BANK PEKAO SA

Unconsolidated Financial Statements of Bank Pekao S.A. for the year ended 31 December 2009

Warsaw, March 2010

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(PLN thousand)

Unconsolidated income statement

(PLN thousand)

	NOTE	2009	2008
Interest income	6	6,223,962	7,628,112
Interest expense	6	(2,831,223)	(3,510,979)
Net interest income		**3,392,739**	**4,117,133**
Fee and commission income	7	2,454,980	2,561,039
Fee and commission expense	7	(399,044)	(487,645)
Net fee and commission		**2,055,936**	**2,073,394**
Dividend income	**8**	**417,171**	**525,537**
Gains and losses on financial assets and liabilities held for trading	**9**	**702,001**	**682,429**
Fair value adjustments in hedge accounting	**24**	**13,945**	**-**
Gains and losses on financial assets and liabilities at fair value through profit and loss	**10**	**54,558**	**(93,626)**
Gains and losses on disposal of:	**11**	**100,132**	**190,455**
loans		2,584	112,985
available for sale financial assets and held to maturity investments		97,466	82,034
financial liabilities		82	(4,564)
Operating income		**6,736,482**	**7,495,322**
Impairment losses on:	**14**	**(406,454)**	**(180,676)**
loans		(412,443)	(232,919)
available for sale financial assets and held to maturity investments		126	3,349
off-balance sheet commitments		5,863	48,894
Net profit from financial activity		**6,330,028**	**7,314,646**
Administrative expenses	**12**	**(2,963,166)**	**(3,071,111)**
payroll costs		(1,664,606)	(1,667,506)
other administrative expenses		(1,298,560)	(1,403,605)
Depreciation and amortisation		**(403,597)**	**(371,871)**
Provisions for risks and charges		**450**	**29,578**
Net other operating income / expenses	**13**	**67,892**	**127,171**
Operating expenses		**(3,298,421)**	**(3,286,233)**
Profit (loss) from subordinated entities		**(105,000)**	**1,682**
Gains and losses on disposal of investments		**53,963**	**(458)**
Profit before income tax		**2,980,570**	**4,029,637**
Income tax	**15**	**(518,307)**	**(683,792)**
Net profit		**2,462,263**	**3,345,845**
Earnings per share (in PLN per share)	**16**		
basic for the period		9.39	12.76
diluted for the period		9.39	12.76

The unconsolidated income statement in format applied in quarterly reports is presented in the Section 7.3.1. of the Report on the activities of the Bank Pekao S.A. for the year 2009.

Changes made in the format of the annual unconsolidated income statement for the year 2008 are presented in Note 50 to the Financial Statements.

Unconsolidated statement of comprehensive income

(PLN thousand)

	NOTE	2009	2008
Net profit		**2,462,263**	**3,345,845**
Other comprehensive income			
Foreign currency translation differences for foreign operations		(123)	3,847
Change in fair value of available-for-sale financial assets		50,291	215,696
Change in fair value of cash flow hedges		(150,781)	170,059
Income tax expenses on other comprehensive income	15	17,781	(71,576)
Other comprehensive income (net)		**(82,832)**	**318,026**
Total comprehensive income		**2,379,431**	**3,663,871**

Unconsolidated statement of financial position

(PLN thousand)

	NOTE	31.12.2009	31.12.2008
ASSETS			
Cash and due from Central Bank	18	9,587,211	9,905,270
Debt securities eligible for rediscounting at Central Bank		158	840
Loans and receivables from banks	19	9,138,563	10,213,642
Financial assets held for trading	20	3,685,551	2,727,581
Derivative financial instruments (held for trading)	21	2,431,471	4,489,752
Other financial instruments at fair value through profit and loss	22	2,394,040	4,713,069
Loans and receivables from customers	23	73,042,722	75,105,146
Hedging instruments	24	87,543	157,899
Investment securities	25	21,293,507	15,242,759
Available for sale		17,526,224	13,363,698
Held to maturity		3,767,283	1,879,061
Assets classified as held for sale	27	38,580	128,734
Investments in subsidiaries	28	1,426,442	1,506,442
Investments in associates	29	39,345	56,845
Intangible assets	30	678,462	721,888
Property, plant and equipment	31	1,745,821	1,808,694
Investment properties	32	54,967	63,283
Income taxes	15	557,768	286,699
Current tax receivable		219,798	-
Deferred tax assets		337,970	286,699
Other assets	33	715,869	849,914
TOTAL ASSETS		**126,918,020**	**127,978,457**
LIABILITIES			
Liabilities			
Amounts due to Central Bank	35	1,100,176	4,817,499
Amounts due to other banks	36	5,462,055	8,091,435
Financial liabilities held for trading	20	981,354	405,979
Derivative financial instruments (held for trading)	21	1,594,037	5,150,384
Amounts due to customers	37	96,701,298	90,458,074
Hedging instruments	24	150,452	373
Debt securities in issue	38	1,297,785	1,719,894
Income taxes	15	-	244,898
Current income tax payable		-	244,898
Deferred tax liabilities		-	-
Provisions	39	281,369	298,177
Other liabilities	40	1,381,925	1,220,410
TOTAL LIABILITIES		**108,950,451**	**112,407,123**
Equity			
Share capital	44	262,331	262,213
Other capital and reserves	45	15,242,975	11,963,276
Retained earnings and current year profit	45	2,462,263	3,345,845
TOTAL EQUITY		**17,967,569**	**15,571,334**
TOTAL EQUITY AND LIABILITIES		**126,918,020**	**127,978,457**

Unconsolited statement of changes in equity

(PLN thousand)

For the period from 01 January 2009 until 31December 2009 and from 01 January 2008 until 31 December 2008

		OTHER CAPITAL AND RESERVES								
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND CURRENT YEAR PROFIT	TOTAL EQUITY
Equity as at 01 January 2009	**262,213**	**11,963,276**	**9,105,832**	**1,237,850**	**1,344,892**	**36,121**	**3,169**	**235,412**	**3,345,845**	**15 571,334**
Management options	**118**	**16,686**	**14,400**	**-**	**-**	**-**	**-**	**2,286**	**-**	**16,804**
Options exercised (share issue)	118	14,400	14,400	-	-	-	-	-	-	**14,518**
Revaluation of management share options	-	2,286	-	-	-	-	-	2,286	-	**2,286**
Valuation of financial instruments	**-**	**(82,709)**	**-**	**-**	**-**	**(82,709)**	**-**	**-**	**-**	**(82,709)**
Revaluation of available–for-sale investments net of deferred tax	-	39,424	-	-	-	39,424	-	-	-	**39,424**
Revaluation of hedging financial instruments net of differed tax	-	(122,133)	-	-	-	(122,133)	-	-	-	**(122,133)**
Appropriation of retained earnings and current year profit	**-**	**3,345,845**	**-**	**100,000**	**3,245,845**	**-**	**-**	**-**	**(883,582)**	**2,462,263**
Dividend paid	-	-	-	-	-	-	-	-	-	**-**
Profit appropriation	-	3,345,845	-	100,000	3,245,845	-	-	-	(3,345,845)	**-**
Current year net profit (loss)	-		-	-	-	-	-	-	2,462,263	**2,462,263**
Other	**-**	**(123)**	**-**	**-**		**-**	**(123)**	**-**	**-**	**(123)**
Foreign currency translation differences for foreign operations	-	(123)	-	-	-	-	(123)	-	-	**(123)**
Equity as at 31 December 2009	**262,331**	**15,242,975**	**9,120,232**	**1,337,850**	**4,590,737**	**(46,588)**	**3,046**	**237,698**	**2,462,263**	**17,967,569**

Unconsolited statement of changes in equity

(PLN thousand)

		OTHER CAPITAL AND RESERVES								
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY TRANSLATION DIFFERENCES	OTHER	RETAINED EARNINGS AND CURRENT YEAR PROFIT	TOTAL EQUITY
Equity as at 01 January 2008	**261,867**	**12,109,917**	**9,063,248**	**1,237,850**	**1,855,533**	**(278,058)**	**(678)**	**232,022**	**2,006,600**	**14,378,384**
Management options	**346**	**45,415**	**42,025**	**-**	**-**	**-**	**-**	**3,390**	**-**	**45,761**
Options exercised (share issue)	346	42,025	42,025	-	-	-	-	-	-	**42,371**
Revaluation of management share options	-	3,390	-	-	-	-	-	3,390	-	**3,390**
Valuation of financial instruments	**-**	**314,179**	**-**	**-**	**-**	**314,179**	**-**	**-**	**-**	**314,179**
Revaluation of available–for-sale investments net of deferred tax	-	176,431	-	-	-	176,431	-	-	-	**176,431**
Revaluation of hedging financial instruments net of income tax	-	137,748	-	-	-	137,748	-	-	-	**137,748**
Appropriation of retained earnings and current year profit	**-**	**(510,641)**	**-**	**-**	**(510,641)**	**-**	**-**	**-**	**1,339,245**	**828,604**
Dividend paid	-	(1,032,357)	-	-	(1,032,357)	-	-	-	(1,484,884)	**(2,517,241)**
Appropriation of profit allocated to other capital and reserves, including consolidation adjustments for preceding years	-	521,716	-	-	521,716	-	-	-	(521,716)	**-**
Net profit (loss) in present fiscal year	-	-	-	-	-	-	-	-	3 345,845	**3,345,845**
Other	**-**	**4,406**	**559**	**-**	**-**	**-**	**3,847**	**-**	**-**	**4,406**
Foreign currency translation differences for foreign operations	-	3,847	-	-	-	-	3,847	-	-	**3,847**
Sale of treasury stock purchased	-	559	559	-	-	-	-	-	-	**559**
Equity as at 31 December 2008	**262,213**	**11,963,276**	**9,105,832**	**1,237,850**	**1,344,892**	**36,121**	**3,169**	**235,412**	**3,345,845**	**15,571,334**

Unconsolidated cash flow statement

(PLN thousand)

	2009	2008
Cash flow from operating activities - indirect method		
Net profit (loss)	**2,462,263**	**3,345,845**
Adjustments:	**6,080,288**	**(6,635,371)**
Depreciating expense	403,597	371,294
Gains (losses) on foreign exchange differences	217,449	(224,194)
Gains (losses) on investing activities	(151,429)	(76,676)
Impairment of financial assets	105,000	-
Interest and dividend	(1,315,154)	(609,648)
Change in loans and receivables from banks	4,460,533	(2,788,694)
Change in financial assets held for trading and other financial instruments at fair value through profit or loss	1,361,059	(834,169
Change in derivative financial instruments	2,058,281	(2,571,792)
Change in loans and receivables from customers and debt securities eligible for rediscounting at Central Bank	2,063,106	(11,149,624)
Change in investment securities available for sale	(30,662)	2,876,718
Change in deferred tax assets	(253,288)	(8,863)
Change in other assets	424,714	739,294
Change in amounts due to banks	(6,346,703)	4,538,734
Change in liabilities as held for trading	575,375	(85,403)
Change in derivative financial instruments (liabilities)	(3,556,347)	3,467,078
Change in amounts due to customers	6,243,224	1,297,950
Change in debt securities in issue	(8,557)	46,856
Change in provisions	(16,808)	(76,821)
Change in other liabilities	298,979	(1,751,042)
Income tax paid (negative sign)	(1,003,878)	(489,023)
Current tax	551,797	692,654
Net cash flows from operating activities	**8,542,551**	**(3,289,526)**
Cash flows from investing activities		
Investing activity inflows	**185,562,185**	**25,125,388**
Sale of subsidiaries and associates	-	87
Sale of investment securities	184,522,082	24,544,976
Proceeds from sale of intangible assets and property, plant and equipment	1,486	851
Other investing inflows	1,038,617	579,474
Investing activity outflows	**(190,630,782)**	**(24,161,958)**
Purchase of subsidiaries and associates	(7,500)	(5,182)
Purchase of investment securities	(190,327,921)	(23,710,793)
Purchase of intangible assets and property, plant and equipment	(295,361)	(445,983)
Other investing outflows	-	-
Net cash flows from investing activities	**(5,068,597)**	**963,430**

Unconsolidated cash flow statement (cont)

(PLN thousand)

	2009	2008
Cash flows from financing activities		
Financing activity inflows	**495,680**	**325,125**
Issue of debt securities	481,162	282,195
Issue of shares	14,518	42,371
Sale of own shares	-	559
Financing activity outflows	**(902,239)**	**(3,302,705)**
Redemption of debt securities	(902,239)	(785,464)
Dividends and other payments to shareholders	-	(2,517,241)
Net cash flows from financing activities	**(406,559)**	**(2,977,580)**
Total net cash flows	**3,067,395**	**(5,303,676)**
Net change in cash and cash equivalents	**3,067,395**	**(5,303,676)**
Cash and cash equivalents at the beginning of the period	**11,510,522**	**16,814,198**
Cash and cash equivalents at the end of the period	**14,577,917**	**11,510,522**

Notes to financial statements

(PLN thousand)

1. General information about Bank

Bank Polska Kasa Opieki Spółka Akcyjna "Bank Pekao S.A." or "the Bank") with Head Office in Warsaw, 00-950, at 53/57 Grzybowska is a bank organized in the form of a public company, operating by virtue of the binding provisions of the law, and in particular of the Banking Law and provisions under the Code of Commercial Companies ksh and under the Bank's Articles of Association.Bank Pekao S.A. was originally incorporated on 29 October 1929 into the Business Register, maintained by the District Court in Warsaw, and has been in continuous operation ever since. Bank Polska Kasa Opieki Spółka Akcyjna is registered in the Business Register of the National Court Register KRS, kept by the Local Court for the Capital City of Warsaw, XII Business Division of the National Court Register KRS under entry No. KRS 0000014843.

The Bank was assigned statistical, REGON No. 000010205.

The Bank has been formed for an undefined period of time.

Bank Pekao S.A. is a member of the UniCredit S.p.A. Group, based in Rome, Italy. The Bank's shares are quoted on the Warsaw Stock Exchange. Bank's securities, traded on regulated markets, are classified in the banking sector.

Bank Pekao S.A. is a universal commercial bank, offering a broad range of banking services in domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank Articles of Association.

Notes to financial statements (cont)

(PLN thousand)

2. Approval of the Financial Statements

These unconsolidated financial statements were approved for publication by the Bank's Management Board on 11 March 2010.

3. Significant accounting policies

3.1 Statement of compliance

The annual unconsolidated financial statements of ("financial statements") of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29th September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

3.2 Basis of preparation

a) General

The financial statements of the Bank have been prepared for the financial year from January 1 to December 31, 2009, the comparative data are presented for financial year from January 1 to December 31, 2008. The financial statements have been prepared in the Polish zlotys, and all data in the financial statements are presented in PLN thousand (PLN '000), unless indicated otherwise.

The financial statements have been prepared on a going concern basis on the assumption that the Bank will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The financial statements include the requirements of all the International Financial Reporting Standards and related Interpretations.

The standards and interpretations which become effective in 2009 and have a material influence on the Financial Statements have been disclosed in Section 3.2b and 3.2c.

The Bank did not take into consideration the amendments to standards and interpretations which are pending European Union approval or have been approved by the European Union, but will become effective after the balance sheet date (Annex 1 and Annex 2 to the Financial Statements).

In the opinion of the Bank, no amendments to the standards and interpretations will have a material impact on the Unconsolidated Financial Statements, except for the new IFRS 9 "Financial Instruments".

IFRS 9, published on 12 November 2009, will become effective for fiscal years starting on 1 January 2013 or following that date. This standard replaces IAS 39 „Financial Instruments – Recognition and Valuation". The main changes, introduced by the new standard, are as follows:
- elimination of the category of available for sale financial assets and held to maturity,
- introduction of two categories of financial assets: subject to measured at amortized cost and measured at fair value,
- new criteria for classification of financial assets, measured at amortized cost,
- new rules for recognition of revaluation at fair value of investments into equity financial instruments,
- elimination of the need to separate embedded derivatives.

The Bank has not yet completed its analysis of how IFRS 9 will impact the financial statements however due to the specific nature of the Bank's operations such changes are anticipated to have a significant impact on the valuation and presentation of financial instruments.

Notes to financial statements (cont)

(PLN thousand)

Unconsolidated Financial Statements of the Bank have been prepared based on the following valuation principles:
- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets designated at inception as fair value through profit or loss and available-for-sale financial assets, except for those for which fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are recognized at the lower of the carrying value or the fair value less costs to sell.

The Bank also prepares consolidated financial statements of Bank Pekao S.A. Group.

b) Changes in the financial statements resulting from the amendments to the International Financial Reporting Standards

Statement of Comprehensive Income
The Bank implemented the amended IAS 1 standard „Presentation of Financial Statements".

Pursuant to this amended standard, a statement of comprehensive income was introduced. This change impacts only the presentation of the financial statements, with no impact on the amount of earnings per share presented.

Financial instruments related disclosures
The Bank implemented the amended IFRS 7 „Financial Instruments: Information Disclosure".

In particular, the following disclosures were added in the financial statements (see Note 4.9):
- a three-tier hierarchy of measurement of financial instruments at fair value was presented, including the specific range of disclosures,
- information on classification of maturities of financial liabilities was extended.

c) Other changes in the financial statements

Presentation of income statement captions
Starting from first quarter of 2009 Bank Pekao S.A. aligned the presentation of its income statement with that of its parent UniCredit Group. The aim of this presentation change is to add transparency of the Group's financial performance as well as enhance the comparability of its results to those obtained at the parent group level as published by UniCredit Group both on the Polish and the other European markets.

The reclassification of data for the comparative period in the income statement did not impact the amount in total of Bank income (see Note 50).

Introduction of hedge accounting for new hedging relations
Commencing in second quarter of 2009, the Bank introduced the fair value hedge of derivatives indicated as hedging instruments, fulfilling the criteria set forth in IAS 39 "Financial Instruments: Recognition and Measurement".

Also commencing in second quarter of 2009, the Bank incorporated into the cash flows hedge a new hedging relation, covering variable interest rates financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) instruments (see Note 24).

3.3 Accounting of estimates and judgements

- Preparing financial statements in accordance with IFRS, the Management Board of the Bank to make 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 at 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 of current conditions and activities which the Bank will undertake, the actual results may differ from such estimates. Principal assumptions and subjective judgments adopted by the Bank when making the estimates pertain primarily to:

Notes to financial statements (cont)

(PLN thousand)

- Impairment of financial assets
  The assumptions presented herein regarding measurement of impairment of credit and loans are described in Note 3.6. in the part titled "Impairment of financial assets".

- Impairment of other non-current assets
  At each balance sheet date the Bank reviews its assets for indications of impairment. Where such indications exist, the Bank makes a formal estimation of the recoverable value. In the event that the carrying value of a given asset is in excess of its recoverable value, an amount of impairment is identified and a write down is recorded to adjust the book value to the level of its 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 corporate assets, which do not generate cash flows independently from other asset or group of assets, and the recoverable value of the individual asset included among the group of assets cannot be determined, the Bank assesses the recoverable value at the level of a cash generating unit to which the given asset belongs.

  Estimation of the value-in-use of an asset (or cash generating unit) requires assumptions to be made regarding, among others, future cash flows which the Bank may obtain from the given asset (or cash generating unit), any changes in amount or timing of occurrence of these cash flows and other factors such as lack of liquidity. The adoption of different measurement assumptions may affect the carrying value of some of the Bank's assets.

- Measurement of derivatives and unquoted debt securities available for sale
  The fair value of derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Bank also adopts assumptions concerning counterparty credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments.

- Measurement of management share options
  Assumptions made regarding measurement of management share options are described in Note 41 "Employment Benefits".

- Calculation of provision for retirement and pension severance payments
  The provision for severance payments is determined case-by-case, for each employee separately, in accordance with the projected individual eligibility forecast method.

  The basis for the calculation of a provision for an employee is the expected amount of retirement or pension severance payment, depending upon:
  - the base amount of retirement or pension severance payment and the percentage rate dependent upon the duration of employment according to GBA ("ZUZP") rules,
  - expected increase in the payment base until retirement age.

  The amount calculated as above is then actuarially discounted, taking into consideration the probability of an individual reaching retirement age and the financial discount rate.

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

  The financial discount rate is based on the profitability of risk-free securities, denominated in the currency in which employee benefits are paid out.

- Goodwill
  The Bank performs an annual impairment test of goodwill, resulting from the merger of Bank Pekao S.A. with the organized part of Bank BPH S.A.

(PLN thousand)

3.4 Foreign currencies

- Functional and presentation currency
  Bank's financial statements, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates. The Bank's financial statements are presented in Polish Zlotys. Polish Zloty is the functional currency and the presentation currency of the Bank. The Bank applies as the closing rate the mid NBP exchange rate, valid as at the balance sheet date.

- Transactions and balances.
  Foreign currency transactions are translated into the functional currency using the spot exchange rate from the date of the transaction. Gains and losses from foreign currency translation differences resulting from settlements of such transactions and from the balance sheet valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the profit or loss.

  Foreign currency translation differences arising from non-monetary items, such as equity instruments classified as financial assets measured at fair value through the profit or loss are recognized together with the changes in the fair value of that item in the profit or loss.

  Foreign currency translation differences arising from non-monetary items such as equity instruments classified as available for sale financial assets are recognized in the revaluation reserves.

- Bank's Branch in Paris.
  The assets and liabilities of foreign operations are translated into the Polish currency using the closing rate at the reporting date of that statement of financial position. Income and expenses are translated using average exchange rates calculated for the reporting period, except for instances when exchange rates fluctuate so significantly that the average exchange rate is not an appropriate estimate of the exchange rate from the transaction date. Under such circumstances, income and expenses are translated using the exchange rates at the dates of the transactions.

  Financial statements of the Bank's Branch in Paris are translated into Polish zloty using the following exchange rates:
  - to translate statement of financial position items as at 31 December 2009 and as at 31 December 2008, exchange rates announced by the National Bank of Poland NBP on 31 December 2009 and on 31 December 2008, respectively, have been used:

	31.12.2009	31.12.2008
PLN 1 for EUR 1	4.1082	4.1724

  - for translation of income and expense items for the period from 1 January 2009 until 31 December 2009 and for the period from 1 January 2008 until 31 December 2008, arithmetic average values have been used of exchange rates, announced by the National Bank of Poland NBP as at the last date of each month during the period from 1 January 2009 until 31 December 2009 and during the period from 1 January 2008 until 31 December 2008, respectively, as follows:

	2009	2008
PLN 1 for EUR 1	4.3406	3.5321

  Foreign currency translation differences for foreign operations at average weighted rate set forth for the balance sheet date against the average NBP rate is recognised in the item "Revaluation reserves".

Notes to financial statements (cont)

(PLN thousand)

3.5 Income statement

Interest income and expenses
The Group recognizes in the income statement all interest income and expense related to financial instruments measured at amortised cost using the effective interest rate method, financial assets available for sale and financial assets at fair value through profit or loss.

The effective interest rate is the discount rate of estimated future cash inflows and payments made during expected period until the expiry of financial instruments, and in justified cases in a shorter time, to the net carrying value of such financial assets or liabilities. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement, transaction costs and all other premiums and discounts, comprising an integral part of the effective interest rate.

Interest income includes interest and commission fees received or due from credits, interbank deposits and held to maturity securities, recognized in the calculation of effective interest rate, as well as from securities available for sale and measured at fair value through the income statement.

At the recognition of impairment of financial instruments measured at amortized cost and of available for sale financial assets, the interest income is accrued based on the carrying amount of the receivable (this is the value reduced by the impairment charge) using the interest rate used when discounting the future cash flows for impairment calculation.

Interest expense of the reporting period related to interest liabilities associated with client accounts and liabilities from issue treasury stock are amortized using effective interest rate method.

Fee and commission income and expense
Fee and commission income is generated from financial services provided by the Bank. Fee and commission income and expense is recognized in the profit or loss using the following methods:

- Fees and commissions directly attributable to financial asset or liability origination (both income and expense) are recognized in the income statement using the effective interest rate method and are described above,
- Fees and commissions relating to the loans and advances without a defined repayment schedule and without a defined interest rate schedule e.g. overdraft facilities and credit cards are amortized over the life of the product using the straight line method,
- Other fees and commissions arising from the Bank's financial services offering (customer account transaction charges, credit card servicing transactions, brokerage activity and canvassing) are recognized in the profit or loss up front when the corresponding service is provided.

Gains and losses on financial assets and liabilities held for trading
Gains and losses on financial assets and liabilities held for trading include:

- Foreign exchange gains (losses).
  The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realised or unrealised from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is done using the average exchange announced by the National Bank of Poland on the reporting date.

  The foreign exchange gains include the trade margins on foreign exchange transactions with the Bank's clients, as well as swap points from derivative transactions, entered into by the Bank for the purpose of managing the Bank's liquidity in foreign currencies.

  Income from foreign exchange positions shall also include foreign currency translation differences from net valuation of investments into foreign entities at the moment of divestment thereof. Until such divestment, such foreign currency translation differences are recognised as a separate component of equity in the item„Other capital and reserves".

Notes to financial statements (cont)

(PLN thousand)

- Income from derivatives and securities held for trading.
  The income from derivatives and financial instruments held for trading includes gains and losses realized on a sale or a change in the fair value of assets and liabilities held for trading.

  The accrued interest and unwinding of a discount or a premium on securities held for trading is presented in the interest income or expense respectively.

Gains and losses on financial assets/liabilities at fair value through profit and loss
This includes gains and (losses) on a sale or a change in the fair value of assets and liabilities, designated at fair value through profit or loss.

The accrued interest and unwinding of a discount or a premium on financial assets/ liabilities designated at fair value through profit or loss are presented in the interest income or expense respectively.

Other income/expenses
The Item "Other income/expenses" includes mainly the amounts of received compensation, penalties and fines, revenues from operating leasing and release of provision for legal cases and sundry debtors. Other expenses include mainly the costs of client claims, compensations paid and costs of provision for legal cases and sundry debtors.

3.6 Valuation of assets and liabilities, derivative financial instruments

Financial assets
Financial assets are classified into the following categories:

- Financial assets measured at fair value through financial income
  This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition as financial assets measured at fair value through profit or loss.

  Financial assets held for trading include: debt and equity securities, loans and receivables purchased or classified into this category for the purpose of disposal thereof on a short-term basis. The classification also includes derivative instruments (not used as hedging instruments).

  Financial assets classified at the moment of original recognition as financial assets measured at fair value through profit and loss include debt securities acquired by the Bank for the purpose of elimination or considerable reduction of inconsistencies in the valuation between these securities and the derivatives, which are economically hedging the interest rate risk of such securities. Otherwise, such securities would have been classified into the "available for sale" portfolio, with the effect of valuation recognized in revaluation reserves, and valuation of derivatives economically hedging such securities reported in profit or loss.

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

  Financial assets classified into this category shall be measured at amortised cost using effective interest rate method. The recognition of amortised cost with the use of effective interest rate shall be recognised in interest income.

(PLN thousand)

- Loans and receivables

  Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not quoted on active markets, and other than:

  a) those that the Bank intends to sell immediately or in the near term which are classified as held for trading and those that the Bank designates as at fair value through profit or loss upon initial recognition;

  b) those that the Bank 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 also contains debt securities, purchased from the issuer, for which there is no active market, as well as credits, loans, receivables from reverse repo transactions and other receivables acquired and granted. Loans and receivables are measured at amortized cost using the effective interest rate method and with consideration to any impairment.

- Available for sale

  This includes financial assets with an undefined holding period. The portfolio includes: debt and equity securities, as well as loans and receivables not classified into other categories. Interest on assets available for sale is calculated using the effective interest rate method, and recognized in the profit or loss.

  Available for sale financial assets are measured at fair value, whereas gains and losses resulting from changes in fair value against amortized cost are recognized in the revaluation reserves. Amounts in the revaluation reserves are recognized in the profit or loss either at a sale of an asset, or its impairment. In case of impairment of an asset, previous increases from revaluation to fair value will decrease the “Revaluation reserves”. Should the amount of previously recognized increases be insufficient to cover the impairment, the difference will be recorded in the profit or loss as “Impairment losses”.

  Dividends from equity instruments are recognized in the profit or loss at the moment the rights to receive such payments are established.

  Standardized purchase and sale transactions of financial assets designated at fair value through profit or loss, designated as held for trading (except for derivatives), held to maturity, and available for sale, are recognized and derecognized by the Bank on the settlement date of such transaction, i.e. as at the day of receipt or delivery of such assets.

  Changes in the fair value of assets, which occur during the period from transaction date to transaction settlement date, shall be recognized similarly as in case of the asset held.

  Credits and loans are recognized on the date of cash disbursement to the debtor.

  Derivative instruments are always recognized and derecognized on transaction dates.

(PLN thousand)

Reclassification of financial assets

The Bank may reclassify the financial assets classified as available for sale, which meet the definition of loans and receivables, from the category of available for sale financial assets to the category of loans and receivables, if the Bank has the intent and the ability to hold such financial assets in foreseeable future or until their maturity.

If the financial asset with given maturity is reclassified, prior gains and losses associated with such asset, recognized in other comprehensive income, are amortized in the profit or loss throughout the remaining period until maturity, using the effective interest rate method. Any differences between such new amortized cost and embedded amount is amortized throughout the period remaining until the maturity of such asset using the effective interest rate method, similar premium or discount amortization.

Moreover, the Bank may reclassify financial assets classified as financial assets measured at fair value through profit or loss, if extraordinary circumstances occur.

Such financial assets are reclassified at fair value as at reclassification date. The gains or losses recognized in the profit or loss before such reclassification cannot be reversed. The fair value of financial assets as at reclassification date is recognized as its new cost or its new amortized cost.

Impairment of financial assets

Assets carried at amortised cost – loans and receivable

At each balance sheet date the Bank assesses whether there is objective evidence of impairment of a given financial asset or of a group of assets. The impairment of a financial asset or a group of assets occurs exclusively when objective evidence of impairment caused by events that followed the initial recognition of given asset ("the loss event") is identified and when these loss events affect the expected cash flows, and such cash flows may be reliably estimated.

Objective triggers of impairment of financial assets include, among others, the following loss events:

- substantial financial difficulties endured by the issuer or debtor,
- failure to meet the terms and conditions of contract, such as i.e. defaulting on a repayment or falling into arrears with interest, principal or commission fee payments by at least 90 days,
- debt restructuring caused by debtor's financial problems,
- submission of motion for the announcement of debtor's bankruptcy or instatement of recovery procedure;
- disappearing active markets for given financial assets, caused by financial difficulties of the issuer;
- starting enforcement procedure,
- observable data indicating a measurable fall in estimated future cash flows, associated with a group of financial assets from initial recognition of such assets, even if a reduction for a single item of such group of financial assets may not be determined, including:
  - adverse changes in the payment status of borrowers in the group, or
  - national or local economic situation, associated with the default on payment of assets within the group.

The Bank classifies its loan receivables into individual and collective portfolios base on the size criteria.

In the individual portfolio each loan exposure is reviewed for impairment triggers on an individual basis. In case of impairment, an impairment provision is recorded.

In case of the collective portfolio, loans are grouped into homogeneous pools with similar credit risk characteristics and collectively tested for impairment.

When objective evidence of impairment of financial assets, classified as loans and receivables or held to maturity investments, is identified, the amount of such impairment provision recorded is equal to the difference between the carrying value of such an asset and the present value of estimated future cash flows from repayments, collateral and other sources of repayment, discounted using the primary effective interest rate, set forth at the initial recognition of given financial asset. The carrying value of such asset is then reduced by the accumulated impairment provision, which is recorded in the profit or loss for the given period.

Notes to financial statements (cont)

(PLN thousand)

The calculation of the present value of estimated cash flows, related to collateralized financial assets also includes expected cash flows resulting from the repossession of collateral less costs of such repossession and disposal.

Expected future cash flows related to a group of financial assets, tested collectively for impairment, are estimated using the historical recovery parameters, generated from assets with similar risk characteristics.

Historical parameters of recoveries are adjusted to reflect the current circumstances, or to exclude observable historical data that is no longer relevant.

When the impairment amount is reduced subsequently to its initial measurement (e.g. debtor's improved credit rating), the impairment provision previously recorded is reversed. The amount of such reversal is recognized in the profit or loss.

For the portfolio of performing loans with no impairment triggers identified, the Bank records a provision on a collective portfolio bases calculated using the statistical data of historical observations for losses incurred but not recognised (IBNR).

The IBNR impairment allowance reflects the loan impairment amount incurred as a result of impairment events that has already occurred, which the Bank has not yet specifically identified at the balance-sheet date. This impairment allowance is determined using the historical pattern of losses on assets with similar risk features. The IBNR impairment allowance is calculated using statistical models for loan groups combined in homogeneous portfolios developed using historic observations data. The IBNR calculation takes into account the default emergence period concept for each type of homogeneous loan portfolio.

Financial assets available for sale

When a decline in the fair value of an available for sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement. The amount of the cumulative loss recycled to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Off-balance sheet liabilities

A provision for the impairment of off-balance sheet liabilities is calculated on the basis of the limit granted and the recoverable amount of the receivable, defined as the current amount of estimated future cash flows discounted with the effective interest rate. Future cash flows relating to the off-balance sheet liabilities are calculated on the basis of the limit granted as at maturity date of this liability and the probability of outflow of the funds from the Bank.

Repo and reverse-repo agreements

Repo and reverse-repo transactions, as well as sell-buy back and buy-sell back transactions are classified as sales or purchase transactions of securities with the obligation of repurchase or resale at an agreed date and price.

Sales transactions of securities with the repurchase obligation granted (repo and sell-buy back) are recognized as at transaction date in amounts due to other banks or amounts due to customers from deposits depending upon the counterparty to the transaction. Securities purchased in reverse-repo and buy-sell back transactions are recognized as loans and receivables from banks or as loans and receivables from customers, depending upon the counterparty to the transaction.

The difference between the sale and repurchase price is recognized as interest income or expense, and amortized over the contractual life of the contract using the effective interest rate method.

Notes to financial statements (cont)

(PLN thousand)

Derivative financial instruments and hedge accounting

The Bank acquires the derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP), derivative transactions based on security prices, exchange rates and stocks indices. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently remeasured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models. Positive valuation of derivative financial instruments is presented in the caption "Derivative financial instruments" on assets side, and on the liabilities side if the change in the fair value is negative.

For financial instruments with a embedded derivative component, the whole or part of the cash flows related to such a financial instrument changes in a way similar to what would be the case with the embedded derivative instrument 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 at fair value 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 accordance with derivative financial instruments valuation principles.

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 Bank designates some of its derivative instruments as hedging items in applying hedge accounting. The Bank implemented fair value hedge accounting as well as the cash flow hedge accounting, under the condition of meeting the criteria under a of IAS 39 "Financial Instruments: Recognition and Measurement".

Fair value hedge accounting rules

Changes in the measurement to fair value of financial instruments indicated as hedged positions are recognized - in the part ensuing from hedged risk - in the profit and loss account. In the remaining part, changes in the carrying value are recognized in accordance with the accounting principles applicable for these financial instruments.

Changes in the valuation of derivative financial instruments, indicated as hedging positions in fair value hedge accounting, are recognized in the profit or loss in the same caption, in which the gains/losses from change in the value of hedged positions are recognized.

Interest income on derivative instruments hedging interest positions hedged is presented as interest margin.

The Bank ceases to apply hedge accounting, when the hedging instrument expires, is sold, dissolved or released (the replacement of one hedging instrument with another or extension of validity of given hedging instrument is not considered an expiration or release, providing such replacement or extension of validity is a part of a documented hedging strategy adopted by given unit), or does not meet the criteria of hedge accounting or the Bank ceases the hedging relation.

An adjustment for the hedged risk on hedged interest position is amortized in the income statement at the point of ceasing to apply hedge accounting.

Notes to financial statements (cont)

(PLN thousand)

Cash flow hedge accounting rules

Changes in the fair value of the derivative financial instruments indicated as cash flow hedging instruments are recognized:

- directly in the caption „revaluation reserve" in the part constituting the effective hedge relationship,
- in the profit or loss in the part representing ineffective hedge relationship.

The amounts accumulated in the revaluation reserves are transferred to the profit or loss in the period, in which the hedged is reflected in the profit or loss and are presented in the same lines as individual components of the hedged position measurement, i.e. the interest income from hedging derivatives in cash flow hedge accounting is recognized in the interest result, whereas gains/losses from foreign exchange revaluation are presented in the foreign exchange gains (losses).

The Bank ceases to apply hedge accounting when the hedging instrument expires or is sold. In such cases, the accumulated gains or losses related to such hedging item, initially recognized in revaluation reserves, if the hedge was effective, are still presented in equity until the planned transaction was closed and recognized in the profit or loss.

If the planned transaction is no longer probable, the cumulative gains or losses recognized in revaluation reserves are transferred to the profit or loss for the given period.

Financial Liabilities

The Bank's financial liabilities are classified to the followings categories:

- financial liabilities held for trading, carried at fair value,
- financial liabilities not held for trading, carried at amounts payable, measured at amortized cost using the effective interest rate method.

Financial liabilities not held for trading consist of amounts due to banks and customers, loans from other banks, and own debt securities issued.

Derecognition of financial instruments

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

The Bank derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Bank writes-off a receivable against the corresponding impairment provision when the debt redemption process is completed and when no further cash flows from the given receivable are expected. Such cases are documented in compliance with the current tax regulations.

The Bank derecognizes a financial liability, or its part, when the liability expires. The liability expires when the obligation stated in the agreement is settled, redeemed or the period for its collection expires.

3.7 Valuation of other in balance sheet items

Investments in subsidiaries, associates and units under joint control

Subsidiaries

In the Bank's financial statements subsidiaries are entities controlled, directly or indirectly, by the Bank. The control is defined as the ability to manage financial and operating policies in order to gain economic profits. Control predominantly is demonstrated by majority votes in governing bodies of the entity.

Associates

Associates are entities in which the Bank has significant influence and are not subsidiaries or joint venture entities. The Bank usually determines significant influence by holding 20 % to 50 % of the total number of votes in governing bodies.

Notes to financial statements (cont)

(PLN thousand)

Units under joint control

Units under joint control are defined as entities, where by virtue of an agreement entered into determines the distribution of control over the business operations of a subsidiary, according to which decisions of strategic importance to the operations of such entity require a consensus of the parties sharing such control (partners to a joint venture).

Recognition and valuation

Investments in subsidiaries, associates, and joint ventures are recorded at cost less any provision for impairment. The carrying value is subjected to impairment test in accordance with IAS 36 “Impairment of Assets”. Impairment, if any, is recognized in the profit or loss as “Profit/Loss of subsidiaries”. Dividends are recognized in the profit when the Bank obtains legal rights to receive them.

Moreover equity investments in foreign entities are classified as non-monetary assets. Non-monetary assets are measured in accordance with historical cost expressed in the foreign currency and translated at the exchange rate from the transaction date. In this case the purchase price is calculated on the basis of balance sheet value as of the day of the transition into IFRS for the purposes of recalculation of the equity investment in foreign entities.

Book value accounting policy for common control acquisition

The accounting for transactions 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 business occurring between entities within the UCI group of which the Bank is a member.

The elected accounting policy of Bank Pekao is as follows:

The combined entity recognizes the assets, liabilities and equity of the combining enterprises at their existing book value amounts adjusted only as a result of aligning the combining enterprises’ accounting policies. There is no recognition of any new goodwill or negative goodwill. 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 values method of accounting comparative periods presented are not restated.

If the transaction will result in the acquisition of minority interests the acquisition of any minority interest is accounted separately.

IFRS contain no guidance on how to determine from the perspective of a subsidiary the percentage share of minority interests acquired. As such Pekao uses the same basis as the parent for determining the minority interests acquired.

Intangible assets

(PLN thousand)

Goodwill

Goodwill is defined as a surplus of the purchase price over the fair value of the assets, liabilities and contingent liabilities of the acquired subsidiary, associate or a unit under joint control. Goodwill at initial recognition is carried at purchase price less any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains. In the event of the recoverable value of the cash generating unit is lower than the carrying value an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Other intangible assets

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

These mainly include:

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

Intangible assets are initially carried at acquisition cost. Subsequently intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with definite useful life are amortized over its estimated useful life. Intangible assets with indefinite useful life are not amortized.

All intangible assets are reviewed on a periodical basis to verify if any significant impairment triggers occurred, which would require performing a test for impairment and impairment charge.

Property, plant and equipment

Property, plant and equipment includes certain tangible assets with an expected useful life longer than one year, which are maintained for the purpose of Bank's own use, to be leased to other entities by virtue of leasing contract or for administrative purposes.

Property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment write downs.

The Bank separates the initial value of property, plant and equipment into its significant parts, each of which is subject to separate depreciation.

Subsequent expenditures relating to property plant and equipment are capitalized only when it is probable that such expenditures will result in future economic benefits to the Bank and the cost of such expenses can be reliably measured.

Service and maintenance costs of property, plant and equipment are expensed in reporting period in which they have been incurred.

The cost of external financing for the purchase or construction of non-current assets is recognized as an expense in the period in which it is incurred.

Depreciation charges

Notes to financial statements (cont)

(PLN thousand)

Depreciation expense for property, plant and equipment and investment properties and the amortization expense for intangible assets are calculated using straight line method over the expected useful life of an asset. Depreciated value is defined as the purchase price or a production price of a given asset, less residual value of the asset. Depreciation rates and residual values of assets, determined for balance-sheet purposes, are subject to regular reviews.

The balance sheet depreciation rates applied to property, plant and equipment, investment properties and intangible assets are as follows:
a) depreciation rates applied for non-current assets:

Buildings and structures and cooperative ownership rights to residential premises and cooperative ownership rights to commercial premises	1.5% – 10.0%
Technical equipment and machines	4.5% – 30.0%
Vehicles	12.5% – 30.0%

b) depreciation rates for intangible assets

Software licenses, copyrights	14.0% – 50.0%
Costs of completed development projects	33.3%
Other intangible assets	33.0%

c) depreciation rates for investment properties:

Buildings and structures	1.5% – 10.0%

Land, fixed assets under development and intangible assets under developments are not subject to depreciation and amortization.

Depreciation and impairment deductions are charged to the profit and loss account in the item „Depreciation and amortization".

Investment properties
Investment property assets are recognized initially at purchase cost, taking the transaction costs into consideration. Upon initial recognition, investment property assets are measured using the purchase price model.

Investment property assets are derecognized from the balance sheet when disposed of, or when such investment property is permanently decommissioned and no future benefits are expected from its sale. Any gains or losses resulting from the derecognizing of an investment property are recognized in the profit or loss in the period when such derecognizing occurred.

Non – current assets classified as held for sale
Non-current assets held for sale include assets, the carrying value of which is to be recovered by way of resale and not from their continued use. The only assets classified as held for sale are those available for immediate sale in their present condition, and the sale of which is highly probable, i.e. when the decision has been made to sale a given asset, an active programme to identify a buyer has been launched and the divestment plan is completed. Moreover, such assets are offered for sale at a price which approximates its present fair value, and it is expected that the sale will be recognized as completed within one year from the date of such asset is reclassified into this category.

Non-current assets held for sale are recognized at the carrying value or fair value less the sales costs of such assets, whichever is lower. Assets classified in this category are not subject to depreciation.

Notes to financial statements (cont)

(PLN thousand)

Leases

The Bank is a party to leasing contracts on the basis of which it grants a right to use a non-current asset or an intangible asset for an agreed period of time in return for a payment.

The Bank is also a party to leasing contracts under which it receives a right to use a non-asset or an intangible asset for an agreed period of time from another party in return for a payment.

Operating leases

In the case of leasing contracts entered into by the Bank acting as lessor, the leased asset is presented in the Bank's balance sheet, since there is no transfer to the lessee of essentially all risks and benefits resulting from the asset.

In the case of leasing contracts, entered into by the Bank as lessee, the leased asset is not recognized in the Bank's balance sheet.

The entire amount of charges from operating leases is recognized in the profit or loss on a straight line basis, throughout the leasing period.

Financial leases

In leasing contracts, where essentially all risks and benefits relating to the ownership of the assets are transferred to the Bank, the leased asset is recognized as a non-current asset and simultaneously a liability is recognized in the amount equal to the present value of minimum leasing charges. Leasing charges are split into costs of leasing charges and a reduction of liabilities in order to maintain fixed interest rate on the outstanding liability. Financial leasing payments are recognized directly in the profit or loss under the caption "Interest expense".

Non-current assets subject to financial leasing agreements are depreciated in the same as way other non-current assets. However. if it is uncertain whether the ownership of the asset subject of the contract will be transferred then the asset is depreciated over the shorter of the expected useful life or the period of lease.

Provisions

Provisions are recorded when the Bank has an obligation (legal or constructive) resulting from past events and where it is probable that the settlement of such obligation will result in an outflow of economic benefits from the Bank and it is possible to reliably estimate the amount of such liability. If the time value of money is significant, the amount of provisions is established by discounting forecasted future cash flows to the present value, using a discount rate corresponding to current market estimates of money-over-time and the possible risk associated with such obligation.

Provisions also include provisions relating to long-term employee benefits, subject to actuarial valuation. All provision charges or releases are recorded to the profit or loss.

Employee benefits provisions

The provision for retirement payments is calculated on the basis of an actuarial valuation performed by an independent actuary at least once a year.

The provision for restructuring costs is recorded when the general criteria for provisioning recognition as well as the specific criteria for an obligation to establish a restructuring provision under IAS 37 "Provisions, contingent liabilities and contingent assets" are met.

The amount of employment restructuring provision is calculated by the Bank on the basis of the best available estimates of direct outlays resulting from restructuring activities, that are not connected with the Bank's current activities.

Provisions are recognized in liabilities under the caption "Provisions" and in the profit or loss as salary expense.

Notes to financial statements (cont)

(PLN thousand)

Deferred income and accrued expenses
This caption includes primarily commission income settled using the straight line method and other income charged in advance; that will be recognized in the profit or loss in the future periods.

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

Deferred income and accrued expenses are presented in the balance sheet under the caption "Other liabilities".

Equity of the Bank

Shareholders' equity is comprised of the capital and funds created by the Bank in accordance with the binding legal regulations and the Articles of Association. The Bank's equity also includes retained earnings and the current profit (loss) for the year. Presented below are descriptions of selected items of the equity:

a) statutory capital may be increased by the issue of new bearer shares or by an increase in the nominal value of the previously issued shares. The General Shareholders Meeting may increase the statutory capital by allocating part of the supplementary capital or other capital created from profit in accordance with the Code of Commercial Companies and Statutes of Association;
b) reserve capital is created through yearly appropriations of the net profit. This capital is designated to cover the losses that may result from the Bank's activities. These annual appropriations should constitute at least 8% of net profit and should be made until the value of the reserve capital reaches at least one third of the statutory capital. The reserve capital is also increased by the premium of the selling price of the issued shares and costs relating to the issue over their nominal value.
c) revaluation reserve includes the impact of revaluation of financial assets available for sale, the result of the valuation of the cash flow hedging derivatives, foreign exchange differences arising from revaluation of the foreign branch's result at the average weighted exchange rate established as at the balance sheet date in relation to the average NBP exchange rate and the value of deferred tax for items that comprise temporary differences reflected in revaluation reserve. The 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.
e) bonds convertible into equity includes the equity fair value of financial instruments issued as part of transactions settled in equity instruments;
f) general banking risk provision represents accumulated appropriations of net profit after tax in accordance with the terms of the Banking Law of 29 August 1997;
g) retained earnings comprises the total retained profits and losses;
h) net profit/loss which constitutes the profit/loss presented in profit and loss statement for the current period. Net profit includes income tax.

Share-based Payments
Employee participation programs are established at the Bank under which key management staff is granted pre-emptive rights to buy shares of the Bank and shares of UniCredit S.p.A. (see Note 41).

Bank's Pekao S.A. equity-settled share-based payment transactions

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as of the grant date. The fair value is assessed 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. 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 a part of fulfillment of the minimum requirements costs are recognized as 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 or settled earlier, 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 16).

Stock options and stocks of UniCredit S.p.A.

Bank Pekao joined the UniCredit incentive program. The aim of the program is to offer selected key employees of the Bank share options and shares of UniCredit S.p.A.

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

The expenses related to the rights granted are recognized in "Wages and salaries" costs.

The Bank is obliged to pay to UniCredit S.p.A. the fair value of the instruments vested at the time the instruments are exercised.

3.8 Income tax expense

Income tax expense comprises current and deferred tax. The income tax expense is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. The current tax is the tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset is realized or the deferred tax liability is settled.

A deferred tax asset is recognized for negative deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

A deferred tax liability is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

3.9 Other

Contingent liabilities and commitments

The Bank enters into transactions which are not recognized in the balance sheet as assets or liabilities but which result in contingent liabilities and commitments. 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 the control of the Bank (e.g. unresolved 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 result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued)

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement include "Cash due from the Central Bank" (excluding NBP bonds) and loans and receivables from banks with maturities of up to three months.

Segment reporting

Information on the Banks business segments is presented in the Consolidated Financial Statement of Bank Pekao S.A. Group for the fiscal year ended 31 December 2009.

4. Purposes and rules of financial risk management

The risk management policy of the Bank 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 that the Bank 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.

Further text of the Note describes all important risk types, occurring in the course of the Bank's operations.

4.1 Organisational structure of risk management

Supervisory Board

The Supervisory Board provides supervision over the risk management control system, assessing its adequacy and effectiveness. Moreover, the Supervisory Board also provides supervision of the compliance with Bank policy with respect to risk management as it relates to Bank strategy and financial plan.

Management Board

The Management Board is responsible for the development, implementation and functioning of risk management processes by introduction of relevant, internal regulations, also taking into consideration the results of internal audit inspections.

The Bank Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital computation process and review effectiveness of the process of computing and monitoring of internal capital. Moreover, the Management Board also introduces the essential adjustments or improvements to such processes and systems whenever necessary. Such need may be a consequence of changing risk levels of banking operations, business environment factors or other irregularities in the functioning of processes or systems.

From time to time, the Bank Management Board submits to the Bank Supervisory Board concise information on the types, scale and significance of risks the Bank is exposed to, as well as on methods used in the management of such risks.

Notes to financial statements (cont)

(PLN thousand)

The Bank Management Board is responsible for assessing, whether activities such as identification, measurement, monitoring, reporting and control or mitigation are being carried out appropriately within the scope of the risk management process. Moreover, the Management Board examines whether the management at all levels is effectively managing the risks within the scope of their competence.

Assets, Liabilities and Risk Management Committee (ALCO)
The Committee is responsible for reviewing and controlling the risk management function. In particular, the tasks of ALCO include:
- supervision and control over risk management,
- producing guidelines for risk management, capital allocation and optimisation of the risk/income ratio.

Risk Management Division
The Division is responsible for:
- building a system of credit risk management at the Bank, providing the means for correct risk identification and management, establishing a risk management structure and developing the essential know-how at all levels of the organization including,
- management and control of market risk and liquidity risk, generated in the course of commercial operations, as well as ensuing from the structure of assets and liabilities,
- identification and management of significant risks and assessment of aggregated economic capital,
- development and enhancement of operating risk system, and identification and management of operating risk.

4.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Bank. The percentage share of credits and loans in the Bank balance sheet makes the maintenance of this risk at safe level essential to Bank performance. The process of credit risk management is centralized and managed mainly by Risk Management Division units, situated at the Bank Head Office or in local units. The integration of various risks in the Risk Management Division, where apart from credit risk, market and operational risk are dealt with, facilitates effective management of all credit-related risks. This process covers all credit functions – credit analysis, disbursement, monitoring and loan administration, as well as restructuring and collection. Each of the functions referred to above is implemented in compliance with the Bank credit policy, adopted by the Bank Management Board and the Bank Supervisory Board for given year and its related guidelines. The effectiveness and efficiency of credit functions are achieved using diverse credit methods and methodologies, supported by advanced IT tools, integrated into the Bank's general IT system. The Bank 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 Bank'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 Bank and exposure limits for particular foreign countries, banks and domestic financial institutions. Credit granting limits include not only credits loans and guarantees, but also derivatives transactions and debt securities.

The Bank established the following portfolio limits:
- share of large exposures in the loan portfolio of the Bank – approved by the Management Board and the Supervisory Board of the Bank,
- customer segments limits – established in the Bank's budget,
- product limits (mortgage loans given to private individuals, financing commercial real estate) - established in the Bank's budget,
- concentration limits for specific sectors of the economy - approved by the Credit Committee of the Bank.

Since key limits are determined by decision-making bodies which simultaneously receive and analyse reports on credit risk (presenting in particular the Basel parameters of credit risk), limit-related decisions take into consideration the credit risk assessments supported by internal rating systems. Moreover, the Bank limits higher risk credit transactions, marked by excess risk by restricting the decision-making powers in such cases to higher-level decision-making bodies.

The management of the Bank's credit portfolio quality is further supported by regular reviews and continuous monitoring of timely loan repayments and the financial condition of the borrowers.

Notes to financial statements (cont)

(PLN thousand)

Rating models utilised in the credit risk management process
For the credit risk management purpose, the Bank uses the internal rating models depending on the client's segment and/ or exposure type.

The rating process is a significant element of credit risk assessment in relation to clients and transactions, and constitutes a preliminary stage of the credit decision-making process granting a new credit or changing the terms and conditions of an existing credit and of the credit portfolio quality monitoring process.

In the credit risk measurement there are used the the following three risk parameters: Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") are used. PD is the probability of a Client's failure to meet its obligations and hence the violation of contract terms and conditions by the Borrower within the one year horizon; such default may be subject-matter or product-related. LGD indicates the estimated value of the loss to be incurred for any credit transaction from the date of occurrence of such default. EAD reflects the estimated value of credit exposure as at such date.

The risk parameters used in the rating model are designated for calculating of the loss expected by the Bank to incur as a result of credit risk.

The value of expected loss is one of the significant assessment criteria taken into consideration by the decision-making bodies in the course of the crediting process. In particular, this value is compared to the requested margin level.

The level of minimum margins for given products or client segments is determined based upon risk analysis, taking into consideration the value of risk parameters assessed and comprising an element of internal rating systems.

The Client and transaction rating, as well as other credit risk parameters hold a significant role in the Credit Risk Management Information System. For each rating model, the Credit Risk Reports provide information on the comparison between the realized parameters and the theoretical values for each rating class.

Credit Risk Reports are generated on a monthly basis, with their scope varying depending upon the recipient of the Report (the higher the management level, the more aggregated the information it is presented). Hence, the Reports are being effectively utilised in the credit risk management process.

Currently used rating models include the following types of credit products for particular customer segments.

1. For the private individual segment, the Bank has developed three separate models applicable for:
- mortgage loans,
- consumer loans,
- non-instalment loans (limits, credit cards, etc.).

2. For the SME clients, the Bank uses models selected depending on the scope of information available. The models for SME are dedicated for:
- full accounting records SME,
- simplified accounting records SME,
- private entrepreneurs.

3. The Bank divides clients belonging to corporate segment into the following groups:
- clients with income not exceeding PLN 30 million,
- clients with income exceeding PLN 30 million.

Notes to financial statements (cont)

(PLN thousand)

Client/transaction rating and credit risk decision-making level
The rating received by an applicant of a given transaction directly impacts the decision-making criteria, associated with its approval.

Decision-making entitlement limits are associated with the position held, determined in accordance with the Bank's organisational structure. The limits are determined taking the following matters into consideration:
- the Bank's total exposure to a client, including the amount of the concluding transaction,
- type of a client,
- commitments of persons and entities associated with the client.

Validation of rating models
The internal verification of models and risk parameter assessments is focused on the quality assessment of risk models and the accuracy and stability of parameter assessments, applied by the Bank. The validation covers risk models and parameters assessed locally, whereas the validation of central models is carried out within UCI Group. Validation is carried out at the level of each risk model, although the Bank may apply several models for each class of exposures.

Moreover, the internal audit unit is obligated to review the Bank's rating systems and their functionality at least once a year. In particular, the internal audit unit reviews the scope of operations of credit division and estimations of risk parameters. It also verifies compliance of rating systems and their functionality with all requirements of advanced methods.

Notes to financial statements (cont)

(PLN thousand)

Exposure to credit risk

Maximum credit exposure

The table below presents the maximum credit risk exposure for balance sheet and off-balance sheet positions as at the reporting date, with no collateral and other factors, limiting the credit risk.

	31.12.2009	31.12.2008
Cash and due from Central Bank	7,353,018	6,774,418
Loans and receivables from banks and from customers	82,181,443	85,319,628
Financial assets held for trading	3,685,551	2,727,581
Derivative financial instruments (held for trading)	2,431,471	4,489,752
Other financial instruments at fair value through profit and loss	2,394,040	4,713,069
Hedging instruments	87,543	157,899
Investment securities	21,293,507	15,242,759
Other assets	2,138,460	2,296,714
Balance sheet exposure	**121,565,033**	**121,721,820**
Obligations to grant credit	24,782,127	29,709,839
Other contingent liabilities	6,716,419	7,039,208
Off-balance sheet exposure	**31,498,546**	**36,749,047**
Total	**153,063,579**	**158,470,867**

Notes to financial statements (cont)

(PLN thousand)

Credit risk mitigation methods

Bank Pekao has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Enclosure No. 17 to Resolution No. 380/KNF.

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

COLLATERAL	COLLATERAL VALUATION RULES
MORTGAGES	
– commercial	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, value dependent on the stage of tendering procedure, etc.
– residential	
REGISTERED PLEDGE/ASSIGNMENT:	
– inventories	The value is defined as well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statement insurance policy, stock exchange quotations value commodities' indexes value disclosed through foreclosure procedure supported with evidence files e.g. bailiffs'/receiver.
– machines and appliances	The value is defined as expert appraisal or present value, determined based on other, sound sources, such as current purchase offer, register of debtor's fixe assets, value evidenced by bailiff or court receiver, etc.
– vehicles	The 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	The value is defined individually for each collateral given. Its assessment shall be derived from sound source that follows above listed guidelines.
– securities and cash	The value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.
TRANSFER OF RECEIVABLES:	
– Clients with investment grade (rating) assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
– Other counterparties	The value is defined upon individually assessed claims' amount.
GUARANTIES/SURETIES (INCL. DRAFTS)/ACCESSION TO DEBT	
– Banks and Government	Up to guaranteed amount
– Other counterparties in good financial standing, particularly when confirmed by investment rating, assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
– Other counterparties	Individually assessed fair market value.

Notes to financial statements (cont)

(PLN thousand)

Overall characteristics of monitoring process

The monitoring process is oriented at the identification of symptoms and threats, affecting the Client, undertaking actions preventing the deterioration of credit portfolio quality for the purpose of maximising the probability of recovery of assets made available to the Client.

In particular, the monitoring of credit risk includes the control of timely debt service, analysis of Client's financial standing, verification of meeting the terms of credit agreement and reviewing the collaterals.

Loans for large corporates are monitored with the use of the rating system and data from both internal and external sources of information. In case of small and medium-size Clients, the monitoring process is carried out with the use of an internal tool, embedded into the statistical behavioural model. Process efficiency is further enhanced by regular reviews of the credit portfolio, carried out by representatives of the Risk Management Division and other Business Divisions for the purpose of determining the actual quality of individual exposures and of the entire credit portfolio.

The monitoring of individual clients is carried IT systems and is based upon the results of behavioural scoring.

Overall characteristics of provisioning model

The Bank establishes loan loss provisions ("LLP") in line with International Financial Reporting Standards ("IFRS"). LLP reflects the loan impairment and whether the Bank recognizes objective impairment triggers. Impairment of loans is recognized under an individual and collective approach

The process of identifying impaired exposures covered by individual valuation is carried out with the use of an internal tool and consists of the following stages:

1. identification whether the permanent impairment trigger for given credit exposure has been recognised and, upon such identification, determination of the type of such trigger and assignment of default status to the exposure,
2. assessment of future cash flows, discounted using the effective interest rate, generated both from collateral and Client operations,
3. calculation and recognised of loan loss provision.

Exposures covered by the collective approach are classified into the default class for overdue amounts exceeding 90 days. For such exposures, the loan loss provision is calculated using statistical model.

The Bank establishes allowances for incurred but not reported losses applying a statistical model of expected loss.

The applied statistical models are based on historical data for homogenous groups of exposure.

Both the models and parameters applied in the establishment of loan loss provision are subject to regular validation.

Notes to financial statements (cont)

(PLN thousand)

Qualitative analysis of financial assets of the Bank

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

	LOANS AND RECEIVABLES FROM BANKS		LOANS AND RECEIVABLES FROM CUSTOMERS	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
GROSS CARRYING AMOUNT EXPOSURE INDIVIDUALLY IMPAIRED				
– not past due	985	51,027	302,594	269,611
– up to 1 month	-	-	35,307	19,073
– between 1 and 3 months	-	10,165	98,692	2,943
– between 3 months and 1 year	52,876	34,826	519,348	314,642
– between 1 and 5 years	10,088	-	832,725	873,473
– above 5 years	-	-	851,010	662,364
Total gross amount	**63,949**	**96,018**	**2,639,676**	**2,142,106**
ALLOWANCE FOR IMPAIRMENT:				
– not past due	(985)	(46,023)	(28,873)	(84,927)
– up to 1 month	-	-	(7,251)	(7,387)
– between 1 and 3 months	-	(9,000)	(14,885)	(1,589)
– between 3 months and 1 year	(45,000)	(19,459)	(352,676)	(204,185)
– between 1 and 5 years	(9,000)	-	(652,665)	(779,396)
– above 5 years	-	-	(744,115)	(550,686)
Total allowance	**(54,985)**	**(74,482)**	**(1,800,465)**	**(1,628,170)**
Net carrying value of individually impaired	**8,964**	**21,536**	**839,211**	**513,936**

GROSS CARRYING AMOUNT EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	60,049	60,701
- up to 1 month	-	-	15,450	13,812
- between 1 and 3 months	-	-	27,656	19,598
- between 3 months and 1 year	-	-	511,198	383,967
- between 1 and 5 years	9,952	9,955	761,226	841,570
- above 5 years	9,053	9,409	712,860	796,982
Total gross amount	**19,005**	**19,364**	**2,088,439**	**2 116,630**
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(57,415)	(36,665)
- up to 1 month	-	-	(9,429)	(7,972)
- between 1 and 3 months	-	-	(16,956)	(11,151)
- between 3 months and 1 year	-	-	(333,402)	(236,132)
- between 1 and 5 years	(9,933)	(9,924)	(607,399)	(685,116)
- above 5 years	(9,053)	(9,408)	(701,684)	(734,849)
Total allowance	**(18,986)**	**(19,332)**	**(1,726,285)**	**(1 711,885)**
Net carrying value of collectively impaired	**19**	**32**	**362,154**	**404,745**

Notes to financial statements (cont)

(PLN thousand)

The Bank's exposures to credit risk with no impairment recognised, broken down by delays in repayment:

	LOANS AND RECEIVABLES FROM BANKS		LOANS AND RECEIVABLES FROM CUSTOMERS			
			CORPORATE		RETAIL	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
GROSS CARRYING AMOUNT WITH NO IMPAIRMENT						
- not past due	9,140,330	10,200,943	46,390,460	50,255,009	24,477,902	22,408,789
- up to 30 days	-	-	113,473	475,491	960,823	1 161,552
- between 30 and 60 days	-	-	37,697	105,290	157,992	137,264
- between 60 and 89 days	-	-	8,853	12,703	92,838	58,673
Total gross amount	**9,140,330**	**10,200,943**	**46,550,483**	**50,848,493**	**25,689,555**	**23,766,278**
IBNR PROVISION:						
- not past due	(10,750)	(8,869)	(182,147)	(223,539)	(67,294)	(65,035)
- up to 30 days	-	-	(8,814)	(9,421)	(51,634)	(56,021)
- between 30 and 60 days	-	-	(8,700)	(11,457)	(37,042)	(31,274)
- between 60 and 89 days	-	-	(2,873)	(4,793)	(40,177)	(26,766)
Total IBNR provision	**(10,750)**	**(8,869)**	**(202,534)**	**(249,210)**	**(196,147)**	**(179,096)**
Net carrying value of exposures with no impairment	**9,129,580**	**10,192,074**	**46,347,949**	**50,599,283**	**25,493,408**	**23,587,182**

Notes to financial statements (cont)

(PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31.12.2009

RATING	DEBT SECURITIES					
	HELD FOR TRADING	DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
AAA	-	-	-	-	-	-
AA- to AA+	-	-	-	-	-	-
A- to A+	3,488,957	2,394,040	12,735,800	3,470,164	3,892,261	25,981,222
BBB+ to BBB-	-	-	268,805	-	-	268,805
BB+ to BB-	-	-	-	-	-	-
B+ to B-	-	-	-	-	-	-
under B-	-	-	-	-	-	-
no rating	196,594	-	4,515,835	297,119	-	5,009,548
Total	**3,685,551**	**2,394,040**	**17,520,440**	**3,767,283**	**3,892,261**	**31,259,575**

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31.12.2008

RATING	DEBT SECURITIES					
	HELD FOR TRADING	DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	TOTAL
AAA	-	-	37,463	8,325	-	45,788
AA- to AA+	1,527	-	-	-	-	1,527
A- to A+	2,576,738	4,087,575	11,836,788	1,849,484	728,862	21,079,447
BBB+ to BBB-	-	-	385,472	-	-	385,472
BB+ to BB-	-	-	3,427	-	-	3,427
B+ to B-	-	-	-	-	-	-
under B-	-	-	-	-	-	-
no rating	149,316	625,494	1,090,855	21,252	-	1,886,917
Total	**2,727,581**	**4,713,069**	**13,354,005**	**1,879,061**	**728,862**	**23,402,578**

Derivative financial instruments

	TRADING DERIVATIVES		DERIVATIVE HEDGING INSTRUMENTS	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Banks	1,777,743	2,621,254	87,543	157,899
Other financial institutions	61,338	124,076	-	-
Non-financial entities	592,390	1,744,422	-	-
Total	**2,431,471**	**4,489,752**	**87,543**	**157,899**

Notes to financial statements (cont)

(PLN thousand)

Credit risk concentration

Regulations under the Banking Law provide for the maximum Bank exposure limits. Pursuant to provisions under Article 71.1 of the Banking Law, the total exposure of a Bank to a single entity or a number of financially or organisationally related entities may not exceed 20% of Bank's own funds when at least one of such entities is related to the Bank, or 25% when no relation between such entities and the Bank exists. Moreover, under Article 71.2, the legislator declared that the total amount of Bank exposures to transactions with entities, the exposure to which exceeds the level of 10% of Bank's own funds, may not exceed 800% of such funds.

As at 31 December 2009, the maximum exposure limits stipulated in the Banking Law have not been exceeded.

a) Concentration by individual entities:

As at 31.12.2009

EXPOSURE TO 10 LARGEST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	1.5 %
Client 2	1.3%
Client 3	1.2%
Client 4	1.2%
Client 5	1.1%
Client 6	0.9%
Client 7	0.9%
Client 8	0.8%
Client 9	0.8%
Client 10	0.8%
Total	**10.5%**

19.2% of the above listed exposure is accounted for an exposure the State Treasury, while 80.8% pertain to exposure to large corporate clients. None of the exposures mentioned above were classified as non performing.

b) Concentration by capital groups:

As at 31.12.2009

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	2.0%
Group 2	2.0%
Group 3	1.5%
Group 4	1.3%
Group 5	1.3%
Total	**8.1%**

Notes to financial statements (cont)

(PLN thousand)

c) Concentration by industrial sectors:

In order to mitigate the credit risk associated with excessive sector concentration, the Bank adopted a system for modelling sector exposure structure. The system involves the setting forth of sectoral concentration indices, monitoring the loan portfolio and collecting information. The system covers credit exposures of specific types of business operations, classified according to the Polish Classification of Business Operations (Polska Klasyfikacja Dzialalnosci PKD). Concentration indices are determined based upon investment risk, the quality of the Bank's lending exposure, current economic trends in specific sectors, the Bank's own funds and the total assets of specific sectors. Monthly comparison of the Bank's exposure to specific sectors against binding concentration indices allow timely identification of sectors where excessive concentration of sector-related risks may occur. 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 Bank to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

The table below presents the structure of exposures by industrial sectors.

SECTOR DESCRIPTION	31.12.2009	31.12.2008
Financial brokerage	22.6%	18.0%
Construction and real estate services	18.6%	17.9%
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	11.4%	12.9%
Transport, storage and communication	6.8%	6.5%
Electricity, gas and water supply	6.1%	6.1%
Other manufacturing and recycling	5.9%	7.1%
Public administration and defence; compulsory social security	5.4%	4.2%
Manufacture of basic metals and fabricated metal products	4.1%	4.5%
Manufacture of food products; beverages and tobacco	3.9%	4.3%
Renting and business activities; computer and related activities, research and development	3.3%	4.5%
Manufacture of pulp, paper and paper products; publishing and printing	2.3%	2.8%
Manufacture of chemicals and chemical products	2.1%	2.4%
Other sectors	7.5%	8.8%
Total	**100.0%**	**100.0%**

4.3 Market risk

The Bank is exposed in its operations to market risk, resulting from changes in market conditions.

Market risk is the risk of market changes causing a decrease in net profit or economic capital of the Bank. Basic market risk factors include:

- interest rates,
- foreign exchange rate,
- stock prices,
- commodity prices.

The Bank established a market risk management system, providing structural, organisational and methodological procedures for the purpose of shaping the structure of balance sheet and off-balance items to assure the achievement of strategic goals, while taking into consideration the exposure to market risk and risk level which is accepted by the Management Board and the Supervisory Board.

The objective of market risk management is to maximise income in a manner assuring the implementation of financial goals, while keeping the exposure to market risk within the limits of the risk appetite, approved by the Management Board and the Supervisory Board and assuring market risk-related services (market making and price quotations to Bank clients).

The organisation of the market risk management process is based on a three-tier control system, established in compliance with the best international banking practices and recommendations from banking supervision. The process of market risk management has been formalised by the introduction of numerous internal procedures. The procedures have been developed taking into consideration the split between the trading and banking books.

The main tool for measuring market risk is Value at Risk (VaR). Under normal market conditions, this value reflects the level of a one-day loss, which will not be incurred with the probability of 99%.

The model is subject to continuous, statistical verification by comparing the VaR values to actual performance figures. Results of analyses carried out in 2009 and 2008 confirmed the adequacy of the model applied.

The tables below present the market risk exposures of the Bank's trading portfolio in 2009 and 2008 in terms of Value at Risk:

PLN THOUSAND	31.12.2009	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
Foreign exchange risk	35	18	246	3,144
Interest rate risk	4,070	2,641	6,902	13,858
Trading portfolio	4,071	2,641	6,923	13,859

PLN THOUSAND	31.12.2008	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
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

(PLN thousand)

Interest rate risk

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

1) Financial assets and liabilities exposed to fair value risk related to interest rate:
   - Debt securities with fixed interest rate,
   - Loans with fixed interest rates,
   - Client deposits with fixed interest rate,
   - Liabilities due to the issue of securities.
2) Financial 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) Financial assets and liabilities not directly exposed to the interest rate risk:
   - Equity securities.

The Bank is also exposed to interest rate risk due to transactions which fair value is taken into account in the Bank balance sheet. Such transactions include derivative transactions, i.e. Forward Rate Agreements (FRA), Interest Rate Swaps (IRS), interest rate options (Cap/Floor), Foreign Exchange Swaps and forward contracts.

In managing the interest rate risk of the banking book the Bank aims to maximize the economic value of capital and achieve the planned interest result within the accepted limits. The financial position of the Bank in relation to changing interest rates is monitored through the interest rate gap (repricing gap), duration analysis, simulation analysis and stress testing.

The table below presents the sensitivity levels of interest income (NII) and of economic value of the Bank (EVE) to interest rate growth by + 100 bp assuming perfect elasticity of the Bank's administered rates to the market rates changes (including re-pricing of current accounts) as at the end of December 2009 and 2008:

SENSITIVITY IN %	31.12.2009	31.12.2008
NII	(4.85)	(2.98)
EVE	(3.30)	(2.70)

Currency Risk

The objective of currency risk management is to maintain the currency profile of balance sheet and off-balance items within the external and internal limits. For internal needs, the Bank's exposure to currency risk is measured daily using the VaR model, as well as stress testing analysis, which serves as a supplement to the VaR method.

The Table below presents the Bank's foreign currency risk profile measured by Value at Risk by currencies:

CURRENCY	31.12.2009	31.12.2008
USD	708	730
EUR	1,446	697
CHF	76	488
Other	72	716
Total currency	**1,938**	**2,192**

(PLN thousand)

4.4 Liquidity risk

The objective of liquidity risk management is to:
- ensure and maintain the Bank's solvency with respect to current and future planned commitments taking into account the cost of acquiring liquidity and return on the Bank's equity,
- prevent the occurrence of crisis situations, and
- provide solutions necessary to survive a crisis situation when such circumstances occur.

The Bank invests primarily in Treasury securities of the Government of the Republic of Poland, financial instruments of countries and financial institutions with highest ratings, and those securities with high levels of liquidity. Due to their liquidity characteristics, regularly monitored, these financial instruments would assist the Bank to overcome crisis situations.

The Bank is also monitoring daily the short-term (operating) liquidity, including financial market operations and the size of available stocks of liquid and marketable securities, which may also serve as collateral offered to Central Banks. Moreover, the Bank is also monitoring the structural liquidity, which includes a whole time spectrum of the Bank balance sheet, including long-term liquidity.

Financial liquidity management also includes the monitoring, limiting, controlling and reporting to the Bank Management of a number of liquidity ratios, broken down by main currencies and presented as aggregate values. In accordance with the banking supervisory recommendations, the Bank introduced internal liquidity indicators, defined as the ratios of adjusted maturing assets to adjusted maturing liabilities for: the balance, the total balance of foreign currencies as well as balances of the main currencies.

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

The contingency plan, referring to the deteriorating financial liquidity of the Bank, includes daily monitoring of systemic and specific nature for warning signals, including four degrees of threats to liquidity, depending upon the size and duration of outflow of cash and cash equivalents from accounts of a non-banking client. The plan also identifies the sources, as well as the costs of coverage of such foreseen outflow of cash and cash equivalents from the Bank. Apart from the above, the plan also includes liquidity monitoring procedures, contingency procedures and organisational structures of task teams responsible for restoring Bank's liquidity, as well as the scope of liability of Bank management for taking the necessary decisions, associated with the restoration of the necessary financial liquidity levels of the Bank. Both the contingency plan, and the capacity to raise cash from sources specified in this plan are subject to periodic verification.

Scenario-based stress analyses, conducted on monthly basis, constitute an integral part of the Bank liquidity monitoring process, launched under the conditions of crisis affected by financial markets or caused by internal factors, specific to the Bank.

The adjusted liquidity gaps described below present, inter alia, the adjustments concerning the stability (nativity) of deposits and their maturities, and (introduced by the Bank in 2009) adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted as well as adjusted flows stemming form Bank security portfolio. The are the main element differentiating adjusted gaps from unadjusted ones. Please also find below the maturity tables of financial liabilities arranged according to contractual maturities.

Moreover the gaps are of static nature, i.e. they do not take into consideration the impact of volume changes (i.e. new deposits) upon the liquidity profile of the Bank balance sheet and off-balance items, as well as of non-equity related cash flows.

Notes to financial statements (cont)

(PLN thousand)

Adjusted liquidity gap as at 31.12.2009

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	48,531,254	7,199,923	15,657,270	23,454,142	32,075,431	126,918,020
Liabilities	28,076,800	7,041,146	11,411,245	23,819,022	56,569,807	126,918,020
Net off-balance sheet items	(6,857,173)	541,437	4,536,216	2,095,183	758,132	1,073,795
Periodic gap	**13,597,281**	**700,214**	**8,782,241**	**1,730,303**	**(23,736,244)**	1,073,795
Cumulated gap		**14,297,495**	**23,079,736**	**24,810,039**	**1,073,795**	

Adjusted liquidity gap as at 31.12.2008

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	40,053,394	12,680,951	24,069,095	23,308,902	27,866,115	127,978,457
Liabilities	17,520,692	8,228,144	16,208,740	16,778,176	69,242,705	127,978,457
Net off-balance sheet items	(11,961,387)	532,634	5,932,077	3,718,924	1,293,366	(484,386)
Periodic gap	**10,571,315**	**4,985,441**	**13,792,432**	**10,249,650**	**(40,083,224)**	**(484,386)**
Cumulated gap		**15,556,756**	**29,349,188**	**39,598,838**	**(484,386)**	

Structure of financial liabilities by contractual maturities

31.12.2009	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks	3 963,913	224,680	159,023	1,500,571	714,045	6,562,231
Amounts due to customers	77,431,262	11 396,889	6,933,809	535,023	404,315	96,701,298
Debt securities in issue	194	122,604	509,709	665,278	-	1,297,785
Financial liabilities held for trading	-	-	-	498,978	482,376	981,354
Total	**81,395,369**	**11,744,173**	**7,602,541**	**3,199,850**	**1,600,735**	**105,542,668**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off-balance sheet commitments Financial liabilities granted	25,841,565	-	-	-	-	25,841,565
Off-balance sheet commitments Guarantees liabilities granted	5,231,803	-	-	-	-	5,231,803
Total	**31,073,368**	**-**	**-**	**-**	**-**	**31,073,368**

31.12.2008	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks	5,802,519	3,440,958	301,271	2,779,373	584,813	12,908,934
Amounts due to customers	66,359,992	11,013,972	9,684,441	2,834,490	565,179	90,458,074
Debt securities in issue	279,314	-	559,910	880,670	-	1,719,894
Financial liabilities held for trading	-	-	-	82,395	323,584	405,979
Total	**72,441,825**	**14,454,930**	**10,545,622**	**6,576,928**	**1,473,576**	**105,492,881**
OFF-BALANCE SHEET COMMITMENTS (*)						
Off-balance sheet commitments Financial liabilities granted	30,932,079	-	-	-	-	30,932,079
Off-balance sheet commitments Guarantees liabilities granted	6,121,228	-	-	-	-	6,121,228
Total	**37,053,307**	**-**	**-**	**-**	**-**	**37,053,307**

* Exposure amounts ensuing from financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allotted earliest tenors, for which an outflow of assets from the Bank is possible based on contracts entered into by the Bank. However, the outflows of assets caused by off-balance exposures expected by the Bank are actually significantly lower than those indicated from the specification presented above. The above is a consequence of considerable diversification of amounts due to customers and stages of life of individual contracts. Risk monitoring and management in relation to the outflow of assets from off-balance exposures are provided by the Bank on continuous basis. The Bank estimates also more probable outflows that are presented in Tables "Adjusted liquidity gap".

Notes to financial statements (cont)

(PLN thousand)

The tables below present the financial flows associated with off-balance derivative transctions.

According to Bank policy, off-balance derivative transactions settled in net amounts include:

- Interest Rate Swaps (IRS),
- Forward Rate Agreements (FRA),
- Foreign currency options,
- Interest rate options (Cap/Floor),
- Options based on equity securities.

Off-balance derivative transactions settled by the Bank in gross amounts include:

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps.

Liabilities from off-balance transactions on derivatives recognised in net amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2009	24,917	80,504	226,448	891,323	334,801	**1,557,993**
31.12.2008	127,452	108,747	507,388	1,347,845	914,092	**3,005,524**

Flows related to off-balance derivative transactions settled in gross amounts

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2009						
inflows	15,962,474	7,614,115	9,499,799	3,711,190	1,860,765	**38,648,343**
outflows	14,885,689	7,308,823	9,245,914	3,513,691	1,871,654	**36,825,771**
31.12.2008						
inflows	26,888,242	5,598,908	5,520,481	6,494,727	795,227	**45,297,585**
outflows	27,892,657	5,486,594	5,284,768	6,487,130	720,000	**45,871,149**

Notes to financial statements (cont)

(PLN thousand)

4.5 Business risk

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

The measurement of business risk is based on the Earnings at Risk EaR method. The method provides the means to estimate the risk of occurrence of an unexpected, negative deviation of realised financial income from the level assumed in the financial plan. According to the approach adopted by UniCredit Group, EaR is estimated for the one year time horizon and at the confidence level of 99.97%.

4.6 Real estate risk

Real estate risk is caused by volatility of the market value of the Bank's real estate portfolio. It covers the real estate portfolio of the Bank. It does not cover real estate acquired through work-out procedures or those used as collateral backing the credits granted.

The risk of own real property is calculated for the one year time horizon, using the Value at Risk (VaR) method, at the assumed confidence level of 99.97%.

4.7 Financial investment risk

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

The main risk factor bearing an impact upon the financial investment risk is a change in the value of equity shares held in subsidiaries, associates, minority interests and indirect subsidiaries of the Bank.

Financial investment risk is estimated for the one year time horizon using the Value at Risk (VaR) method, at the assumed confidence level of 99.97%.

4.8 Capital management

The capital management process applied by Bank Pekao S.A. has been adopted for the following purposes:
- assurance of safe operations by maintaining the balance between the capacity to undertake risk (limited by own funds), and the risk levels generated,
- maintenance of risk capital above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and safeguarding the interests of shareholders,
- maintenance of the preferred capital structure in order to maintain the desired quality of risk coverage capital,
- creation of value to shareholders by the best possible utilisation of Bank funds.

The Bank also has in place a formalized process of capital management and monitoring, established within the scope of ICAAP procedures. The Finance Division under the Chief Financial Officer is responsible for designing and implementing the capital management process in the Bank The ultimate responsibility for capital management is vested in the Management Board of the Bank, supported by the Assets, Liabilities and Risk Management Committee, which approves the capital management process.

The capital management strategy defines the objectives and general rules of the management and monitoring of Bank's capital adequacy, such as the guidelines concerning risk coverage sources, preferred structure of risk coverage capital, long-term capital targets, capital limits system, sources of additional capital under emergency situations and the structure of capital management.

The capital adequacy of the Bank is controlled by the Assets, Liabilities and Risk Management 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 Assets, Liabilities and Risk Management 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 Bank. Analyses and evaluations are carried out of directions of business development activities from the point of view of compliance with capital requirements. Forecasting and monitoring of risk weighted assets, own funds and capital adequacy ratio constitute an integral part of the planning and budgeting process.

Notes to financial statements (cont)

(PLN thousand)

The Bank also has a capital allocation process in place, which should, inter alia, guarantee the shareholders a safe and effective return on invested capital. On one hand, the process requires capital allocations to products/clients/business lines, which guarantee profits adequate to the risks taken, while on the other hand taking into consideration the cost of capital associated with the business decisions taken. Risk-related efficiency ratios used in the analyses of income generated compared against the risk taken and in the optimisation of capital utilisation for the needs of different types of operations.

Since 1st January 2008, the Bank has followed the regulations under the Basel II Agreement. The regulations referred to above are based on three pillars (minimum capital requirement, process of internal capital adequacy assessment, disclosure).

Regulatory capital requirements

The basic measure applied in the measurement of capital adequacy is the capital adequacy ratio. The minimum capital adequacy ratio required by law equals to 8%, both for the Bank and the Group. As at the end of December 2009, the Bank's capital adequacy ratio stood at 15.64%, i.e. almost twice as much as the minimum value required by the law. The capital adequacy ratio of Bank Pekao S.A. also meets the recommendation issued by the Polish Financial Supervision Authority ("KNF"), which recommended the adoption of decisive and effective actions to guarantee the maintenance of capital adequacy ratio at the level of at least 10%.

The improvement of capital adequacy ratio in December 2009 compared with December 2008 (growth by 4.02 p.p.) was achieved by increasing own funds by allocating the entire net profit for 2008 while reducing the total capital requirement.

The strengthening of Bank's capital base in 2009 is a consequence of the decision, adopted by the Regular General Meeting of Shareholders on the allocation of the entire net profit for 2008 to the Bank's own funds.

The calculations of the regulatory capital requirement as at 31.12.2009 have been based on the provisions under Resolution No. 380/2008 Polish Financial Supervision Authority of 17.12.2008 with subsequent amendments and as at 31.12.2008 have been based on the provision under Resolution No. 1/2007 KNB of 13.03.2007.

The Bank is using the standard method to calculate the capital requirements related to credit risk (in compliance with Enclosure No. 4 to Resolution No. 380/2008 KNF and Resolution No. 335/2009 KNF of 10.11.2009), whereas for the purpose of credit risk mitigation, it is using the financial collateral comprehensive method (in accordance with Enclosure No. 17 to Resolution No. 380/2008 of the Polish Financial Supervision Authority).

The capital requirement related to operating risk is calculated by standard method (in keeping with the provisions under Enclosure No. 14 to Resolution No. 380/2008 KNF).

Notes to financial statements (cont)

(PLN thousand)

The table below presents the basic data concerning Bank's capital adequacy as at 31 December 2009 and 31 December 2008.

	31.12.2009	31.12.2008
Capital (Tier 1)	**13,497,012**	**11,673,105**
Share capital	262,331	262,213
Supplementary capital	9,309,539	9,295,139
Reserve capital	4,639,127	1,390,997
General risk fund for unidentified risk of banking operations	1,337,850	1,237,850
Net profit (loss) for present reporting period less forecast encumbrances and dividends	-	1,766,481
Deductions from the core capital:		
Intangible and legal assets	(678,462)	(721,888)
Unrealised losses from debt instruments available for sale	(123,959)	(135,123)
Unrealised losses from equity instruments available for sale	(10)	-
Capital exposure to financial institutions	(1,249,404)	(1,422,564)
Supplementary funds (Tier 2)	**-**	**-**
Unrealised gains from debt instruments available for sale	65,477	40,218
Unrealised gains from equity instruments available for sale	-	1,776
Deductions from the supplementary capital:		
Capital exposure to financial institutions	(65,477)	(41,994)
Total own funds	**13,497,012**	**11,673,105**
Capital adequacy ratio	**15.64%**	**11.62%**

Internal capital adequacy assessment

Since January 2008, the Bank has been applying capital adequacy assessment methods designed internally. In internal capital adequacy assessment, the Bank takes the following risk types into consideration:

- credit risk (including counterparty credit risk, concentration risk, country risk and residual risk),
- market risk of the trading book (including interest rate risk in trading book, foreign exchange risk, risk of changes in stock prices and risk of changes in commodity prices),
- liquidity risk (including liquidity mismatch risk, liquidity contingency risk, market liquidity risk, operational liquidity risk, refinancing risk and liquidity risk associated with hedging deposits),
- interest rate risk in the banking book,
- real estate risk,
- operational risk,
- financial investment risk,
- reputation risk,
- compliance risk,
- strategic risk.

For each risk deemed material, the Bank develops and applies adequate risk assessment and measurement methods. The Bank applies the following risk assessment methods:

- qualitative assessment - applied in case of risks which are difficult to measure or for which capital is not a sufficient means to cover losses (compliance, liquidity, strategic and reputation risk),
- quantitative assessment – applied in case of risks which may be measured with the use of economic capital (other risk types).

(PLN thousand)

Target risk measurement methodologies, also serving the purpose of determining the ensuing capital requirements are Value at Risk-based models, based on assumptions derived from Bank's risk appetite (99.97% confidence level and a one-year time horizon). The models are implemented in compliance with the guidelines of UniCredit Group and supplemented with stress tests or scenario analyses. In case of risk types for which no methodologies have been finally developed or implemented, the Bank is using transitional methodologies (standard approach plus stress testing).

The procedure starts with the calculation of economic capital, separately for each material, quantifiable risk identified by the Bank. In the next step economic capital amounts for individual risks are aggregated into one aggregated economic capital amount including the diversification effect. Taking diversification effect into account, the total aggregated economic capital should not be greater (is equal or smaller) than sum of individual risk economic capital amount.

The surplus economic capital may be used to cover the non-measurable risks and serves as additional protection against the possibility of economic capital estimates calculated in preceding steps failing to take all risk types into consideration, or the diversification matrix between specific risks being measured with inadequate precision.

4.9 Fair value of financial assets and liabilities

The measurement of fair value of financial instruments, for which market values from active markets are available, is based on market quotations of the given instrument (mark-to-market).

The measurement of fair value of Over-the-counter ("OTC") derivatives and of instruments with limited liquidity (i.e. for which no market quotations are available), is made based upon the quotations of other instruments on active markets by replication thereof using a number of valuation techniques, including the estimation of present value of future cash flows (mark-to-model).

As at 31 December 2009 and 31 December 2008, the Bank classified the financial assets and liabilities measured at fair value into the following three categories, broken down by valuation method:

- Method 1: mark-to-market applies exclusively to quoted securities;
- Method 2: mark-to-model valuation with model parameterisation, based exclusively on quotations from active markets for given type of instrument. The method is applied for linear and non-linear derivative instruments on interest rate and foreign exchange markets (including forward transactions on securities and non-liquid Treasury or Central Bank securities);
- Method 3: mark-to-model valuation with partial model parameterisation, based upon estimated risk factors. This method is applicable in case of derivatives on inactive market (mainly options for equity or commodity market instruments), unquoted corporate or community securities, and derivatives for which an adjustment of fair value was made by credit risk-related write-downs.

As at 31 December 2009

	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	**17,922,125**	**7,617,070**	**585,634**	**26,124,829**
Financial assets held for trading	3,477,598	11,359	196,594	3,685,551
Derivative financial instruments, including:	-	2,364,302	67,169	2,431,471
- Banks	-	1,716,301	61,442	1,777,743
- Customer	-	648,001	5,727	653,728
Other financial instruments at fair value through profit and loss	2,394,040	-	-	2,394,040
Hedging instruments	-	87,543	-	87,543
Securities available for sale	12,050,487	5,153,866	321,871	17,526,224
Liabilities:	**981,354**	**1,683,045**	**61,444**	**2,725,843**
Financial liabilities held for trading	981,354	-	-	981,354
Derivative financial instruments, including:	-	1,532,593	61,444	1,594,037
- Banks	-	1,395,169	2,045	1,397,214
- Customer	-	137,424	59,399	196,823
Hedging instruments	-	150,452	-	150,452

Notes to financial statements (cont)

(PLN thousand)

As at 31 December 2008

	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	**18,000,085**	**6,707,155**	**744,759**	**25,451,999**
Financial assets held for trading	2,555,832	22,799	148,950	2,727,581
Derivative financial instruments, including:	-	4,281,386	208,366	4,489,752
- Banks	-	2,540,408	80,846	2,621,254
- Customer	-	1,740,978	127,520	1,868,498
Other financial instruments at fair value through profit and loss	4,087 574	625,495	-	4,713,069
Hedging instruments	-	157,899	-	157,899
Securities available for sale	11,356,679	1,619,576	387,443	13,363,698
Liabilities:	**405,979**	**5,059,821**	**90,936**	**5,556,736**
Financial liabilities held for trading	405,979	-	-	405,979
Derivative financial instruments, including:	-	5,059,448	90,936	5,150,384
- Banks	-	4,597,985	5,511	4,603,496
- Customer	-	461,463	85,425	546,888
Hedging instruments	-	373	-	373

Change in fair value of financial instruments measured by the Bank at fair value according to Method 3

	FINANCIAL ASSETS HELD FOR TRADING	DERIVATIVE FINANCIAL INSTRUMENTS (ASSETS)	SECURITIES AVAILABLE FOR SALE	DERIVATIVE FINANCIAL INSTRUMENTS (LIABILITIES)
Opening balance	**148,950**	**208,366**	**387,443**	**90,936**
Increases, including:	5,962,831	5,525	238,577	(6,328)
Acquisition	5,956,719	-	217,711	-
Revenues from financial instruments	6,112	-	20,866	(6,328)
recognised in the profit and loss account	6,112	-	20,866	(6,328)
Reclassification from/to other valuation methods	-	5,525	-	-
Decreases, including:	(5,915,187)	(146,722)	(304,149)	(23,164)
Settlement/redemption	(130,260)	(28,850)	(74,585)	(13,046)
Sale	(5,784,927)	-	(225,441)	-
Loss on financial instruments	-	(1,302)	(4,123)	-
recognised in the profit and loss account	-	(1,302)	-	-
recognised in Revaluation reserves from financial instruments	-	-	(4,123)	-
Transfer to other balance sheet items	-	(116,570)	-	(10,118)
Closing balance	**196,594**	**67,169**	**321,871**	**61,444**
Unrealised income from financial instruments held in the portfolio as at end of period, recognised in income statement of comprehensive income	**1,147**	**(1,696)**	**12,784**	**-**
recognised in item “Net interest income”	444	-	16,986	-
recognised in item “Gains and losses on financial assets and liabilities held for trading”	703	(1,696)	(57)	-
recognised in item “ Revaluation reserves from financial instruments “	-	-	(4,145)	-

Notes to financial statements (cont)

(PLN thousand)

The impact of estimated parameters of measurement at fair value for which the Bank applies valuation to fair value according to Method 3 as at 31 December 2009 is insignificant.

In case of debt instruments exposed to credit spread risk, the sensitivity of exposure to spread changes by 1 bp stand at PLN 1.4 thousand in impact upon the profit and loss account and PLN 58 thousand in impact upon recognition in equity, respectively.

In case of derivatives measured using Method 3, however, transactions are immediately closed back-to-back on the interbank market, and as such bear no impact upon the figures presented.

The Bank also holds financial instruments which are not presented at fair value in the report. Fair value is defined as the amount, for which an asset could be exchanged or a liability settled between interested and well informed but unrelated parties to the transaction at arm's length.

In case of certain groups of financial assets, recognised at the value due for payment taking impairment into consideration, fair value was assumed to be equal to carrying value. The above applies in particular to cash, cash assets, current receivables and payables and other assets and liabilities.

In the case of credits for which no quoted market values are available, the fair values presented are roughly estimated using valuation techniques and taking into consideration the assumption, that at the moment the credit is granted its fair value is equal to its carrying 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 defined as the sum of the appropriate market risk-free rate, increased by the credit risk margin and current sales margin (taking commission fees into consideration) for the given credit products group. The fair value of impaired loans is defined as equal to the sum of expected recoveries, discounted to the relevant balance sheet date using the market risk-free discount rate, since the average expected recovery values take the element of credit risk fully into consideration.

The fair value of central investment loans is presented on net basis, inclusive of the fair value of the NBP refinancing credit used for financing such investments. When gross value is used, the adjustment to fair value stands at PLN 178 million in case of credits for central investments, and PLN 165 million in case of refinancing credits (as at 31.12.2008, fair value stood at PLN 310 million for central investment credit and PLN 292 million for refinancing credit).

In the case of the Bank's minority exposures, for which no active market prices are available, the carrying value of such investments is presented in the Table below at fair value. The Bank's minority interests include companies associated with the financial sector, companies taken-over in result to debt restructuring, as well as other companies related to the financial sector. Equity interests in such companies are associated with the use of the financial and banking infrastructure and payment card services, including: BIK S.A., GPW S.A. and MasterCard. Bank exposures in such companies depend upon the long-term investments, and to-date the Bank has no plans as to the divestment thereof.

Notes to financial statements (cont)

(PLN thousand)

31.12.2009	CARRYING VALUE	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE AGAINST BOOK VALUE
Assets			
Cash and due from Central Bank	9,587,211	9,587,211	-
Loans and receivables from banks	9,138,563	9,137,848	(715)
Financial assets held for trading	3,685,551	3,685,551	-
Derivative financial instruments	2,431,471	2,431,471	-
Other financial instruments at fair value through profit and loss	2,394,040	2,394,040	-
Loans and receivables from customers (*)	73,042,880	71,766,199	(1,276,681)
Hedging instruments	87,543	87,543	-
Securities available for sale	17,526,224	17,526,224	-
Securities held to maturity	3,767,283	3,755,362	(11,921)
Investments in subsidiaries	1,426,442	1,426,442	-
Investments in associates	39,345	39,345	
Total	**123,126,553**	**121,837,236**	**(1,289,317)**

(*) Including debt securities eligible for rediscounting at Central Bank.

31.12.2008	CARRYING VALUE	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE AGAINST BOOK VALUE
Assets			
Cash and due from Central Bank	9,905,270	9,905,270	-
Loans and receivables from banks	10,213,642	10,325,656	112,014
Financial assets held for trading	2,727,581	2,727,581	-
Derivative financial instruments	4,489,752	4,489,752	-
Other financial instruments at fair value through profit and loss	4,713,069	4,713 069	-
Loans and receivables from customers (*)	75,105,986	75,231,473	125,487
Hedging instruments	157,899	157,899	-
Securities available for sale	13 363,698	13,363,698	-
Securities held to maturity	1,879,061	1,861,731	(17,330)
Investments in subsidiaries	1,506,442	1,506,442	-
Investments in associates	56,845	56,845	-
Total	**124,119,245**	**124,339,416**	**220,171**

(*) Including debt securities eligible for rediscounting at Central Bank.

Notes to financial statements (cont)

(PLN thousand)

Since no quoted market prices are readily available for deposits, their fair values have been roughly estimated using valuation techniques with the assumption that the fair value of a deposit at the moment of its receipt is equal to its carrying value. The fair value of term deposits is equal to the sum of future expected cash flows, discounted to the relevant balance sheet date. The cash flow discount rate is defined as the relevant market risk-free rate, increased by the sales margin. If the carrying value is less than the nominal value, a term deposit may be cancelled before maturity, and in such case fair value will be equal to its nominal value. In case of current deposits, fair value was assumed as equal to the carrying value.

In case of deposits received by the Bank, the adjustment to fair value as at 31 December 2009 stood at PLN plus 695 thousand (against minus PLN 33 939 thousand as at 31 December 2008) for deposits from clients, and PLN plus 3 107 thousand (against minus PLN 22 833 thousand as at 31 December 2008) for deposits from banks.

The fair value of deposits is calculated based on contractual maturities

In case of debt securities in issue, the adjustment to fair value as at 31 December 2009 stood at PLN minus 25 031 thousand (against PLN minus 37 719 thousand as at 31 December 2008).

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

The mark-to-model valuation of debt instruments is based on the method of discounting future cash flows. Variable cash flows are estimated based upon rates adopted for specific markets (depending upon issue specifications). Both the fixed and implied cash flows are discounted using zero-coupon curves, relevant to given markets or issuers.

5. Custodial operations

Custodial operations are performed by virtue of a permit, issued by the Polish Financial Supervision Authority KNF. The Bank's clients include a number of domestic and foreign financial institutions, banks offering custody and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank provides custody services, including inter alia the settlement of transactions effected on domestic and international markets, custody of client assets, maintaining securities and cash accounts, valuation of assets and services related to dividend and interest payments.

In 2009, the Bank continued to provide services to domestic and foreign financial institutions within the scope of custody services within the territory of the Republic of Poland, including the lending of securities for the purpose of assuring the liquidity of settlements and settlement transactions on derivative rights market.

During the period in question, the Bank acquired a number of new clients from the segment of foreign custody banks and stockbroking companies, registered as remote members of the Warsaw Stock Exchange GPW, for the benefit of which the Bank serves as a clearing agent. The Bank also maintained its leading position in terms of depositary notes, by handling 50% of all programmes.

Attention should be paid to the fact that in the 3rd quarter of 2009, the Bank has won a tendering procedure, organised by one of largest Swiss banks for handling payments, custody and clearing of securities transactions.

As of 31 December 2009 the Bank maintained 4 125 securities accounts (in comparison to 4 170 securities accounts as of 31 December 2008).

Notes to financial statements (cont)

(PLN thousand)

6. Interest income and expense

Interest income

	2009	2008
Loans and other receivables from customers	4,748,590	5,559,430
Placements in other banks	292,307	577,753
Reverse repo transactions	40,356	123,433
Investment securities	869,361	957,165
Financial assets held for trading	105,736	176,322
Financial assets designated at fair value through profit and loss	167,612	234,009
Total	**6,223,962**	**7,628,112**

Interest income for 2009 includes income from impaired financial assets in the amount of PLN 191 369 thousand (in 2008: PLN 215 588 thousand).

Total amount of interest income for 2009, measured at amortised 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 3 365 618 thousand (in 2008: PLN 4 712 115 thousand).

Interest expense

	2009	2008
Customers' deposits	(2,444,394)	(2,614,633)
Other banks' deposits	(104,755)	(262,969)
Repo transactions	(128,357)	(374,353)
Loans from other banks	(126,927)	(206,067)
Debt securities issued	(26,790)	(52,957)
Total	**(2,831,223)**	**(3,510,979)**

Total amount of interest expenses for 2009, measured at amortised 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 2 584 213 thousand (in 2008: PLN 3 026 909 thousand).

Notes to financial statements (cont)

(PLN thousand)

7. Fee and commission income and expense

Fee and commission income

	2009	2008
Customer accounts maintenance and payment orders	906,180	973,934
Payment cards	770,669	784,038
Credits and loans	371,011	270,849
Acquisition services	206,114	303,484
Securities operations	32,330	33,556
Custody activity	46,196	58,671
Guaranties, letters of credit and similar operations	54,471	37,978
Other	68,009	98,529
Total	**2,454,980**	**2,561,039**

Fee and commission expense

	2009	2008
Payment cards	(341,124)	(389,924)
Bank drafts and transfers	(24,684)	(24,507)
Securities operations	(9,729)	(9,911)
Accounts maintenance	(1,668)	(2,318)
Custody activity	(4,981)	(4,840)
Acquisition services	(1,981)	(31,644)
Other	(14,877)	(24,501)
Total	**(399,044)**	**(487,645)**

Notes to financial statements (cont)

(PLN thousand)

8. Dividend income

	2009	2008
Subsidiaries	275,777	400,519
Associates	134,374	119,964
Other entities	7,020	5,054
Total	**417,171**	**525,537**

9. Gains and losses on financial assets and liabilities held for trading

	2009	2008
Foreign exchange gains	697,937	535,107
Gain on derivatives	(47,084)	120,289
Gain on securities	51,148	27,033
Total	**702,001**	**682,429**

In 2009, the total change in the fair value of financial instruments measured at fair value through profit and loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN minus 7 121 thousand (PLN 119 593 in 2008).

10. Gains and losses on financial assets and liabilities at fair value through profit and loss

	2009	2008
Debt instruments	54,558	(93,626)
Total	**54,558**	**(93,626)**

(PLN thousand)

11. Gains and losses on disposal

Realized gains

	2009	2008
Loans and other receivables	2,816	127,203
Available for sale financial assets - debt instruments	23,787	17,048
Available for sale financial assets - equity instruments (*)	78,703	80,619
Investments held to maturity	-	2,706
Debt securities in issue	842	1,267
Total	**106,148**	**228,843**

(*) Including profit from the sale of MasterCard shares	68,714	80,521

Realized losses

	2009	2008
Loans and other receivables	(232)	(14,218)
Available for sale financial assets - debt instruments	(5,024)	(16,783)
Investments held to maturity	-	(1,556)
Debt securities in issue	(760)	(5,831)
Total	**(6,016)**	**(38,388)**

Net realized profit	**100,132**	**190,455**

The change in fair value of financial assets available for sale referred in 2009 directly to equity amounted to PLN 79 043 thousand (increase), in 2008: PLN 216 051 thousand (increase).

The change in fair value of financial assets, related in 2009 from equity to profit and loss amounted to PLN 28 752 thousand (profit), in 2008: PLN 363 000 thousand (profit).

Notes to financial statements (cont)

(PLN thousand)

12. Administrative expenses

Payroll costs

	2009	2008
Wages and salaries	(1,411,017)	(1,419,911)
Insurance and other charges related with employees	(251,303)	(244,205)
Cost of share-based payments	(2,286)	(3,390)
Total	**(1,664,606)**	**(1,667,506)**

Other administrative expenses

	2009	2008
Other administrative expenses	(1,198,024)	(1,325,583)
Taxes and charges	(34,642)	(35,997)
Bank Guaranty Fund fee	(45,187)	(15,813)
Polish Financial Supervision Authority fee	(20,707)	(26,212)
Total	**(1,298,560)**	**(1,403,605)**
Total administrative expenses	**(2,963,166)**	**(3,071,111)**

Notes to financial statements (cont)

(PLN thousand)

13. Net other operating income/expenses

Other operating income

	2009	2008
Rent and other revenues	42,319	55,951
Credit insurance charges	22,143	20,143
Recovery of debt collection costs	7,986	11,158
Compensation, penalties and fines received	14,835	1,788
Recovery of administrative costs	11,682	12,818
Income from waved liabilities	93	19,676
Releases of provisions for litigations and claims and other assets	1,459	9,865
Releases of provisions for liabilities	6,028	20,613
Gains on sale of other assets	18	3,588
Other	38,105	35,025
Total	**144,668**	**190,625**

Other operating expenses

	2009	2008
Credit insurance costs	(19,056)	(15,421)
Customers complaints	(7,412)	(4,305)
Impairment of litigations and claims and other assets	(11,467)	(2,620)
Costs of litigation and claims	(3,381)	(3,922)
Compensation, penalties and fines paid	(5,893)	(247)
Losses on disposal of other assets	(104)	(1,634)
Other	(29,463)	(35,305)
Total	**(76,776)**	**(63,454)**

Net other operating income/expenses	**67,892**	**127,171**

(PLN thousand)

14. Impairment losses

2009	OPENING BALANCE	INCREASES: IMPAIRMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM BALANCE SHEET	DECREASES: RELEASE OF IMPAIRMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON PROFIT AND LOSS(***)
Impairment of financial assets and off-balance sheet commitments								
Loans and receivables from banks valued at amortized cost	**102,683**	8,106	5,257	-	(9,429)	(21,896)	**84,721**	1,323
Derivative financial instruments (**)	**71,831**	-	-	-	-	(67,038)	**4,793**	-
Loans and receivables from customers valued at amortized cost	**3,760,615**	1,061,847	260,035	(334,042)	(639,856)	(183,168)	**3,925,431**	(421,991)
Financial assets available for sale	**12,191**	-	-	-	-	(4,933)	**7,258**	-
Investments held to maturity valued at amortised cost	**121**	-	5	-	(126)	-	**-**	126
Impairment of off-balance sheet commitments	**142,293**	82,542	5,887	-	(88,405)	(7,123)	**135,194**	5,863
Total financial assets and off-balance sheet commitments	**4,089,734**	**1,152,495**	**271,184**	**(334,042)**	**(737,816)**	**(284,158)**	**4,157,397**	**(414,679)**
Impairment of other assets:								
Investments in subsidiaries	**43,056**	105,000	-	-	-	-	**148,056**	(105,000)
Intangible assets	**10,961**	-	-	-	-	-	**10,961**	-
Goodwill	**-**	-	-	-	-	-	**-**	-
Other intangible assets	**10,961**	-	-	-	-	-	**10,961**	-
Property, plant and equipment	**12,786**	-	297	-	-	(1,892)	**11,191**	-
Investment real estate properties	**9,979**	-	-	-	-	(5,627)	**4,352**	-
Other	**107,865**	11,467	103,804	(510)	(1,459)	(116,843)	**104,324**	(10,008)
Total impairment of other assets	**184,647**	**116,467**	**104,101**	**(510)**	**(1,459)**	**(124,362)**	**278,884**	**(115,008)**
Total	**4,274,381**	**1,268,962**	**375,285**	**(334,552)**	**(739,275)**	**(408,520)**	**4,436,281**	**(529,687)**

(*) Including foreign exchange differences and the transfer between positions
(**) The amount of PLN 67 038 thousand has been reclassified into the item "Loans and receivables from customers and loans and receivables from banks measured at amortised cost"
(***) The item of Profit and loss "Impairment losses" includes net impairment in the amount of PLN minus 414 679 thousand and net revenues from recovered bad debt in the amount of PLN 8 225 thousand- the total is PLN 406 454,thousand.

(PLN thousand)

2008	OPENING BALANCE	INCREASES: IMPAIRMENT CHARGES	INCREASES: OTHER (*)	DECREASES: WRITE-OFFS OF ASSETS FROM BALANCE SHEET	DECREASES: RELEASE OF IMPAIRMENT CHARGES	DECREASES: OTHER (*)	CLOSING BALANCE	IMPACT ON PROFIT AND LOSS(***)
Impairment of financial assets and off-balance sheet commitments								
Loans and receivables from banks valued at amortized cost	**30,137**	80,391	10,709	-	(16,807)	(1,747)	**102,683**	(63,584)
Derivative financial instruments (**)	**-**	71,831	-	-	-	-	**71,831**	(71,831)
Loans and receivables from customers valued at amortized cost	**4,458,775**	1,131,427	211,729	(48,853)	(1,000,681)	(991,782)	**3,760,615**	(130,746)
Financial assets available for sale	**15,168**	1	5,151	-	(3,350)	(4,779)	**12,191**	3,349
Investments held to maturity valued at amortised cost	**104**	37	17	-	(37)	-	**121**	-
Impairment of off-balance sheet commitments	**186,161**	106,089	98,164	-	(154,983)	(93,138)	**142,293**	48,894
Total financial assets and off-balance sheet commitments	**4,690,345**	**1,389,776**	**325,770**	**(48,853)**	**(1,175,858)**	**(1,091,446)**	**4,089,734**	**(213,918)**
Impairment of other assets:								
Investments in subsidiaries	**44,728**	-	-	-	(1,672)	-	**43,056**	1,672
Intangible assets	**11,080**	-	-	-	-	(119)	**10,961**	-
Goodwill	**-**	-	-	-	-	-	**-**	-
Other intangible assets	**11,080**	-	-	-	-	(119)	**10,961**	-
Property, plant and equipment	**15,392**	26	670	-	-	(3,302)	**12,786**	(26)
Investment real estate properties	**8,773**	550	656	-	-	-	**9,979**	(550)
Other	**100,916**	2,619	929,307	(1,776)	(2,232)	(920,969)	**107,865**	(387)
Total impairment of other assets	**180,889**	**3,195**	**930,633**	**(1,776)**	**(3,904)**	**(924,390)**	**184,647**	**709**
Total	**4,871,234**	**1,392,971**	**1,256,403**	**(50,629)**	**(1,179,762)**	**(2,015,836)**	**4,274,381**	**(213,209)**

(*) Including foreign exchange differences and the transfer between positions.
In the amount of PLN minus 991 782 thousand, the main item is the value of PLN minus 910 005 thousand, in the form of impairment write-downs for a group of receivables, classified into the item "Assets classified as held for sale".
(**) Including the amount of PLN 26 269 thousand relating strictly to foreign exchange options and PLN 45 350 thousand for companies enduring structural problems related to their business operations and active transactions on derivatives within their exposures in the Bank
(***) The item of Profit and loss "Impairment losses" includes net impairment in the amount of PLN minus 213 918 thousand and net revenues from recovered bad debt in the amount of PLN 33 242 thousand- the total is PLN minus 180 676,thousand.

Notes to financial statements (cont)

(PLN thousand)

15. Income tax

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.

	2009	2008
Accounting gross profit	**2,980,570**	**4 029,637**
Tax charge according to applicable tax rate at 19%	**566,308**	**765,631**
Permanent differences	**(48,001)**	**(81,839)**
Non taxable income	(86,431)	(99,500)
Non tax deductible costs	38,735	17,294
Impact of other tax rates applied under a different tax jurisdiction	420	2,902
Tax relieves not included in the profit and loss account	1,498	340
Other	(2,223)	(2,875)
The effective income tax charge of the accounting profit	**518,307**	**683,792**

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

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

	2009	2008
PROFIT AND LOSS ACCOUNT		
Current income tax	**(551,797)**	**(692,654)**
Current tax charge disclosed in the profit and loss account	(552,246)	(670,880)
Adjustments related to the current tax from previous years	13,064	(11,248)
Other taxes (for example withholding tax, income tax relating to foreign branches)	(12,615)	(10,526)
Deferred income tax	**33,490**	**8,862**
Occurrence and reversal of temporary differences	33,490	8,862
Tax charge disclosed in the unconsolidated profit and loss account	**(518,307)**	**(683,792)**
EQUITY		
Deferred income tax	**17,781**	**(71,576)**
Income and costs disclosed in other comprehensive income:		
Re-valuation of financial instruments, used as cash flows hedges	28,648	(32,311)
Re-valuation of available for sale financial assets – debt securities	(11,431)	(38,723)
Re-valuation of available for sale financial assets – with equity rights	564	(542)
Tax charge disclosed in other comprehensive income	**17,781**	**(71,576)**
Total charge	**(500,526)**	**(755,368)**

(PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2009							
	OPENING BALANCE		CHANGES RECOGNIZED IN			CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNISED IN THE PROFIT AND LOSS ACCOUNT	IN EQUITY	PROFIT AND LOSS ACCOUNT	EQUITY	TOTAL DEFERRED TAX	RECOGNISED IN THE PROFIT AND LOSS ACCOUNT	IN EQUITY
DEFERRED TAX LIABILITY								
Income receivable from securities	90,847	90,847	-	(68,721)	-	22,126	22,126	-
Income receivable from loans given	254,302	254,302	-	(73,053)	-	181,249	181,249	-
Upward revaluation of the financial assets	470,379	463,350	7,029	(123,848)	(7,029)	339,502	339,502	-
Accelerated depreciation	112,489	112,489	-	(55)	-	112,434	112,434	-
Investment relief	22,919	22,919	-	(15,450)	-	7,469	7,469	-
Other	16,231	16,231	-	5,873	-	22,104	22,104	-
Gross deferred tax liability	**967,167**	**960,138**	**7,029**	**(275,254)**	**(7,029)**	**684,884**	**684,884**	**-**
DEFERRED TAX ASSET								
Accrued costs related to securities	-	-	-	-	-	-	-	-
Accrued costs related to deposits and loans received	229,876	229,876	-	(46,836)	-	183,040	183,040	-
Downward revaluation of financial assets	497,119	497,119	-	(199,030)	10,752	308,841	298,089	10,752
Income received to be settled from loans and current accounts	103,562	103,562	-	8,141	-	111,703	111,703	-
Loan provisions charges	330,886	330,886	-	(26,011)	-	304,875	304,875	-
Personnel expenses provisions	61,394	61,394	-	17	-	61,411	61,411	-
Accruals	17,420	17,420	-	987	-	18,407	18,407	-
Losses from previous years	-	-	-	-	-	-	-	-
Other	13,609	13,609	-	20,968	-	34,577	34,577	-
Gross deferred tax asset	**1,253,866**	**1,253,866**	**-**	**(241,764)**	**10,752**	**1,022,854**	**1,012,102**	**10,752**
Deferred tax charge	**X**	**X**	**X**	**33,490**	**17,781**	**X**	**X**	**X**
Net deferred tax assets	**286,699**	**293,728**	**(7,029)**	**X**	**X**	**337,970**	**327,218**	**10,752**

(PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2008							
	OPENING BALANCE			CHANGES RECOGNIZED IN		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNISED IN THE PROFIT AND LOSS ACCOUNT	IN EQUITY	PROFIT AND LOSS ACCOUNT	EQUITY	TOTAL DEFERRED TAX	RECOGNISED IN THE PROFIT AND LOSS ACCOUNT	IN EQUITY
DEFERRED TAX LIABILITY								
Income receivable from securities	91,706	91,706	-	(859)	-	90,847	90,847	-
Income receivable from loans given	234,918	234,918	-	19,384	-	254,302	254,302	-
Upward revaluation of financial assets	396,863	396,863	-	66,488	7,029	470,379	463,350	7,029
Accelerated depreciation	118,174	118,174	-	(5,685)	-	112,489	112,489	-
Investment relief	23,508	23,508	-	(589)	-	22,919	22,919	-
Other	9,947	9,947	-	6,284	-	16,231	16,231	-
Gross deferred tax liability	**875,116**	**875,116**	**-**	**85,023**	**7,029**	**967,167**	**960,138**	**7,029**
DEFERRED TAX ASSET								
Accrued costs related to securities	-	-	-	-	-	-	-	-
Accrued costs related to deposits and loans received	188,771	188,771	-	41,105	-	229,876	229,876	-
Downward revaluation of financial assets	497,875	433,328	64,547	63,791	(64,547)	497,119	497,119	-
Income received to be settled from loans and current accounts	94,427	94,427	-	9,135	-	103,562	103,562	-
Loan provisions charges	335,656	335,656	-	(4,770)	-	330,886	330,886	-
Personnel expenses provisions	77,495	77,495	-	(16,101)	-	61,394	61,394	-
Accruals	19,554	19,554	-	(2,134)	-	17,420	17,420	-
Losses from previous years	7,092	7,092	-	(7,092)	-	-	-	-
Other	3,658	3,658	-	9,951	-	13,609	13,609	-
Gross deferred tax asset	**1,224,528**	**1,159,981**	**64,547**	**93,885**	**(64,547)**	**1,253,866**	**1,253,866**	**-**
Deferred tax charge	**X**	**X**	**X**	**8,862**	**(71,576)**	**X**	**X**	**X**
Net deferred tax assets	**349,412**	**284,865**	**64,547**	**X**	**X**	**286,699**	**293,728**	**(7,029)**

(PLN thousand)

As at 31 December 2009 and 31 December 2008, there were temporary differences related to investments in subsidiaries, branches, associates, and joint ventures, for which no deferred tax charge was created.

As at 31 December 2009 and 31 December 2008, there were no temporary differences, unused tax losses and unused tax reliefs which were not included in the deferred tax assets.

16. Earnings per share (in PLN per share)

Basic for the period

The basic earnings per share ratio is calculated by dividing net profit by the average weighted number of ordinary shares listed during a given period.

Earnings per share

	2009	2008
Net profit	2,462,263	3,345,845
Weighted average number of ordinary shares in the period	262,237,721	262,180,259
Earnings per share (in PLN per share)	9.39	12.76

Diluted for the period

Diluted earnings per share are calculated by dividing net profit of the Bank by the weighted average number of the ordinary shares outstanding during the given period, adjusted for all diluting potential ordinary shares.

There are diluting instruments in the Bank in the form of convertible bonds. For calculation purposes, these bonds are assumed to be converted into shares.

	2009	2008
Net profit	2,462,263	3,345,845
Weighted average number of ordinary shares in the period	262,237,721	262,180,259
Adjustments of the number of shares for the purpose of calculation the diluted earnings per share	5,312	103,533
Weighted average number of ordinary shares for the purpose of calculation the diluted earnings per share	262,243,033	262,283,792
Diluted earnings per share (in PLN per share)	9.39	12.76

(PLN thousand)

17. Dividend proposal

Dividends and other distributions to shareholders are recognised directly in equity. A liability for dividends payment is not recognized until the entity has an obligation to pay dividends, which is not until they are approved.

The Management Board of the Bank will propose to the Shareholder's General Meeting a dividends payment in the amount of PLN 2,90 per share.

The final dividend distribution is subject to approval of the Shareholder's General Meeting.

18. Cash and due from Central Bank

	31.12.2009	31.12.2008
Cash	2,232,793	3,129,445
Current account at Central Bank	7,352,744	5,006,653
NBP bonds (*)	-	1,686,707
Interest	274	81,058
Other funds	1,400	1,407
Total	**9,587,211**	**9,905,270**

(*) NBP bonds are non-quoted debt securities, issued in regulatory the reduction of mandatory reserve rates maturing on 1 March 2012 (debt securities was vested on 18th February 2009). The bond is not recognised in the cash flows statement in the item "cash".

During the day, the Bank may use funds from 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 on such accounts comply with the requirements described in the mandatory reserve declaration.

Funds in the mandatory reserve account bear interest in the amount of 0.9 of the rediscount rate for bills of exchange amounts to 3.75% as at 31 December 2009. As at 31 December 2009 this interest rate amounted to 3.38%.

Notes to financial statements (cont)

(PLN thousand)

19. Loans and receivables from banks

Loans and receivables from banks by product type

	31.12.2009	31.12.2008
Current accounts and overnight deposits	3,076,299	2,003,700
Inter-bank deposits	2,146,916	3,378,971
Credits and loans	1,042,918	2,371,439
Repo transactions	1,471,910	649,600
Debt securities	1,290,432	1,546,454
Receivables in transit	172,743	309,378
Interest	22,066	56,783
Total gross amount	**9,223,284**	**10,316,325**
Impairments provision	(84,721)	(102,683)
Total net amount	**9,138,563**	**10,213,642**

Loans and receivables from banks according to quality

	31.12.2009	31.12.2008
Loans and receivables from banks, including:		
gross value of no impaired receivable	9,140,330	10,200,943
Gross value of impaired receivables	82,954	115,382
individual impairment charges	(54,985)	(74,482)
collective impairment charges (*)	(29,736)	(28,201)
Total	**9,138,563**	**10,213,642**

(*) Including estimated impairment, incurred but not reported (IBNR).

Loans and receivables from banks according to contractual maturities

	31.12.2009	31.12.2008
Loans and receivables from banks, including:		
up to 1 month	5,158,383	3,923,635
between 1 and 3 months	5,066	408,360
between 3 months and 1 year	2,383,553	3,060,850
between 1 and 5 years	1,527,504	2,795,237
over 5 years	126,712	71,460
Interest	22,066	56,783
Total net amount	**9,223,284**	**10,316,325**
Impairments provision	(84,721)	(102,683)
Total net amount	**9,138,563**	**10,213,642**

Loans and receivables from banks by currencies

	31.12.2009	31.12.2008
PLN	3,466,132	4,659,926
CHF	243,238	322,511
EUR	2,345,176	2,981,656
USD	2,918,569	2,179,383
Other currencies	165,448	70,166
Total	**9,138,563**	**10,213,642**

Notes to financial statements (cont)

(PLN thousand)

20. Financial assets/liabilities held for trading

31.12.2009	ASSETS	LIABILITIES
Securities issued by governments	3,488,957	981,354
T-bills	367,133	-
T-bonds	3,121,824	981,354
Securities issued by banks	196,594	-
Total	**3,685,551**	**981,354**
including:		
quoted	3,477,597	981,354
unquoted	207,954	-

31.12.2008	ASSETS	LIABILITIES
Securities issued by governments	2,578,631	405,979
T-bills	886,024	-
T-bonds	1,692,607	405,979
Securities issued by banks	55,283	-
Securities issued by business entities	93,667	-
Total	**2,727,581**	**405,979**
including:		
quoted	2,555,832	405,979
unquoted	171,749	-

Financial assets/liabilities held for trading according to maturities

31.12.2009	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	998	-
between 1 and 3 months	782,974	-
between 3 months and 1 year	1,632,369	-
between 1 and 5 years	544,499	498,978
over 5 years	724,711	482,376
Total	**3,685,551**	**981,354**

31.12.2008	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	183,533	-
between 1 and 3 months	109,916	-
between 3 months and 1 year	1,653,256	-
between 1 and 5 years	568,730	82,395
over 5 years	212,146	323,584
Total	**2,727,581**	**405,979**

(PLN thousand)

21. Derivative financial instruments (held for trading)

Derivative financial instruments at the Bank

In its operations the Bank uses different financial derivatives for managing risks involved in the Bank's business. The majority of derivatives at the Bank 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 the right to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on transaction date for a predefined future date. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves, relevant for given market.

Foreign exchange swaps are a combination of a swap of specific currencies as at spot date and of reverse transaction as at forward date with foreign exchange rates specified in advance on transaction date. Transactions of such type are settled by an exchange of assets. Foreign exchange swap transactions are mostly concluded in the process of managing the Bank's currency liquidity. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves relevant for given market.

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

In case of options settled in net amounts, upon acquisition of the rights, the buyer receives an amount of money equal to the product of notional and difference between spot ad strike price.

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A 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.

Foreign exchange options are priced using the Garman-Kohlhagen valuation model (and in case of barrier and Asian options using the so-called expanded Garman-Kohlhagen model). Parameters of the model based on market quotations of plain-vanilla at-the-money options and market spreads for out-of-the-money and in-the-money options (volatility smile) for standard maturities.

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

In the case of Interest Rate Swaps (IRS), counterparties exchange between each other the flows of interest payments, accrued on the nominal amount identified in the contract. These transactions are valued using the discounted cash flow model. 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. The parties settle the transaction on value date with the interest difference between the FRA rate (forward rate as at transaction date) and the reference rate. These transactions are valued 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 valued using the discounted cash flow model. Valuation of Basis Swap transactions takes into account market quotations of basis spread.

In the case of forward transactions on securities, counterparties agree to buy or sell specified securities on a forward date for a payment fixed on the date of transaction. Such transactions are measured based upon the valuation of the security (mark-to-market or mark-to-model) and valuation of the related 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 writer, 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. Transactions of this type are measured using the Black-Scholes model. The model is parameterised based upon market quotations of at-the-money options as at standard quoted maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on stock market. Stock exchange index and stock futures are quoted on the Warsaw Stock Exchange GPW. Index contracts refer to transactions based on MIDWIG indices.

Futures contracts are measured based upon quotations available directly from stock exchanges.

Derivative financial instruments embedded in other instruments

The Bank uses derivatives financial instruments 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. As the nature of such instrument is not strictly associated with the nature of deposit agreement, the embedded instrument was separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognised in the profit and loss account. Embedded instruments include simple options (plain vanilla) and exotic options for single stocks, indices and other market indices, including interest rate indices, foreign exchange rates and their related baskets.

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

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

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

Exotic options, including basket options, are valued by the Monte-Carlo simulation technique assuming Geometric Brownian Motion model of risk factors. Model parameters are determined based upon statistical measures.

The Bank carried out an analysis of the portfolio of credit agreements and of regular agreements in order to isolate embedded derivatives and decided that the agreements in question do not require isolation and separate treatment of embedded instruments.

Notes to financial statements (cont)

(PLN thousand)

Risk involved in financial derivatives

Market risk and credit risk are the basic types of risk, associated with derivatives.

At the beginning, financial derivatives usually have a small market value or no market value at all. It is a consequence of the fact that derivatives require no initial net investments, or require a very small net investment compared to other types of contracts, which display a similar reaction to changing market conditions.

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. In case of such changes, the derivatives held become more or less advantageous than instruments with the same residual maturities, available at that moment on the market.

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 Bank uses the same method as for credit risk assessment. In order to control its credit risk levels the Bank 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 the future cash flow amounts will be or what the current fair value of such instruments is and therefore do not reflect the Bank's credit or price risk level.

Derivatives become advantageous (turn into assets) or disadvantageous (turn into liabilities) according to fluctuations of market interest rates, indices or foreign exchange rates against the terms and conditions thereof.

Notes to financial statements (cont)

(PLN thousand)

Fair value of trading derivatives as at 31.12.2009

	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1,216,237	1,330,098
Forward Rate Agreements (FRA)	260	183
Options	9,616	9,617
Other	1,191	3,235
FX transactions		
Cross-Currency Interest Rate Swaps (CIRS)	314,358	14,125
Currency Forward Agreements	164,503	90,420
Currency Swaps	633,501	49,060
Options bought	30,363	-
Options sold	-	35,857
Transactions based on equity securities		
Options	61,442	61,442
Total	**2,431,471**	**1,594,037**

Fair value of trading derivatives as at 31.12.2008

	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	2,227,547	2,471,719
Forward Rate Agreements (FRA)	36,977	54,996
Options	5,907	5,907
Other	3,146	2,688
FX transactions		
Cross-Currency Interest Rate Swaps (CIRS)	369,806	204,319
Currency Forward Agreements	896,263	299,638
Currency Swaps	385,287	1,638,588
Options bought	473,485	-
Options sold	-	391,714
Transactions based on equity securities		
Options	91,334	80,815
Total	**4 489,752**	**5 150,384**

Notes to financial statements (cont)

(PLN thousand)

Nominal value of trading derivatives as at 31.12.2009

	CONTRACTUAL MATURITY					
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	3,437,036	6,133,154	18,528,086	36,681,403	14,168,115	78,947,794
Forward Rate Agreements (FRA)	700,000	1,900,000	-	-	-	2,600,000
Options	-	-	-	1,355,274	270,884	1,626,158
Other	1,740,508	-	-	-	-	1,740,508
FX transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	193,627	433,667	1,065,303	1,902,815	-	3,595,412
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	194,271	428,956	1,063,620	1,715,576	-	3,402,423
Currency Forward Agreements - currency bought	4,042,415	1,614,369	1,460,117	90,792	-	7,207,693
Currency Forward Agreements - currency sold	4,024,209	1,557,644	1,461,826	96,694	-	7,140,373
Currency Swaps - currency bought	10,394,295	5,566,079	4,910,444	28,712	-	20,899,530
Currency Swaps - currency sold	10,258,838	5,322,223	4,645,893	28,014	-	20,254,968
Options bought	304,649	436,584	825,359	95,533	-	1,662,125
Options sold	292,770	424,140	809,582	95,533	-	1,622,025
Transactions based on equity securities						
Options	-	222,902	1,316,506	1,363,358	-	2,902,766
Total	**35,582,618**	**24,039,718**	**36,086,736**	**43,453,704**	**14,438,999**	**153,601,775**

Nominal value of trading derivatives as at 31.12.2008

	CONTRACTUAL MATURITY					
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate transactions						
Interest Rate Swaps (IRS)	5,396,664	5,002,349	29,019,065	51,798,103	17,758,402	108,974,583
Forward Rate Agreements (FRA)	-	-	24,944,480	-	-	24,944,480
Options	-	-	-	1,428,050	227,286	1,655,336
Other	564,882	270,736	208,620	-	-	1,044,238
FX transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	206,500	5,752,364	795,227	6,754,091
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	177,851	5,799,872	720,000	6,697,723
Currency Forward Agreements - currency bought	3,990,849	1,952,147	4,124,628	667,692	-	10,735,316
Currency Forward Agreements - currency sold	3,913,948	1,839,872	3,803,922	604,874	-	10,162,616
Currency Swaps - currency bought	22,589,983	3,646,761	1,189,353	74,671	-	27,500,768
Currency Swaps - currency sold	23,721,237	3,646,722	1,302,995	82,384	-	28,753,338
Options bought	1,119,615	1,788,992	4,534,516	886,669	-	8,329,792
Options sold	1,108,541	1,782,920	4,555,245	885,180	-	8,331,886
Transactions based on equity securities						
Options	508,262	10,254	1,254,148	2,875,060	-	4,647,724
Total	**62,913,981**	**19,940,753**	**75,321,323**	**70,854,919**	**19,500,915**	**248,531,891**

Notes to financial statements (cont)

(PLN thousand)

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

	31.12.2009	31.12.2008
Debt securities	2,394,040	4,713,069
Equity securities	-	-
Total	**2,394,040**	**4,713,069**

	31.12.2009	31.12.2008
Securities issued by governments	2,394,040	4,087,575
T-bonds	2,394,040	4,087,575
Securities issued by business entities	-	625,494
Total	**2,394,040**	**4,713,069**
including:		
quoted	2,394,040	4,087,575
unquoted	-	625,494

Debt securities measured at fair value through profit and loss according to maturities

	31.12.2009	31.12.2008
Debt securities, including:		
between 3 months and 1 year	-	625,494
between 1 and 5 years	2,394,040	2,979,243
over 5 years	-	1,108,332
Total	**2,394,040**	**4,713,069**

Notes to financial statements (cont)

(PLN thousand)

23. Loans and receivables from customers

Loans and receivables from customer by product type.

	31.12.2009	31.12.2008
Mortgage	18,990,611	17,984,892
Current accounts	10,236,438	11,500,432
Operating loans	15,864,588	20,585,588
Investment loans	15,839,990	16,339,820
Payment cards receivables	691,926	638,231
Purchased debt receivables	504,113	740,662
Other credits and loans	10,649,385	9,347,860
Debt securities	1,552,129	1,382,977
Repo transactions	2,415,121	59,850
Receivables in transit	29,029	16,152
Interest	194,823	277,043
Total gross amount	**76,968,153**	**78,873,507**
Impairment provisions	(3,925,431)	(3,768,361)
Total net amount	**73,042,722**	**75,105,146**

Loans and receivables from customer by - customer type.

	31.12.2009	31.12.2008
Receivables from corporate	45,333,164	51,314,371
Receivables from individuals	27,018,635	25,174,405
Receivables from public sector entities	4,421,531	2,107,688
Interest	194,823	277,043
Total gross amount	**76,968,153**	**78,873,507**
Impairment provisions	(3,925,431)	(3,768,361)
Total net amount	**73,042,722**	**75,105,146**

Loans and receivables from customer according to quality.

	31.12.2009	31.12.2008
Loans and receivables from customers, including:		
gross value of non impaired receivables	72,240,038	74,614,771
gross value of impaired receivables	4,728,115	4,258,736
individual impairment charges	(1,800,465)	(1,628,170)
collective impairment charges (*)	(2,124,966)	(2,140,191)
Total	**73,042,722**	**75,105,146**

(*) Including estimated impairment, incurred but not reported (IBNR).

Notes to financial statements (cont)

(PLN thousand)

Loans and receivables from customers according to contractual maturities.

	31.12.2009	31.12.2008
Loans and receivables from customers, including:		
up to 1 month	14,072,897	12,674,521
between 1 and 3 months	1,056,861	1,312,680
between 3 months and 1 year	8,658,050	8,859,257
between 1 and 5 years	21,471,600	25,163,185
over 5 years	31,513,922	30,586,821
Interest	194,823	277,043
Total gross amount	**76,968,153**	**78,873,507**
Impairment provisions	(3,925,431)	(3,768,361)
Total net amount	**73,042,722**	**75,105,146**

Loans and receivables from customers by currencies

	31.12.2009	31.12.2008
PLN	55,450,817	55 854,050
CHF	5,793,302	6,418,634
EUR	10,372,709	10,883,878
USD	1,338,791	1,771,914
Other currencies	87,103	176,670
Total	**73,042,722**	**75,105,146**

Changes in the level of impairment provisions recorded in 2009 and 2008 are presented in Note 14.

24. Hedge accounting

As at 31 December 2009, the Bank applies fair value hedge and cash flows hedge accounting.

- In the second quarter of 2009 the Bank implemented the fair value hedge accounting for fixed coupon debt securities classified as available-for-sale (AFS) hedged with interest rate swap (IRS) transactions,
- The Bank continues to apply the cash flow hedge accounting for floating-rate financial assets hedged with interest rate swap (IRS) transactions,
- In the second quarter of 2009 the Bank implemented cash flow hedge accounting by designating a new hedging relationship for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions.

Fair value hedge

Description of hedging relationship

The Bank hedges the interest rate risk component of the fair value changes of the hedged item related to the volatility of market swap curves with the designated IRS trasactions.

Hedged item

The hedged items are fixed-coupon debt securities classified as AFS, denominated in EUR and USD.

Hedging derivative

The hedging derivatives consist of IRS transactions in EUR and USD (short position in fixed-rate) for which the Bank receives floating-rate payments, and pays fixed-rate.

Notes to financial statements (cont)

(PLN thousand)

The Table below presents the fair values of hedging derivatives, used in the fair value hedge:

	31.12.2009	
FAIR VALUE	ASSETS	LIABILITIES
Interest Rate Swaps (IRS)	-	116,162
Total	**-**	**116,162**

Wartości nominalne instrumentów pochodnych

	CONTRACTS ACCORDING TO MATURITIES					
31.12.2009	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest Rate Swaps (IRS)	-	-	-	996,164	655,263	1,651,427
Total	**-**	**-**	**-**	**996,164**	**655,263**	**1,651,427**

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The portion of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item "Fair value adjustments in hedge accounting". The remaining part of change in the hedged items' fair value (resulting from spread between swap yield curve and bond yield curve) is recognized according to the accounting policy applicable to AFS (i.e. in revaluation reserve in equity). Interest accrued on AFS bonds is presented in net interest income.

Changes in the fair value of hedging derivatives under the fair value hedge accounting is presented in the income statement line item "Fair value adjustments in hedge accounting". Interest accrued on the hedging derivatives under the fair value hedge accounting is presented in net interest income.

The following amounts were recognized in the income statement line item "Fair value adjustments in hedge accounting" related to fair value hedge in the current period:

TYPE OF GAINS/LOSSES	2009
Gains/losses from revaluation of hedging instrument to fair value	(9,362)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	23,307
Net result from fair value adjustments in hedge accounting	**13,945**
Net interest of hedging instruments	(28,648)

Cash flow hedge of floating-rate loans and floating-rate deposits

Description of hedging relationship

The Bank hedges portion of the interest rate risk and the foreign currency risk resulting from the volatility of cash flows from floating-rate assets and liabilities with the designated CIRS transactions (basis swap).

Hedged items

Cash flows from floating-rate assets and liabilities portfolio is designated as the hedged items

Notes to financial statements (cont)

(PLN thousand)

Hedging derivatives

The hedging derivatives consist of a portfolio of CIRS transactions (basis swap), where the Bank pays floating-rate currency cash flows, and receives floating-rate PLN/currency cash-flows.

The Table below presents the fair value of hedging derivatives used in the cash flow hedge

	31.12.2009	
FAIR VALUE	ASSETS	LIABILITIES
Cross-Currency Interest Rate Swaps (CIRS)	40,786	29,656
Total	**40,786**	**29,656**

Nominal value of derivatives

	CONTRACTS ACCORDING TO MATURITIES					
31.12.2009	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Cross-Currency Interest Rate Swaps (CIRS) (CIRS) - currency bought	-	-	2,063,935	1,688,871	1,860,765	5,613,571
Cross-Currency Interest Rate Swaps (CIRS) (CIRS) - currency sold	-	-	2,074,575	1,673,407	1,871,654	5,619,636
Total	**-**	**-**	**4,138,510**	**3,362,278**	**3,732,419**	**11,233,207**

Financial Statements presentation

The effective portion of the change in hedging derivatives' fair value is recognized in revaluation reserve in equity. The ineffective portion of changes in hedging derivatives' fair value is recognized in the result on financial assets and liabilities held for trading (note 9). The interest result on CIRS transactions and hedged items is presented in interest margin (note 6).

During the reporting period the following amounts – related to cash flow hedge for floating-rate loans and floating-rate deposits – were recognized in profit or loss and equity:

	FOR THE PERIOD FROM 01.04. UNTIL 31.12.2009
Revaluation reserves (deferred changes in fair value of hedging financial instruments in the part designated as effective hedge - gross value)	(35,395)
Interest income on hedging derivatives	89,597
Ineffective portion of changes in fair value of hedging transactions recognized in income statement	(4,359)
Period in which the cash flows related to the hedged items are expected to occur.	01.01.2010 – 09.09.2019

Changes in revaluation reserves in 2009

Opening balance	**-**
Deferral of fair value changes of hedging instruments related to the part recognized as effective hedge	(35,395)
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss.	-
Closing balance	**(35,395)**

Notes to financial statements (cont)

(PLN thousand)

Cash flow hedge of floating-rate loans

Description of hedging relationship

The Bank hedges portion of the interest rate risk resulting in the volatility of cash flows on floating-rate assets with the designated IRS transactions.

Hedged item

Cash flows from floating-rate assets is the hedged items.

Hedging derivatives

The hedging derivatives consist of IRS transactions portfolio (short position in floating rate – the Bank receives fixed payments and pays floating rate).

The Table below presents the fair value of hedging derivatives in cash flow hedge accounting:

	31.12.2009	
FAIR VALUE	ASSETS	LIABILITIES
Interest Rate Swaps (IRS)	46,757	4,634
Total	**46,757**	**4,634**

	31.12.2008	
FAIR VALUE	ASSETS	LIABILITIES
Interest Rate Swaps (IRS)	157,899	373
Total	**157,899**	**373**

Nominal value of derivatives

	CONTRACTS ACCORDING TO MATURITIES					
31.12.2009	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest Rate Swaps (IRS)	50,000	170,000	170,000	1,492,000	620,000	2,502,000
Total	**50,000**	**170,000**	**170,000**	**1,492,000**	**620,000**	**2,502,000**

	CONTRACTS ACCORDING TO MATURITIES					
31.12.2008	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Interest Rate Swaps (IRS)	50,000	-	335,000	1,777,000	725,000	2,887,000
Total	**50,000**	**-**	**335,000**	**1,777,000**	**725,000**	**2,887,000**

Notes to financial statements (cont)

(PLN thousand)

Financial Statements presentation

The effective portion of change in hedging derivatives fair value is recognized in revaluation reserve in equity. The ineffective portion of changes in of hedging fair value is recognized in the result on financial assets and liabilities held for trading. The interest result on CIRS transactions and hedged items is presented in interest margin (Note 6).

During the current period the following amounts – related to cash flow hedge for floating-rate loans – were recognized in profit or loss and equity:

	31.12.2009	31.12.2008
Revaluation reserves (deferred changes in fair value of hedging financial instruments in the part designated as effective hedge - gross value)	(7,104)	108,283
Interest income on hedging derivatives	3,799	(21,883)
Period in which the cash flows related to the hedged items are expected to occur.	01.01.2010 – 20.11.2017	01.01.2009 – 20.11.2017

Changes in revaluation reserves during the period

	31.12.2009	31.12.2008
Opening balance:	**108,283**	**(61,776)**
Deferral of changes in fair value of hedging derivatives in the part designated as effective hedge	(116,472)	169,785
Amount of deferred changes in fair value of hedging instruments in the part considered to be an effective hedge, removed from the revaluation reserves and recognised in the net profit or loss.	1,085	274
Closing balance:	**(7,104)**	**108,283**

Notes to financial statements (cont)

(PLN thousand)

25. Investment (placement) securities

	31.12.2009	31.12.2008
Debt securities available for sale (AFS)	17,520,440	13,354,005
Equity securities available for sale (AFS)	5,784	9,693
Debt securities held to maturity (HTM)	3,767,283	1,879,061
Total	**21,293,507**	**15,242,759**

Debt securities available for sale (AFS)

	31.12.2009	31.12.2008
Securities issued by State Treasury	13,004,605	12,339,701
T-bills	-	107,995
T-bonds	13,004,605	12,231,706
Securities issued by Central Banks	4,199,418	556,445
Securities issued by banks	201,073	210,030
Securities issued by business entities	-	80,230
Securities issued by local self-governments	115,344	167,599
Total	**17,520,440**	**13,354,005**
including impairment of assets	(4,335)	(4,505)
including:		
quoted	12,251,230	11,563,403
unquoted	5,269,210	1,790,602

Equity securities available for sale (AFS)

	31.12.2009	31.12.2008
Stocks	5,784	9,693
quoted	329	3,305
unquoted	5,455	6,388
Total	**5,784**	**9,693**
including impairment of assets	(2,923)	(7,686)

Debt securities held to maturity (HTM)

	31.12.2009	31.12.2008
Securities issued by Sovereigns	3,470,164	1,777,831
T-bills	491,977	539,804
T-bonds	2,978,187	1,238,027
Securities issued by Central Banks	297,119	79,978
Securities issued by business entities	-	21,252
Total	**3,767,283**	**1,879,061**
including impairment of assets	-	(121)

Notes to financial statements (cont)

(PLN thousand)

Investment (placement) debt securities according to contractual maturities

	31.12.2009	31.12.2008
Debt securities, including:		
up to 1 month	4,564,110	183,488
between 1 and 3 months	203,852	268,812
between 3 months and 1 year	2,323,484	1,951,743
between 1 and 5 years	10,049,434	9,535,283
over 5 years	4,146,843	3,293,740
Total	**21,287,723**	**15,233,066**

Changes in investment (placement) securities

	31.12.2009	31.12.2008
DEBT SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	**13,363,698**	**17,128,996**
Increases (purchase)	176,088,631	10,011,151
Decreases (sale and redemption)	(172,604,652)	(12,302,527)
Financial assets transferred into the receivables	-	(2,865,657)
Impairment charges	-	3,349
Changes in the fair value	80,826	201,286
Exchange rate differences	(205,583)	289,708
Accrued interest	558,149	815,087
Other changes	245,155	82,305
Closing balance	**17,526,224**	**13,363,698**
DEBT SECURITIES HELD TO MATURITY (HTM)		
Opening balance	**1,879,061**	**586,890**
Increases (purchase)	14,239,290	13,699,639
Decreases (sale and redemption)	(12,491,591)	(13,095,053)
Financial assets transferred from the held for trading portfolio	-	602,507
Impairment charges	126	-
Exchange rate differences	(2,181)	29,793
Accrued interest	65,189	29,792
Other changes	77,389	25,493
Closing balance	**3,767,283**	**1,879,061**
Total net investment (placement) securities	**21,293,507**	**15,242,759**

(PLN thousand)

26. Reclassification debt securities

IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" provide under certain conditions the possibility for reclassification of financial instruments into other categories.

In 2009, the Group did not take advantage of this possibility.

In 2008, however, due to the exception situation associated with the financial crisis, the Bank applied the change introduced into IAS 39 „Financial Instruments: Recognition and Measurement" and IFRS 7 „Financial Instruments: Disclosures".

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 made 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.

The reclassification was made as at 1 October 2008 according the fair value of the securities at that date.

The tables below present the information on the reclassified financial assets.

	01.10.2008		
	NOMINAL VALUE	CARRYING VALUE	FAIR VALUE
Financial assets transferred from the available for sale portfolio into the receivables from customers	1,302,577	1,331,580	1,331,580
Financial assets transferred from the available for sale portfolio into the receivables from banks	1,529,000	1,534,077	1,534,077
Financial assets transferred from the held for trading portfolio into the held to maturity portfolio	563,669	602,507	602,507
Total	**3,395,246**	**3,468,164**	**3,468,164**

	VALUE AS AT 31.12.2009			VALUE AS AT 31.12.2008		
	NOMINAL VALUE	CARRYING VALUE	FAIR VALUE	NOMINAL VALUE	CARRYING VALUE	FAIR VALUE
Financial assets transferred from the available for sale portfolio into the receivables from customers	1,146,993	1,166,680	1,139,803	1,297,877	1,329,760	1,328,936
Financial assets transferred from the available for sale portfolio into the receivables from banks	1,274,000	1,276,846	1,276,174	1,529,000	1,534,650	1,535,070
Financial assets transferred from the held for trading portfolio into the held to maturity portfolio	563,669	628,733	599,810	563,669	615,036	581,149
Total	**2,984,662**	**3,072,259**	**3,015,787**	**3,390,546**	**3,479,446**	**3,445,155**

	01.10.2008	FOR THE PERIOD 01.01-30.09.2008	
	AVERAGE PROFITABILITY (%)	NET INTEREST INCOME	INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE
Financial assets transferred from the available for sale portfolio into the receivables from customers	6.53	43,136	-
Financial assets transferred from the available for sale portfolio into the receivables from banks	6.16	55,281	-
Financial assets transferred from the held for trading portfolio into the held to maturity portfolio	4.78	17,611	(12,091)
Suma	**-**	**116,028**	**(12,091)**

Notes to financial statements (cont)

(PLN thousand)

	FOR THE PERIOD 01.01-31.12.2009		FOR THE PERIOD 01.10-31.12.2008	
	GAINS/LOSSES FROM IMPAIRMENT	INTEREST INCOME	GAINS/LOSSES FROM IMPAIRMENT	INTEREST INCOME
Financial assets transferred from the available for sale portfolio into the receivables from customers	-	70,247	1,800	30,974
Financial assets transferred from the available for sale portfolio into the receivables from banks	-	56,000	-	25,456
Financial assets transferred from the held for trading portfolio into the held to maturity portfolio	-	38,470	-	8,703
Total	**-**	**164,717**	**1,800**	**65,133**

If the Bank failed to perform the reclassification, the income and revaluation reserves would have changed as follows:

31.12.2009	INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVES
Financial assets transferred from the available for sale portfolio into the receivables from customers	-	(31,261)
Financial assets transferred from the available for sale portfolio into the receivables from banks	-	(1,907)
Financial assets transferred from the held for trading portfolio into the held to maturity portfolio	5,503	-
Total	**5,503**	**(33,168)**

31.12.2008	INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVES
Financial assets transferred from the available for sale portfolio into the receivables from customers	-	(824)
Financial assets transferred from the available for sale portfolio into the receivables from banksbanks	-	419
Financial assets transferred from the held for trading portfolio into the held to maturity portfolio	(33,886)	-
Total	**(33,886)**	**(405)**

27. Assets and liabilities classified as held for sale and discontinued operations

As of 31 December 2009, non-current assets classified as held for sale included real property and other tangible assets owned by the Bank.

The main component of the real estate category was the Bank's property located at Marynarska Street in Warsaw which includes perpetuity usufruct rights to the land.

Please find below the specification of assets classified as held for sale

	31.12.2009	31.12.2008
Property, plant and equipment	15,118	105,272
Other assets	23,462	23,462
Total	**38,580**	**128,734**

Notes to financial statements (cont)

(PLN thousand)

The Table below presents changes in the balance of fixed assets classified as held for sale in 2009:

ASSETS CLASSIFIED AS HELD FOR SALE	
Opening balance	**128,734**
Increases, including:	15,837
transfer from investment properties	5,563
transfer from property, plant and equipment	9,691
other changes	583
Decreases, including:	(105,991)
transfer from property, plant and equipment	(557)
disposal of assets	(105,434)
Closing balance	**38,580**

The item “disposal of assets” includes the disposal of real property situated at Towarowa Street, Warsaw.

The 2009 disposals have been settled as follows:

ITEM	REAL PROPERTY
Sales revenues	160,903
Net carrying value of divested assets (including sale costs)	105,434
Gross profit/loss on sale	55,469

The Table below presents the changes in 2008 in fixed assets classified as held for sale and in liabilities, associated with assets classified as held for sale:

	FIXED ASSETS	LOANS AND RECEIVABLES FROM CUSTOMERS
Opening balance	**514**	**-**
Increases, including:	129,687	41,869
transfer from investment properties	1,135	-
transfer from property, plant and equipment	105,090	-
transfer from loans and receivables from customers	-	41,869
other changes	23,462	-
Decreases, including:	(1,467)	(41,869)
transfer from property, plant and equipment	(332)	-
disposal of assets	(1,135)	(41,869)
Closing balance	**128,734**	**-**

The 2008 disposals have been settled as follows:

ITEM	REAL PROPERTY	LOANS AND RECEIVABLES FROM CUSTOMERS	TOTAL
Sales revenues	543	104,549	105,092
Net carrying value of divested assets (including sale costs)	1,135	41,869	43,004
Gross profit/loss on sale	(592)	62,680	62,088

(PLN thousand)

28. Investments in subsidiaries

Selected data in subsidiaries financial data as at 31 December 2009(*)

COMPANY NAME AND ITS LEGAL STATUS	REGISTERED SEAT	CORE OPERATIONS	ASSETS	LIABILITIES	REVENUES	PROFIT/LOSS	PROPORTION OF SHARE CAPITAL HELD %	CARRYING VALUE OF SHARES
Open Joint Stock Company UniCredit Bank (ex UniCredit Bank Ltd.) (**)	Lutsk, Ukraine	Banking	3,106,832	2,796,656	379,300	16,472	100.00	577,349
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	1,026,308	849,585	181,374	55,160	100.00	56,332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	484,215	421,549	41,559	11,317	100.00	50,268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	76,361	174	3,008	2,466	100.00	51,380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	62,500	4,362	42,112	18,591	65.00	88,126
Pekao Financial Services Sp. z o. o.	Warsaw	Transfer agent	34,761	4,024	40,024	8,600	100.00	4,500
Pekao Leasing Sp. z o. o. (***)	Warsaw	Leasing services	3,478,853	3,001,612	193,680	24,597	36.49	84,658
Centrum Kart S.A.	Warsaw	Financial support	47,386	11,674	758	5,986	100.00	17,592
Pekao Telecentrum Sp. z o.o.	Cracow	Services	9,131	2	446	401	100.00	8,193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	1,835,991	1,548,725	113,094	26,778	100.00	233,688
Pekao Leasing Holding S.A.	Warsaw	Leasing services	210,358	50	958	745	80.10	166,345
Finanse plc	London, UK	Financial brokerage	1,796	43	-	(115)	100.00	65
Holding Sp. z o.o. (ex Final Holding Sp. z o. o.)	Warsaw	Non-financial holding company	65,461	7	2,739	522	100.00	55,900
Pekao Property S.A.	Warsaw	Real estate development	34,403	1,571	3,487	1,919	100.00	24,376
Property Sp. z o. o. (in liquidation)	Warsaw	Real estate management	14,864	312	-	389	100.00	6,998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call centre	11,984	3,447	23,845	1,439	100.00	672
Total								**1,426,442**

(*) The data available as of the date of preparation of financial statements.
(**) Consolidated data inclusive subordinaties financial data.
(***) The total stake held by the Bank in Pekao Leasing Sp. z o.o. is 87.36% (36.49% directly and 50.87% via Pekao Leasing Holding S.A.).

(PLN thousand)

Selected data in subsidiaries financial data as at 31 December 2008

BUSINESS NAME AND LEGAL STATUS OF COMPANY	REGISTERED SEAT	CORE BUSINESS	ASSETS	LIABILITIES	REVENUES	PROFIT/LOSS	PROPORTION OF SHARE CAPITAL HELD %	CARRYING VALUE OF SHARES
UniCredit Bank Ltd. (*)	Lutsk, Ukraine	Banking	3,963,035	3,652,802	368,614	35,169	100.00	657,349
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	1,260,667	908,008	213,838	418,888	100.00	56,332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	591,248	530,568	50,317	9,331	100.00	50,268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	73,864	142	3,947	3,738	100.00	51,380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	58,388	3,623	40,286	16,541	65.00	88,126
Pekao Financial Services Sp. z o. o.	Warsaw	Transfer agent	35,383	3,246	44,079	15,180	100.00	4,500
Pekao Leasing Sp. z o. o.	Warsaw	Leasing services	1,552,423	1,428,170	133,064	24,802	100.00	84,658
Centrum Kart S.A.	Warsaw	Financial support	43,776	7,621	1,452	7,020	100.00	17,592
Pekao Telecentrum Sp. z o.o.	Cracow	Services	8,737	9	518	267	100.00	8,193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	1,916,791	1,659,800	139,855	18,887	100.00	233,688
Pekao Leasing Holding S.A. (*)	Warsaw	Leasing services	2,061,481	1,709,936	170,381	36,092	80.10	166,345
Finanse plc	London, UK	Financial brokerage	2,045	318	-	(51)	100.00	65
Final Holding Sp. z o. o.	Warsaw	Non-financial holding company	68,329	1,048	128	15,765	100.00	55,900
Pekao Property S.A.	Warsaw	Real estate development	30,827	666	3,685	1,724	100.00	24,376
Property Sp. z o.o. (in liquidation)	Warsaw	Real estate management	13,939	185	-	39	100.00	6,998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call centre	10,481	3,384	29,310	621	100.00	672
Total								**1,506,442**

(*) Consolidated data inclusive of finacial data of subsidiaries.

Notes to financial statements (cont)

(PLN thousand)

Change in the value of investments in subsidiaries:

	2009	2008
Opening balance	**1,506,442**	**1,631,694**
Increases, including:	-	182
purchase or increase of share capital	-	182
Decreases, including:	(80,000)	(125,434)
change in write-downs for permanent impairment	(80,000)	-
sale and reduction of share capital	-	(125,434)
Closing balance	**1,426,442**	**1,506,442**

	31.12.2009	31.12.2008
Investments in subsidiaries, including:		
- in banks	811,037	891,037
- in other financial institutions	519,266	519,266
- in other non-financial institutions	96,139	96,139
Total	**1,426,442**	**1,506,442**

Ukraine Risk

At 31 December 2009, the net carrying value of shares in Open Joint Stock Company UniCredit Bank (“UCB”) amounts to PLN 577 349 thousand. Moreover, as at 31 December 2009, the financing extended to UCB amounts to PLN 2 013 942 thousand balance sheet exposure and PLN 610 075 thousand of undrawn credit lines and letters of credit.

In 2009, the Ukrainian economy continued to suffer from a rapid slowdown in domestic and external demand, sharp economic downturn experienced by major trading partners, limited access to credit and depreciation of the national currency, the Hryvna (UAH), resulting in a considerable downturn of the national economy. Real GDP growth decreased, industrial production shrunk and UAH exchange rates continued to depreciate, with some signs of recovery observed in the last quarter of 2009. Despite that, at 31 December 2009, an impairment charge of PLN 80 000 thousand was recorded to reflect the sustained depreciation of the Ukrainian Hryvna against PLN.

Recognizing the climate of uncertainty in the Ukrainian macroeconomic environment, the Bank continued to closely monitor the recoverability of its Ukrainian investments based on measuring the value in use of its Ukrainian equity investments and the recoverability of its loan portfolio. In Management’s view, its estimates confirmed the recoverability of the Bank’s net carrying value of the Ukrainian investments at 31 December 2009.

The valuation described above are complex by nature in light of the scale of the financial crises experienced by Ukraine this past year, and the resulting difficulties when forecasting over the long term. In addition, the parameters and information used to assess the recoverability of the net carrying value of the investment in Ukraine are heavily influenced by the macroeconomic and market environment, which could still be subject to a great deal of volatility, as it has been in the past year.

With the appearance of first symptoms of deteriorating economy in Ukraine, the Bank enhanced internal control to assure effective supervision over credit activities and operations of UCB Bank Ltd., and in particular over the risk management area.

In spite of the surrounding negative business environment in 2009, UCB continues to report profit for the year in the amount of PLN 16 472 thousand.

(PLN thousand)

29. Investments into associates

Selected of selected associates' financial data as at 31 December 2009 (*)

COMPANY	REGISTERED SEAT	CORE BUSINESS	ASSETS	LIABILITIES	REVENUES	PROFIT/LOSS	PROPORTION OF SHARE CAPITAL HELD	CARRYING VALUE OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	111,244	19,389	105,778	25,386	34.44	1,875
Pioneer Pekao Investment Management S.A.	Warsaw	Asset Management	370,381	41,341	398,597	110,129	49.00	14,995
Xelion. Doradcy Finansowi Sp. z o.o.	Warsaw	Auxiliary, financial and insurance operations	11,404	3,793	23,198	(8,557)	50.00	12,557
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate brokerage	64,609	20,999	20,400	1,690	25.00	8,858
CPF Management	Tortola, British Virgin Islands	Consulting and Business operations – not operatiion	-	-	-	-	40.00	-
Cental Poland Fund LLC (**)	Wilmington, Delaware, USA	Mutual fund	675	-	-	(41)	53.19	1,060
Polish Banking System S.A. (in liquidation)	Warsaw	Pending liquidation	n.a	n.a	n.a	n.a	48.90	-
PPP Budpress Sp. z o.o. (in liquidation)	Żyrardów	Pending liquidation	n.a	n.a	n.a	n.a	36.20	-
Total								**39,345**

(*) The data available as of the date of preparation of financial statements
(**) Data in USD thousand, book vaule of shares in PLN thousand

Selected of selected associates' financial data as at 31 December 2008(*)

COMPANY	REGISTERED SEAT	CORE BUSINESS	ASSETS	LIABILITIES	REVENUES	PROFIT/LOSS	PROPORTION OF SHARE CAPITAL HELD	CARRYING VALUE OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	131,616	28,313	118,096	36,837	34.44	1,875
Pioneer Pekao Investment Management S.A.	Warsaw	Asset Management	501,890	41,393	608,007	194,719	49.00	14,995
Xelion Doradcy Finansowi Sp. z o.o.	Warsaw	Auxiliary, financial and insurance operations	5,365	4,197	20,237	(15,211)	50.00	30,057
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate brokerage	82,015	24,014	28,326	16,081	25.00	8,858
CPF Management	Tortola, British Virgin Islands	Consulting and Business operations – not operation	-	-	-	-	40.00	-
Cental Poland Fund LLC (**)	Wilmington, Delaware, US	Mutual fund	714	-	-	(485)	53.19	1,060
Polish Banking System S.A. (in liquidation)	Warsaw	Pending liquidation	n.a	n.a	n.a	n.a	48.90	-
PPP Budpress Sp. z o.o. (in liquidation)	Żyrardów	Pending liquidation	n.a	n.a	n.a	n.a	36.20	-
Total								**56,845**

(*) The data available as of the date of preparation of financial statements
(**) Data in USD thousand, book vaule of shares in PLN thousand

(PLN thousand)

Change in investments into associates:

	2009	2008
Opening balance	**56,845**	**56,530**
Increases, including:	7,500	6,672
Purchase or increase of share capital	7,500	5,000
Other	-	1,672
Decreases, including:	(25,000)	(6,357)
Sale and reduction of share capital	-	(37)
Transfer to financial assets held for sale	-	(4,775)
Change in write-downs for permanent impairment	(25,000)	-
Other	-	(1,545)
Closing balance	**39,345**	**56,845**

	31.12.2009	31.12.2008
Investments in subsidiaries, including:		
- in banks	-	-
- in other financial institutions	30,487	47,987
- in other non-financial institutions	8,858	8,858
Total	**39,345**	**56,845**

As at 31 December 2009 and 31 December 2008, the Bank did not have any investments in joint ventures.

Notes to financial statements (cont)

(PLN thousand)

30. Intangible assets

	31.12.2009	31.12.2008
a) Intangible assets, including:	626,787	670,213
Research and development expenditures	9,368	2,996
Licenses and patents	437,036	442,778
Other	4,557	6,026
Expenditures on intangible assets and advances to expenditures on intangible assets	175,826	218,413
b) Goodwill	51,675	51,675
Total	**678,462**	**721,888**

Goodwill - 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. The recognized goodwill related to PKBL amounts to PLN 51 675 thousand.

At 31 December 2009 the Bank carried out a test for PKBL and Pekao Leasing i Finanse goodwill impairment and as a result which was not recognized impairment of this item.

Specification of changes in the item "Intangible assets" in the course of the reporting period:

2009	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER (*)	TOTAL
GROSS VALUE				
Opening balance	**68,439**	**1,271,244**	**255,040**	**1,594,723**
Increases, including:	10,381	190,130	(33,546)	166,965
Acquisitions	-	11	155,422	155,433
Other	4,956	1,897	4,679	11,532
Transfer from investment outlays	5,425	188,222	(193,647)	-
Decreases, including:	-	(1,633)	(10,619)	(12,252)
Liquidation	-	(1,592)	-	(1,592)
Other	-	(41)	(10,619)	(10,660)
Closing balance	**78,820**	**1,459,741**	**210,875**	**1,749,436**
WRITE-OFF				
Opening balance	**65,443**	**828,466**	**19,640**	**913,549**
Depreciation expense	2,834	195,171	1,746	199,751
Liquidation	-	(1,592)	-	(1,592)
Other	1,175	660	(1,855)	(20)
Closing balance	**69,452**	**1,022,705**	**19,531**	**1,111,688**
REVALUATION WRITE-DOWNS				
Opening balance	**-**	**-**	**10,961**	**10,961**
Value changes	-	-	-	-
Closing balance	**-**	**-**	**10,961**	**10,961**
NET VALUE				
Opening balance	**2,996**	**442,778**	**224,439**	**670,213**
Closing balance	**9,368**	**437,036**	**180,383**	**626,787**

(*) Item covering mainly investment outlays

Notes to financial statements (cont)

(PLN thousand)

2008	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER(*)	TOTAL
GROSS VALUE				
Opening balance	**73,230**	**1,093,799**	**212,679**	**1,379,708**
Increases, including:	-	182,112	58,601	240,713
Acquisitions	-	25	225,706	225,731
Other	-	508	14,474	14,982
Transfer from investment outlays	-	181,579	(181,579)	-
Decreases, including:	(4,791)	(4,667)	(16,240)	(25,698)
Liquidation	(4,791)	(3,053)	(2,138)	(9,982)
Other	-	(1,614)	(14,102)	(15,716)
Closing balance	**68,439**	**1,271,244**	**255,040**	**1,594,723**
WRITE-OFF				
Opening balance	**58,802**	**674,171**	**19,147**	**752,120**
Depreciation expense	11,341	156,876	2,617	170,834
Liquidation	(4,700)	(3,054)	(2,124)	(9,878)
Other	-	473	-	473
Closing balance	**65,443**	**828,466**	**19,640**	**913,549**
REVALUATION WRITE-DOWNS				
Opening balance	**-**	**119**	**10,961**	**11,080**
Value changes	-	(119)	-	(119)
Closing balance	**-**	**-**	**10,961**	**10,961**
NET VALUE				
Opening balance	**14,428**	**419,509**	**182,571**	**616,508**
Closing balance	**2,996**	**442,778**	**224,439**	**670,213**

(*) Item covering mainly investment outlays

In 2009 and in 2008 there have been no restrictions to legal titles to intangible assets, not pledges in place as security for liabilities.

Notes to financial statements (cont)

(PLN thousand)

31. Property, plant and equipment

	31.12.2009	31.12.2008
Non-current assets, including:	1,705,536	1,718,554
Land and buildings	1,306,004	1,312,185
Machinery and equipment	336,084	348,459
Means of transportation	32,678	31,656
Other	30,770	26,254
Capital work in progress and prepayments for capital work in progress	40,285	90,140
Total	**1,745,821**	**1,808,694**

Please find below the specification of changes in the item “Property, plant and equipment” in the course of the reporting period:

2009	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	**2,175,922**	**1,363,648**	**68,657**	**365,036**	**3,973,263**
Increases, including:	85,239	93,599	12,946	12,636	204,420
Acquisition	-	-	-	5	5
Transfer from capital work in progress	84,257	91,760	-	12,518	188,535
Other	982	1,839	12,946	113	15,880
Decreases, including:	(32,827)	(59,843)	(10,365)	(17,858)	(120,893)
Liquidation and sale	(18,668)	(56,707)	(10,363)	(17,692)	(103,430)
Transfer to fixed assets classified as held for sale	(13,616)	(2,386)	-	(49)	(16,051)
Other	(543)	(750)	(2)	(117)	(1,412)
Closing balance	**2,228,334**	**1,397,404**	**71,238**	**359,814**	**4,056,790**
WRITE-OFF					
Opening balance	**861,375**	**1,008,257**	**34,130**	**338,269**	**2,242,031**
Increases, including:	80,446	103,942	12,381	7,860	204,629
Depreciation	80,219	102,486	10,816	7,747	201,268
Other	227	1,456	1,565	113	3,361
Decreases, including:	(22,041)	(57,697)	(9,262)	(17,597)	(106,597)
Liquidation and sale	(17,281)	(55,560)	(9,259)	(17,433)	(99,533)
Transfer to fixed assets classified as held for sale	(4,418)	(1,810)	-	(44)	(6,272)
Other	(342)	(327)	(3)	(120)	(792)
Closing balance	**919,780**	**1,054,502**	**37,249**	**328,532**	**2,340,063**
REVALUATION WRITE-DOWNS					
Opening balance	**2,362**	**6,932**	**2,871**	**513**	**12,678**
Increases	297	-	-	-	297
Decreases	(109)	(114)	(1,560)	(1)	(1,784)
Closing balance	**2,550**	**6,818**	**1,311**	**512**	**11,191**
NET VALUE					
Opening balance	**1,312,185**	**348,459**	**31,656**	**26,254**	**1,718,554**
Closing balance	**1,306,004**	**336,084**	**32,678**	**30,770**	**1,705,536**

Notes to financial statements (cont)

(PLN thousand)

2008	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	**2,270,831**	**1,309,207**	**63,548**	**374,590**	**4,018,176**
Increases, including:	42,591	111,877	12,886	8,855	176,209
Acquisition	-	-	-	10	10
Transfer from capital work in progress	35,995	108,293	-	8,092	152,380
Other	6,596	3,584	12,886	753	23,819
Decreases, including:	(137,500)	(57,436)	(7,777)	(18,409)	(221,122)
Liquidation and sale	(1,960)	(36,351)	(7,751)	(17,750)	(63,812)
Transfer to fixed assets classified as held for sale	(124,481)	(16,049)	-	(12)	(140,542)
Other	(11,059)	(5,036)	(26)	(647)	(16,768)
Closing balance	**2,175,922**	**1,363,648**	**68,657**	**365,036**	**3,973,263**
WRITE-OFF					
Opening balance	**805,959**	**955,393**	**30,714**	**348,118**	**2,140,184**
Increases, including:	83,499	105,615	10,485	7,674	207,273
Depreciation	80,723	101,005	9,438	6,936	198,102
Other	2,776	4,610	1,047	738	9,171
Decreases, including:	(28,083)	(52,751)	(7,069)	(17,523)	(105,426)
Liquidation and sale	(1,749)	(35,770)	(7,055)	(16,693)	(61,267)
Transfer to fixed assets classified as held for sale	(22,150)	(12,783)	-	(11)	(34,944)
Other	(4,184)	(4,198)	(14)	(819)	(9,215)
Closing balance	**861,375**	**1,008,257**	**34,130**	**338,269**	**2,242,031**
REVALUATION WRITE-DOWNS					
Opening balance	**2,347**	**8,657**	**3,668**	**612**	**15,284**
Increases	431	246	17	2	696
Decreases	(416)	(1,971)	(814)	(101)	(3,302)
Closing balance	**2,362**	**6,932**	**2,871**	**513**	**12,678**
NET VALUE					
Opening balance	**1,462,525**	**345,157**	**29,166**	**25,860**	**1,862,708**
Closing balance	**1,312,185**	**348,459**	**31,656**	**26,254**	**1,718,554**

As at 31 December 2009, the amount of expenditures included in the item “property, plant and equipment in progress” stood at PLN 40 285 thousand (PLN 89 976 thousand as at 31 December 2008).

The amount of compensations received from third parties for impairment or loss of property, plant and equipment items recognised in the profit and loss account for 2009 stood at PLN 1 310 thousand (PLN 1 075 thousand in 2008).

In 2009 and in 2008 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security backing liabilities.

Contractual liabilities

As at 31 December 2009 the Bank had agreements with its contractors for the future purchase of intangible assets in amount of PLN 74 421 thousand, including PLN 74 421 thousand in 2010 and of property, plant and equipment in amount of PLN 60 735 thousand, including PLN 60 735 thousand in 2010 (till the 31 December 2008 the Group had agreements with its contractors for the future purchase of intangible assets in amount of PLN 55 919 thousand, including PLN 55 919 thousand in 2009 and of property, plant and equipment in amount of PLN 57 660 thousand, including PLN 57 660 thousand in 2009).

(PLN thousand)

32. Investment properties

The Bank values investment property using the historical cost model.

The rights to sell the investment property and the rights to transfer related revenues and profits are subject to no limitations

Please find below the specification of changes in the item „Investment property" in the course of the reporting period:

	2009	2008
GROSS VALUE		
Opening balance	**112,219**	**95,379**
Increases, including:	327	18,606
Acquisition of real estate	327	7
Transfer from own properties	-	9,522
Other	-	9,077
Decreases, including:	(17,423)	(1,766)
Transfer to fixed assets available for sale	(16,436)	(1,758)
Other	(987)	(8)
Closing balance	**95,123**	**112,219**
DEPRECIATION CHARGES		
Opening balance	**38,957**	**30,876**
Increases, including:	8,119	8,821
Transfer from own properties	-	3,276
Other	5,541	3,187
Depreciation	2,578	2,358
Decreases, including:	(11,272)	(740)
Transfer to fixed assets available for sale	(10,847)	(623)
Other	(425)	(117)
Closing balance	**35,804**	**38,957**
REVALUATION WRITE-DOWNS		
Opening balance	**9,979**	**8,773**
Increases, including:	-	1,206
Write-downs	-	550
Transfer from own properties	-	110
Foreign currency translation differences	-	546
Other	-	-
Decreases, including:	(5,627)	-
Transfer to fixed assets available for sale	(26)	-
Foreign currency translation differences	(60)	-
Other	(5,541)	-
Closing balance	**4,352**	**9,979**
NET CARRYING VALUE		
Opening balance	**63,283**	**55,730**
Closing balance	**54,967**	**63,283**

The fair value of investment properties as at 31 December 2009 stood at PLN 94 541 thousand (PLN 86 586 thousand as at 31 December 2008). Fair value was determined based upon valuations provided by professional appraisers.

Notes to financial statements (cont)

(PLN thousand)

The following amounts of revenues and costs associated with investment real properties have been recognised in the profit and loss account:

	2009	2008
Rental revenues from investment properties	4,095	3,494
Direct operating expenses associated with investment real properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(931)	(686)
Direct operating expenses associated with investment real properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(85)	(85)

33. Other assets

	31.12.2009	31.12.2008
Prepaid expenses	26,225	98,244
Perpetual usufruct rights	16,706	17,325
Accrued income	34,638	24,847
Interbank and interbranch settlements	4,025	9,137
Receivables from other debtors	634,010	699,443
Other	265	918
Total	**715,869**	**849,914**

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

34. Assets used to pledge liabilities

As at 31 December 2009, the Bank held the following financial assets pledged as collateral:

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING VALUE OF ASSETS PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo	bonds	10,953	11,411	10,937
Sell-buy-back	bonds	1,633,067	1,679,470	1,639,608
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	389,356	380,000	-
Lombard and technical loan	bonds	4,006,146	4,128,971	-
Other credits	bonds	614,435	610,000	377,611

Notes to financial statements (cont)

(PLN thousand)

As at 31 December 2008, the Bank held in its portfolio the following financial assets used to pledge liabilities:

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING VALUE OF ASSETS BACKING LIABILITIES	NOMINAL VALUE OF ASSETS BACKING LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo	bonds	4,916,299	4,960,384	4,685,619
Sell-buy-back	bonds	2,009,231	1,994,623	2,010,912
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	252,989	240,000	-
Lombard and technical loan	bonds	3,267,378	3,115,000	-
Other credits	bonds	556,445	530,000	547,339

The freeze on securities is a consequence of:

- in case of Repo and Sell-buy-back transactions – binding money market standards for such transactions,
- in case of freeze to the benefit of BFG – binding provisions of the Law on Banking Guaranty Fund BFG,
- in case of Lombard and technical credits – policy and standards, applied by the National Bank of Poland NBP,
- in case of “Other credits” items – terms and conditions of the agreement between Bank Pekao S.A. and European Investment Bank.

35. Amounts due to Central Bank

	31.12.2009	31.12.2008
Credits received	1,100,176	1,469,675
Repo transactions	-	3,347,824
Total	**1,100,176**	**4,817,499**

36. Amounts due to other banks

Liabilities to banks by the structure of the product

	31.12.2009	31.12.2008
Current accounts and overnight deposits	1,763,460	1,485,430
Deposits from other banks and other liabilities	1,357,630	1,842,830
Credits and loans received	1,171,416	3,026,633
Money assets in transit	33,816	99,504
Repo transactions	1,133,077	1,620,036
Interest accrued	2,656	17,002
Total	**5,462,055**	**8,091,435**

Liabilities to banks broken down by currencies

	31.12.2009	31.12.2008
PLN	3,576,027	3,465,499
CHF	255,844	48,647
EUR	1,263,087	3,970,016
USD	172,385	142,848
Other currencies	194,712	464,425
Total	**5,462,055**	**8,091,435**

Notes to financial statements (cont)

(PLN thousand)

37. Amounts due to customers

Amounts due to customers, broken down by products

	31.12.2009	31.12.2008
Liabilities to companies, including:	46,660,785	40,948,691
assets on current accounts and overnight deposits	16,592,063	16,415,462
term deposits and other liabilities	29,736,123	24,354,650
liabilities in transit	234,638	84,977
interest accrued	97,961	93,602
Liabilities to public sector entities, including:	6,348,733	6,845,972
assets on current accounts and overnight deposits	3,766,713	4,051,719
term deposits and other liabilities	2,576,741	2,782,928
liabilities in transit	-	-
interest accrued	5,279	11,325
Liabilities to individuals, including:	43,177,499	40,938,591
assets on current accounts and overnight deposits	23,854,359	17,473,986
term deposits and other liabilities	19,111,789	22,946,787
liabilities in transit	1	318,012
interest accrued	211,350	199,806
Repo transactions, including:	514,281	1,724,820
Forward transactions	514,156	1,723,395
interest accrued	125	1,425
Total	**96,701,298**	**90,458,074**

Amounts due to customers, broken down by currencies

	31.12.2009	31.12.2008
PLN	81,871,698	75,770,069
CHF	105,810	114,534
EUR	8,447,340	8,549,882
USD	5,777,050	5,532,653
Other currencies	499,400	490,936
Total	**96,701,298**	**90,458,074**

38. Debt securities in issue

Debt securities in issue by type

	31.12.2009	31.12.2008
Liabilities from bond issues	-	4
Liabilities from issue of certificates of deposit	1,297,059	1,716,883
Interest accrued	726	3,007
Total	**1,297,785**	**1,719,894**

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

Notes to financial statements (cont)

(PLN thousand)

Debt securities in issue according to each issue as at 31.12.2009

TYPE OF SECURITY	ISSUE CURRENCY	NOMINAL VALUE IN PLN THOUSAND	MATURITY DATE	INTEREST TERMS
certificates of deposit	EUR	28,269	2011-03-08	dependent upon: FTSE EPRA and FTSE EPRA Euro Zero, DJ EuroSTOXXm, Nikkei225, S&P500, HSCE Indices
certificates of deposit	EUR	2,588	2011-03-08	guaranteed interest (2%) + premium interest dependent upon stock exchange indices – FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	EUR	3,792	2010-09-27	Interest dependent upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	23,002	2010-09-27	Interest dependent upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	7,202	2010-11-22	interest dependent upon changes in: S&P 500 Index, FTSE 100 Index, Nikkei 225 Index
certificates of deposit	PLN	40,420	2011-02-18	interest dependent upon changes in DJ AIG GOLD Index
certificates of deposit	PLN	153,803	2010-06-11	dependent upon 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	10,209	2011-02-18	interest dependent upon changes in Hang Seng Index
certificates of deposit	PLN	148,842	2011-03-08	interest dependent upon FTSE EPRA and FTSE EPRA EPEU, DJ EuroSTOXXm, Nikkei225, S&P500, HSCEI
certificates of deposit	PLN	13,062	2011-03-08	guaranteed interest (4%) + premium interest dependent upon FTSE EPRA and FTSE EPRA EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	PLN	43,334	2010-09-27	Interest dependent upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	164,005	2010-09-27	Interest dependent upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	73,850	2010-11-22	interest dependent upon changes in: S&P 500 Index, FTSE 100 Index, Nikkei 225 Index
certificates of deposit	PLN	48,090	2010-03-02	interest dependent upon changes in: Russian Depository Index in USD
certificates of deposit	PLN	74,376	2010-03-02	interest dependent upon changes in WIG20 Index
certificates of deposit	PLN	90,536	2011-06-30	interest dependent upon changes in S&P 500 Index
certificates of deposit	PLN	107,379	2012-11-16	interest dependent upon Indices: WIG 20, S&P 500, Hang Seng
certificates of deposit	PLN	50,184	2012-06-29	interest dependent upon Indices: S&P GSCI Agriculture, S&P GSCI Nickel, S&P GSCI Aluminium
certificates of deposit	PLN	74,772	2012-12-02	interest dependent upon Indices: WIG 20, DJ EURO STOXX, LONDON GOLD MARKET FIXING
certificates of deposit	PLN	104,349	2012-09-03	interest dependent upon changes in WIG20 Index
certificates of deposit	USD	28,067	2011-03-08	interest dependent upon FTSE EPRA and FTSE EPRA EPEU, DJ EuroSTOXXm, Nikkei225, S&P500, HSCEI
certificates of deposit	USD	5,173	2011-03-08	guaranteed interest (4%) + premium interest dependent upon stock exchange indices – FTSE EPRA and FTSE EPEU, DJ EuroSTOXX, Nikkei225, S&P500, HSCEI
certificates of deposit	USD	7,579	2010-09-27	Interest dependent upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	27,400	2010-09-27	Interest dependent upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	12,846	2010-11-22	interest dependent upon changes in: S&P 500 Index, FTSE 100 Index, Nikkei 225 Index

Notes to financial statements (cont)

(PLN thousand)

Debt securities in issue according to each issue as at 31.12.2008

TYPE OF SECURITY	ISSUE CURRENCY	NOMINAL VALUE IN PLN THOUSAND	MATURITY DATE	INTEREST TERMS
certificates of deposit	EUR	5,992	2009-06-30	structure - dependent upon DJ EuroStoxx 50
certificates of deposit	EUR	32,891	2011-03-08	dependent upon: FTSE EPRA and FTSE EPRA Euro Zero, DJ EuroSTOXXm, Nikkei225, S&P500, HSCE Indices
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 upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	26,357	2010-09-27	Interest dependent upon changes in: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	EUR	7,865	2010-11-22	interest dependent upon: S&P 500, FTSE 100, Nikkei 225
certificates of deposit	PLN	144,729	2009-01-16	dependent upon: equities, basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	76,555	2009-06-18	dependent upon: equities, basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	33,396	2009-01-16	dependent upon: equities, basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	17,134	2009-06-18	dependent upon: equities, basket of 3 indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	PLN	4,150	2009-06-30	structure - dependent upon DJ EuroStoxx 50
certificates of deposit	PLN	181,446	2009-05-18	interest dependent upon changes in: 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 upon changes in: 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	interest dependent upon changes in: 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 upon 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 upon FTSE EPRA and FTSE EPRA EPEU, DJ EuroSTOXXm, 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 upon index changes: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	171,174	2010-09-27	interest dependent upon index changes: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	PLN	76,950	2010-11-22	interest dependent upon: S&P 500, FTSE 100, Nikkei 225
certificates of deposit	PLN	49,012	2010-03-02	interest dependent upon changes in: Russian Depository Index in USD
certificates of deposit	PLN	75,747	2010-03-02	interest dependent on: WIG20 Index
certificates of deposit	USD	67,674	2009-01-16	dependent upon: equities, basket of 3 Asian indices: Nikkei 225, HSCEI; TWSE
certificates of deposit	USD	25,092	2009-06-18	dependent upon: equities, basket of 3 Asian indices: Nikkei 225, HSCEI; TWSE
certificates of deposit	USD	31,807	2009-01-16	guaranteed interest (3%) + interest dependent on 3 Asian indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	8,533	2009-06-18	guaranteed interest (3%) + interest dependent on 3 Asian indices: Nikkei 225; HSCEI; TWSE
certificates of deposit	USD	412	2009-06-30	structure - dependent upon DJ EuroStoxx 50
certificates of deposit	USD	66,353	2009-05-18	structure - dependent upon DJ EuroStoxx 50, DJ EuroStoxx Select Dividend 30 Indices
certificates of deposit	USD	35,660	2009-08-03	structure - dependent upon DJ EuroStoxx 50, DJ EuroStoxx Select Dividend 30 Indices
certificates of deposit	USD	31,736	2011-03-08	interest dependent upon FTSE EPRA and FTSE EPRA EPEU, DJ EuroSTOXXm, Nikkei225, S&P500, HSCEI
certificates of deposit	USD	5,784	2011-03-08	Interest (guaranteed 4%) + bonus interest dependent on – FTSE EPRA and FTSE EPEU. DJ EuroSTOXX.,Nikkei225,S&P500, HSCEI
certificates of deposit	USD	8,805	2010-09-27	interest dependent upon index changes: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	30,995	2010-09-27	interest dependent upon index changes: DXAEP, SPGTAQUE, SPGTINFE, DJGTT
certificates of deposit	USD	17,149	2010-11-22	interest dependent upon: S&P 500, FTSE 100, Nikkei 225
bonds convertible into shares	PLN	4	2012-12-31	

Notes to financial statements (cont)

(PLN thousand)

Changes in debt securities in issue

	31.12.2009	31.12.2008
Opening balance	**1,719,894**	**2,097,070**
Increasing (issuance)	481,162	282,195
Decreasing (repurchase)	(846,679)	(692,424)
Decreasing (partial payment)	(55,560)	(93,040)
Foreign currency exchange difference	9,804	91,585
Other changes	(10,836)	34,508
Closing balance	**1,297,785**	**1,719,894**

39. Provisions

Specification of changes in provisions in the course of the reporting period:

2009	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**16,145**	**114,573**	**142,293**	**25,166**	**298,177**
Provision charges/revaluation	1,294	13,589	82,542	3,373	**100,798**
Provision utilization	(109)	(8,752)	-	(13,000)	**(21,861)**
Provision releases	(1,744)	-	(88,405)	(4,063)	**(94,212)**
Foreign exchange differences	(977)	-	(384)	-	**(1,361)**
Other changes	680	-	(852)	-	**(172)**
Closing balance	**15,289**	**119,410**	**135,194**	**11,476**	**281,369**

Specification of changes in provisions in the course of the reporting period:

2008	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	**53,971**	**113,511**	**186,161**	**21,355**	**374,998**
Provision charges/revaluation	3,845	1,062	106,089	3,811	**114,807**
Provision utilization	(6,124)	-	-	-	**(6,124)**
Provision releases	(33,423)	-	(154,983)	-	**(188,406)**
Foreign exchange differences	(109)	-	5,026	-	**4,917**
Other changes	(2,015)	-	-	-	**(2,015)**
Closing balance	**16,145**	**114,573**	**142,293**	**25,166**	**298,177**

(PLN thousand)

40. Other liabilities

	31.12.2009	31.12.2008
Deferred income	163,663	167,093
Provisions for paid holiday leaves	51,132	51,255
Provisions for other employee-related liabilities	151,945	149,996
Provision for tangible costs	97,466	92,379
Other costs to be paid	15,816	13,618
Other creditors	445,636	400,713
Interbank and interbranch settlements	456,267	345,356
Total other liabilities	**1,381,925**	**1,220,410**

41. Employee benefits

Incentive programme – management options programme of Bank Pekao S.A.

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

Upon the discharge of the right of first refusal to take-up Bank shares, the shares are recognized in the Bank's equity.

The incentive program is implemented in sub-programs (divided into two parts each) with 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.Reaching the ROE level, assumed for 2006	3. Realization of assumed ROE for 2007
Fair Value as at 31 December 2009 (in PLN thousand)	6,462	6,775	7,849	7,734

Notes to financial statements (cont)

(PLN thousand)

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 2009, as at 31 December 2009 amounted to PLN 28,820 thousand and it is settled over time during the estimated period in which rights to acquire the Bank's shares are granted to participating individuals.

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-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:

	2009		2008	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Opening balance	293,275	123,06	691,921	108,37/123,06
Granted during the period	-		-	
Redeemed during the year	58,870		52,674	
Vested during the year(*)	117,982	123,06	345,972	108,37/123,06
Terminated during the year	-		-	
Existing at closing balance	116,423	123,06	293,275	123,06
Executable at closing balance	-		-	

(*) Average weighted price of option execution on exercise dates in 2009 stood at PLN 163.69 (against PLN 200.13 in 2008)

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.

Notes to financial statements (cont)

(PLN thousand)

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

The fair value of share options and performance shares of UniCredit 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 2009 amounted to PLN 17 578 thousand as at 31 December 2009. It is amortized over the estimated vesting period.

The year 2009 H/R expense was charged with the amount of PLN 2 286 thousand with respect to that (in 2008 - PLN 1 733 thousand).

The Table below presents changes in the number of stock options and performance shares of Bank UniCredit S.p.A., as well as the weighted average exercise prices:

	SHARE OPTIONS		PERFORMANCE SHARES	
2009	NUMBER	AVG EXECUTION PRICE (*)	NUMBER	AVG EXECUTION PRICE
Opening balance	3,288,312	17.19/29.14	954,000	-
Granted during the year	-	-	121,161	-
Redemeed during the year	321,258	17.19/29.14	106,795	-
Vested during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at closing balance	2,967,054	17.19/29.14	968,366	-
Executable at closing balance	-	-	-	-

(*) The value of PLN 17.19 applies to the stock options programme of UniCredit S.P.A. in 2008 (PLN 29.14 for 2007)

	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	2,405,906	17.64/29.58	671,954	-
Redemeed during the year	217,705	-	69,586	-
Vested during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at closing balance	3,288,312	17.64/29.58	954,000	-
Executable at closing balance	-	-	-	-

(*) The value of PLN 17.64 applies to the stock options programme of UniCredit S.P.A. in 2008 (PLN 29.58 for 2007)

(PLN thousand)

42. Operating leasing

Bank as a lessor

The Bank is an operating lease lessor of buildings classified as investment properties as well as vehicle, machines and other equipment.

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

	31.12.2009	31.12.2008
Up to one year	10,987	12,945
Between 1 and 5 years	17,035	21,454
Over 5 years	438	853
Total	**28,460**	**35,252**

The amount of the minimum operating lease payments classified as income of the year 2009 amounted to PLN 30 487 thousand (against PLN 39 885 in 2008).

Bank as a lessee

The Bank is a lessee of buildings under operating leases.

The amounts of future minimum leasing payments expected to be paid under irrevocable operating leasing agreements are as follows:

	31.12.2009	31.12.2008
Up to one year	114,298	126,526
Between 1 and 5 years	232,991	256,441
Over 5 years	56,731	94,882
Total	**404,020**	**477,849**

The amount of the minimum operating lease payments classified as expense of the year 2009 amounted to PLN 200 477 thousand (income of the year 2008 was PLN 180 935 thousand).

The leases are usually entered into for an indefinite period of time. In case of leasing agreements entered into for the indefinite period of time, the leasing charges have been determined based upon termination notice periods ensuing from relevant contracts. The termination notice is usually fixed at 3 or 6 months. Leasing agreements are denominated in PLN and in foreign currencies. Payments are made in PLN, regardless of the contract currency.

Financial lease

The Bank acting in the capacity of a leasee has entered into a financial leasing agreements for vehicles with a subsidiary, Pekao Leasing Sp. z o.o.

The agreements give the Bank an option to purchase the assets subject to the leases after the expiry of the lease.

As at 31 December 2009, the carrying value of assets subject to finance lease contracts stood at PLN 33 008 thousand and as at 31 December 2008 stood at PLN 29 941 thousand.

The amount of future minimum leasing payments under non-cancellable finance leases can be summarized as follows:

	31.12.2009	31.12.2008
Up to one year	15,220	13,416
Between 1 and 5 years	17,788	16,525
Over 5 years	-	-
Total	**33,008**	**29,941**

(PLN thousand)

43. Contingent liabilities

Litigation

In 2009, there were 520 pending acting litigation against the Bank for the total amount of PLN 782 042 thousand, (against 317 litigations for the total amount of PLN 248 010 thousand in 2008).

As at 31 December 2009, the Bank established provisions for litigations pending against the Bank which according to legal opinion are associated with a risk of outflow of funds related to the fulfilment of court rulings. The value of provisions, established as at 31 December 2009 stood at PLN 15 289 thousand (against PLN 16 145 thousand as at 31 December 2008).

According to the Bank, as at 31 December 2009, in case of all other material litigations pending before court against the Bank, the risk of cash outflows related to the fulfilment of court rulings is believed to be remote.

Financial liabilities granted

Financial liabilities granted by entities

	31.12.2009	31.12.2008
Financial liabilities granted, including:		
to financial entities	3,857,442	1,856,534
to non-financial entities	20,916,098	27,117,372
to public sector entities	1,068,025	1,958,173
Total	**25,841,565**	**30,932,079**

As at 31 December 2009, the Bank granted financial credit commitments, carrying fixed interest rate in the nominal amount of PLN 7 236 128 thousand (against PLN 11 580 925 thousand as at 31 December 2008).

Financial liabilities granted fixed-interest rate

	31.12.2009	31.12.2008
Fixed rate financial liabilities granted, including:		
due within one year from balance sheet date	256,804	5,676,672
due within more than one year from balance sheet date	6,979,324	5,904,253
Total	**7,236,128**	**11,580,925**

Guarantee obligations granted

Guarantee obligations granted by entities

	31.12.2009	31.12.2008
Obligations granted to financial entities	935,910	1,261,346
guaranties	898,502	1,253,060
confirmed exports letters of credit	37,408	8,286
Obligations granted to non-financial entities	4,271,708	4,818,838
guaranties	4,271,708	4,818,825
sureties	-	13
Obligations granted to public sector entities	24,185	41,044
guaranties	24,185	41,044
Total	**5,231,803**	**6,121,228**

Notes to financial statements (cont)

(PLN thousand)

Securities sub-issue services

As at 31 December 2009, the following securities programmes have been in place, covered by sub-issue:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING SUB-ISSUE AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF, PLN THOUSAND	CONTRACT LIFE	TYPE OF SUB-ISSUE
Starostwo Powiatowe Zduńska Wola	community bonds	2,000	22.03.06 – 31.12.10	Unconditional
Zakład Utylizacyjny Sp. z o.o.	bonds	150,000	05.08.09 – 31.10.10	Conditional

Securities issued by Starostwo Powiatowe Zduńska Wola, Zakład Utylizacyjny Sp. z o. o. covered by the Bank sub-issue are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated off-the-floor trading.

As at 31 December 2008, the following securities programs have been covered by sub-issue:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING SUB-ISSUE AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF, PLN THOUSAND	CONTRACT LIFE	TYPE OF SUB-ISSUE
Starostwo Powiatowe Zduńska Wola	community 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

Securities issued by Starostwo Powiatowe Zduńska Wola, Południowy Koncern Energetyczny S.A., Raiffeisen Leasing S.A. covered by the Bank sub-issue are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated off-the-floor trading.

44. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	CAPITAL COVERAGE METHOD	REGISTRATION DATE	DIVIDEND RIGHTS (FROM DATE)
A	common bearer stock	137,650,000	137,650	fully paid-up	21.12.1997	1.01.1998
B	common bearer stock	7,690,000	7,690	fully paid-up	6.10.1998	1.01.1998
C	common bearer stock	10,630,632	10,631	fully paid-up	12.12.2000	1.01.2000
D	common bearer stock	9,777,571	9,777	fully paid-up	12.12.2000	1.01.2000
E	common bearer stock	373,644	374	fully paid-up	29.08.2003	1.01.2003
F	common bearer stock	621,411	621	fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	common bearer stock	463,954	464	fully paid-up	29.08.2003	15.05.2008
H	common bearer stock	359,840	360	fully paid-up	12.08.2004	1.01.2004
I	common bearer stock	94,763,559	94,764	fully paid-up	29.11.2007	1.01.2008
Total number of shares, pcs		**262,330,611**				
Total share capital in PLN thousand			**262,331**			
Nominal value per share = PLN 1.00						

(PLN thousand)

Change in the number of shares in 2009 (pcs):

	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	**262,212,629**	**262,212,629**
Issue of G-Class shares (implementation of the management option of Bank Pekao SA)	117,982	117,982
Closing balance	**262,330,611**	**262,330,611**

Change in the number of shares in 2008 (pcs):

	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	**261,866,657**	**261,866,657**
Issue of G-Class shares (implementation of the management option of Bank Pekao SA)	345,972	345,972
Closing balance	**262,212,629**	**262,212,629**

On 13 November 2008 the Bank sold a 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 was PLN 561 thousand, with an average selling price equal to PLN 111.93 per one share.

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.

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

45. Other capital and reserves, retained earnings and current year profit

	31.12.2009	31.12.2008
Supplementary capital	9,309,539	9,295,139
from sales of stocks/shares above nominal value	9,120,232	9,105,832
outstanding	189,307	189,307
Valuation allowance	(43,541)	39,291
Revaluation of the portfolio of financial assets available for sale	(14,841)	(65,133)
Deferred tax	2,678	13,545
Revaluation of hedging financial instruments portfolio	(42,499)	108,283
Deferred tax	8,075	(20,574)
foreign currency translation differences	3,046	3,170
General Banking Risk Fund	1,337,850	1,237,850
Other reserve capital	4,590,736	1,344,891
Bonds convertible to shares – capital component	33,391	31,105
Brokerage activity fund	15,000	15,000
Total other capital and reserves	**15,242,975**	**11,963,276**
Profit (loss) from preceding years	-	-
Current year net profit	2,462,263	3,345,845
Total	**17,705,238**	**15,309,121**

Notes to financial statements (cont)

(PLN thousand)

From 1982 to 1984 and from 1988 to 1996, the Bank operated in a hyperinflationary economic environment. IAS 29 (Financial Reporting in Hyper-inflationary 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 Bank's equity.

46. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2009	31.12.2008
Cash, amounts due from Central Bank (*)	9,587,211	8,137,505
Loans and receivables from banks with maturities of up to 3 months	4,990,706	3,373,017
Financial resources and equivalents of financial resources presented in the cash flow statements	**14,577,917**	**11,510,522**

(*) The item "Cash, amounts due from Central Bank" does not include NBP Bonds worth PLN 0 thousand (PLN 1 767 765 as at 31.12.2008).

Restricted cash and cash equivalents as at 31 December 2009 amounted to PLN 2 958 991 thousand (PLN 2 992 602 as at 31 December 2008).

47. Transactions with related parties

Credit procedure applicable to Bank Management and entities related to the Bank

Pursuant to the Banking Law, credit transactions with Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank and with entities related financially or organisationally therewith shall be effected in compliance with the By-Laws, adopted by the Bank Supervisory Board.

The Bylaws provide detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels, authorised to take decisions and their respective scopes of competence. In particular, transactions with Members of the Bank Management Board or Supervisory Board or with an entity related therewith financially or organisationally, are subject to decisions taken by the Bank Management Board and Supervisory Board.

Members of the Bank Management and entities related therewith financially or organisationally may take advantage of credit products offered by the Bank on standard terms and conditions of the Bank. In particular, the Bank may not offer more advantageous credit interest rates to such persons or entities.

Credit risk assessment shall be effected using the methodology applied by the Bank, in compliance with the client's segment and type of transaction.

In case of entities related to the Bank, standard credit procedures shall be applied, with transaction-related decisions taken exclusively at level of the Bank Head Office.

(PLN thousand)

Transactions with related entities as at 31.12.2009

NAME OF ENTITY	RECEIVABLES FROM CREDITS AND LOANS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM CREDITS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity							
UniCredit S.p.A.	2,709,391	-	-	-	826	-	4,571
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	**381,396**	**-**	**270,987**	**15,869**	**1 045,354**	**286 901**	**101**
Subsidiaries							
Open Joint Stock Company UniCredit Bank (ex UniCredit Bank Ltd.)	2,013,942	-	-	-	7	-	-
Pekao Leasing Sp. z o.o.	1,198,858	-	1,213	-	170,694	30	25,098
Pekao Faktoring Sp. z o.o.	359,370	-	-	-	24,328	-	-
Centralny Dom Maklerski S.A.	24	-	-	738	812,934	-	175
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	71,211	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	298	18,836	-	-
Pekao Telecentrum Sp. z o.o.	-	-	-	-	9,103	-	-
Centrum Kart S.A.	-	-	-	257	29,932	-	8,116
Pekao Financial Services Sp. z o. o.	-	-	-	-	10,630	-	2
Pekao Bank Hipoteczny S.A.	256,290	201,073	22,823	-	3,824	3,176	-
Pekao Leasing Holding S.A.	-	-	-	-	128	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	3,294	-	-
Holding Sp. z o.o. (ex Final Holding Sp. z o. o.)	-	-	-	-	65,317	-	-
Pekao Property S.A.	-	-	-	-	659	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	-	7,482	-	-
Jana Kazimierza Development Sp. z o.o.	97,908	-	-	-	8,343	-	-
Metropolis Sp. z o.o.	-	-	-	-	1,354	-	-
FPB-Media Sp. z o.o.	14,348	-	-	-	103	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	14,055	-	-
Xelion, Doradcy Finansowi Sp. z o.o.	-	-	-	43	6,463	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	33	169,154	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	9,474	-	-
Key management staff of unit or its parent entity	**3,658**	**-**	**-**		**13,905**	**-**	
Total	**7,035,185**	**201,073**	**295,023**	**17,238**	**2,497,410**	**290,107**	**38,063**

On 11 December 2009, Bank Pekao S.A. entered into a credit facility agreement with UniCredit Luxembourg, allowing Bank Pekao S.A. to raise a loan from UniCredit Luxembourg up to EUR 500 million.

(PLN thousand)

Transactions with associated entities as at 31.12.2008

Name of Entity	Receivables from credits and loans	Securities	Receivables from revaluation of derivatives	Other receivables	Liabilities from credits and deposits	Liabilities from revaluation of derivatives	Other liabilities
Bank's parent entity							
UniCredit S.p.A.	1,091,251	-	5,080	469	214	-	2,286
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	**1,872,421**	**-**	**270,068**	**52**	**4,136,625**	**744,735**	**45,031**
Subsidiaries							
UniCredit Bank Ltd.	2,621,903	-	-	-	98	-	86
Pekao Leasing Sp. z o.o.	928,673	-	7,513	2	47	3,505	20,988
Pekao Faktoring Sp. z o.o.	503,059	-	-	70	289	-	872
Centralny Dom Maklerski S.A.	-	-	-	125,384	1,107,817	-	1,276
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	68,713	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	353	17,914	-	8
Pekao Telecentrum Sp. z o.o.	-	-	-	-	8,709	-	-
Centrum Kart S.A.	-	-	-	3	27,256	-	9,246
Pekao Financial Services Sp. z o. o.	-	-	-	-	12,735	-	-
Pekao Bank Hipoteczny S.A.	333,954	210,030	36,026	-	6,581	2,921	59
Pekao Leasing Holding S.A.	339,691	4,055	1,448	-	6,844	1	6,035
Property Sp. z o.o. (in liquidation)	-	-	-		3,343	-	-
Final Holding Sp. z o. o.	-	-	-	-	68,216	-	-
Pekao Property 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 management staff of unit or its parent entity	**6,238**	**-**	**-**	**-**	**7,885**	**-**	**-**
Total	**7,698,787**	**214,085**	**320,135**	**126,333**	**5,813,873**	**751,162**	**85,887**

On 17 November 2008, Bank Pekao S.A. entered into a credit facility agreement with UniCredit CAIB AG, allowing Bank Pekao S.A. to raise a loan from UniCredit CAIB worth up to EUR 800 million.

(PLN thousand)

Transactions with related entities as at 31.12.2009

	INTEREST INCOME	INTEREST EXPENSE	INCOME FROM COMMISSION FEES AND CHARGES	FEE AND COMMISSION EXPENSE	OTHER REVENUES	OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	**2,330**	**(666)**	**1,238**	**(3,184)**	**749**	**(25,184)**
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	**102,229**	**(116,499)**	**179,478**	**(2,327)**	**325,546**	**(25,972)**
Pekao S.A. Group entities						
Subsidiaries						
Open Joint Stock Company UniCredit Bank (ex UniCredit Bank Ltd.)	102,448	-	9,701	(4)	604	-
Centralny Dom Maklerski Pekao S.A.	-	(41,330)	2,558	(626)	4,410	(3,638)
Pekao Leasing Sp, z o. o.	36,413	(12,035)	410	-	398	(10,297)
Pekao Faktoring Sp. z o. o.	12,934	(4)	857	-	67	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(723)	3,734	-	5	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(3,008)	4	-	15	-
Centrum Kart S.A.	-	(754)	23	-	1,218	(55,100)
Pekao Telecentrum Sp. z o.o.	-	(446)	2	-	1	-
Pekao Financial Services Sp. z o. o.	-	(337)	28	(36)	-	-
Pekao Bank Hipoteczny S.A.	17,750	(78)	156	-	152	(11,603)
Pekao Leasing Holding S.A.	-	(15)	3	-	-	-
Pekao Leasing i Finanse S.A. (*)	2,496	(39)	132	-	595	-
Pekao Auto Finanse S.A. (*)	779	(216)	97	-	141	-
Holding Sp. z o.o. (ex Final Holding Sp. z o.o.)	-	(2,746)	1	-	21	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(201)	3	(1,980)	2,541	(16,093)
Metropolis Sp. z o.o.	-	(41)	3	-	27	-
Pekao Property S.A.	-	(35)	3	-	-	-
Property Sp. z o.o. (in liquidation)	-	(121)	2	-	3	-
Jana Kazimierza Development Sp. z o.o.	6,558	(127)	294	-	-	-
FPB-Media Sp. z o.o.	1,867	-	3	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(9,206)	419	-	-	-
Xelion Doradcy Finansowi Sp. z o. o.	3	(283)	38	(64)	151	-
Krajowa Izba Rozliczeniowa S.A.	-	(1,278)	6	-	16	(10,088)
Pirelli Pekao Real Estate Sp z o.o.	-	(850)	16	-	5	-
Total jednostki Grupy Pekao S.A.	**181,248**	**(73,873)**	**18,493**	**(2,710)**	**10,370**	**(106,819)**
Key management staff of unit or its parent entity	**216**	**(441)**	**4**	**-**	**-**	**-**
Total	**286,023**	**(191,479)**	**199,213**	**(8,221)**	**336,665**	**(157,975)**

(*) data till 30th April 2009

(PLN thousand)

Transactions with related entities as at 31.12.2008

	INTEREST INCOME	INTEREST EXPENSE	INCOME FROM COMMISSION FEES AND CHARGES	FEE AND COMMISSION EXPENSE	OTHER REVENUES	OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	**14,573**	**(265)**	**7,731**	**(2,080)**	**5,923**	**(19,606)**
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	**67,531**	**(142,393)**	**267,783**	**(1,126)**	**8,047**	**(85,992)**
Pekao S.A. Group entities						
Subsidiaries						
UniCredit Bank Ltd.	87,079	(85)	36	(4)	-	-
Centralny Dom Maklerski Pekao S.A.	-	(70,005)	2,616	(32)	4,355	(5,068)
Pekao Leasing Sp, z o. o.	53,730	(1,452)	176	-	8,076	(3,682)
Pekao Faktoring Sp. z o. o.	24,875	(9)	892	(1)	60	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(768)	3,802	-	10	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(3,947)	3	-	14	-
Centrum Kart S.A.	-	(1,452)	17	-	1,192	(45,783)
Pekao Telecentrum Sp. z o.o.	-	(505)	2	-	-	-
Pekao Financial Services Sp. z o. o.	-	(566)	8	(32)	-	-
Pekao Bank Hipoteczny S.A.	19,842	(257)	127	-	24,085	(37,284)
Pekao Leasing Holding S.A.	-	(7)	-	-	-	-
Pekao Leasing i Finanse S.A.	12,663	(173)	168	-	1,791	(70)
Pekao Auto Finanse S.A.	6,249	(649)	152	-	224	(4)
Final Holding Sp. z o.o.	-	(128)	2	-	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(129)	2	-	1,689	-
Centrum Usług Księgowych Sp. z o.o.	-	-	1	-	1	-
Metropolis Sp. z o.o.	-	-	-	-	27	-
Pekao Property S.A.	-	(85)	3	-	-	-
Property Sp. z o.o. (in liquidation)	-	(144)	1	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	1	(13,610)	666	-	-	-
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.	-	(3,932)	18	-	4	(199)
Bankowe Doradztwo Podatkowe Sp. z o.o.	-	-	-	-	20	-
Total jednostki Grupy Pekao S.A.	**204,449**	**(98,841)**	**8,732**	**(153)**	**41,700**	**(102,045)**
Key management staff of unit or its parent entity	**1,035**	**(389)**	**7**	_	**-**	**(30)**
Total	**287,588**	**(241,888)**	**284,253**	**(3,359)**	**55,670**	**(207,673)**

Notes to financial statements (cont)

(PLN thousand)

The off-balance exposure to related entities as at 31.12.2009 stood at PLN 1 820 592 thousand (PLN 977 566 thousand as at 31.12.2008); guarantee-related exposure as at 31.12.2009 stood at PLN 761 438 thousand (PLN 1 144 835 thousand as at 31.12.2008), whereas credit card limits as at 31.12.2009 stood at PLN 30 thousand (PLN 25 thousand as at 31.12.2008).

As at 31.12.2009, Open Joint Stock Company UniCredit Bank indicated no off-balance sheet exposure related to financing (against PLN 296 180 thousand as at 31 December 2008); as at the same date, guaranty-related exposure stood at PLN 610 075 thousand (against 881 305 thousand as at 31.12.2008).

Remuneration of Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2009	2008
Bank Management Board		
Short-term employee benefits (*)	13,402	18,567
Other long-term benefits	325	1,087
Termination benefits	7,129	2,558
Share-based payments (**)	377	620
Total	**21,233**	**22,832**
Bank Supervisory Board		
Short-term employee benefits (*)	612	584
Total	**612**	**584**

(*) Short-term employee benefits include: base salary, bonuses and other benefits, including in particular the cost of life insurance and health insurance policies and of medical treatment, child education costs. The decision regarding bonus payments for 2009 has not been taken yet by the Bank Supervisory Board, although the Bank did establish a related provision in the amount of PLN 2 400 thousand will be paid in 2010, the bonus is recognised hereunder in position “”short-term employee benefits”.

(**) The value of share-based payments is a part of Payroll/Employee Expenses, recognized according to IFRS 2 during the reporting period in the Group profit and loss account, representing the settlement of initial fair value of options (the right of first refusal to take up the Bank stock), allotted to options granted to Members of the Bank Management Board. Detailed information on the employee share option program, including the rules governing the estimation of fair value of options have been presented in Note No. 41 „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 and associated entities in 2009 and 2008.

Notes to financial statements (cont)

(PLN thousand)

48. Repo and reverse repo transactions

The Bank increases its 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.

	31.12.2009		31.12.2008	
	FAIR VALUE OF ASSETS	CARRYING VALUE OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING VALUE OF RESPECTIVE LIABILITIES
Financial assets held for trading				
up to 1 month	261,165	261,205	276,506	276,534
between 1 and 3 months	-	-	817,028	755,713
Total financial assets held for trading	**261,165**	**261,205**	**1,093,534**	**1,032,247**
Financial assets measured at fair value through income statement				
up to 1 month	-	-	651,956	634,646
between 1 and 3 months	-	-	1,345,896	1,300,421
Total financial assets measured at fair value through income statement	**-**	**-**	**1,997,852**	**1,935,067**
Available for sale financial assets				
up to 1 month	1,382,855	1,386,340	2,274,482	2,266,303
between 1 and 3 months	-	-	1,063,213	990,120
Total available for sale financial assets	**1,382,855**	**1,386,340**	**3,337,695**	**3,256,423**
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	1,644,020	1,647,545	6,925,530	6,696,531

The Bank 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.

Notes to financial statements (cont)

(PLN thousand)

	31.12.2009		31.12.2008	
	CARRYING VALUE OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING VALUE OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and receivables from banks				
up to 1 month	1,472,304	1,470,527	552,706	551,942
between 1 and 3 months	-	-	97,989	115,953
Loans and receivables from customers				
up to 1 month	2,415,918	2,421,734	59,859	60,967
Total	**3,888,222**	**3,892,261**	**710,554**	**728,862**

Financial assets subject to reverse repo and buy-sell back transactions constitute collateral accepted by the Bank, which the Bank has the right to sell or pledge.

49. Company Social Benefits Fund ZFŚS

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.

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 table below presents the assets according to type and book value, the balance of the Fund and costs related to ZFŚS:

	31.12.2009	31.12.2008
Loans granted to employees	42,367	37,383
Money assets on ZFŚS account	5,562	5,501
ZFŚS assets	**47,929**	**42,884**
ZFŚS value	**47,929**	**42,884**
	2009	2008
Deductions made to ZFŚS during fiscal period	25,787	24,533

Notes to financial statements (cont)

(PLN thousand)

50. Change in the presentation of unconsolidated profit and loss account for 2008

FINANCIAL DATA PUBLISHED		PRESENTATION CHANGES		FINANCIAL DATA PUBLISHED – AFTER CHANGES	
I. Interest income	7,672,910	(44,798)	/1	I. Interest income	7,628,112
II. Interest expense	(3,555,777)	44,798	/1	II. Interest expense	(3,510,979)
III. Net commission fees and charges	2,073,394	-		III. Net fee and commission	2,073,394
IV. Dividends	525,537	-		IV. Dividend income	525,537
V. Result on financial instruments at fair value	53,696	(53,696)	/2a,b		-
-		682,429		V. Gains and losses on financial assets and liabilities held for trading	682,429
		147,322	/2a		
		535,107	/3		
-		(93,626)	/2b	VI. Gains and losses on financial assets and liabilities at fair value through profit and loss	(93,626)
VI. Result on investment securities	77,470	(77,470)	/4		-
		190,455		VII. Gains and losses on disposal	190,455
		77,470	/4		
		112,985	/5		
VII. Foreign exchange result	535,107	(535,107)	/3		-
VIII. Net impairment losses on financial assets and net provisions for guarantees and commitments	(212,246)	31,570		VIII. Impairment losses	(180,676)
		33,242	/6		
		(1,672)	/7		
IX. Overhead costs	(3,430,134)	359,023		IX. Administrative expenses	(3,071,111)
		(3,512)	/8		
		(15,638)	/9		
		6,878	/10		
		(22,153)	/11		
		22,153	/11		
		371,295	/12		
-		(371,871)		X. Depreciation and amortisation	(371,871)
		(371,295)	/12		
		(576)	/13		
-		29,578	/14	XI. Provisions for risks and charges	29,578
X. Net other operating income	289,680	(162,509)		XII. Net other operating income / expenses	127,171
		(112,985)	/5		
		(29,578)	/14		
		458	/15		
		576	/13		
		3,512	/8		
		15,638	/9		
		(33,242)	/6		
		(6,878)	/10		
		(10)	/16		
		1,682		XIII. Profit (loss) from subordinated entities	1,682
		1,672	/7		
		10	/16		
-		(458)		XIV. Gains and losses on disposal of investments	(458)
		(458)	/15		
XI. Profit before income tax	4,029,637	-		XV. Profit before income tax	4,029,637
XII. Income tax	(683,792)	-		XVI. Income tax	(683,792)
XIII. Net profit	3,345,845	-		XVII. Net profit	3,345,845

Notes to financial statements (cont)

(PLN thousand)

Description of changes:

1. "Expense due to the amortization of premium on securities" in the new presentation decrease interest income on securities
2. The item "Result on financial instruments at fair value" in the new presentation has been split into two separate items "Gains and losses on financial assets and liabilities held for trading" and "Gains and losses on financial assets and liabilities at fair value through profit and loss"
3. The item "Foreign exchange result" in the new presentation is one of the components of the item " "Gains and losses on financial assets and liabilities held for trading"
4. The item "Result on investment securities" in the new presentation is one of the components of the item "Gains and losses on disposal"
5. "Gains and losses on disposal of loans and other financial assets" included in the previous presentation in the item "Net other operating income", in the new presentation is one of the components of the item: "Gains and losses on disposal "
6. "Income from recovered uncollectable receivables" included in the previous presentation in the item "Net other operating income", in the new presentation is one of the components of the item: "Impairment losses"
7. "Release of impairment charges of investments in associates" included in the previous presentation in the item "Net impairment losses on financial assets and net provisions for guarantees and commitments" in the new presentation is one of the components of the item: "Profit (loss) from subordinated entities"
8. "Donations made" included in the previous presentation in the item "Other operating expenses", in the new presentation are one of the components of the item: "Other administrative expenses"
9. "Legal expenses to credit recovery" included in the previous presentation in the item "Other operating expenses", in the new presentation are one of the components of the item: "Other administrative expenses"
10. "Recovery income from seconded employees" included in the previous presentation in the item "Other operating income", in the new presentation decrease item " Payroll costs "
11. "Seconded employees costs" included in the previous presentation in the item "Other administrative expenses" with overhead costs, in the new presentation are one of the components of the position "Payroll costs" in the item " Other administrative expenses "
12. "Depreciation and amortisation" included in the previous presentation in item "Overhead costs", in the new presentation is one of the components of the separate item: "Depreciation and amortisation"
13. "Impairment losses on tangible assets" included in the previous presentation in the item "Net other operating income", in the new presentation is one of the components of the item: "Depreciation and amortisation"
14. "Provision charge for litigation and claims" included in the previous presentation in the item "Net other operating income", in the new presentation is recognized as a separate line: " Provisions for risks and charges "
15. "Result on disposal of tangible and intangible assets" included in the previous presentation in the item "Net other operating income", in the new presentation is recognized as a separate line: "Gains and losses on disposal of investments"
16. "Gains on disposal of associates" included in the previous presentation in the item "Net other operating income", in the new presentation is one of the components of the item: "Profit (loss) from subordinated entities"

Notes to financial statements (cont)

(PLN thousand)

51. Post-balance sheet date events

On January 12, 2010, the Supervisory Board took a resolution to appoint Mrs. Alicja Kornasiewicz as President of the Bank's Management Board on the current joint term of office of the Bank's Management Board, effective at the moment of obtaining the approval of Financial Supervision Commission. Until the consent mentioned above is obtained, Mrs. Alicja Kornasiewicz is appointed effective from February 15, 2010 as Member of the Management Board acting as President of the Management Board.

(PLN thousand)

Signatures of all Members of the Management Board

11.03.2010	**Alicja Kornasiewicz**	**Member of the Management Board, acting President of the Management Board**	
Date	First name/Surname	Position/Function	Signature
11.03.2010	**Luigi Lovaglio**	**First Vice-President of the Management Board, Manager General**	
Date	First name/Surname	Position/Function	Signature
11.03.2010	**Diego Biondo**	**Vice-President of the Management Board**	
Date	First name/Surname	Position/Function	Signature
11.03.2010	**Marco Iannaccone**	**Vice-President of the Management Board**	
Date	First name/Surname	Position/Function	Signature
11.03.2010	**Andrzej Kopyrski**	**Vice-President of the Management Board**	
Date	First name/Surname	Position/Function	Signature
11.03.2010	**Grzegorz Piwowar**	**Vice-President of the Management Board**	
Date	First name/Surname	Position/Function	Signature
11.03.2010	**Marian Ważyński**	**Vice-President of the Management Board**	
Date	First name/Surname	Position/Function	Signature

(PLN thousand)

Anneses to the financial statements

Annex 1

New standards, interpretations and amendments to published standards that have been approved and published by the European Union, but have entered or will enter into force only after the balance sheet.

IAS 27 (amendment) " Consolidated and Separate Financial Statements"
Date of approval in the EU - June 3, 2009

Date of application - the first financial year beginning after June 30, 2009

Description:
The amendments to standard specify:
- under which circumstances an entity has to prepare consolidated financial statements
- how parent entities have to account for changes in their ownership interest in subsidiaries
- how the losses of a subsidiary have to be allocated between the controlling and non-controlling interest.

IFRS 3 (amendment) "Business Combinations"
Date of approval in the EU - June 3, 2009

Date of application - the first financial year beginning after June 30, 2009

Description:
The revised standard establishes principles and rules about how an acquirer in a business combination has to recognise and measure in its books the different elements (such as identifiable assets, liabilities assumed, non-controlling interest and goodwill) connected to the accounting treatment of the acquisition transaction. It also determines the information to be disclosed concerning such transactions.

IFRIC 16 " Hedges of a Net Investment in a Foreign Operation"
Date of approval in the EU - June 4, 2009

Date of application - the first financial year beginning after June 30, 2009

Description:
This is an interpretation that provides clarification on how to apply the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" and IAS 39 "Financial Instruments: Recognition and Measurement" in cases when an entity hedges the foreign currency risk arising from its net investments in foreign operations.

IFRIC 15 "Agreements for the Construction of Real Estate"
Date of approval in the EU - July 22, 2009

Date of application - the first financial year beginning after December 31, 2009

Description:
This is an interpretation that provides clarification and guidance on when revenue from the construction of real estate should be recognised in the accounts, in particular, whether a construction agreement is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue.

(PLN thousand)

IAS 39 (amendment) "Financial Instruments: Recognition and Measurement"
Date of approval in the EU - September 15, 2009

Date of application - the first financial year beginning after June 30, 2009

Description:
The amendments to standard clarify the application of hedge accounting to the inflation component of financial instruments and to the option contracts when they are used as a hedging instrument.

IFRS 1 (amendment) "First-time adoption of international financial reporting standards"
Date of approval in the EU – November 25, 2009

Date of application - the first financial year beginning after December 31, 2009

Description:
The restructured standard replaces the existing standard in order to make standard easier to use and amend in the future. The restructured standard also removes from the standard some outdated transition guidance and contains some minor wording changes. The current requirements do not change.

IFRIC 17 "Distribution of Non-cash Assets to Owners"
Date of approval in the EU – November 26, 2009

Date of application - the first financial year beginning after October 31, 2009

Description:
This is an interpretation that provides clarification and guidance on the accounting treatment of distributions of non-cash assets to owners of an entity.

IFRIC 18 "Transfers of Assets from Customers"
Date of approval in the EU – November 27, 2009

Date of application - the first financial year beginning after October 31, 2009

Description:
This is an interpretation that provides clarification and guidance on the accounting for transfers of items of property, plant and equipment from customers, or cash to acquire or construct an item of property, plant and equipment.

IAS 32 (amendment) "Financial instruments: presentation"
Date of approval in the EU – December 23, 2009

Date of application - the first financial year beginning after January 31, 2010

Description:
The amendment to standard clarifies how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are issued pro rata to the issuer's existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency.

(PLN thousand)

Annex 2

New standards, interpretations and amendments to published standards that have been published by the International Accounting Standards Board (IASB) and are awaiting approval by the European Union.

Improvements to International Financial Reporting Standards 2009
Date of application - most of the amendments in the first financial year beginning after December 31, 2009.

Description:
The Improvements contains 15 amendments to 12 standards.

IFRS 1 (amendment) "First-time Adoption of International Financial Reporting Standards"
Date of application - the first financial year beginning after December 31, 2009

Description:
The amendment consists in issuing additional optional exemptions for first-time adopters of IFRSs with respect to:
- establishing of Deemed cost for oil and gas assets
- reassessment of lease determination
- establishing of deemed cost for operations subject to rate regulation.

IFRS 1 (amendment) "First-time Adoption of International Financial Reporting Standards"
Date of application - the first financial year beginning after June 30, 2010

Description:
The proposed amendment would provide relief to first-time adopters from the requirement to provide comparative period disclosures for the information required to be presented by the Amendments to IFRS 7 if the first IFRS reporting period starts earlier than 1 January 2010.

IFRS 2 (amendment) "Share-based Payment"
Date of application - the first financial year beginning after December 31, 2009

Description:
The amendments require an entity receiving goods or services in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements.

This principle even applies if another group entity or shareholder settles the transaction and the receiving entity has no obligation to settle the payment.

IFRS 9 " Financial Instruments"
Date of application - the first financial year beginning after December 31, 2012

Description:
The standard is issued as part of comprehensive review of financial instruments accounting. The new standard reduces the complexity of the current requirements and to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard deals with classification and measurement of financial assets only.

IAS 24 (amendment) "Related Party Disclosures"
Date of application - the first financial year beginning after December 31, 2010

Description:
The changes introduced relate mainly to the related party disclosure requirements for government – related entities and the definition of a related party.

(PLN thousand)

IFRIC 14 (amendment) “Prepayments of a Minimum Funding”
Date of application - the first financial year beginning after December 31, 2008

Description:
Under the amended IFRIC 14 prepayments made to the plan where there are Minimum Funding Requirements would be recognized as an asset.

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”
Date of application - the first financial year beginning after June 30, 2010

Description:
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are “consideration paid” in accordance with IAS 39.41. The above described equity instruments shall be measured at the fair value and the difference between the carrying amounts of the financial liability extinguished and the initial measurement of the equity instruments issued should be recognized in profit or loss.

(PLN thousand)

Annex 3

Glossary

IFRS – International Financial Reporting Standards – the standards, interpretations and their structure adopted by the International Accounting Standards Board IASB.

IAS – International Accounting Standards – previous name of the standards forming part of the current IFRS.

IFRIC – International Financial Reporting Interpretations Committee – committee operating under the International Accounting Standards Board publishing interpretations of IFRS.

CIRS – Currency Interest Rate Swap – this is a transaction exchange of principal amounts and interest payments in different currencies between two partners.

IRS – Interest Rate Swap – agreement between two partners, under which partners pay each other (at specified intervals during the contract live) of contractual principal and interest on the contract, charged at a different rate.

FRA – Forward Rate Agrement – contract under which two counterparties agree the interest rate that will apply in the future for a specified amount in currency transactions for a predetermined period.

CAP – cap option is the financial agreement, which limits the risks borne by lenders on a variable rate, is susceptible to the potential for loss as a result of the growth rate. Cap option is a series of call options on interest rates, in which the issuer guarantees the buyer that he will compensate the additional interest costs, which he must pay from your loan if the loan interest rate rises above the agreed interest rate.

FLOOR – floor option is the financial agreement, which reduces the risk of incurring losses resulting from lower interest rates by the lender providing the loan at a variable rate of interest. Floor option is a series of put options on interest rates, the issuer guarantees the interest which he must pay the loan if the interest rate on the loan falls below the agreed interest rate.

IBNR – Incurred But Not Reported losses.

PD – Probability Default – parameter used in the Internal Ratings Based approach to denote the probability of the debtor does not fulfill its obligation to repay. PD talks about the probability with which the horizon of one year will be the loss linked to it.

LGD – Loss Given Default – part of the exposure, which in the case of an event of insolvency of the borrower (default) will be lost.

EAD – Exposure At Default – exposure value at the time of default.

EL – Expected Loss – expected loss on the loan portfolio.

CCF – Credit Conversion Factor.

(PLN thousand)

A-IRB – Advanced Internal Rating-Based approach – method in which all the risk parameters (PD, LGD, EAD) are estimated by the bank, using its own quantitative model to determine the size of risk weighted assets.

VaR – Value at Risk – the amount by which the market value of an asset or portfolio may be reduced based on specific, within a fixed time and a specified probability.

EaR – Earnings at Risk – maximum revenue decline, relative to a particular purpose, which may arise due to the impact of market risk for a specific set of risk factors for each time period and confidence level.

ICAAP – Internal Capital Adeqacy Assessment Process.