit	PLN	12 000	2008-03-04	interest dependent on: EPEU
certificates of deposit	PLN	158 447	2011-03-08	interest dependent on Dow Jones Euro Stoxx Select Dividend 30 Index and Dow Jones Euro Stoxx 50 Price Index
certificates of deposit	PLN	13 491	2011-03-08	guaranteed interest (4%) + bonus interest dependent on indices – FTSE EPRA and FTSE EPRAEPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	PLN	7 900	2008-07-18	Wibor 6M
certificates of deposit	PLN	13 300	2008-01-28	Wibor 6M
certificates of deposit	PLN	30 000	2008-10-24	Wibor 3M
certificates of deposit	PLN	20 000	2008-03-27	Wibor 3M
certificates of deposit	PLN	9 500	2008-08-22	Wibor 6M
certificates of deposit	PLN	47 244	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	178 321	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	82 401	2010-11-22	interest dependent on: S&P 500, FTSE 100, Nikkei 225 indices
certificates of deposit	PLN	5 000	2008-01-31	Bonus interest dependent on: WIBOR 6M
certificates of deposit	PLN	182 151	2008-11-10	guaranteed interest (4%) + bonus interest dependent on indices DJ EuroStoxx 50
certificates of deposit	PLN	83 051	2008-12-15	interest dependent on DJ EuroStoxx 50
certificates of deposit	USD	60 802	2009-01-16	interest dependent on: equities, a basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	22 731	2009-06-18	interest dependent on: equities, a basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	27 316	2009-01-16	guaranteed interest (3%) + interest dependent on indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	7 595	2009-06-18	guaranteed interest (3%) + interest dependent on indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	825	2009-06-30	interest dependent on DJ EuroStoxx 50

(in PLN thousand)

Type of security	Issue currency	Nominal value	Maturity date	Interest terms
certificates of deposit	USD	56 278	2009-05-18	interest dependent on DJ EuroStoxx 50, DJ EuroStoxx Select Divident 30
certificates of deposit	USD	29 980	2009-08-03	interest dependent on: DJ EuroStoxx 50, DJ EuroStoxx Select Divident 30
certificates of deposit	USD	56 611	2008-12-16	dependent on a basket of 3 crude materials (metals)
certificates of deposit	USD	26 595	2011-03-08	Dependent on: FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	USD	4 807	2011-03-08	Interest (guaranteed 4%) + bonus interest dewpendent on – FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	USD	7 549	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	26 683	2010-09-27	interest dependent on: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	17 379	2010-11-22	interest dependent on: S&P 500, FTSE 100, Nikkei 225
Bonds	PLN	31 846	2008-11-03	Fixed 5.3 %
bonds convertible into shares	PLN	3	2008-12-30	
Bonds	PLN	28 540	2008-01-07	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	35 860	2008-01-14	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	32 980	2008-01-21	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	33 000	2008-01-28	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	23 070	2008-02-04	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	11 740	2008-01-10	WIBOR 1M + 25 bps
Bonds	PLN	6 150	2008-01-23	WIBOR 1M + 25 bps
Bonds	PLN	100 000	2008-03-31	WIBOR 3M + 40 bps
Bonds	PLN	100 000	2008-06-30	WIBOR 3M + 35 bps
Bonds	PLN	100 000	2008-09-30	WIBOR 3M + 30 bps
Bonds	PLN	16 880	2008-01-08	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	20 000	2008-01-15	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	30 000	2008-01-22	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	32 630	2008-01-29	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	10 450	2008-01-31	interpolation WIBOR1M/3M + 25bps
Bonds	PLN	600	2008-02-08	interpolation WIBOR1M/3M + 25bps
Bonds	UAH	298 457	2010-01-18	For first 2 years –fixed 8.8 %
mortgage-backed securities	PLN	135 000	2012-06-02	Wibor + 0.30%
mortgage-backed securities	PLN	254 250	2010-11-21	Wibor + 0.25%
mortgage-backed securities	PLN	200 000	2011-03-28	Wibor + 0.25%
mortgage-backed securities	PLN	100 000	2012-01-12	Wibor + 0.25%
mortgage-backed securities	PLN	22 000	2008-04-30	Wibor + 0.60%
mortgage-backed securities	PLN	8 000	2008-05-19	Wibor + 0.50%
mortgage-backed securities	PLN	10 000	2008-05-19	Wibor + 0.60%

(in PLN thousand)

Debt securities in issue to maturities:

31 December 2008	- up to 1 month Book value	- up to 1 month Average yield. (%)	- between 1 and 3 months Book value	- between 1 and 3 months Average yield. (%)	- between 3 months and 1 year Book value	- between 3 months and 1 year Average yield. (%)	- between 1 and 5 years Book value	- between 1 and 5 years Average yield. (%)	- above 5 years Book value	- above 5 years Average yield. (%)	undefined maturity Book value	Total Book value	Total Average yield. (%)
- certificates of deposit	279 313	3.58	-		559 910	4.81	880 670	4.42	-		-	**1 719 893**	4.41
- mortgage-backed securities	-		-		-		700 203	6.56	-		-	**700 203**	6.56
-bonds	15 871	5.52	4 951	5.65	-		29 784	10.35	-		-	**50 606**	8.38
Total	**295 184**	**3.68**	**4 951**	**5.65**	**559 910**	**4.81**	**1 610 657**	**5.46**	**-**		**-**	**2 470 702**	**5.10**
Including interest	1 928		-		645		10 742		-		-	**13 315**	

Debt securities in issue to maturities:

31 December 2007	- up to 1 month Book value	- up to 1 month Average yield. (%)	- between 1 and 3 months Book value	- between 1 and 3 months Average yield. (%)	- between 3 months and 1 year Book value	- between 3 months and 1 year Average yield. (%)	- between 1 and 5 years Book value	- between 1 and 5 years Average yield. (%)	- above 5 years Book value	- above 5 years Average yield. (%)	undefined maturity Book value	Total Book value	Total Average yield. (%)
- certificates of deposit	18 363	5.20	41 707	5.45	604 361	3.92	1 400 511	5.67	-		-	**2 064 942**	5.15
- mortgage-backed securities	-		-		40 348	5.33	695 860	5.76	-		-	**736 208**	5.74
-bonds	257 441	5.27	123 498	5.66	232 123	5.89	302 566	10.51	-		-	**915 628**	7.21
Total	**275 804**	**5.27**	**165 205**	**5.61**	**876 832**	**4.51**	**2 398 937**	**6.31**	**-**		-	**3 716 778**	**5.78**
Including interest	107		-		13 562		14 564		-		-	**28 233**	

(in PLN thousand)

46. Provisions

2008	Provisions for litigation and claims	Provisions for retirement benefits	Provisions for undrawn credit facilities and guarantees issued	Other provisions	Total
Balance as at 1 January 2008	**57 046**	**115 266**	**186 161**	**21 355**	**379 828**
Provision charges	4 062	1 076	106 089	9 006	120 233
Provision utilization	(6 872)	(67)	-	-	(6 939)
Provision releases	(33 583)	(120)	(154 983)	(1 054)	(189 740)
Foreign exchange differences	(109)	-	5 028	(213)	4 706
Other changes	(2 015)	42	(1 634)	2 258	(1 349)
Balance as at 31 December 2008	**18 529**	**116 197**	**140 661**	**31 352**	**306 739**

2007	Provisions for litigation and claims	Provisions for retirement benefits	Provisions for undrawn credit facilities and guarantees issued	Other provisions	Total
Balance as at 1 January 2007	41 947	65 370	112 668	3 958	223 943
First-time fully consolidated entities opening balance	-	106	-	-	106
Merger of “Pekao 285”	20 287	25 983	52 419	-	98 689
Provision charges	4 951	23 969	240 472	17 544	286 936
Provision utilization	(3 290)	(61)	-	-	(3 351)
Provision releases	(8 310)	(15)	(221 467)	-	(229 792)
Foreign exchange differences	1 733	-	2 069	-	3 802
Other changes	(272)	(86)	-	(147)	(505)
Balance as at 31 December 2007	**57 046**	**115 266**	**186 161**	**21 355**	**379 828**

47. Other liabilities

	31.12.2008	31.12.2007
Deferred income	167 733	174 233
Holiday pay accrual	57 790	55 750
Other accruals	170 276	259 338
Provision for general and administrative expenses	98 756	109 385
Other costs to be paid	16 887	36 544
Other creditors	528 688	1 318 711
Liabilities due to settlement of merger with Pekao 285	-	594 765
Interbank and interbranch settlements	345 719	526 921
Total	**1 385 849**	**3 075 647**

48. Employee benefits

Employee share programs

Options to purchase the Bank’s shares are granted as a part of the incentive program for senior management essential to the success of the Bank’s Capital Group strategy. These were established by resolution of Extraordinary General Meeting of Bank Polska Kasa Opieki S.A on 25 July 2003.

The program involves a contingent increase of the Bank's share capital by issuing the following shares received in exchange for bonds with pre-emptive rights to take up the Bank's shares.

Type of shares	Number of options	Nominal value of 1 share	The issue price of one share	Establish basis of share issue price
Bearer common shares. F-share	830 000	1 PLN	108.37 PLN	the average of closing prices of the Bank's shares quoted at the Warsaw Stock Exchange in July and August 2003
Bearer common shares. G-share	830 000	1 PLN	123.06 PLN	the average of closing prices of the Bank's shares quoted at the Warsaw Stock Exchange in February and March 2004

After realization of the pre-emptive rights to take up the Bank's shares the shares are recognized in the Bank's equity.

The incentive program will be implemented within the confines of sub program (each divided into two instalments) within the following parameters :

	Program based on F-share issue		**Program based on G-share issue**	
Expiry date	31 December 2010		31 December 2012	
Realization price (in PLN)	108.37		123.06	
Number of options	415 000	415 000	415 000	415 000
Criteria to rights purchase	1. Executive of individual purposes in confines of the MBO program during the 2003 year. 2. Remaining under contract of employment within Bank's capital group employee as at the date of option rights exercised.		1. Executive of individual purposes in confines of the MBO program during the 2004 year. 2. Remaining under contract of employment within Bank's capital group employee as at the date of option rights exercised.	
	3. Realization of assumed ROE for 2004	3. Realization of assumed ROE for 2005	3. Realization of assumed ROE for 2006	3. Realization of assumed ROE for 2007
Fair Value as at 31 December 2008 (in PLN thousand)	6 462	6 775	7 849	7 734
Assumptions of the fair value model adopted on the day of granted rights:				
Dividend rate (%)	4.27		5.12	
Volatility index (%)	31.75		31.75	
Risk-free interest rate (%)	5.33	5.41	6.66	6.70
Foreseen option validity period (in years)	4.76	5.26	6.18	6.68
Weighted average of stock price (in PLN)	112.50		125.00	

The fair value of the pre-emptive rights to take up the Bank's shares granted in period to 31 December 2008, as at 31 December 2008 amounted to 28 820 thousand PLN and it is settled over time during the estimated period in which rights to acquire the Bank's shares are granted to participating individuals.

Costs of payroll in the year 2008 year was increased by PLN 1 657 thousand (in the year 2007 – PLN 3 798 thousand).

The fair value of the pre-emptive rights to take up the Bank's shares was recognized as at the day of granting the options (pre-emptive rights to take up the Bank's shares) based on the Black-

(in PLN thousand)

Scholes model for appraisal of dividend-yielding stock options, according to expectations of the Management Board concerning the number of rights to be exercised. The amount of the employee share program is adjusted as at every balance sheet date if expectations of the Management Board concerning the number of rights to be exercised change. No efficiency/results data except those related to the price of shares ("market conditions") are taken into account in the assessment of transactions settled in capital instruments.

The expected effective term of the pre-emptive rights to take up the Bank's shares is determined on the basis of historic data and does not need to specifically define all possible exercise scenarios.

The expected volatility index reflects the assumption according to historic volatility index.

No other parameters related to the granting of pre-emptive rights to take up the Bank's shares were taken into account in the assessment of the fair value.

The table below presents the number and weighted average exercise prices of shares options for each of the following Group options:

	2008		2007	
	Number of shares	**Weighted average exercise price**	**Number of shares**	**Weighted average exercise price**
Outstanding at the beginning of the period	691 921	108.37/123.06	986 762	108.37/123.06
Granted during the period	-		-	-
Forfeited during the period	52 674		-	
Exercised during the period(*)	345 972	108.37/123.06	294 841	108.37
Expired during the period	-		-	-
Outstanding at the end of the period	293 275	123.06	691 921	108.37/123.06
Executable at closing balance	0		-	

(*) Average weighted price of option execution on exercise dates in 2008 was 200.12 PLN (In 2007 it was 232,47 PLN).

The UniCredit Group incentive program

The Long Term Incentive Program (2007 LTIP) constitutes a key element of the payroll policy of the UniCredit Group, according to which the salaries depend on market conditions and performance.

Following the best international practice, under the LTIP equity options and performance shares are granted to a selected group of high and top level managers and the most promising employees, in order to:

- Create incentives for realization of the strategic targets of the Group;
- Retain the key employees;
- Effectively compete in the international employment market.

The actual choice of the participants of the program and the benefits granted is performed upon the following criteria:

- Adherence to the corporate system of values, broad perspectives, strong corporate identity and consequence.
- Significance of the position: strategic importance to the business performance and corporate governance of the Group;
- The need with respect of employee retention: retention within the Group of the best employees, particularly searched by the competition;

(in PLN thousand)

- Evaluation of the performance and potential – realization of targets.

The fair value of share options and performance shares of UniCredito Italiano S.p.A. were established following the Hull and White model.

The fair value of the pre-emptive rights to embrace the shares of the Bank's parent entity granted until 31 December 2008 amounted to PLN 23 239 thousand as at 31 December 2008. It is amortized over the estimated vesting period.

The year 2008 H/R expense was charged with the amount of PLN 1 991 thousand with respect to that.

The table below presents the changes of the number of share options and performance shares of UniCredito Italiano and the average execution prices.

	Share options		**Performance shares**	
2008	**Number**	**Avg execution price (*)**	**Number**	**Avg execution price**
Opening balance	1 100 111	17.64/29.58	351 632	-
Granted during the year	2 834 638	-	798 267	-
Redeemed during the year	255 294	17.64/29.58	81 061	-
Vested during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at closing balance	3 679 455	17.64/29.58	1 068 838	-
Executable at closing balance	0	-	0	-

	Share options		**Performance shares**	
2007	**Number**	**Avg execution price (*)**	**Number**	**Avg execution price**
Opening balance	-	-	-	-
Granted during the year	1 223 217	29.58	390 981	-
Redemeed during the year	123 106	29.58	39 349	-
Vested during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at closing balance	1 100 111	29.58	351 632	-
Executable at closing balance	-	-	0	-

(*)The value of 17.64 PLN refers to share options of UniCredit S.p.A. from 2008 (in 2007 it was 29.58 PLN)

49. Operational lease

Group as a lessor

The Group is an operating lease lessor of buildings being classified as investment properties as well as means of transport, medical equipment, machines and other equipment.

The amount of future minimum lease payments expected to be received under non-cancelable operating lease can be summarized as follows:

	31.12.2008	31.12.2007
Below 1 year	23 490	18 254
Over 1 to 5 years	61 539	71 800
Over 5 years	4 653	4 027
Total	**89 682**	**94 081**

Amount of the minimum operating lease payments classified as income of the year 2008 amounted to PLN 56 083 thousand (income of the year 2007 was PLN 17 425 thousand).

(in PLN thousand)

Group as a lessee

The Group is an operating lease lessee of buildings.

The amount of future minimum lease payments expected to be paid under non-cancellable operating lease can be summarized as follows:

	31.12.2008	31.12.2007
Below 1 year	131 163	401 810
Over 1 to 5 years	262 551	223 998
Over 5 years	97 858	113 583
Total	**491 572**	**739 391**

Operating lease payments recognized as expense of the year 2008 amounted to PLN 209 652 thousand (in the year 2007 amounted to PLN 133 427 thousand).

The leases typically run for an indefinite period. For agreements concluded for an indefinite period, future minimum lease payments were calculated on the basis of the agreed termination period. The termination period is normally fixed for 3 or 6 months. The leases are denominated in both PLN and foreign currencies. Payments are made in PLN regardless of the currency of the contract.

50. Contingent liabilities

Litigation

As at 31 December 2008 the number of the legal proceedings against the Group amounted to 413 with a total value of PLN 259 183 thousand (as at 31 December 2007 there were 755 court proceedings amounting to PLN 783 783 thousand).

As at 31 December 2008 the reserve for contingent liabilities, which in the opinion of the Bank's internal legal counsel are at risk of funds outflow amount to PLN 18 529 thousand (as at 31 December 2007 PLN 57 046 thousand).

As at 31 December 2008 with regards to all other significant proceedings in progress against the Group, the risk of cash outflow is believed to be.

Financial obligations granted

	31.12.2008	31.12.2007
Financial liabilities granted:	31 193 532	34 264 570
- towards financial entities	982 653	1 623 785
- towards non-financial entities	28 252 706	30 369 028
- towards the budget	1 958 173	2 271 757
Including: granted irrevocable contingent liabilities and commitments	30 611 091	33 294 127

As at 31 December 2008 the Group granted fixed-rate financial commitments in the nominal amount of PLN 11 580 925 thousand (as at 31 December 2007 amounts to PLN 4 440 578 thousand).

	31.12.2008	31.12.2007
Granted fixed-rate financial liabilities in total:	11 580 925	4 440 578
- with maturity date within a year of the balance day	5 676 672	907 364
- with maturity date within more than a year of the balance day	5 904 253	3 533 214
including: granted irrevocable liabilities	11 580 925	4 440 578

(in PLN thousand)

Guarantees liabilities granted

	31.12.2008	31.12.2007
1) Liabilities granted towards financial entities:	427 094	292 325
- guarantees	370 704	240 207
- sureties	48 104	29 830
- confirmed export letters of credit	8 286	22 288
2) Liabilities granted towards non-financial entities:	4 896 694	3 966 028
- guarantees	4 896 681	3 965 981
- confirmed export letters of credit	13	47
3) Liabilities granted towards the budget:	41 044	193 884
- guarantees	41 044	193 884
Total	**5 364 832**	**4 452 237**

Sub issue program

As at 31 December 2008 the following securities programs were subject to sub issue:

Issuer name	Type of securities	Remaining amount of submission to which the Group undertook to engage	Contract validity period	Type of submission
Starostwo Powiatowe Zdunska Wola	municipality's bonds	4 930	22.03.06 – 31.12.10	Unconditional
Południowy Koncern Energetyczny S.A.	bonds	14 500	25.09.06 – 01.07.09	Conditional
Raiffeisen Leasing S.A.	bonds	60 000	20.02.06 – 20.02.09	Conditional

As at 31 December 2007 the following securities programs were subject to sub issue:

Issuer name	Type of securities	Remaining amount of submission to which the Group undertook to engage	Contract validity period	Type of submission
Starostwo Powiatowe Zdunska Wola	municipality's bonds	8 610	22.03.06 – 31.12.15	Unconditional
Polska Grupa Energetyczna S.A.	bonds	750 000	30.03.06 - 31.03.08	Conditional
Południowy Koncern Energetyczny S.A.	bonds	126 500	25.09.06 - 25.09.19	Conditional
Raiffeisen Leasing S.A.	bonds	100 000	20.02.06 - 20.02.10	Conditional

Securities issued by the County of Zdunska Wola, Poludniowy Koncern Energetyczny S.A., Raiffeisen Leasing S.A. and PKN Orlen S.A. underwritten by the Group are securities with unlimited transferability not listed on stock exchanges and not traded on regulated over-the-counter markets.

51. Share capital

SHARE CAPITAL (STRUCTURE)						
Series/ Issue	Type of shares	Number of shares	Value of series / issue according to nominal value	Manner of capital coverage	Date of registration	Right to dividend (as at)
A	Bearer common shares	137 650 000	137 650	paid in full	21.12.1997	1.01.1998
B	Bearer common shares	7 690 000	7 690	paid in full	6.10.1998	1.01.1998
C	Bearer common shares	10 630 632	10 631	paid in full	12.12.2000	1.01.2000
D	Bearer common shares	9 777 571	9 777	paid in full	12.12.2000	1.01.2000
E	Bearer common shares	373 644	374	paid in full	29.08.2003	1.01.2003
F	Bearer common shares	621 411	621	paid in full	29.08.2003	19.05.2006 16.05.2007
G	Bearer common shares	345 972	346	paid in full	29.08.2003	1.01.2008
H	Bearer common shares	359 840	360	paid in full	12.08.2004	1.01.2004
I	Bearer common shares	94 763 559	94 764	paid in full	29.11.2007	1.01.2008
Total number of shares		**262 212 629**				
Total share capital in thousand PLN			**262 213**			
Nominal value of one share = 1.00 PLN						

Changes of 2008 in shares	**Shares issued and paid in full**	**Total**
Balance as at the beginning of the period	261 866 657	261 866 657
Emission of G shares	345 972	345 972
Balance as at the end of the period	**262 212 629**	**262 212 629**

Changes of 2007 in shares	**Shares issued and paid in full**	**Total**
Balance as at the beginning of the period	166 808 257	166 808 257
Emission of F shares	294 841	294 841
Emission of I shares	94 763 559	94 763 559
Balance as at the end of the period	**261 866 657**	**261 866 657**

On 13 November 2008 the Bank sold in the series of stock exchange transactions 5 010 pieces of its own shares of series I (The Spin-off Issue Shares) of nominal value of PLN 1 each share. which were not allocated to the shareholders of BPH following the BPH S.A. spin-off. And was purchased by the Bank in 2007.

The total amount of the transaction amounted to PLN 561 thousand , with the average sell price equal to PLN 111.93 per one share.

The shares sold constitute 0.0019% the share capital of Bank and represent 0.0019% votes at the General Meeting.

(in PLN thousand)

The reference price of the I series shares amounted to PLN 256.69. The total value of treasury shares purchased by the Bank at the reference price amounted to PLN 1 286 thousand. The Bank was not eligible to execute the voting rights on those shares.

52. Reserves, prior and current year profit

	31.12.2008	31.12.2007
Reserves:		
Supplementary capital	9 409 524	9 331 159
Share premium	9 105 832	9 063 248
Other	303 692	267 911
Revaluation reserve	34 326	(278 594)
Revaluation of the portfolio of financial assets available for sale	(67 181)	(280 929)
Deferred tax	13 798	52 830
Revaluation of the portfolio of financial hedging instruments	108 283	(62 340)
Deferred tax	(20 574)	11 845
General banking risk fund	1 237 850	1 237 850
Other reserve capital	1 594 227	2 098 585
Differences in the rate of exchange	(112 786)	(23 091)
Bonds convertible into shares – equity instrument	31 363	27 715
Total reserves	**12 194 504**	**12 393 624**
Prior year profit (loss) attributable to equity holders of the Bank	(37 368)	(144 181)
Profit for the year attributable to equity holders of the Bank	3 527 964	2 155 478
Total other capital, reserves and profit for the period and for the year ended	**15 685 100**	**14 404 921**

From 1982 to 1984 and from 1988 to 1996, the Group operated in a hyperinflationary economic environment. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires the adjustment of each component of shareholders equity (except retained earnings and any revaluation reserve) by the index price of commodities and services for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital and other reserves and a decrease in retained earnings in equivalent amounts. This adjustment would not have any effect on the total amount of the Group's equity.

53. Additional information for the cash flow statement

Cash and cash equivalents

Balance items	31.12.2008	31.12.2007
Cash, due from Central Bank (*)	8 165 872	3 374 934
Receivables from banks up to 3 month	3 500 917	12 883 381
Financial resources and equivalents of financial resources presented in the cash flow statements	**11 666 789**	**16 258 315**

(*) The item „Cash, due from Central Bank" does not include the NBP Bond in amount of PLN 1 767 765 thousand (as at 31 December 2007 PLN 1 746 276 thousand)

Limited availability cash and cash equivalents as at 31 December 2008 amounted to PLN 2 992 602 thousand (as at 31 December 2007 PLN 3 107 274 thousand).

(in PLN thousand)

54. Transactions with related parties

The consolidated financial statements include the financial statements of the Bank and financial statements of subsidiaries listed in the following table:

Entity name	Registering body	Percentage participation in the capital	
		31.12.2008	31.12.2007
UniCredit Bank Ltd.	National Bank of Ukraine. National Bank Register. No. 265	100.00	100.00
Centralny Dom Maklerski Pekao S.A.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Fundusz Kapitałowy Sp.z o.o.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Pekao Leasing Sp. z o.o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Faktoring Sp. z o.o.	District Court for the city of Lublin. XI Commercial Department of the National Court Registry	100.00	100.00
Pekao Pionier Powszechne Towarzystwo Emerytalne S.A.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	65.00	65.00
Pekao Telecentrum Sp. z o.o. (d.Drukbank Sp. z o.o.)	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Centrum Kart S.A.	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Pekao Financial Services Sp. z o.o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100.00	100.00
Pekao Bank Hipoteczny (d.BPH Bank Hipoteczny S.A.)	District Court for the capital city of Warsaw. XII Commercial Department of the National Court Registry	100.00	100.00
Pekao Leasing Holding SA (d.BPH PBK Leasing S.A.)	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	80.10	80.10
Pekao Leasing i Finanse SA (d.BPH Leasing S.A.)	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	80.10	80.10
Pekao Auto Finanse S.A. (d.BPH Auto Finanse SA)	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	80.10	80.10
Final Holding Sp. z o. o.	District Court for the capital city of Warsaw. XIII Commercial Department of the National Court Registry	100,00	100.00
Finanse plc	Companies Register for England and Wales	100.00	100.00
BDK Consulting Sp. z o.o.	Executive Committee of the City Council of Luck. no. 04051327IO0060469	99.99	99.99

Bank Pekao S.A. is the holding company of the Bank Pekao S.A Capital Group. UniCredito Italiano S.p.A. is the superior holding company.

Information on subsidiaries and related and associated entities is provided in Note 35.

The credit procedure applicable to the Bank's Management and entities related to the Bank

Under the Banking Law, credit transactions with members of the Bank's Management Board and Supervisory Board as well as with the Bank's senior management and entities related thereto are subject to the Bylaws adopted by the Bank's Supervisory Board.

The Bylaws lay down detailed decision-making procedures applicable to transactions with such individuals and entities, including authority levels on which different decisions are allowed and competencies assigned thereto. In particular, concluding a transaction with a member of the Bank's Management Board or Supervisory Board or with an entity capitally and organize related thereto in amounts specified in the Bylaws requires authorization of the Bank's Management Board and Supervisory Board.

Members of the Bank's Management and entities capitally and organizationally related thereto may use lending facilities offered by the Bank on standard terms and conditions applied by the lities.

Credit risk assessment follows methodologies used by the Bank with regard to the customer's segment and type of transaction.

Standard credit procedures are applied to entities as for Bank. In particular, the Bank may not offer such individuals or entities better interest rates for lending facilitated with the Bank and transaction decisions are made exclusively on the Bank's Head Office level.

Transactions with related entities as at 31.12.2008

Entity name	Dues from loans and advances	Securities	Financial derivatives contracts	Other dues from	Dues to loans and advances	Financial derivatives contracts	Other dues to
Group parent company							
UniCredito Italiano S.p.A.	1 091 251	-	5 080	469	214	-	2 286
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	1 872 421	-	270 068	52	4 136 625	744 735	45 031
Subsidiaries							
Property Sp. z o.o.(ex. PBK Property Sp.z.o.o)	-	-	-	-	3 343	-	-
Pekao Property S.A. (ex. BPH Real Estate S.A.)	-	-	-	-	3 043	-	-
Centrum Bankowości Bezpośredniej Sp.z o.o.	-	-	-	-	5 631	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	56 880	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	1 597	-	-	-	85	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	238 829	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	36 119	-	-
Key managing Staff of the Bank or it's Parent Company	6 238	-	-	-	7 885	-	-
Total	**2 971 507**	**-**	**275 148**	**521**	**4 488 654**	**744 735**	**47 317**

On 17 November 2008 Bank Pekao S. A. signed Liquidity Back up Facility Agreement with UniCredit CAIB AG, which allow Bank Pekao S.A. borrowing from UniCredit CAIB AG 800 mio Euro. Till 31 December 2008 Bank did not borrow any loan under this agreement.

(in PLN thousand)

Transactions with related entities as at 31.12.2007

Entity name	Dues from loans and advances	Securities	Financial derivatives contracts	Other dues from	Dues to loans and advances	Financial derivatives contracts	Other dues to
Group parent company							
UniCredito Italiano S.p.A.	1 589 380	-	23 985	-	592 901	18 541	13 754
Entities of UniCredito Italiano Group's excluding entities of Pekao S.A. Group	2 360 425	-	397 440	283 162	2 081 909	83 316	637 161
Subsidiaries							
Property Sp. z o.o.(in liquidation)	-	-	-	-	3 112	-	-
Final Holding Sp. z o.o.	-	-	-	-	189	-	-
BPH Real Estate S.A.	-	-	-	-	38	-	-
Centrum Usług Księgowych Sp. z o.o.	-	-	-	-	32	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	89 157	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	-	3 047	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	214 999	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	26 162	-	-
Bankowe Doradztwo Podatkowe Sp. z o.o.	-	-	-	-	53	-	-
Key managing Staff of the Bank or it's Parent Company	12 376	-	-	-	10 415	-	-
Total	**3 962 181**	**-**	**421 425**	**283 162**	**3 022 014**	**101 857**	**650 915**

(in PLN thousand)

Income and expenses from transactions with related entities for the year 2008:

	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Group parent company	**14 613**	**(265)**	**7 741**	**(2 080)**	**5 923**	**(19 719)**
Entities of UniCredit Group's excluding entities of Pekao S.A. Group's	**73 757**	**(178 168)**	**323 973**	**(1 158)**	**10 138**	**(86 179)**
Entities of Pekao S.A. Group's						
Subsidiaries						
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(129)	2	-	1 689	(8)
Centrum Usług Księgowych Sp. z o.o.	-	-	1	-	1	-
Metropolis Sp. z o.o.	-	-	-	-	27	-
Property Sp. z o.o. in liquidation (ex PBK Property Sp. z o. o. in liquidation)	-	(144)	1	-	-	-
Pekao Property S.A. (ex BPH Real Estate S.A.)	-	(85)	3	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	1	(13 610)	683	-	63	-
Xelion Doradcy Finansowi Sp. z o. o.	10	(135)	32	(84)	152	-
Krajowa Izba Rozliczeniowa S.A.	-	(803)	8	-	-	(9 955)
Pirelli Pekao Real Estate Sp. z o.o.	2	(3 932)	18	-	4	(199)
Bankowe Doradztwo Podatkowe Sp. z o.o.	**-**	**-**	**-**	**-**	20	**-**
Total entities of Pekao S.A. Group's	**13**	**(18 838)**	**748**	**(84)**	**1 956**	**(10 162)**
Key managing Staff of the Bank or it's parent Company	1 035	(389)	7	-	-	(30)
Total	**89 418**	**(197 660)**	**332 469**	**(3 322)**	**18 017**	**(116 090)**

(in PLN thousand)

Income and expenses from transactions with related entities for the year 2007:

	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Other income	Other expense
Group parent company	**12 105**	**(155)**	**384**	**(1 466)**	**414**	**(11 864)**
Entities of UniCredit Group's excluding entities of Pekao S.A. Group's	**42 149**	**(61 602)**	**692 895**	**(10 219)**	**59 071**	**(30 355)**
Entities of Pekao S.A. Group's						
Subsidiares						
Centrum Bankowości Bezpośredniej Sp.z.o.o/*	-	-	-	-	67	-
Metropolis Sp. z.o.o/*	-	-	-	-	4	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(6 950)	1 177	-	86	(6)
Xelion Doradcy Finansowi Sp. z o.o.	-	(355)	34	(302)	116	-
Krajowa Izba Rozliczeniowa S.A.	-	(455)	6	-	-	(4 949)
Pirelli Pekao Real Estate Sp. z o.o.	-	(3 442)	50	(5)	5	(1 325)
Bankowe Doradztwo Podatkowe Sp. z o.o./*	**-**	**-**	**-**	**-**	3	-
Total entities of Pekao S.A. Group's	**-**	**(11 202)**	**1 267**	**(307)**	**281**	**(6 280)**
Key managing Staff of the Bank or it's parent Company	591	(203)	7	-	-	(24)
Total	**54 845**	**(73 162)**	**694 553**	**(11 992)**	**59 766**	**(48 523)**

*/ data since the spin-off day till 31 December 2007

(in PLN thousand)

The off-balance sheet exposure related to: financing of related entities as at 31 December 2008 amounted to PLN 103 685 thousand (as at 31 December 2007 PLN 11 000 thousand); related to guarantees as at 31 December 2008 amounted to PLN 262 480 thousand (as at 31 December 2007 PLN 151 633 thousand); credit cards limits towards related entities as at 31 December 2008 amounted to PLN 25 thousand (as at 31 December 2007 PLN 72 thousand).

Management Board and Supervisory Board Remuneration

	2008	2007
Management Board of the Bank		
Short-term employee benefits*	18 567	15 865
Other long- term benefits	1 087	1 212
Termination benefits	2 558	2 898
Share-based payments**	620	1 458
Total	**22 832**	**21 433**
Supervisory Board of the Bank		
Short-term employee benefits*	584	533
Total	**584**	**533**
Grand total	**23 416**	**21 966**

(*) Short term employee benefits comprise of: base salaries, bonuses and other benefits, in particular cost of life insurance polices, health insurance and healthcare, children education costs.

(**) The value of Share-based payments was established as part of Payroll/Employee Expenses recognized by the Group, according to IFRS 2 during the reporting period, representing the amortization of initial fair value of options (pre-emptive rights to take up the Bank's shares) pertaining to options granted to members of the Management Board of the Bank. Detailed information about the employee share program, including the method of the options fair value estimation are presented in the note 48 "Employee benefits".

Management Board and Supervisory Board Members did not receive any compensation - in any form and they do not have any receivables arising from that title from subsidiaries, jointly controlled companies, and associated entities in 2008 and 2007.

Remuneration of members of the Management Boards and Supervisory Boards of the subsidiary companies

	2008	2007
Management Board of the Bank		
Short-term employee benefits	19 908	11 538
Benefits regarding termination of job agreement	326	64
Share-based payments	93	-
Total	**20 327**	**11 602**
Supervisory Board of the Bank		
Short-term employee benefits	32	28
Total	**32**	**28**

55. Repo and reverse repo transactions

The Group increases it's funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not excluded from the balance sheet due to the fact that the Group holds all the benefits and the risk deriving from these assets.

(in PLN thousand)

	31.12.2008		31.12.2007	
	Assets fair value	Balance value liabilities	Assets fair value	Balance value liabilities
Financial assets held for trading				
- up to 1 month	276 506	276 534	1 533 099	1 533 148
- between 1 and 3 months	817 028	755 713	-	-
Total financial assets held for trading	**1 093 534**	**1 032 247**	**1 533 099**	**1 533 148**
Financial assets at fair value through profit or loss				
- up to 1 month	651 956	634 646	633 869	632 553
- between 1 and 3 months	1 345 896	1 300 421	-	-
Total financial assets at fair value through profit or loss	**1 997 852**	**1 935 067**	**633 869**	**632 553**
Financial assets available for sale				
- up to 1 month	2 274 482	2 266 303	1 616 501	1 619 852
- between 1 and 3 months	1 063 213	990 120	5 823	5 821
Total financial assets available for sale	**3 337 695**	**3 256 423**	**1 622 324**	**1 625 673**
Financial assets held to maturity				
- up to 1 month	174 272	169 701	-	-
- between 1 and 3 months	320 624	301 570	-	-
Total financial assets held to maturity	**494 896**	**471 271**	**-**	**-**
Loans and receivables from customers			-	-
- up to 1 month	1 553	1 523	-	-
Total loans and receivables from customers	**1 553**	**1 523**	**-**	**-**
Total	**6 925 530**	**6 696 531**	**3 789 292**	**3 791 374**

The Group purchase securities with the resale in the future promise granted (reverse-repo and buy-sell back) at the same price increased by interest.
Securities treated as reverse repo and buy-sell back transactions are not disclosed at the balance sheet due to the fact that the Group do not holds all the advantages of risks and awareness deriving from these assets.

	31.12.2008		31.12.2007	
	Net value assets	Fair value of assets used as collateral	Net value assets	Fair value of assets used as collateral
Amounts due from banks				
- up to 1 month	552 706	551 942	2 567 132	2 556 340
- between 1and 3 months	97 989	115 953	-	-
Loans and receivables from customers				
- up to 1 month	59 859	60 967	733 467	732 053
Total	**710 554**	**728 862**	**3 300 599**	**3 288 393**

Financial assets treated as reverse repo and buy-sell back are collaterals for the Group which can be sold or put them into collateral by the Group.

56. Company's Social Benefits Fund („ZFSS")

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank and Group companies employing at least 20 staff have created the ZFSS Funds and are making periodic charges to the ZFSS Funds in amounts prescribed by the Act. Apart that, the Company contributed to the Fund in kind of fixed assets. The aim of the ZFSS Funds is to finance of social activity in benefit of the employees and subsidize the social premises.

(in PLN thousand)

The liabilities of the ZFSS Funds represent the cumulated value of charges made by the Company towards the ZFSS Funds decreased by the amount of non-returnable expenditures of the ZFSS Funds.

In the consolidated balance sheet, the Group netted the ZFSS Funds assets against the ZFSS Funds value, due to the fact that the assets of the ZFSS Funds do not represent the assets of the Group. For this reason the amount pertaining to the ZFSS Funds in the consolidated balance sheet as at 31 December 2008 and 31 December 2007 was nil.

The below table sets forth the categories and book values of assets, fund value and costs related to Social Benefits Funds:

	31.12.2008	31.12.2007
Advances to employees	39 338	43 935
Cash in the current account	6 299	8 395
Assets of ZFSS	**45 637**	**52 330**
Value of ZFSS	**45 637**	**52 330**

	2008	2007
Charges made towards the ZFSS	26 159	17 450

57. Subsequent events after balance sheet date

FX rates changes

Subsequent to 31 December 2008 there has been a significant depreciation of the polish zloty against other major currencies. This movement can have a significant effect on the values and risk profiles of foreign currency assets, liabilities and off balance sheet financial instruments.

Increase of share capital of Xelion. Doradcy Finansowi Sp. z o.o.

On 30 January 2009 the District Court for the Capital City of Warsaw, XIII Business Branch of the Domestic Registry Court registered the increase of share capital of Xelion.Doradcy Fianansowi Sp. z o.o. (Bank's affiliated company) by the amount of PLN 6,000,000.

On 9 January 2009, the Extraordinary General Meeting of Xelion. Doradcy Finansowi Sp. z o.o. adopted a resolution on increasing the share capital of Xelion. Doradcy Finansowi Sp. z o.o. by the amount of PLN 6 000 000.

The increase in the share capital of Xelion. Doradcy Finansowi Sp. z o.o. was a consequence of acquisition by Bank Pekao SA of 6 000 newly created shares in Xelion. Doradcy Finansowi Sp. z o.o. with the par value of PLN 500 per share in the share capital of Xelion. Doradcy Finansowi Sp. z o.o. totalling PLN 3 000 000 nominal value which issue price was PLN 7 500 000 i.e. PLN 1,250 per share as well as take-up by UniCredit S.p.A. of 6 000 newly created shares in Xelion. Doradcy Finansowi Sp. z o.o. with the par value of PLN 500 per share in the share capital of Xelion. Doradcy Finansowi Sp. z o.o. totalling PLN 3 000 000 nominal value which issue price was PLN 7 500 000 i.e. PLN 1 250 per share.

Signatures of all members of the Management Board

Date	First Name/Family Name	Position/Function	Signature
12.03.2009	Jan Krzysztof Bielecki	President of the Management Board, CEO	
12.03.2009	Luigi Lovaglio	First Vice President of the Management Board, GM	
12.03.2009	Diego Biondo	Vice President of the Management Board	
12.03.2009	Marco Iannaccone	Vice President of the Management Board	
12.03.2009	Andrzej Kopyrski	Vice President of the Management Board	
12.03.2009	Katarzyna Niezgoda	Vice President of the Management Board	
12.03.2009	Grzegorz Piwowar	Vice President of the Management Board	
12.03.2009	Marian Ważyński	Vice President of the Management Board	