



BANK PEKAO SA

Member of  **UniCredit Group**

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2010

Warsaw, March 2011

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Consolidated income statement

(In PLN thousand)

	2010 FROM 01.01.2010 UNTIL 31.12.2010				2009 FROM 01.01.2009 UNTIL 31.12.2010		
	NOTE	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	9	6 280 436	270 779	6 551 215	6 407 017	340 908	6 747 925
Interest expense	9	(2 325 531)	(122 010)	(2 447 541)	(2 809 910)	(135 729)	(2 945 639)
Net interest income		3 954 905	148 769	4 103 674	3 597 107	205 179	3 802 286
Fee and commission income	10	2 758 056	38 237	2 796 293	2 677 765	38 392	2 716 157
Fee and commission expense	10	(411 205)	(17 060)	(428 265)	(410 454)	(17 110)	(427 564)
Net fee and commission income		2 346 851	21 177	2 368 028	2 267 311	21 282	2 288 593
Dividend income	11	7 889	-	7 889	7 105	-	7 105
Result on financial assets and liabilities held for trading	12	559 200	25 016	584 216	725 390	26 493	751 883
Result on fair value hedge accounting	29	6 801	-	6 801	13 945	-	13 945
Gains (losses) on other financial instruments at fair value through profit or loss	13	13 952	-	13 952	54 558	-	54 558
Gains (losses) on disposal of:	14	125 869	1 734	127 603	101 077	(558)	100 519
loans and other financial receivables		5 664	1 380	7 044	2 584	-	2 584
available for sale financial assets and held to maturity investments		121 273	354	121 627	98 411	(558)	97 853
financial liabilities		(1 068)	-	(1 068)	82	-	82
Operating income		7 015 467	196 696	7 212 163	6 766 493	252 396	7 018 889
Net impairment losses on financial assets and off-balance sheet commitments:	17	(485 887)	(52 041)	(537 928)	(416 818)	(117 713)	(534 531)
loans and other financial receivables		(492 619)	(52 041)	(544 660)	(453 117)	(117 942)	(571 059)
available for sale financial assets and held to maturity investments		-	-	-	126	-	126
off-balance sheet commitments		6 732	-	6 732	36 173	229	36 402
Net result on financial activity		6 529 580	144 655	6 674 235	6 349 675	134 683	6 484 358
Administrative expenses	15	(3 186 482)	(78 168)	(3 264 650)	(3 161 750)	(82 910)	(3 244 660)
personnel expenses		(1 911 156)	(39 145)	(1 950 301)	(1 816 971)	(39 370)	(1 856 341)
other administrative expenses		(1 275 326)	(39 023)	(1 314 349)	(1 344 779)	(43 540)	(1 388 319)
Depreciation and amortization		(379 209)	(12 502)	(391 711)	(425 582)	(15 785)	(441 367)
Net result on other provisions		(50 674)	-	(50 674)	1 162	-	1 162
Net other operating income and expenses	16	66 377	37	66 414	89 327	(2 621)	86 706
Operating costs		(3 549 988)	(90 633)	(3 640 621)	(3 496 843)	(101 316)	(3 598 159)
Gain on sale of discontinued operations		-	-	-	-	-	-
Gains (losses) on associates	18	68 269	-	68 269	58 076	-	58 076
Gains (losses) on disposal of property, plant and equipment, and intangible assets		(371)	-	(371)	53 205	-	53 205
Profit before income tax		3 047 490	54 022	3 101 512	2 964 113	33 367	2 997 480
Income tax expense	19	(554 116)	(17 057)	(571 173)	(557 548)	(18 587)	(576 135)
Income tax on gain on sale of discontinued operations		-	-	-	-	-	-
Net profit for the period		2 493 374	36 965	2 530 339	2 406 565	14 780	2 421 345
1. Attributable to equity holders of the Bank		2 488 269	36 965	2 525 234	2 396 955	14 780	2 411 735
2. Attributable to non-controlling interest		5 105	-	5 105	9 610	-	9 610
Earnings per share (in PLN per share)							
basic for the period	20	9.49	0.14	9.63	9.14	0.06	9.20
diluted for the period	20	9.48	0.14	9.62	9.14	0.06	9.20

For presentation of consolidated income statement information consistent with the quarterly format please refer to Report on Activities 7.4.1 of Bank Pekao S.A. Capital Group for 2010.

Consolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2010	2009
Net profit		2 530 339	2 421 345
1. Attributable to equity holders of the Bank		2 525 234	2 411 735
2. Attributable to non-controlling interest		5 105	9 610
Other comprehensive income			
Foreign currency translation differences		11 964	(66 774)
Change in fair value of available-for-sale financial assets		17 320	52 121
Change in fair value of cash flow hedges		67 569	(150 781)
Income tax expenses on other comprehensive income	19	15 496	17 572
Other comprehensive income (net)		112 349	(147 862)
Total comprehensive income		2 642 688	2 273 483
1. Attributable to equity holders of the Bank		2 637 583	2 263 873
2. Attributable to non-controlling interest		5 105	9 610

Consolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2010	31.12.2009
ASSETS			
Cash and due from Central Bank	22	5 969 104	9 620 329
Debt securities eligible for rediscounting at Central Bank		224	158
Loans and advances to banks	23	6 258 811	7 202 675
Financial assets held for trading	24	965 641	3 753 979
Derivative financial instruments (held for trading)	25	1 557 033	2 407 545
Other financial instruments at fair value through profit or loss	26	16 735	2 394 086
Loans and advances to customers	27	77 803 730	76 380 061
Receivables from finance leases	28	3 038 975	3 103 477
Hedging instruments	29	258 688	87 543
Investments securities	30	30 398 445	21 274 025
1. Available for sale		25 856 387	17 466 202
2. Held to maturity		4 542 058	3 807 823
Assets held for sale	32	3 246 985	39 908
Investments in associates and subsidiaries	33	214 616	239 949
Intangible assets	34	697 235	708 473
Property, plant and equipment	35	1 821 723	1 822 396
Investment properties	36	64 493	65 239
Income tax assets	19	723 230	682 728
1. Current tax receivable		1 249	220 581
2. Deferred tax assets		721 981	462 147
Other assets	37	1 054 218	833 483
TOTAL ASSETS		134 089 886	130 616 054
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	39	727 979	1 100 176
Amounts due to other banks	40	6 913 123	7 379 005
Financial liabilities held for trading	24	114 228	981 354
Derivative financial instruments (held for trading)	25	1 592 445	1 592 073
Amounts due to customers	41	99 807 236	97 249 996
Hedging instruments	29	710 566	150 452
Fair value hedge adjustments of hedged items due to interest rate risk	29	(40 127)	-
Debt securities issued	42	1 177 158	2 032 234
Liabilities associated with assets held for sale	32	1 009 074	-
Income tax liabilities	19	26 806	6 080
1. Current income tax payable		26 070	3 575
2. Deferred tax liabilities		736	2 505
Provisions	43	305 923	255 009
Other liabilities	44	1 488 486	1 498 599
TOTAL LIABILITIES		113 832 897	112 244 978
Equity			
Equity attributable to equity holders of the Bank		20 174 112	18 288 019
Share capital	48	262 364	262 331
Other capital and reserves	49	17 342 617	15 587 032
Retained earnings and profit for the period	49	2 569 131	2 438 656
Non-controlling interest		82 877	83 057
TOTAL EQUITY		20 256 989	18 371 076
TOTAL EQUITY AND LIABILITIES		134 089 886	130 616 054

Consolidated statement of changes in equity

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO BANK STOCKHOLDERS											
	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND CURRENT YEAR PROFIT	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTEREST	TOTAL EQUITY	
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES					OTHER
Equity as at 1.01.2010	262 331	15 587 032	9 120 232	1 337 850	4 993 548	(46 762)	(179 560)	361 724	2 438 656	18 288 019	83 057	18 371 076
Management options	33	7 713	4 112	-	-	-	-	3 601	-	7 746	13	7 759
Options exercised (share issue)	33	4 112	4 112	-	-	-	-	-	-	4 145	-	4 145
Revaluation of management share options	-	3 601	-	-	-	-	-	3 601	-	3 601	13	3 614
Valuation of financial instrument	-	68 861	-	-	-	68 861	-	-	-	68 861	-	68 861
Revaluation of available-for-sale investments net of tax	-	14 130	-	-	-	14 130	-	-	-	14 130	-	14 130
Revaluation of hedging financial instruments net of tax	-	54 731	-	-	-	54 731	-	-	-	54 731	-	54 731
Appropriation of retained earnings and current year profit	-	1 637 638	-	100 000	1 533 986	-	-	3 652	126 500	1 764 138	(1 018)	1 763 120
Dividend paid	-	-	-	-	-	-	-	-	(761 096)	(761 096)	(6 123)	(767 219)
Profit appropriation	-	1 637 638	-	100 000	1 533 986	-	-	3 652	(1 637 638)	-	-	-
Net profit for the period	-	-	-	-	-	-	-	-	2 525 234	2 525 234	5 105	2 530 339
Other	-	41 373	-	-	(2 115)	-	43 488	-	3 975	45 348	825	46 173
Foreign currency translation differences	-	43 488	-	-	-	-	43 488	-	579	44 067	-	44 067
Other	-	(2 115)	-	-	(2 115)	-	-	-	3 396	1 281	825	2 106
Equity as at 31.12.2010	262 364	17 342 617	9 124 344	1 437 850	6 525 419	22 099	(136 072)	368 977	2 569 131	20 174 112	82 877	20 256 989

Consolidated statement of changes in equity (cont.)

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO BANK STOCKHOLDERS											
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES							RETAINED EARNINGS AND CURRENT YEAR PROFIT	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTEREST	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES	OTHER				
Equity as at 1.01.2009	262 213	12 194 504	9 105 832	1 237 850	1 579 227	34 326	(112 786)	350 055	3 490 596	15 947 313	89 125	16 036 438
Management options	118	16 791	14 400	-	-	-	-	2 391	-	16 909	23	16 932
Options exercised (share issue)	118	14 400	14 400	-	-	-	-	-	-	14 518	-	14 518
Revaluation of management share options	-	2 391	-	-	-	-	-	2 391	-	2 391	23	2 414
Valuation of financial instrument	-	(81 088)	-	-	-	(81 088)	-	-	-	(81 088)	-	(81 088)
Revaluation of available-for-sale investments net of tax	-	41 045	-	-	-	41 045	-	-	-	41 045	-	41 045
Revaluation of hedging financial instruments net of tax	-	(122 133)	-	-	-	(122 133)	-	-	-	(122 133)	-	(122 133)
Appropriation of retained earnings and current year profit	-	3 463 675	-	100 000	3 354 397	-	-	9 278	(1 051 940)	2 411 735	1 687	2 413 422
Dividend paid	-	-	-	-	-	-	-	-	-	-	(7 924)	(7 924)
Profit appropriation	-	3 463 675	-	100 000	3 354 397	-	-	9 278	(3 463 675)	-	-	-
Net profit for the period	-	-	-	-	-	-	-	-	2 411 735	2 411 735	9 611	2 421 346
Other	-	(6 850)	-	-	59 924	-	(66 774)	-	-	(6 850)	(7 778)	(14 628)
Foreign currency translation differences	-	(15 469)	-	-	51 305	-	(66 774)	-	-	(15 469)	-	(15 469)
Other	-	8 619	-	-	8 619	-	-	-	-	8 619	(7 778)	841
Equity as at 31.12.2009	262 331	15 587 032	9 120 232	1 337 850	4 993 548	(46 762)	(179 560)	361 724	2 438 656	18 288 019	83 057	18 371 076

Consolidated cash flow statement

(In PLN thousand)

	2010	2009
Cash flow from operating activities – indirect method		
Net profit for the period	2 525 234	2 411 735
Adjustments:	3 811 853	6 452 432
Depreciation expense	391 474	441 310
Share of profit (losses) in associates	(68 269)	(58 076)
(Gains) losses on foreign exchange differences	(35 279)	204 929
(Gains) losses on investing activities	(121 256)	(151 611)
Interest and dividend	(1 103 507)	(914 015)
Change in loans and advances to banks	1 072 363	4 005 672
Change in financial assets held for trading and other financial instruments at fair value through profit or loss	5 165 689	1 309 466
Change in derivative financial instruments (assets)	850 512	2 032 996
Change in loans and advances to customers and debt securities eligible for rediscounting at Central Bank	(1 423 735)	2 698 604
Change in receivables from finance leases	64 502	333 906
Change in investment securities available for sale	124 939	(33 698)
Change in tax assets	(56 530)	(60 865)
Change in other assets	(3 732 873)	94 146
Change in amounts due to banks	(838 079)	(6 513 839)
Change in liabilities held for trading	(867 126)	575 375
Change in derivative financial instruments (liabilities) and other financial instruments at fair value	372	(3 553 425)
Change in amounts due to customers	2 557 240	6 360 948
Change in debt securities issued	22 992	(4 730)
Change in provisions	50 914	(51 730)
Change in other liabilities	1 506 973	244 074
Income tax paid (negative sign)	(550 211)	(1 142 078)
Current tax expense	800 748	635 073
Net cash flows from operating activities	6 337 087	8 864 167
Cash flow from investing activities		
Investing activity inflows	382 104 193	185 312 285
Sale of investment securities	381 361 327	184 537 676
Sale of intangible assets and property, plant and equipment	10 381	6 028
Other investing inflows	732 485	768 581
Investing activity outflows	(390 326 554)	(190 767 957)
Acquisition of investments in subsidiaries and associates	-	(7 500)
Acquisition of investment securities	(389 926 008)	(190 436 851)
Acquisition of intangible assets and property, plant and equipment	(400 546)	(323 606)
Net cash flows from investing activities	(8 222 361)	(5 455 672)

Consolidated cash flow statement (cont.)

(In PLN thousand)

	2010	2009
Cash flows from financing activities		
Financing activity inflows	82 546	510 446
Issue of debt securities	78 401	495 928
Issue of shares	4 145	14 518
Financing activity outflows	(1 719 998)	(932 528)
Redemption of debt securities	(958 902)	(932 528)
Dividends and other payments to shareholders	(761 096)	-
Net cash flows from financing activities	(1 637 452)	(422 082)
Total net cash flows	(3 522 726)	2 986 413
Net change in cash and cash equivalents	(3 522 726)	2 986 413
Cash and cash equivalents at the beginning of the period	14 653 202	11 666 789
Cash and cash equivalents at the end of the period	11 130 476	14 653 202

Notes to financial statements

(In PLN thousand)

1. General information

The parent company of the Bank Pekao S.A. Group (the 'Group') is Bank Pekao S.A. (hereinafter referred to as 'the Parent Company', 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw. Bank Pekao S.A. was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

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

The Bank's statistical REGON number is 000010205.

Both the Parent Company and the consolidating entities constituting the Capital Group has been established for an indefinite period of time.

Bank Pekao S.A. Capital Group ('Group' or 'Bank Pekao S.A. Group') is part of the UniCredit S.p.A. Group with its seat in Roma, 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 on domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank's Articles of Association. The Bank runs both PLN and forex operations, and it actively participates in both domestic and foreign financial markets. Moreover, acting through its subsidiaries, the Group provides stockbroking, leasing, factoring operations and offering other financial services.

Notes to financial statements (cont.)

(In PLN thousand)

2. Group structure

The Group consists of Bank Pekao S.A. as the parent entity and the following subsidiaries:

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2010	31.12.2009
CONSOLIDATED SUBSIDIARIES				
Open Joint Stock Company UniCredit Bank, including:	Lutsk, Ukraine	Banking	100.00	100.00
<i>BDK Consulting Ltd.</i>	<i>Lutsk, Ukraine</i>	<i>Consulting, hotel and transport services</i>	<i>99.99</i>	<i>99.99</i>
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	100.00	100.00
Pekao Leasing Sp. z o.o. (*)	Warsaw	Leasing services	36.49	36.49
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Pekao Telecentrum Sp. z o.o.	Cracow	Services	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Financial services	100.00	100.00
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	99.96
Pekao Leasing Holding S.A., including (*):	Warsaw	Leasing services	80.10	80.10
<i>Pekao Leasing</i>	<i>Warsaw</i>	<i>Leasing services</i>	<i>50.87</i>	<i>50.87</i>
Holding Sp. z o.o. /in liquidation/	Warsaw	Non-financial holding	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	100.00	100.00
UNCONSOLIDATED SUBSIDIARIES				
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
<i>Metropolis Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development (Special Purpose Vehicle)</i>	<i>100.00</i>	<i>100.00</i>
<i>Jana Kazimierza Development Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development (Special Purpose Vehicle)</i>	<i>100.00</i>	<i>100.00</i>
Property Sp. z o.o./in liquidation/, including:	Warsaw	Real estate management	100.00	100.00
<i>FPB Media Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	<i>100.00</i>	<i>100.00</i>

(*)The total share of the Group in Pekao Leasing Sp. z o.o. equity is 87.36% (36.49% directly and 50.87% via Pekao Leasing Holding S.A.)

Notes to financial statements (cont.)

(In PLN thousand)

Associates

Bank Pekao S.A. Capital Group has an interest in the following associated entities:

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2010	31.12.2009
Central Poland Fund LLC (*)	Wilmington, Delaware USA	Mutual fund	53.19	53.19
Xelion. Doradcy Finansowi Sp. z o.o. (**)	Warsaw	Supporting, financial and insurance	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate development	25.00	25.00
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	34.44	34.44
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00
Polish Banking System S.A. /in liquidation/	Warsaw	Pending liquidation	48.90	48.90
PPU Budpress Sp. z o.o. /in liquidation/	Żyrardów	Pending liquidation	36.20	36.20

(*) The Group holds over 50% of voting rights in Central Poland Fund LLC. The Group has no control over the entity due to provisions in the Company's Articles of Association.

(**) The Group holds 50% of voting rights in Xelion. Doradcy Finansowi Sp. z o.o. Due to the provisions in the Company's Articles of Association this entity is classified by the Group as an associated entity.

As at 31 December, 2010 the Group held no shares in entities under common control.

Changes in Group structure

The composition of the Capital Group has not changed compared to 31 December 2010.

As of 1 January 2010, Centrum Bankowości Bezpośredniej Sp. z o.o. is consolidated.

In 2009, the structure of the Group was changed as a result of the merger transaction of Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A. The transaction of the merger of the leasing entities is described below.

Business combinations

On 30 April 2009, the merger was effected of business units owned by Bank Pekao S.A. Group.

The merger transaction was effected to integrate leasing companies by transferring the entire assets of Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A. (subsidiaries of Pekao Leasing Holding S.A., which in turn is a subsidiary of Bank Pekao S.A.) to Pekao Leasing Sp. z o.o., a subsidiary of Bank Pekao S.A.

During prior reporting periods, the entities referred to above have been included in consolidation.

The transaction referred to above was classified as a combination of businesses under common control and was recognized according to book value in keeping with the accounting policy, applied by UniCredit Group.

The acquiring entity recognized the assets and liabilities of the entity acquired at their respective carrying amount, adjusted exclusively for the purpose of aligning the accounting principles.

Pursuant to the above transaction, neither positive nor negative goodwill has been recognized.

For merger purposes, Pekao Leasing Sp. z o.o. issued shares to be taken-up by the shareholders of Pekao Leasing Holding S.A., the Bank's subsidiary, in exchange for assets and liabilities of Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A. they contributed into Pekao Leasing Sp. z o.o.

Pursuant to the above transaction, the share capital of Pekao Leasing Sp. z o.o. was increased by PLN 153 441 thousand through the issue 69 746 new shares with the nominal value of 2 200 PLN per share.

Notes to financial statements (cont.)

(In PLN thousand)

The share ratio according to which the shareholders of Pekao Leasing Holding S.A. took-up the shares in Pekao Leasing Sp. z o.o. was:

- 1) 1 share in Pekao Leasing Sp. z o.o. for each 292 797 shares of Pekao Leasing i Finanse S.A.;
- 2) 1 share in Pekao Leasing Sp. z o.o. for each 41 997 shares of Pekao Auto Finanse S.A.

Moreover, as the number of shares ensuing from the ratio referred to above was rounded downward, with Pekao Leasing Holding S.A. as the sole shareholder in its subsidiaries eligible to extra payments of PLN 1 236.69 and PLN 486.41, respectively. The share parity ratio was determined basing upon the valuation of Pekao Leasing Sp. z o.o., Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A. as at 01 November 2008, performed by discounted cash flows method. The value of companies stood at: Pekao Leasing Sp. z o.o. - PLN 270 million, Pekao Leasing i Finanse S.A. - PLN 220 million, Pekao Auto Finanse S.A. - PLN 250 million.

Assets and Liabilities recognized at merger date

On the day of 30 April 2009, the assets and liabilities specified below have been transferred from Pekao Leasing i Finanse S.A. and Pekao Auto Finanse S.A. to Pekao Leasing Sp. z o.o.:

Pekao Leasing i Finanse S.A.

	BOOK VALUE AS AT 30.04.2009
ASSETS	
Cash	3 257
Leasing receivables	1 024 122
Leasing assets held for sale	3 370
Property, plant and equipment and intangible assets	17 481
Current and deferred tax assets	29 166
Other assets	4 307
Total assets	1 081 703
LIABILITIES	
Liabilities at fair value through profit or loss	1 143
Liabilities due to loans and advances	867 655
Debt securities in issue	23 983
Leasing liabilities	15 025
Current and deferred tax liabilities	5 908
Other liabilities	8 877
Total equity	159 112
Total liabilities and equity	1 081 703

Pekao Auto Finanse S.A.

	BOOK VALUE AS AT 30.04.2009
ASSETS	
Cash	1 637
Leasing receivables	836 327
Leasing assets held for sale	4 502
Property, plant and equipment and intangible assets	11 475
Current and deferred tax assets	24 682
Other assets	1 802
Total assets	880 425
LIABILITIES	
Liabilities at fair value through profit or loss	330
Liabilities due to loans and advances	693 031
Debt securities in issue	2 993
Leasing liabilities	8 429
Current and deferred tax liabilities	2 877
Other liabilities	3 596
Total equity	169 169
Total liabilities and equity	880 425

Notes to financial statements (cont.)

(In PLN thousand)

3. Approval of the Financial Statements

These Consolidated Financial Statements were approved for publication by the Bank's Management Board on 7 March 2011.

4. Significant accounting policies

4.1 Statement of compliance

The annual consolidated financial statements of the Bank Pekao S.A. Group 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.

4.2 Basis of preparation of Consolidated Financial Statements

General information

These Consolidated Financial Statements of the Group have been prepared for the period from January 1 to December 31, 2010, contain the financial results of the Bank and of its subsidiaries, comprising the 'Group', as well as the results of associated entities, measured using the equity method.

The financial statements have been prepared in 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 Group will continue its business operations substantially unchanged in scope for a period of at least one year from the balance sheet date.

The consolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by the European Union and related interpretations.

During the period covered by The Financial Statements the Bank did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous period.

According to changes in IFRS 2 'Share-based Payment', the presentation concerning motivational program of UniCredit Group was changed in the scope of share-based payment.

Incentive program of UniCredit Group, due to new interpretation, was qualified as a share-based payment settled in equity instruments.

The change of interpretations did not influence the program's valuation. However, according to the new interpretations, the value of the program based on Unicredit's shares is presented as 'Other capitals' position instead of being presented as 'Other liabilities' position. Reclassification amount accounted for PLN 2 191 thousand as at 31 December 2010.

The Group 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 Group, no amendments to the standards and interpretations will have a material influence on the Consolidated Financial Report, save for the new IFRS 9 'Financial Instruments'.

IFRS 9 concerning financial assets and published in November 2009 and in October 2010 in the scope of financial liabilities, 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'.

Notes to financial statements (cont.)

(In PLN thousand)

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 principles for recognition of revaluation at fair value of investments into equity financial instruments,
- elimination of the necessity to separate embedded derivatives.

Consolidated Financial Statements of the Group have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets recognized initially at fair value through profit or loss and available-for-sale financial assets, except for those for which the 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 measured at the lower of the carrying amount or the fair value less costs to sell.

The accounting principles as described below have been consistently applied for all the reporting periods apart from the change in hedge accounting.

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

4.3 Consolidation

Principles for consolidation

The consolidated financial statements of Bank Pekao S.A. Group include the financial data of Bank Pekao S.A. and its subsidiaries as at 31 December 2010. Financial statements of the subsidiaries are prepared for the same reporting date as those of the parent entity, using consistent accounting policy within the Group in all important aspects.

All intra-group balances and transactions, including unrealized gains, have been eliminated. Unrealized losses are also eliminated, unless there is an objective evidence of impairment, which should be recognized in the consolidated financial statements.

Subsidiaries which are insignificant to the Group are not subject to consolidation.

Investments in subsidiaries

Subsidiaries are entities controlled - directly and indirectly by the Bank. Control is the power to govern the entity's financial and operating policies in order to obtain economic benefits. Control is typically demonstrated by holding the majority of voting rights at the governing body of the entity. The subsidiaries are consolidated from the date of obtaining control by the Group until the date that the control ceases.

At the acquisition date of a subsidiary (obtaining of control), the subsidiary's assets and liabilities are measured at fair value. The excess acquisition cost over the fair value of net assets purchased is recognized as goodwill. If the acquisition cost is lower than the fair value of net assets purchased (negative goodwill arises), the difference is recognized in the income statement.

The policy referred to above does not apply to the acquisition transactions of entities under common control, the assets and liabilities of which are recognized at book value.

Recognition of common control transactions at book value

Business combinations under common control are excluded from the scope of IFRS. As a consequence, following the recommendation included in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', in the absence of any specific guidance within IFRS, Bank Pekao S.A. adopted the accounting policy consistently used in all business combinations under common control within the UniCredit Group, of which the Bank is a member, which recognizes those transactions using book value.

Notes to financial statements (cont.)

(In PLN thousand)

The adopted accounting policy is as follows:

The acquirer recognizes the assets and liabilities of the target entity at their existing book value adjusted only as a result of aligning the combining enterprises' accounting policies. Neither goodwill, nor negative goodwill is recognized.

The difference between the book value of the acquired net assets and the fair value of the amount paid is recognized in the Group's equity. In applying the book value method of accounting, the comparative periods are not restated.

If the transaction results in the acquisition of non-controlling interests, the acquisition of any non-controlling interest is accounted for separately.

There is no guidance in IFRS how to determine the percentage of non-controlling interests acquired from the perspective of a subsidiary. Accordingly Bank Pekao S.A. uses the same principles as the ultimate parent for estimating the value of non-controlling interests acquired.

Investments in Associates

An associate is an entity over which the Group has significant influence, and that is neither a subsidiary nor a joint venture. The Group usually holds from 20% to 50% of the voting shares in an associate. The equity method is calculated using the financial statements of the associated entities. The balance sheet dates of the Group and its associates are usually the same.

The investment in associates is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition, net of possible permanent impairment charges. The associate's share of profit or loss is recognized in the Group's profit or loss. The changes recognized directly in the equity of an associate are recognized directly in the equity of the Group in its proportionate share, and is disclosed, whenever appropriate, in the statement of change in equity. Disbursements from profit reduce the carrying value of the investment.

If the Group's share in the losses of an associate equals or exceeds the Group's share in the associate, the Group ceases to recognize further losses, unless it assumed obligations or made a payment on behalf of the associate.

Unrealized profits or losses from transactions between the Group and associated entities are eliminated pro rata to the Group's share in the associates

Investments in entities under common control

The Group's participation in entities under common control is recognized using the equity method in accordance with the principles described for investments in associated entities.

4.4 Accounting estimates

Preparation of 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 the 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 currency exchange rates). Although the estimates are based on the best knowledge of current conditions and activities which the Group will undertake, the actual results may differ from such estimates.

Principal assumptions and subjective judgments adopted by the Group while making the estimates pertain primarily to:

- **Impairment of financial assets**
The assumptions regarding the measurement of impairment of loans and advances are described in Note 4.7. in the part titled 'Impairment of financial assets'.
- **Impairment of non-current assets**
At each balance sheet date the Group reviews its assets for indications of impairment. Where such indications exist, the Group makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is identified and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Notes to financial statements (cont.)

(In PLN thousand)

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 Group establishes 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 Group 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 amount of some of the Group's non-current 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 Group also adopts assumptions concerning counterparty's 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 45 '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 the rules of Corporate Collective Labour Agreement,
- expected increase in the payment base until the 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 inability to 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.

4.5 Foreign currencies

- **Functional and presentation currency**
The financial statements of individual Group entities, 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 Consolidated Financial Statements are presented in Polish zlotys. Polish zloty is the functional currency and the presentation currency of the Bank. The Group applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.

Notes to financial statements (cont.)

(In PLN thousand)

- **Transactions and balances**

Foreign currency transactions are calculated 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 statement of financial position valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.

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 income statement.

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.

- **Companies of the Group**

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

Financial statements of the Bank's Branch in Paris and the Group foreign subsidiaries are translated into Polish zloty using the following exchange rates:

- to translate statement of financial position items as at 31 December 2010 and as at 31 December 2009, average exchange rates announced by the NBP on 31 December 2010 and on 31 December 2009, respectively, have been used:

	31.12.2010	31.12.2009
PLN 1 for UAH 1	0.3722	0.3558
PLN 1 for EUR 1	3.9603	4.1082

- for translation of income statement items for the period from 1 January 2010 until 31 December 2010 and for the period from 1 January 2009 until 31 December 2009, arithmetic average values of exchange rates have been used, announced by the NBP as at the last date of each month during the period from 1 January 2010 until 31 December 2010 and during the period from 1 January 2009 until 31 December 2009, respectively, as follows:

	2010	2009
PLN 1 for UAH 1	0.3830	0.3897
PLN 1 for EUR 1	4.0044	4.3406

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

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

Notes to financial statements (cont.)

(In PLN thousand)

4.6 Income statement

Interest income and expenses

The Group recognizes in the income statement all interest income and expense related to financial instruments valued at amortized 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 the expected period until the expiry of the financial instruments, and in justified cases in a shorter time, to the net carrying amount 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 new, lower 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 the issue of treasury stock are recognized in the income statement using the effective interest rate.

Fee and commission income and expense

Fee and commission income is generated from financial services provided by the Group. 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 Group's financial services offering (customer account transaction charges, credit card servicing transactions, brokerage activity and canvassing) are recognized in the income statement up-front when the corresponding service is provided.

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

- Foreign exchange result
The foreign exchange gains (losses) are calculated taking into account the positive and negative foreign currency translation differences, whether realized or unrealized from the daily valuation of assets and liabilities denominated in foreign currencies. The revaluation is done using the average exchange announced by the NBP on the balance sheet date.

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

Income from foreign exchange positions includes also foreign currency translation differences from valuation of investments in foreign operations arising on disposal thereof. Until the disposal, foreign currency translation differences from valuation of assets in foreign operations are recognized in other capital and reserves.

Notes to financial statements (cont.)

(In PLN thousand)

- **Income from derivatives and securities held for trading**
The income referred to above 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 net interest income.

Gains (losses) on financial assets/liabilities at fair value through profit or loss

This includes gains and losses realized 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 recognized in the interest result.

Other operating income/expense

Other operating income includes mainly amounts received for compensation, penalties and fines, revenues from operating leases and releases of provision for legal cases. Other operating expenses include mainly the costs of client claims, compensation paid and costs of provision for litigations.

4.7 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

- **Financial assets measured at fair value through profit or loss**
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 or loss include debt securities acquired by the Group 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 the income statement.

- **Held to maturity**
These are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which the entity has an intent and ability to hold to maturity, other than:
 - a) those that the entity upon initial recognition designates as at fair value through profit or loss;
 - b) those that the entity designates as available for sale; and
 - c) those that meet the definition of loans and receivables.Financial assets classified into this category are measured at amortized cost using the effective interest rate method. The recognition of amortized cost with the use of effective interest rate is recognized in interest income.

Notes to financial statements (cont.)

(In PLN thousand)

- **Loans and receivables**

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

- a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition;
- b) those that the Group 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 are 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 of 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 income statement.

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 income statement either on the 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 income statement as 'Net impairment losses on financial assets and off-balance sheet commitments'.

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 Group on the settlement date of such transaction, i.e. as at the date 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 the case of the asset held.

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

Derivative instruments are recognized and derecognized on transaction dates.

Reclassification of financial assets

The Group 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 Group has the intent and the ability to hold such financial assets in foreseeable future or until their maturity.

If the financial asset with a 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 to premium or discount amortization.

The Group allows the reclassification of financial assets classified as financial assets measured at fair value through profit or loss, if extraordinary circumstances occur.

Notes to financial statements (cont.)

(In PLN thousand)

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 valued at amortized cost- loans and receivables

At each balance sheet date the Group 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 a given asset ('the loss event') exists and when these loss events affect the expected cash flows and such cash flows may be reliably estimated.

Objective triggers for 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 e.g. 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,
- filing for insolvency recovery proceedings,
- disappearance of active markets for given financial assets, caused by financial difficulties of the issuer,
- starting enforcement proceedings,
- observable data indicating a measurable decrease 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 Group classifies its loan receivables into individual and collective portfolios based 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, receivables from finance lease or investments held to maturity, is identified, the amount of such impairment provision recorded is equal to the difference between the carrying amount 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 amount of such asset is then reduced by the accumulated impairment provision, which is recorded in the profit or loss for the given period.

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 reduced by the 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 income statement.

Notes to financial statements (cont.)

(In PLN thousand)

For the portfolio of performing loans with no impairment triggers identified, the Group records a provision for losses incurred but not reported (IBNR). The IBNR impairment allowance reflects the loan impairment amount incurred as a result of impairment events that have already occurred, which the Group 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 has been recognized directly in equity is removed from equity and recognized in the income statement. The amount of the cumulative loss transferred 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 Group.

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.

Derivative financial instruments and hedge accounting

The Group 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 and stocks indices. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured 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, depending on which valuation method is appropriate. Positive valuation of derivative financial instruments is presented in the caption 'Derivative financial instruments' as an asset, and as a liability if the change in the fair value is negative. For financial instruments with an embedded derivative component, if 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, then 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 held for trading or in assets designated at fair value through the profit or loss the revaluation results of which are reflected in the financial income or expense 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,

Notes to financial statements (cont.)

(In PLN thousand)

- a separate instrument characteristics of which 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 the income statement 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 in fair value of the derivative financial instruments held for trading are recognized in the income statement.

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

Fair value hedge accounting principles

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 income statement. In the remaining part, changes in the carrying amount are recognized in accordance with the principles applicable for the given class of financial instruments.

Changes in the fair market 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 Group 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 Group 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.

Cash flow hedge accounting principles

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

- directly in the caption 'revaluation reserves' in the part constituting the effective hedge,
- in the income statement in the part representing ineffective hedge.

The amounts accumulated in the revaluation reserves are transferred to the income statement in the period, in which the hedge is reflected in the income statement 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 Group 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 income statement.

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

Notes to financial statements (cont.)

(In PLN thousand)

Financial liabilities

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

- financial liabilities held for trading, valued at fair value,
- financial liabilities not held for trading, valued 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.

De-recognition of financial instruments from the statement of financial position

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the Group 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 Group derecognizes a credit or a loan receivable, or its part, when it is sold. Additionally, the Group 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 Group 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.

4.8 Valuation of other items in the Group's consolidated statement of financial position

Intangible assets

Goodwill

Goodwill is defined as a surplus of the purchasing 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 reduced by any accumulated impairment losses. Impairment is determined by estimating the recoverable value of the cash generating unit, to which given goodwill pertains. If the recoverable value of the cash generating unit is lower than the carrying amount an impairment charge is made. Impairment identified in the course of such tests is not subject to subsequent adjustments.

Goodwill on acquisition of subsidiaries is presented in intangible assets and goodwill on acquisition of associates is presented under the caption 'Investments in associates'.

Other intangible assets

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

These mainly include:

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

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

Intangible assets with a definite useful life are amortized over their 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 a potential impairment charge.

Notes to financial statements (cont.)

(In PLN thousand)

Property, plant and equipment

Property, plant and equipment are defined as controlled non-current assets and assets under construction. Non-current assets include certain tangible assets with an expected useful life longer than one year, which are maintained for the purpose of own use or to be leased to other entities.

Property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment write downs. Historical cost consists of purchase price or development cost and costs directly related to the purchase of a given asset.

Each component of property, plant and equipment, the purchase price or production cost of which is significant compared to the purchase price or production cost of the entire item is a subject to separate depreciation. The Group separates the initial value of property, plant and equipment into its significant parts.

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 Group, and the cost of such expenses can be reliably measured.

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

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

Depreciation and amortization

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 cost to develop 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, with results of such reviews recognized in the same period.

The statement of financial position 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) amortization rates for intangible assets:

Software licenses, copyrights	12.5% – 50.0%
Costs of completed development projects	33.3%
Other intangibles	33.0%

c) depreciation rates for investment properties:

Buildings and structures	1.5% – 10.0%
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Land, non-current assets under development and intangible assets under development are not subject to depreciation and amortization.

Depreciation and impairment deductions are charged to the income statement 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 purchasing price model.

Notes to financial statements (cont.)

(In PLN thousand)

Investment property assets are derecognized from the statement of financial position 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 de-recognition of an investment property are recognized in the income statement in the period when such de-recognition occurred.

Non-current assets held for sale

Non-current assets held for sale include assets, the carrying amount 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 sell a given asset, an active program 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 amount or at fair value reduced by the cost of such assets, whichever is lower. Assets classified in this category are not subject to depreciation.

Leases

The Group 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 payment.

The Group 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 Group acting as lessor, the leased asset is presented in the Group's statement of financial position, since there is no transfer to the lessee of essentially all risks and benefits resulting from the asset.

In the case of lease agreements, entered into by the Group as lessee, the leased asset is not recognized in the Group's statement of financial position.

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

Finance leases

The Group as lessor

In the lease agreements, where essentially all risks and benefits relating to the ownership of an asset are transferred, the leased asset is no longer recognized in the statement of financial position of the Group. However, receivables are recognized in the amount equal to the present value of the minimum lease payments. Lease payments are split into the financial income and the reduction of receivables balance in order to maintain a fixed interest rate on the outstanding liability.

Lease payments from agreements, which do not meet the conditions of finance lease agreements are recognized as revenues in the income statement using the straight-line method over the life of the lease.

The Group as lessee

For lease agreements in which in principle all risks and benefits relating to ownership of the leased assets are transferred to the Group, 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 lease payments as at the date of commencement of the lease. Lease payments are split into costs of lease charges and a reduction of liabilities in order to maintain a fixed interest rate on the outstanding liability. Financial costs are recognized directly in the income statement.

Non-current assets subject to finance lease agreements are depreciated in the same way as 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 initial period of lease.

Lease charges from agreements that do not fulfill the criteria for finance lease agreements are recognized as costs in the income statement on a straight line basis over the lease period.

Notes to financial statements (cont.)

(In PLN thousand)

Provisions

Provisions are recorded when the Group has an obligation (legal or constructive) resulting from the past events and where it is probable that the settlement of such obligation will result in an outflow of economic benefits from the Group 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 provisions are charged to the income statements.

Employee benefits provisions

The provision for retirement and pension 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 provision 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 Group on the basis of the best available estimates of direct outlays resulting from restructuring activities, which are not connected with the Group's current activities.

Provisions are recognized in liabilities under the caption 'Provisions' and in the income statement as salary expense.

Deferred income and accrued expenses (liabilities)

This caption includes primarily commission income settled using the straight line method and other income charged in advance; that will be recognized in the income statement in the future periods.

Accrued expenses include accrued costs resulting from services provided for the Group by counterparties 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 statement of financial position under the caption 'Other liabilities'.

Equity of the Group

Equity is comprised of the capital and funds created by the companies of the Group in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings. Subsidiaries' equity line items, other than share capital, are added to the relevant equity line items of the parent company, in the proportion of the Group's interest.

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

Group equity consists of the following:

- a) share capital - applies only to the capital of the Bank as the parent entity and is presented at nominal value specified in the Statute and in the entry in the Enterprises Registry,
- b) 'issue premium' - surplus generated during share issues over the nominal value of such issues, remaining after the issue costs are covered. Moreover, this item also includes a change in the value of minority shares, ensuing from an increase of the share of the Parent entity in Bank's share capital. This accounting principle is in accordance with the accounting principles applied by UniCredit Group,
- c) the general banking risk fund is established at Bank Pekao S.A. in keeping with the Banking Law of 29 August 1997 from profit after tax,
- d) other reserve capital utilized for the purposes defined in the Statute is created from appropriations of profits,
- e) revaluation reserve includes the impact of valuation of financial instruments available for sale, effects of valuation of derivative instruments hedging cash flows and the value of deferred tax for items classified as temporary differences, recognized as valuation allowance. In the statement of financial position, the valuation allowance is presented as net value,
- f) exchange rate differences include differences arising from valuation of net assets in foreign entities and from the recalculation of the result of a foreign branch at the weighted average exchange rate at the balance sheet date in relation to the average NBP exchange rate,

Notes to financial statements (cont.)

(In PLN thousand)

g) other capital:

- other supplementary capital, established in keeping with provisions under the Articles of Association of companies from profit appropriations,
- capital component - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments,
- brokerage activity fund for stock broking operations, carried out by Bank Pekao S.A.,
- retained earnings from prior periods includes undistributed profit and uncovered losses generated/incurred in prior periods by subsidiaries consolidated full method,
- net profit/loss which constitutes profit/loss presented in the income statement for the relevant period. Net profit is after accounting for income tax.

Non-controlling interests

Non-controlling interests are defined as the equity in a subsidiary not attributable, directly or indirectly, to the Bank.

Share-based payments

Employee participation programs are established by the Group 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 45).

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

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as at 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 equity instruments.

The cost of share-based payments is recognized together with the accompanying increase in 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 from the date of change.

When 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 in the calculation of earnings per share as additional dilution of shares (see Note 20).

Stock options and stock of the UniCredit S.p.A.

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

4.9 Income tax

Income tax expense comprises current and deferred tax. The income tax expense is recognized in the income statement excluding the situations when it is recognized directly in equity. The current tax is the tax payable of the Group entities on their taxable income for the period, calculated based on binding tax rates, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are calculated, 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 or the deferred tax liability is settled.

A deferred tax asset is recognized for negative 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 based on identification of positive temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

4.10 Other

Contingent liabilities and commitments

The Group enters into transactions which are not recognized in the statement of financial position as assets or liabilities, but which result in contingent liabilities and commitments. Contingent liabilities are characterized as:

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Group (e.g. litigations),
- a current obligation which arises as a result of past events but is not recognized in the statement of financial position 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 consolidated cash flow statement include 'Cash' and 'Due from the Central Bank' (excluding NBP bonds) and loans and receivables from banks with maturities of up to three months.

5. Purposes and rules of financial risk management

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

All important risk types, occurring in the course of the Group's operations are described as follows.

5.1 Organizational 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 Group policy with respect to risk management as it relates to Group's strategy and financial planning.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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,
- setting guidelines for risk management, capital allocation and optimization of the risk/income ratio.

Risk Management Division

The Division is responsible for:

- building a system of credit risk management at the Bank, which provides 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,
- 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.

5.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Group. The percentage share of credits and loans in the Group's statement of financial position makes the maintenance of this risk at safe level essential to the Group's 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's credit policy, adopted by the Bank's Management Board and the Bank's Supervisory Board for a 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's 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 in order to increase safety. 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.

Notes to financial statements (cont.)

(In PLN thousand)

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 segment 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 analyze 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.

Rating models utilized in the credit risk management process

For credit risk management purposes, 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 of 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 the following three parameters are used: Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD'). 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 calculation of the loss expected by the Bank 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 presented). Hence, the reports are being effectively used in the credit risk management process.

Rating models include the following types of credit products for particular customer segments.

1. For the retail clients, the Bank has developed three separate models applicable for:

- mortgage loans,
- consumer loans,
- non-installment 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.

Notes to financial statements (cont.)

(In PLN thousand)

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.

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, which is associated with an approval of a transaction.

Decision-making entitlement limits are associated with the position held, determined in accordance with the Bank's organizational structure. The limits are determined taking the following matters into consideration:

- the Bank's total exposure to a client, including the amount of the requested 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.

Exposure to credit risk

The maximum credit risk exposure

The table below presents the maximum credit risk exposure for statement of financial position and off-balance sheet positions as at the reporting date, with no collateral and other factors which limit the credit risk.

	31.12.2010	31.12.2009
Cash and due from Central Bank	3 495 772	7 360 124
Loans and advances from banks and from customers	84 062 765	83 582 894
Net investments in finance leases	3 038 975	3 103 477
Financial assets held for trading	965 641	3 753 979
Derivative financial instruments (held for trading)	1 557 033	2 407 545
Other financial instruments at fair value through profit or loss	16 735	2 394 086
Hedging instruments	258 688	87 543
Investment securities	30 398 445	21 274 025
Other assets	1 207 365	1 016 284
Balance sheet exposure	125 001 419	124 979 957
Obligations to grant loans	24 581 149	24 577 124
Other contingent liabilities	9 038 392	6 252 425
Off-balance sheet exposure	33 619 541	30 829 549
Total	158 620 960	155 809 506

Notes to financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

Bank Pekao S.A. Group 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 frequently used types of collateral for credits and loans, accepted in compliance with the relevant policy of Pekao Group, are as follows:

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
- commercial	Collateral value is defined as the fair market value endorsed by a real estate expert. Other evidenced sources of valuation 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 basing on well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statement, insurance policy, stock exchange quotations, the value disclosed through foreclosure procedure supported with evidence e.g. prepared by bailiff/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 non-current assets, value evidenced by bailiff or court receiver, etc.
- vehicles	The value is defined based on available tables (e.g. from insurance companies) proving the car value depending on its producer, age, initial price, or other reliable sources e.g. value stated in the insurance policy.
- other	The value is defined upon individually. The valuation should result from reliable sources.
- 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	
- from clients with investment rating assigned by independent rating agency or by internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
- from other counterparties	The value is defined upon individually assessed claim's amount.
GUARANTIES/SURETIES (INCL. RAFTS)/ACCESSION TO DEBT	
- from banks and the State Treasury	Up to the guaranteed amount.
- from other counterparties enjoying 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 claim's amount.
- from other counterparties	Individually assessed fair market value.

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 maximizing 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 corporate Clients are monitored using 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 using an internal tool, embedded into the statistical behavioral 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 by IT systems and is based on the results of behavioral scoring.

Notes to financial statements (cont.)

(In PLN thousand)

Overall characteristics of provisioning model

The Group establishes loan loss provisions ('LLP') in line with International Financial Reporting Standards ('IFRS'). LLP reflects the loan impairment and whether the Group 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 impairment trigger for given a credit exposure has been recognized 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 registration of loan loss provision in the IT system.

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

If an impairment trigger is not recognized, the Group establishes provisions 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.)

(In PLN thousand)

The quality analysis of the Group's financial assets

The Group exposures to credit risk with impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	1 024	985	691 018	343 872
- up to 1 month	-	-	45 310	127 919
- between 1 month and 3 months	-	-	80 918	177 608
- between 3 months and 1 year	-	52 876	320 632	759 970
- between 1 year and 5 years	62 964	10 088	1 361 483	935 887
- above 5 years	-	-	709 795	855 345
Total gross carrying amount	63 988	63 949	3 209 156	3 200 601
ALLOWANCE FOR IMPAIRMENT				
- not past due	(1 024)	(985)	(122 570)	(41 059)
- up to 1 month	-	-	(9 716)	(20 474)
- between 1 month and 3 months	-	-	(9 966)	(28 690)
- between 3 months and 1 year	-	(45 000)	(96 204)	(430 178)
- between 1 year and 5 years	(54 000)	(9 000)	(995 141)	(713 110)
- above 5 years	-	-	(574 159)	(747 279)
Total allowance for impairment	(55 024)	(54 985)	(1 807 756)	(1 980 790)
Net carrying amount of exposure individually impaired	8 964	8 964	1 401 400	1 219 811
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	47 739	74 606
- up to 1 month	-	-	21 356	17 331
- between 1 month and 3 months	-	-	38 870	36 384
- between 3 months and 1 year	-	-	594 688	696 309
- between 1 year and 5 years	-	9 952	1 145 862	939 110
- above 5 years	19 371	9 053	656 585	712 884
Total gross carrying amount	19 371	19 005	2 505 100	2 476 624
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(32 229)	(65 016)
- up to 1 month	-	-	(12 192)	(9 797)
- between 1 month and 3 months	-	-	(21 186)	(18 587)
- between 3 months and 1 year	-	-	(362 505)	(397 968)
- between 1 year and 5 years	-	(9 933)	(943 559)	(729 196)
- above 5 years	(19 361)	(9 053)	(650 451)	(701 707)
Total allowance for impairment	(19 361)	(18 986)	(2 022 122)	(1 922 271)
Net carrying amount of exposure collectively impaired	10	18	482 978	554 353

(*) Receivables from banks and receivables from customers include net investments in finance leases.

Notes to financial statements (cont.)

(In PLN thousand)

The Group exposures to credit risk with no impairment recognized, broken down by delays in repayment

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
	31.12.2010	31.12.2009	CORPORATE		RETAIL	
			31.12.2010	31.12.2009	31.12.2010	31.12.2009
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	6 255 682	7 226 870	48 457 358	50 149 949	28 331 724	25 539 938
- up to 30 days	-	-	853 489	799 157	1 168 971	1 029 812
- between 30 days and 60 days	-	-	182 719	213 338	184 717	183 279
- between 60 days and 89 days	-	-	67 235	108 544	112 900	114 842
Total gross carrying amount	6 255 682	7 226 870	49 560 801	51 270 988	29 798 312	26 867 871
IBNR PROVISION:						
- not past due	(2 614)	(4 274)	(157 564)	(227 035)	(74 599)	(69 087)
- up to 30 days	-	-	(13 417)	(11 126)	(60 124)	(52 968)
- between 30 days and 60 days	-	-	(12 680)	(10 324)	(38 050)	(38 559)
- between 60 days and 89 days	-	-	(2 672)	(6 741)	(44 687)	(42 391)
Total IBNR provision	(2 614)	(4 274)	(186 333)	(255 226)	(217 460)	(203 005)
Net carrying amount of exposure with no impairment	6 253 068	7 222 596	49 374 468	51 015 762	29 580 852	26 664 866

(*) Receivables from banks and receivables from customers include net investments in finance leases and debt securities eligible for rediscounting at Central Bank.

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2010

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+	768 237	16 735	13 119 015	4 107 554	1 659 889	19 671 430
BBB+ to BBB-	-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-	-
B+ to B-	-	-	-	-	-	-
below B-	-	-	-	-	-	-
no rating	197 404	-	12 722 510 (*)	434 504 (**)	-	13 354 418
Total	965 641	16 735	25 841 525	4 542 058	1 659 889	33 025 848

(*) including NBP bills in an amount of PLN 12 556 925 thousand

(**) including NBP bills in an amount of PLN 434 504 thousand

Notes to financial statements (cont.)

(In PLN thousand)

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2009

RATING	DEBT SECURITIES					TOTAL
	HELD FOR TRADING	DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	
AAA	-	-	-	-	-	-
AA- to AA+	-	-	-	-	-	-
A- to A+	3 488 957	2 394 040	12 817 984	3 510 704	3 892 261	26 103 946
BBB+ to BBB-	-	-	268 806	-	-	268 806
BB+ to BB-	-	-	-	-	-	-
B+ to B-	68 428	-	-	-	-	68 428
below B-	-	-	-	-	-	-
no rating	196 594	-	4 364 539 (*)	297 119 (**)	-	4 858 252
Total	3 753 979	2 394 040	17 451 329	3 807 823	3 892 261	31 299 432

(*) including NBP bills in an amount of PLN 4 199 418 thousand

(**) including NBP bills in an amount of PLN 297 119 thousand

Derivative financial instruments

	TRADING DERIVATIVES		DERIVATIVE HEDGING INSTRUMENTS	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Banks	1 350 453	1 754 924	87 573	87 543
Other financial institutions	5 794	60 102	-	-
Non-financial entities	200 786	592 519	171 115	-
Total	1 557 033	2 407 545	258 688	87 543

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 organizationally 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 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 2010, the maximum exposure limits stipulated in the Banking Law have not been exceeded.

Notes to financial statements (cont.)

(In PLN thousand)

a) Breakdown by individual entities:

As at 31.12.2010

EXPOSURE TO 10 LARGEST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	1.8%
Client 2	1.3%
Client 3	0.8%
Client 4	0.8%
Client 5	0.8%
Client 6	0.8%
Client 7	0.7%
Client 8	0.7%
Client 9	0.5%
Client 10	0.5%
Total	8.7%

14.7% of the exposure is accounted by the State Treasury, while 85.3% pertains to exposure to large corporate clients. None of the exposures mentioned above were classified as non-performing.

b) Concentration by capital groups:

As at 31.12.2010

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	2.9%
Group 2	2.2%
Group 3	1.4%
Group 4	1.2%
Group 5	1.1%
Total	8.8%

c) Breakdown by industrial sectors:

In order to mitigate the credit risk associated with excessive sector concentration, the Bank has adopted a system for modelling sector exposure structure. The system involves the setting forth of sectorial 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.

Notes to financial statements (cont.)

(In PLN thousand)

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

SECTOR DESCRIPTION	31.12.2010	31.12.2009
Construction and real estate	19.2%	19.1%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	12.9%	12.5%
Financial intermediation	12.4%	17.9%
Public administration and national defense, compulsory social security	9.3%	5.1%
Electricity, gas and water supply	8.2%	5.9%
Transport, storage and communication	6.1%	7.5%
Other manufacturing and recycling	5.8%	6.1%
Renting and business activities, research and development, computer science	5.1%	3.5%
Manufacture of basic metals and fabricated metal products	3.7%	4.3%
Manufacture of food products, beverages and tobacco	3.6%	4.2%
Manufacture of chemical products	2.4%	2.3%
Manufacture of pulp, paper and paper products, publishing and printing	2.1%	2.3%
Other sectors	9.2%	9.3%
Total	100.0%	100.0%

Credit risk management of Open Joint Stock Company UniCredit Bank

The process of credit risk management in Open Joint Stock Company UniCredit Bank (Ukraine) ('UCB') is consistent with the Credit Policy of Bank Pekao S.A. Group and adopted to local environment in Ukraine.

Since 2003 such credit policy has been annually approved by the statutory bodies of Open Joint Stock Company UniCredit Bank and issued in the form of internal regulation bounding within UCB.

Bank Pekao S.A. supervises and controls the underwriting process in UCB. All credit decisions are taken by the Management Board of the Open Joint Stock Company UniCredit Bank, however for credits or total exposures above USD 5 million (or its equivalent in other currencies), only upon approval by Bank Pekao S.A. The credit underwriting scheme is compliant with the standards of credit risk management that are currently enforced in Bank Pekao S.A.

The below table presents loan portfolio of Open Joint Stock Company UniCredit Bank:

	31.12.2010		31.12.2009	
	CORPORATE	RETAIL	CORPORATE	RETAIL
Gross carrying amount of exposure with no impairment				
- not past due	1 807 632	229 482	1 967 027	272 490
- up to 30 days	38 092	16 617	128 921	18 891
- between 30 days and 60 days	-	5 139	956	4 939
- between 60 days and 89 days	2 837	1 884	7 570	3 035
Total gross carrying amount	1 848 561	253 122	2 104 474	299 355
IBNR	(37 757)	(2 808)	(42 708)	(3 679)
Net carrying amount of exposure with no impairment	1 810 804	250 314	2 061 766	295 676

Notes to financial statements (cont.)

(In PLN thousand)

	31.12.2010	31.12.2009
	CORPORATE AND RETAIL	CORPORATE AND RETAIL
Gross carrying amount of impaired exposure		
<i>Individually impaired exposure</i>		
Gross carrying amount	293 218	277 176
Allowance for impairment	(108 616)	(70 335)
Net carrying amount of exposure individually impaired	184 602	206 841
<i>Collectively impaired exposure</i>		
Gross carrying amount	138 782	162 841
Allowance for impairment	(78 691)	(95 709)
Net carrying amount of exposure collectively impaired	60 091	67 132

Most of credit portfolio of UCB consists of corporate loans, including receivables from the biggest companies from Ukraine. 25 largest debtors belonging to international groups constitute 73% of corporate loans portfolio and 53% of all credit exposures of the Bank. Credit activities connected with financing corporate clients concentrate on investment and working capital loans.

5.3. Market risk

The Group is exposed in its operations to market risk and other types of risk caused by changing market risk parameters.

Market risk is the risk of deteriorating financial result and economic capital of the Group resulting from market changes. The main factors of market risk are as follows:

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

The Bank established a market risk management system, providing structural, organizational and methodological procedures for the purpose of shaping the structure of statement of financial position and off-balance items to assure the achievement of strategic goals.

The objective of market risk management is to maximize financial results in the trade book and to maximize the worth of economic capital in the bank book assuring the implementation of financial goals, while keeping the exposure to market risk within the limits of risk approved by the Management Board and the Supervisory Board, and assuring market risk-related services (market making and price quotations to Group clients).

The organization 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 formalized by the introduction of numerous internal procedures. The procedures have been developed taking into consideration the split into the trading and banking books.

The main tool for measuring market risk is Value at Risk (VaR). Under normal market conditions, this value corresponds to the level of a one-day loss, which will not be incurred with the probability of 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics.

The model is subject to continuous, statistical verification by comparing the VaR values to actual performance figures. Results of analyses carried out in 2010 and 2009 confirmed the adequacy of the model applied.

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in 2010.

IN PLN THS	31.12.2010	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	121	10	319	2 453
interest rate risk	4 401	3 644	5 046	7 525
Trading portfolio	4 307	3 633	5 234	8 172

IN PLN THS	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

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 rate,
- 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:

- Investments in equity securities.

The Group is also exposed to interest rate risk due to transactions in which fair value is taken into account in the Group's statement of financial position. Such transactions include derivative transactions, i.e. Forward Rate Agreements (FRA), Interest Rate Swaps (IRS), Foreign Exchange Swaps and forward contracts.

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

The table below presents the increases in sensitivity levels of interest income (NII) and of economic value of the Bank (EVE) to interest rate growth by +100 b.p. assuming perfect elasticity of the Bank's administrated rates to the market rates changes (including re-pricing of current account) as at the end of December 2010 and 2009.

SENSITIVITY IN %	31.12.2010	31.12.2009
NII	(1.58)	(4.85)
EVE	(3.22)	(3.30)

Currency risk

The objective of currency risk management is to maintain the currency profile of statement of financial position and off-balance items within the internal limits. For internal needs, the Group'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.

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents the Group's foreign currency risk profile by major foreign currencies measured at Value at Risk:

CURRENCY	31.12.2010	31.12.2009
USD	577	770
EUR	1 392	2 156
CHF	203	135
Other	79	83
Currencies total (*)	1 463	2 706

(*) VaR presented in 'Currencies total' is VaR for the whole portfolio, and includes correlations among currencies.

5.4. Liquidity risk

The objective of liquidity risk management is to:

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

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

The Group 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 Group is also monitoring the structural liquidity, which includes a whole spectrum of the Group financial position, 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 Group introduced internal liquidity indicators, defined as the ratio of adjusted maturing assets to adjusted maturing liabilities due in 1 month and 1 year, as well as covering ratios showing relation of adjusted maturing liabilities to adjusted maturing assets due in more than 1, 2, 3, 4 or 5 years.

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

The emergency plan, referring to the deteriorating financial liquidity of the Group, includes daily monitoring of systemic and specific nature for the Bank 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 Group. Apart from the above, the plan also includes liquidity monitoring procedures, contingency procedures and organizational structures of task teams responsible for restoring the 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 Group. 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 a weekly basis, constitute an integral part of the Group's 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 of core deposits and their maturities, and introduced by the Bank in 2010 adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted as well as adjusted flows stemming from Bank security portfolio. These are the main elements differentiating adjusted gaps from unadjusted ones. The maturity tables below present financial liabilities arranged according to contractual maturities.

Notes to financial statements (cont.)

(In PLN thousand)

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 Group statement of financial position and off-balance items, as well as of non-equity related cash flows.

Adjusted liquidity gap as at 31 December 2010

	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	48 274 712	5 536 693	20 311 719	34 352 311	25 614 451	134 089 886
Liabilities	27 018 795	8 154 288	12 310 009	23 103 661	63 503 133	134 089 886
Net off-balance sheet items	(6 077 500)	(915 038)	3 484 173	2 275 237	927 442	(305 686)
Periodic gap	15 178 417	(3 532 633)	11 485 883	13 523 887	(36 961 240)	(305 686)
Cumulated gap		11 645 784	23 131 667	36 655 554	(305 686)	

Adjusted liquidity gap as at 31 December 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	49 948 146	8 405 908	15 079 992	24 752 132	32 429 876	130 616 054
Liabilities	29 119 415	7 310 230	11 308 079	25 282 287	57 596 043	130 616 054
Net off-balance sheet items	(6 544 578)	575 789	4 554 559	2 060 070	755 558	1 401 398
Periodic gap	14 284 153	1 671 467	8 326 472	1 529 915	(24 410 609)	1 401 398
Cumulated gap		15 955 620	24 282 092	25 812 007	1 401 398	

Notes to financial statements (cont.)

(In PLN thousand)

Structure of financial liabilities by contractual maturities

31.12.2010	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 (*)	4 145 015	89 224	436 147	1 529 940	1 440 776	7 641 102
Amounts due to customers	80 786 722	9 960 054	8 095 964	839 211	125 285	99 807 236
Debt securities issued	-	468 848	121 604	586 706	-	1 177 158
Financial liabilities held for trading	-	-	-	104 280	9 948	114 228
Total	84 931 737	10 518 126	8 653 715	3 060 137	1 576 009	108 739 724
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	24 698 614	-	-	-	-	24 698 614
Off- balance sheet commitments Guarantees liabilities granted	8 586 138	-	-	-	-	8 586 138
Total	33 284 752	-	-	-	-	33 284 752

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 (*)	3 780 258	632 478	715 751	2 633 416	717 278	8 479 181
Amounts due to customers	78 218 196	11 118 778	6 674 084	823 339	415 599	97 249 996
Debt securities issued	28 869	122 604	775 079	1 105 682	-	2 032 234
Financial liabilities held for trading	-	-	-	498 978	482 376	981 354
Total	82 027 323	11 873 860	8 164 914	5 061 415	1 615 253	108 742 765
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	25 634 081	-	-	-	-	25 634 081
Off- balance sheet commitments Guarantees liabilities granted	4 890 347	-	-	-	-	4 890 347
Total	30 524 428	-	-	-	-	30 524 428

(*) Including Central Bank

(**) Exposure amounts from financing-related off-balance sheet commitments granted and guarantee liabilities granted have been allocated to earliest tenors, for which an outflow of assets from the Bank is possible based on contracts entered into by the Bank. However, the expected by the Bank flows from off-balance exposures are actually significantly lower and are differently distributed in time 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 flows that are presented in Tables 'Adjusted liquidity gap'.

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

According to Group's 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.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

Liabilities from off-balance transactions on derivatives recognized 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
31.12.2010	22 887	143 996	151 781	1 017 284	292 865	1 628 813
31.12.2009	24 917	80 504	225 988	891 316	334 801	1 557 526

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
31.12.2010						
proceeds	12 514 108	3 795 325	9 359 938	5 613 787	2 744 660	34 027 818
outflows	12 281 818	3 723 635	9 198 525	5 650 211	3 167 064	34 021 253
31.12.2009						
proceeds	15 906 896	7 614 115	9 492 176	3 481 667	1 860 765	38 355 619
outflows	14 829 662	7 308 823	9 235 804	3 313 691	1 871 654	36 559 634

5.5 Operating risk

Operating risk management is based on internal procedures approved by Management Board which are in compliance by 'The Recommendation M' and Polish Financial Supervision Authority Resolution 369/2010 and 383/2008. Operating risk managing system comprises the Bank Pekao S.A. and its subsidiaries. The Operating Risk Committee was established in order to support and advise to the Management Board in development of adequate operating risk management process throughout introducing relevant internal regulations, taking into consideration strategy approved by the Supervisory Board.

The Management Board of the Bank receives the risk reports including: the analysis of operating events divided into event categories and regions, analysis of risk ratios and capital operating risk adequacy index. Tools used in the process of control are: operating event data base, key risk indicators, self-assessment surveys and scenario analysis.

The Bank has special procedures concerning operating risk limitation, such as:

- anti-money laundering program,
- Bank's entities protection,
- going concern management,
- bank secrecy compliance,
- personal data protection,
- principles of cooperation of Bank's entities with external companies.

Other tools used in operating risk mitigation are inter alia: emergency plans, internal audit controls, obligation to report about operating events to Operating Risk Management Department, insurance policies, current quality process improvement, monitoring of segments in which the Bank incurred a loss in preceding periods. Moreover, in case of non-compliance, the requirements relating to the scope, method and frequency of performing functional control in defined operating segments are provided.

Continuous improvement of operating risk awareness is achieved through Operating Risk Management Department employees' meetings with people responsible for operating risk in Bank's entities.

Notes to financial statements (cont.)

(In PLN thousand)

5.6 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 realized financial income from the level assumed in the financial plan. According to the approach adopted by UniCredit Group, EaR is estimated for one year time horizon and at the confidence level of 99.97%.

5.7 Real estate risk

Real estate risk is caused by volatility of the market value of the Group's real estate portfolio. It covers the real estate portfolio of the Group. It does not cover real estate acquired through vindication proceedings 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%.

5.8 Financial investments risk

Financial investment risk stems from the Group'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, non-controlling interests and indirect subsidiaries of the Group.

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

5.9 Equity management

The equity management process applied by Bank Pekao S.A. Group has been adopted for the following purposes:

- assurance of safe operations by maintaining the balance between the capacity to undertake risk (limited by Bank's equity), 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 utilization of the Group 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 Group'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 Group is controlled by the Assets, Liabilities and Risk Management Committee and Management Board. Periodic reports on the scale and direction 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 Group. Analyses and evaluations of directions of business development activities are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, Bank's equity and capital adequacy ratio constitute an integral part of the planning and budgeting process.

Notes to financial statements (cont.)

(In 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 optimization of capital utilization for the needs of different types of operations.

Since 1st January 2008, the Group has followed the regulations under the Basel II Agreement. The regulations referred to above are based on three tiers (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 2010, the Group's capital adequacy ratio stood at 17.61%, i.e. more than twice as much as the minimum value required by the law.

The improvement of capital adequacy ratio in December 2010 compared with December 2009 (growth by 1.37 p.p.) was achieved by increasing the equity despite the increase of total capital requirement.

The strengthening of Group's capital base in 2010 is a consequence of the decision adopted by the Regular General Meeting of Shareholders on the allocation of PLN 1.7 billion of net profit of Bank Pekao S.A. for 2009 to the Bank's equity.

The calculations of the regulatory capital requirement as at 31.12.2010 were based on the provisions under Resolution No. 76/2010 Polish Financial Supervision Authority ('KNF') of 10.03.2010 and Resolution No. 369/2010 KNF of 12.10.2010 amending the resolution of KNF on the scope and detailed procedures for determining capital requirements for specific types of risk.

As at 31.12.2009, calculations were made based on the provisions under Resolution No. 380/2008 KNF of 17.12.2008 with subsequent amendments (Resolution No. 335/2009 KNF of 10.11.2009).

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. 76/2010 KNF and Resolution No. 369/2010 KNF), 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. 76/2010 KNF and Resolution No. 369/2010 KNF).

The capital requirement related to operating risk is calculated by standard method (in keeping with the provisions under Enclosure No. 14 to Resolution No. 76/2010 KNF and Resolution No. 369/2010 KNF).

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents the basic data concerning Group's capital adequacy as at 31 December 2010 and 31 December 2009.

	31.12.2010	31.12.2009
Capital (Tier 1)	16 819 902	15 041 821
Share capital	262 364	262 331
Supplementary capital	9 440 965	9 433 202
Reserve capital	6 577 774	5 042 302
General risk fund for unidentified risk of banking operations	1 437 850	1 337 850
Unrealized gains	43 897	26 921
Non-controlling interest	82 877	83 057
Deductions from the core capital:		
Foreign exchange differences	(136 072)	(179 559)
Intangible assets	(697 235)	(708 473)
Unrealized losses from debt instruments available for sale	(100 737)	(124 177)
Unrealized losses from equity instruments available for sale	-	(10)
Capital exposure to financial institutions	(91 781)	(131 623)
Supplementary funds (Tier 2)		
Unrealized gains from debt instruments available for sale	82 391	65 477
Unrealized gains from equity instruments available for sale	7	-
Deductions:		
Capital exposure to financial institutions	(82 398)	(65 477)
Total equity	16 819 902	15 041 821
Capital adequacy ratio	17.61%	16.24%

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).

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).

Notes to financial statements (cont.)

(In PLN thousand)

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 the sum of economic capital amounts calculated for specific risk types.

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.

5.10 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 2010 and 31 December 2009, the Group 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 parameterization, based exclusively on quotations from active markets for a 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 parameterization, 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 2010

	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	13 904 351	14 309 066	441 067	28 654 484
Financial assets held for trading	768 237	-	197 404	965 641
Derivative financial instruments, including:	-	1 493 453	63 580	1 557 033
– Banks	-	1 287 233	63 220	1 350 453
– Customers	-	206 220	360	206 580
Other financial instruments at fair value through profit or loss	16 735	-	-	16 735
Hedging instruments	-	258 688	-	258 688
Securities available for sale	13 119 379	12 556 925	180 083	25 856 387
Liabilities:	114 228	2 239 761	63 250	2 417 239
Financial liabilities held for trading	114 228	-	-	114 228
Derivative financial instruments, including:	-	1 529 195	63 250	1 592 445
– Banks	-	1 326 959	4 069	1 331 028
– Customers	-	202 236	59 181	261 417
Hedging instruments	-	710 566	-	710 566

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2009

	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	18 072 804	7 642 921	393 630	26 109 355
Financial assets held for trading	3 546 026	11 359	196 594	3 753 979
Derivative financial instruments, including:	-	2 340 376	67 169	2 407 545
- Banks	-	1 693 482	61 442	1 754 924
- Customers	-	646 894	5 727	652 621
Other financial instruments at fair value through profit or loss	2 394 086	-	-	2 394 086
Hedging instruments	-	87 543	-	87 543
Securities available for sale	12 132 692	5 203 643	129 867	17 466 202
Liabilities:	981 354	1 681 082	61 443	2 723 879
Financial liabilities held for trading	981 354	-	-	981 354
Derivative financial instruments, including:	-	1 530 630	61 443	1 592 073
- Banks	-	1 393 213	2 044	1 395 257
- Customers	-	137 417	59 399	196 816
Hedging instruments	-	150 452	-	150 452

Change in fair value of financial instruments in 2010 measured by the Group at fair value according to Method 3

	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	196 594	67 169	129 867	61 443
Increases, including:	20 704 985	23 590	120 220	18 194
Acquisition	20 680 746	-	100 000	-
Revenues from financial instruments	24 239	23 590	20 220	18 194
recognized in the income statement	24 239	23 590	19 268	18 194
recognized in Revaluation reserves from financial instruments	-	-	952	-
Decreases, including:	(20 704 175)	(27 179)	(70 004)	(16 387)
Settlement/redemption	(530 884)	(1 800)	(21 000)	(6 254)
Sale	(20 172 354)	-	(49 004)	-
Loss on financial instruments	(937)	(25 379)	-	(10 133)
recognized in the income statement	(937)	(25 379)	-	(10 133)
Closing balance	197 404	63 580	180 083	63 250
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	(62)	13 242	11 910	(16 596)
recognized in 'Interest income'	203	-	11 149	-
recognized in 'Result on financial assets and liabilities held for trading'	(265)	13 242	-	(16 596)
recognized in 'Revaluation reserves from financial instruments'	-	-	761	-

The impact of estimated parameters of measurement at fair value for which the Group applies valuation to fair value according to Method 3 as at 31 December 2010 is insignificant.

In case of debt instruments exposed to credit spread risk, the sensitivity of exposure to spread changes by 1 bp amounts to PLN 4.2 thousand impacting on income statement and PLN 27,5 thousand impacting on 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.

Notes to financial statements (cont.)

(In PLN thousand)

The Group also holds financial instruments which are not presented at fair value in the financial statements. 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, recognized at the value due for payment taking impairment into consideration, fair value was assumed to be equal to carrying amount. 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 validation techniques and taking into consideration the assumption, that at the moment the credit is granted its fair value is equal to its carrying amount. 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 credits 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 90 million in case of credits for central investments, and PLN 83 million in case of refinancing credits (as at 31 December 2009, fair value stood at PLN 178 million for central investment credit and PLN 165 million for refinancing credit).

In the case of the Group's minority exposures, for which no active market prices are available, the carrying amount of such investments is presented in the table below at fair value. The Group's non-controlling interests include companies associated with the financial sector, companies taken-over over as a result of 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. The Bank exposures to those companies depend upon the long-term investments, and to-date the Bank has no plans as to the divestment thereof.

31.12.2010	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
ASSETS			
Cash and due from Central Bank	5 969 104	5 969 104	-
Receivables from banks	6 258 811	6 258 662	(149)
Financial assets held for trading	965 641	965 641	-
Assets from derivatives	1 557 033	1 557 033	-
Other financial instruments recognized at fair value through profit or loss	16 735	16 735	-
Loans and advances to customers (*)	77 803 954	76 641 713	(1 162 241)
Receivables from financial leasing	3 038 975	3 038 975	-
Hedging instruments	258 688	87 573	-
Securities available for sale	25 856 387	25 856 387	-
Securities held for maturity	4 542 058	4 555 968	13 910
Investments in subsidiaries	214 616	214 616	-
Total	126 482 002	125 162 407	(1 148 480)

(*) Including bills of exchange eligible for rediscount at Central Bank.

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2009	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
ASSETS			
Cash and due from Central Bank	9 620 329	9 620 329	-
Receivables from banks	7 202 675	7 201 419	(1 256)
Financial assets held for trading	3 753 979	3 753 979	-
Assets from derivatives	2 407 545	2 407 545	-
Other financial instruments recognized at fair value through profit or loss	2 394 086	2 394 086	-
Loans and advances to customers (*)	76 380 219	75 103 538	(1 276 681)
Receivables from financial leasing	3 103 477	3 103 477	-
Hedging instruments	87 543	87 543	-
Securities available for sale	17 466 202	17 466 202	-
Securities held for maturity	3 807 823	3 796 199	(11 624)
Investments in subsidiaries	239 949	239 949	-
Total	126 463 827	125 174 266	(1 289 561)

(*) Including bills of exchange eligible for rediscount at Central Bank.

The fair value of assets and liabilities of Open Joint Stock Company UniCredit Bank is presented as equal to their carrying amount. Since no credible parameters for this market are available, no fair value figures have been provided.

Since no quoted market prices are 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 amount. 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 amount is lower than the nominal value, a term deposit may be cancelled before maturity, and in such case the fair value will be equal to its nominal value. In case of current deposits, fair value was assumed as equal to the carrying amount.

In case of deposits received by the Group, the adjustment to fair value as at 31 December 2010 stood at PLN plus 7 800 thousand (against plus PLN 580 thousand as at 31 December 2009) for deposits from clients, and PLN plus 3 583 thousand (PLN plus 3 107 thousand as at 31 December 2009) 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 2010 stood at PLN minus 14 017 thousand (against PLN minus 36 202 thousand as at 31 December 2009).

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

The mark-to-model valuation of debt instruments is based on the method of discounting the 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.

6. Custody activity

Custody activities 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.

Notes to financial statements (cont.)

(In PLN thousand)

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 more than 50% of all programmes.

In 2010, the Bank's custodial activities won Top Rated for Leading Clients and Top Rated for Cross – Border Non – Affiliate Clients titles in the annual rankings prepared by Global Custodian Magazine and Global Investor Magazine

As of 31 December 2010 the Bank maintained 4 242 securities accounts (in comparison to 4 125 securities accounts as at 31 December 2009).

7. Brokerage activity

The Group offers a wide range of capital market products and services via specialized Bank's organizational unit – Dom Maklerski Pekao and by the agency of Centralny Dom Maklerski Pekao S.A.

Dom Maklerski Pekao S.A. is a specialized organizational unit of the Bank designed to sell capital market products. It cooperates tightly with CDM Pekao S.A. by the realization of the projects conducted on the primary market and in the other areas of activities of both units.

The aim of the unit is to provide investors with the highest quality brokerage services. The complex offer enables Clients to invest on stock, derivatives (financial future contracts and options), bond as well as private market.

Dom Maklerski Pekao is a member of the Warsaw Stock Exchange GPW S.A., direct participant of the National Depository of Securities, shareholder of BondSpot.

Centralny Dom Maklerski Pekao S.A. is the oldest brokerage house on the Polish capital market.

The aim of the unit is to service investment accounts as well as financial instruments accounts. The offer enables Clients to invest inter alia in shares, T-bonds, corporate bonds, certificates, ETF and on derivatives market.

The activities of Centralny Dom Maklerski Pekao S.A. are performed pursuant to an authorization issued by the Polish Securities and Exchange Commission and is supervised by the Polish Financial Supervision Authority.

The financial instruments of the clients held on securities accounts or stored in a form of document as at 31 December 2010

	QUANTITY (pcs)	VALUE
Dom Maklerski Pekao		
Equity securities and rights to such financial assets	926 037 495	4 157 666
Debt instruments and rights to such financial assets	5 671 099	213 965
Goods and rights to them	-	-
Centralny Dom Maklerski Pekao S.A.		
Equity instruments and rights to them	10 780 089 788	40 466 257
Debt instruments and rights to them	11 155 191	1 794 790
Commodities and rights to them	-	-

Notes to financial statements (cont.)

(In PLN thousand)

Customers' cash on brokerage accounts as at 31 December 2010

	DOM MAKLEKSKI PEKAO	CENTRALNY DOM MAKLEKSKI PEKAO S.A.
Invested in debt securities issued by the State Treasury	-	-
Cash on cash accounts in the brokerage office and cash paid for securities' acquisition during first IPO or public primary turnover	217 458	899 040
Transferred from clearing fund	-	-

Settlements with banks conducting brokerage activities, brokerage houses and commodity brokerage houses as at 31 December 2010

	DOM MAKLEKSKI PEKAO	CENTRALNY DOM MAKLEKSKI PEKAO S.A.
Receivables from stock exchange transactions, including:	14 539	57 769
Warsaw Stock Exchange	14 539	55 530
BondSpot	-	-
NewConnect	-	2 239
Receivables from over-the-counter transactions	-	-
Receivables from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-	-
Receivables from affiliation	-	-
Receivables from automatic loans realized through the intermediary of the National Depository of Securities	-	-
Total	14 539	57 769
Liabilities from stock exchange transactions, including:	17 684	56 856
Warsaw Stock Exchange	17 684	52 812
BondSpot	-	1 497
NewConnect	-	2 547
Liabilities from over-the-counter transactions	-	-
Liabilities from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-	-
Liabilities from affiliation	-	-
Liabilities from automatic loans realized through the intermediary of the National Depository of Securities	-	-
Total	17 684	56 856

Settlements with National Depository of Securities (KDPW) and other stock exchange clearing houses as at 31 December 2010

	DOM MAKLEKSKI PEKAO	CENTRALNY DOM MAKLEKSKI PEKAO S.A.
Receivables from clearing fund	13 905	14 815
Receivables from compensation fund	29	5 175
Total	13 934	19 990
Amounts due to clearing fund	-	-
Amounts due to compensation fund	-	-
Total	-	-

Notes to financial statements (cont.)

(In PLN thousand)

Settlements with entities running regulated securities markets and commodity exchanges as at 31 December 2010

	DOM MAKLERSKI PEKAO	CENTRALNY DOM MAKLERSKI PEKAO S.A.
Receivables from Warsaw Stock Exchange	-	-
Receivables from BondSpot	-	-
Total	-	-
Amounts due to Warsaw Stock Exchange	185	854
Amounts due to BondSpot	1	1
Total	186	855

8. Operating segments

Segment reporting is based on the application of the management model ("Model") in which the main criterion for segmentation in the Group reporting is the classification of customers based on their profile and service model.

The Model assumes that budgeting and monitoring of results at the segments' level includes all the components of income statement to the level of profit before income tax. This means that both income generated by activities of specific segments and operating costs associated with these activities (both direct costs and allocated costs, in accordance with the adopted model of the allocation) are assigned to distinctive segments, as well as other components of income statement.

The Group settles transactions between segments on an arms length basis by applying current market prices. Fund transfers between the Bank's segments namely retail, private, corporate and investment banking and Assets and Liabilities Management and other unit are based on market prices applicable to the funds' currency and maturity, adjusted for liquidity margins.

Reported segments of the Group include the following areas:

- Retail banking – full scope of banking activity offered to the individual customers (excluding Private banking customers), small and micro enterprises with annual turnover not exceeding PLN 10 million, as well as results of those of the Group's consolidated subsidiaries, and share in net profit of those of the Group's associated entities accounted for using the equity method, that are assigned to the retail banking activity,
- Private banking – full scope of banking activity offered to wealthiest individual customers,
- Corporate and Investment banking – full scope of banking activity offered to the medium and large enterprises, including activities on the inter-bank market, investments in debt securities and other instruments as well as results of those of the Group's consolidated subsidiaries consolidated under the full method, that are assigned to the corporate and investment banking activities,
- Assets and Liabilities Management and other – covers supervision and monitoring of fund transfers, other areas centrally managed including proceeds from collections activity, results of Group's subsidiaries consolidated under the full method and share in the profits of associated entities accounted under the equity method that are not assigned to other reported segments.

Notes to financial statements (cont.)

(In PLN thousand)

Information on revenues of the Group's operating segments for 2010.

	RETAIL BANKING	PRIVATE BANKING	CORPORATE ACTIVITIES AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	GROUP TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
External interest income	2 481 223	30 359	3 618 624	270 779	150 230	6 551 215
External interest expenses	(956 108)	(220 723)	(1 269 163)	(122 010)	120 463	(2 447 541)
Net external interest income	1 525 115	(190 364)	2 349 461	148 769	270 693	4 103 674
Internal interest income	1 814 223	251 340	1 742 724	-	(3 808 287)	-
Internal interest expenses	(1 182 455)	(21 987)	(2 562 778)	-	3 767 220	-
Total net internal interest income	631 768	229 353	(820 054)	-	(41 067)	-
Dividends and other income from equity investments	59 068	-	-	-	17 090	76 158
Total net interest income	2 215 951	38 989	1 529 407	148 769	246 716	4 179 832
Non-interest income	1 964 993	38 619	928 249	47 610	58 711	3 038 182
Operating income	4 180 944	77 608	2 457 656	196 379	305 427	7 218 014
Personnel expenses	(1 147 896)	(19 454)	(280 177)	(39 145)	(463 629)	(1 950 301)
Other administrative expenses	(1 497 065)	(27 819)	(402 628)	(39 023)	659 391	(1 307 144)
Depreciation and amortization	(148 513)	(408)	(20 629)	(12 502)	(209 659)	(391 711)
Operating costs	(2 793 474)	(47 681)	(703 434)	(90 670)	(13 897)	(3 649 156)
Operating profit	1 387 470	29 927	1 754 222	105 709	291 530	3 568 858
Net result on other provisions	831	-	(22 761)	-	(28 744)	(50 674)
Net impairment losses on financial assets and off-balance sheet commitments	(431 443)	3 047	(56 207)	(52 041)	(1 284)	(537 928)
Net result on investment activities	10	-	115 571	354	5 321	121 256
Profit before tax	956 868	32 974	1 790 825	54 022	266 823	3 101 512
Income tax expense (continuing operations)						(554 116)
Income tax expense (discontinued operations)				(17 057)		(17 057)
Net profit for the period				36 965		2 530 339
Attributable to equity holders of the Bank						2 525 234
Attributable to non-controlling interest						5 105
Allocated assets	35 626 719	591 114	92 588 005	3 209 276	(3 965 063)	128 050 051
Unallocated assets						6 039 835
Total assets						134 089 886
Allocated liabilities	53 566 394	6 586 468	52 520 479	2 847 921	(5 299 798)	110 221 464
Unallocated liabilities						23 868 422
Total liabilities						134 089 886

(*) including intercompany transactions within the Group

Notes to financial statements (cont.)

(In PLN thousand)

Information on revenues of the Group's operating segments for 2009.

	RETAIL BANKING	PRIVATE BANKING	CORPORATE ACTIVITIES AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	GROUP TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
External interest income	2 459 037	37 328	3 820 320	340 908	90 332	6 747 925
External interest expenses	(1 158 241)	(293 041)	(1 499 066)	(135 729)	140 438	(2 945 639)
Net external interest income	1 300 796	(255 713)	2 321 254	205 179	230 770	3 802 286
Internal interest income	2 204 304	328 676	2 072 657	-	(4 605 637)	-
Internal interest expenses	(1 263 037)	(28 387)	(2 997 694)	-	4 289 118	-
Total net internal interest income	941 267	300 289	(925 037)	-	(316 519)	-
Dividends and other income from equity investments	49 119	-	-	-	16 062	65 181
Total net interest income	2 291 182	44 576	1 396 217	205 179	(69 687)	3 867 467
Non-interest income	1 926 850	34 030	1 109 003	45 154	70 077	3 185 114
Operating income	4 218 032	78 606	2 505 220	250 333	390	7 052 581
Personnel expenses	(1 083 165)	(18 828)	(266 145)	(39 370)	(448 833)	(1 856 341)
Other administrative expenses	(1 624 999)	(32 747)	(389 739)	(43 540)	713 110	(1 377 915)
Depreciation and amortization	(148 813)	(329)	(17 851)	(15 785)	(255 756)	(438 534)
Operating costs	(2 856 977)	(51 904)	(673 735)	(98 695)	8 521	(3 672 790)
Operating profit	1 361 055	26 702	1 831 485	151 638	8 911	3 379 791
Net result on other provisions	(820)	-	1 016	-	966	1 162
Net impairment losses on financial assets and off-balance sheet commitments	(292 514)	3 273	(155 894)	(117 713)	28 191	(534 657)
Net result on investment activities	2 147	-	15 118	(558)	134 477	151 184
Profit before tax	1 069 868	29 975	1 691 725	33 367	172 545	2 997 480
Income tax expense (continuing operations)						(557 548)
Income tax expense (discontinued operations)				(18 587)		(18 587)
Net profit for the period				14 780		2 421 345
Attributable to equity holders of the Bank						2 411 735
Attributable to non-controlling interest						9 610
Allocated assets	31 848 351	623 195	91 330 207	-	(2 738 225)	121 063 528
Unallocated assets						9 552 526
Total assets						130 616 054
Allocated liabilities	50 458 146	7 201 297	55 117 150	-	(3 473 229)	109 303 364
Unallocated liabilities						21 312 690
Total liabilities						130 616 054

(*) including intercompany transactions within the Group

The Group's Management Model assumes budgeting and monitoring being performed at the business lines' revenues level. The operating costs are managed centrally by dedicated units and are not allocated to the business lines.

Notes to financial statements (cont.)

(In PLN thousand)

Geographical segment

The operating activity of Bank Pekao S.A. Group is concentrated in Poland through the network of branches and the Group's subsidiaries and associates.

The Group also conducts activities in the following countries:

Ukraine – through the subsidiaries of Bank Pekao S.A.

France – through the branch of Bank Pekao S.A. in Paris.

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

The following table presents geographical segment information for the Group's operating activity:

	POLAND	UKRAINE (DISCONTINUED OPERATIONS)	TOTAL GROUP
2010			
External income	2 488 269	36 965	2 525 234
Segment assets	130 880 610	3 209 276	134 089 886
2009			
External income	2 396 955	14 780	2 411 735
Segment assets	127 509 222	3 106 832	130 616 054

9. Interest income and expense

Interest income

	2010	2009
Loans and other receivables from customers	5 181 603	5 362 366
Placements in other banks	162 294	195 537
Reverse repo transactions	51 337	40 356
Investment securities	1 050 612	875 481
Financial assets held for trading	71 256	106 573
Financial assets designated to fair value through profit or loss	34 113	167 612
Total	6 551 215	6 747 925

Interest income for 2010 includes income from impaired financial assets in the amount of PLN 226 333 thousand (in 2009 PLN 205 278 thousand).

Total amount of interest income for 2010, measured at amortized cost using the effective interest rate method with reference to the financial assets which are not measured at fair value through profit or loss amounted to PLN 3 718 330 thousand (in 2009 PLN 3 870 212 thousand).

Notes to financial statements (cont.)

(In PLN thousand)

Interest expense

	2010	2009
Customers' deposits	(2 109 110)	(2 413 242)
Other banks' deposits	(59 741)	(105 245)
Repo transactions	(54 061)	(128 357)
Loans from other banks	(147 629)	(229 065)
Debt securities issued	(77 000)	(69 730)
Total	(2 447 541)	(2 945 639)

Total amount of interest expenses for 2010, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 2 203 336 thousand (in 2009 PLN 2 698 210 thousand).

10. Fee and commission income and expense

Fee and commission income

	2010	2009
Customer accounts maintenance and payment orders	838 656	918 398
Payment cards	780 746	770 652
Loans and advances	449 570	390 823
Acquisition services	299 934	253 122
Securities operations	159 506	127 206
Custody activity	52 784	46 196
Pension and investment funds service fees	70 474	76 145
Guarantees, letters of credit and similar transactions	53 077	48 649
Other	91 546	84 966
Total	2 796 293	2 716 157

Fee and commission expense

	2010	2009
Payment cards	(341 659)	(341 124)
Bank drafts and transfers	(23 877)	(25 434)
Securities operations	(22 590)	(22 817)
Accounts maintenance	(7 421)	(6 592)
Custody activity	(7 294)	(4 981)
Pension funds management charges	(3 924)	(3 999)
Acquisition services	(384)	(3 100)
Other	(21 116)	(19 517)
Total	(428 265)	(427 564)

Notes to financial statements (cont.)

(In PLN thousand)

11. Dividend income

	2010	2009
From issuers of securities available for sale	7 889	7 105
Total	7 889	7 105

12. Result on financial assets and liabilities held for trading

	2010	2009
Foreign currency exchange result	575 218	732 986
Gains (losses) on derivatives	(3 922)	(34 423)
Gains (losses) on securities	12 920	53 320
Total	584 216	751 883

In 2010, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to minus PLN 4 024 thousand (in 2009 PLN 5 510 thousand).

13. Gains (losses) on financial assets and liabilities at fair value through profit or loss

	2010	2009
Debt securities	13 952	54 558
Total	13 952	54 558

14. Gains (losses) on disposal

Realized gains

	2010	2009
Loans and other financial receivables	7 044	2 816
Available for sale financial assets – debt instruments	114 693	23 802
Available for sale financial assets – equity instruments (*)	6 934	79 671
Debt securities issued	303	842
Total	128 974	107 131

(*) including profit from the sale of MasterCard shares	-	68 714
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Notes to financial statements (cont.)

(In PLN thousand)

Realized losses

	2010	2009
Loans and other financial receivables	-	(232)
Available for sale financial assets – debt instruments	-	(5 581)
Available for sale financial assets – equity instruments	-	(39)
Debt securities issued	(1 371)	(760)
Total	(1 371)	(6 612)
Net realized profit	127 603	100 519

The change in fair value of financial assets available for sale transferred in 2010 directly to equity amounted to PLN 132 013 thousand (increase), in 2009 PLN 81 261 thousand (increase).

The change in fair value of financial assets, transferred in 2010 from equity to financial income amounted to PLN 114 693 thousand (profit), in 2009 PLN 29 139 thousand (profit).

15. Administrative expenses

Personnel expenses

	2010	2009
Wages and salaries	(1 661 867)	(1 573 016)
Insurance and other charges related to employees	(283 095)	(279 247)
Pension programs costs due define contributions	(1 725)	(1 576)
Share-based payments expense	(3 614)	(2 502)
Total	(1 950 301)	(1 856 341)

Other administrative expenses

	2010	2009
Other administrative expenses	(1 216 346)	(1 281 863)
Taxes and charges	(38 177)	(39 790)
Bank Guarantee Fund fee	(39 156)	(45 566)
Financial supervision authority fee (KNF)	(20 670)	(21 100)
Total	(1 314 349)	(1 388 319)
Total administrative expenses	(3 264 650)	(3 244 660)

Notes to financial statements (cont.)

(In PLN thousand)

16. Net other operating income and expenses

Other operating income

	2010	2009
Rental income and other (miscellaneous income)	36 531	53 122
Credit insurance charges	28 453	22 143
Recovery of debt collection costs	14 691	10 293
Compensation, penalty fees and fines received	6 306	14 850
Refund of administrative costs	7 205	10 404
Income from written off liabilities	2 964	93
Releases of impairment of litigation and other assets	6 939	1 712
Releases of provisions for liabilities	508	6 130
Gains on sale of other assets	2 807	5 332
Other	58 020	50 749
Total	164 424	174 828

Other operating expenses

	2010	2009
Credit insurance costs	(19 236)	(19 056)
Customers complaints expense	(6 462)	(7 448)
Impairment of litigations receivables and other assets	(2 543)	(12 509)
Costs of litigation and claims	(4 778)	(3 381)
Compensation, penalty fees and fines paid	(18 210)	(5 908)
Losses on disposal of other assets	(182)	(249)
Other	(46 599)	(39 571)
Total	(98 010)	(88 122)

Net other operating income and expenses	66 414	86 706
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Notes to financial statements (cont.)

(In PLN thousand)

17. Net impairment losses on financial assets and off-balance sheet commitments

2010	OPENING BALANCE	INCREASES			DECREASES		CLOSING BALANCE	IMPACT ON NET RESULT(**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE STATEMENT OF FINANCIAL POSITION	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	78 245	4 862	5 890	-	(2 742)	(9 256)	76 999	(2 120)
Derivative financial instruments	4 793	-	480	-	-	(4 793)	480	-
Loans and advances to customers valued at amortized cost	4 193 778	1 189 034	122 191	(452 985)	(660 548)	(339 593)	4 051 877	(528 486)
Receivables from financial leasing	167 514	69 948	805	(8 694)	(47 751)	(28)	181 794	(22 197)
Financial assets available for sale	7 280	-	464	(4 804)	-	(2 459)	481	-
Impairment of off-balance sheet commitments	103 251	51 453	237	-	(58 185)	(256)	96 500	6 732
Total financial assets and off-balance sheet commitments	4 554 861	1 315 297	130 067	(466 483)	(769 226)	(356 385)	4 408 131	(546 071)
Impairment of other assets:								
Investments in subsidiaries and associates	3 759	-	28	-	-	-	3 787	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Goodwill	-	-	-	-	-	-	-	-
Other intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	12 863	238	-	-	(2 451)	(1 335)	9 315	2 213
Investment properties	4 352	-	-	-	(3 706)	(96)	550	3 706
Other	108 300	2 543	187	(678)	(6 939)	(8 366)	95 047	4 396
Total impairment of other assets	140 235	2 781	215	(678)	(13 096)	(9 797)	119 660	10 315
Total	4 695 096	1 318 078	130 282	(467 161)	(782 322)	(366 182)	4 527 791	(535 756)

(*) Including foreign exchange differences and transfers between positions

(**) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 546 071 thousand and proceeds from recovered bad debt in the amount of PLN 8 143 thousand, the total is PLN minus 537 928 thousand.

Notes to financial statements (cont.)

(In PLN thousand)

2009	OPENING BALANCE	INCREASES			DECREASES			CLOSING BALANCE	IMPACT ON NET RESULT(***)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE STATEMENT OF FINANCIAL POSITION	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)			
Impairment of financial assets and off- balance sheet commitments									
Loans and advances to banks valued at amortized cost	100 797	8 106	5 257	-	(8 947)	(26 968)	78 245	841	
Derivative financial instruments (**)	71 831	-	-	-	-	(67 038)	4 793	-	
Loans and advances to customers valued at amortized cost	3 921 575	1 230 951	265 131	(335 250)	(689 379)	(199 250)	4 193 778	(541 572)	
Receivables from financial leasing	184 309	66 268	-	(55 104)	(27 715)	(244)	167 514	(38 553)	
Financial assets available for sale	18 933	-	-	-	-	(11 653)	7 280	-	
Investments held to maturity valued at amortized cost	121	-	5	-	(126)	-	-	126	
Impairment of off-balance sheet commitments	140 661	52 232	6 115	-	(88 634)	(7 123)	103 251	36 402	
Total financial assets and off-balance sheet commitments	4 438 227	1 357 557	276 508	(390 354)	(814 801)	(312 276)	4 554 861	(542 756)	
Impairment of other assets:									
Investments in subsidiaries and associates	3 786	-	-	-	-	(27)	3 759	-	
Intangible assets	11 212	-	-	-	-	(251)	10 961	-	
Goodwill	-	-	-	-	-	-	-	-	
Other intangible assets	11 212	-	-	-	-	(251)	10 961	-	
Property, plant and equipment	14 401	57	297	-	-	(1 892)	12 863	(57)	
Investment properties	9 979	-	-	-	-	(5 627)	4 352	-	
Other	144 382	12 509	103 804	(31 566)	(1 712)	(119 117)	108 300	(10 797)	
Total impairment of other assets	183 760	12 566	104 101	(31 566)	(1 712)	(126 914)	140 235	(10 854)	
Total	4 621 987	1 370 123	380 609	(421 920)	(816 513)	(439 190)	4 695 096	(553 610)	

(*) Including foreign exchange differences and transfers between positions

(**) The amount of PLN minus 67 038 thousand has been reclassified into the item 'Loans and advances to customers and loans and advances to banks valued at amortized costs'

(***) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 542 756 thousand and proceeds from recovered bad debt in the amount of PLN 8 225 thousand, the total is PLN minus 534 531 thousand.

Notes to financial statements (cont.)

(In PLN thousand)

18. Gains (losses) on associates

Share of profit (loss) in associates

	2010	2009
Xelion. Doradcy Finansowi Sp. z o.o.	837	(4 279)
Pioneer Pekao Investment Management S.A.	58 216	53 313
Krajowa Izba Rozliczeniowa S.A.	8 392	8 684
Pirelli Pekao Real Estate Sp. z o.o.	304	423
Central Poland Fund LLC	520	(65)
Total share of gains on associates	68 269	58 076
Total gain (loss) on associates	68 269	58 076

19. Income tax

The Capital Group's tax charge for the year 2010 amounting to PLN 571 173 thousand contains:

- tax charge relating to continuing operations in the amount of PLN 554 116 thousand,
- tax charge relating to discontinued operations in the amount of PLN 17 057 thousand.

The below additional information notes present the Group gross profit's tax charge both for continued and discontinued operations.

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

	2010	2009
Profit before income tax	3 101 512	2 997 480
Tax charge according to applicable tax rate at 19%	589 287	569 521
Permanent differences:	(18 114)	6 614
Non taxable income	(47 137)	(19 858)
Non tax deductible costs	29 041	17 854
Impact of other tax rates applied under a different tax jurisdiction	268	2 422
Impact of utilized tax losses	(580)	(1 759)
Tax relieves not included in the income statement	319	1 498
Other	(25)	6 457
Effective income tax charge on gross profit	571 173	576 135

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

Notes to financial statements (cont.)

(In PLN thousand)

The basic components of income tax charge presented in the income statement and equity

	2010	2009
CONSOLIDATED INCOME STATEMENT		
Current income tax	(800 748)	(635 073)
Current tax charge disclosed in the income statement	(790 722)	(633 594)
Adjustments related to the current tax from previous years	(741)	11 152
Other taxes (for example withholding tax, income tax relating to foreign branches)	(9 285)	(12 631)
Deferred income tax	229 575	58 938
Occurrence and reversal of temporary differences	229 575	58 938
Tax charge disclosed in the consolidated income statement	(571 173)	(576 135)
EQUITY		
Deferred income tax	15 496	17 572
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	(12 838)	28 649
revaluation of financial assets available for sale – debt securities	(3 186)	(11 630)
revaluation of financial assets available for sale – with equity rights	(4)	553
Foreign currency translation differences	31 524	-
Tax charge presented in other comprehensive income	15 496	17 572
TOTAL CHARGE	(555 677)	(558 563)

The Capital Group's deferred tax provision as at 31 December 2010 amounting to PLN 15 937 thousand contains:

- deferred tax provision relating to continuing operations in the amount of PLN 736 thousand
- deferred tax provision relating to discontinued operations in the amount of PLN 15 201 thousand

The Capital Group's deferred tax asset as at 31 December 2010 amounting to PLN 721 981 thousand relates only to the continuing operations.

Notes to financial statements (cont.)

(In PLN thousand)

CHANGES IN TEMPORARY DIFFERENCES IN 2010											
	OPENING BALANCE			CHANGES RECOGNIZED			CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY	
DEFERRED TAX LIABILITY											
Accrued income – securities	25 546	25 546	-	(294)	-	(43)	-	25 209	25 209	-	
Accrued income – loans	182 222	182 222	-	(50 429)	-	-	-	131 793	131 793	-	
Change in revaluation of financial assets	340 762	340 762	-	(163 541)	5 893	-	-	183 114	177 221	5 893	
Accelerated depreciation	118 938	118 938	-	309	-	312	-	119 559	119 559	-	
Investment relief	8 827	8 827	-	(634)	-	-	-	8 193	8 193	-	
Other	27 338	27 338	-	1 702	-	(761)	-	28 279	28 279	-	
Gross deferred tax liability	703 633	703 633	-	(212 887)	5 893	(492)	-	496 147	490 254	5 893	
DEFERRED TAX ASSET											
Accrued expenses – securities	190	190	-	(201)	-	11	-	-	-	-	
Accrued expenses – loans and deposits	183 167	183 167	-	(55 648)	-	-	-	127 519	127 519	-	
Downward revaluation of financial assets	312 722	301 926	10 796	(6 015)	21 389	167	-	328 263	296 078	32 185	
Income received to be settled from loans and current accounts	114 155	114 155	-	(7 689)	-	(31)	-	106 435	106 435	-	
Loan provision expenses	335 123	335 123	-	21 300	-	499	-	356 922	356 922	-	
Personnel related provisions	66 622	66 622	-	25 935	-	(30)	-	92 527	92 527	-	
Accruals	22 196	22 196	-	(6 390)	-	31	-	15 837	15 837	-	
Previous year loss	1 100	1 100	-	1 121	-	44	-	2 265	2 265	-	
Other	127 999	127 999	-	44 275	-	148	-	172 423	172 423	-	
Gross deferred tax asset	1 163 274	1 152 478	10 796	16 688	21 389	839	-	1 202 191	1 170 006	32 185	
Deferred tax expenses	x	x	x	229 575	15 496	1 331	x	x	x	x	
Net deferred tax assets	462 147	451 351	10 796	x	x	x	x	721 981	694 785	27 196	
Net deferred tax	2 505	2 505	-	x	x	x	x	15 937	15 033	904	

Notes to financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2009										
	OPENING BALANCE			CHANGES RECOGNIZED			CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	
DEFERRED TAX LIABILITY											
Accrued income – securities	93 337	93 337	-	(67 583)	-	(208)	-	25 546	25 546	-	
Accrued income – loans	255 744	255 744	-	(73 522)	-	-	-	182 222	182 222	-	
Change in revaluation of financial assets	470 692	463 917	6 776	(123 155)	(6 776)	-	-	340 762	340 762	-	
Accelerated depreciation	114 962	114 962	-	4 270	-	(294)	-	118 938	118 938	-	
Investment relief	24 352	24 352	-	(15 525)	-	-	-	8 827	8 827	-	
Other	15 327	15 327	-	13 370	-	(1 359)	-	27 338	27 338	-	
Gross deferred tax liability	974 414	967 639	6 776	(262 145)	(6 776)	(1 861)	-	703 633	703 633	-	
DEFERRED TAX ASSET											
Accrued expenses – securities	185	185	-	15	-	(10)	-	190	190	-	
Accrued expenses – loans and deposits	255 225	255 225	-	(72 183)	-	125	-	183 167	183 167	-	
Downward revaluation of financial assets	499 583	499 583	-	(197 448)	10 796	(209)	-	312 722	301 926	10 796	
Income received to be settled from loans and current accounts	120 387	120 387	-	(6 282)	-	50	-	114 155	114 155	-	
Loan provision expenses	359 653	359 653	-	(24 331)	-	(199)	-	335 123	335 123	-	
Personnel related provisions	68 090	68 090	-	(1 550)	-	82	-	66 622	66 622	-	
Accruals	19 434	19 434	-	2 195	-	567	-	22 196	22 196	-	
Previous year loss	167	167	-	1 038	-	(105)	-	1 100	1 100	-	
Other	32 854	32 854	-	95 339	-	(194)	-	127 999	127 999	-	
Gross deferred tax asset	1 355 578	1 355 578	-	(203 207)	10 796	107	-	1 163 274	1 152 478	10 796	
Deferred tax expenses	x	x	x	59 938	17 572	1 968	-	x	x	x	
Net deferred tax assets	383 711	390 498	(6 787)	x	x	x	x	462 147	451 351	10 796	
Net deferred tax	2 547	2 558	(11)	x	x	x	x	2 505	2 505	-	

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2010 and 31 December 2009, there were temporary differences related to investments in subsidiaries, branches, associates and entities under common control, for which no deferred tax liability was created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

The table below presents the amount of negative temporary differences, unrecognized tax losses, unutilized tax reliefs, in relation to which no deferred tax asset was recognized in the statement of financial position as well as the expiration date of temporary differences.

EXPIRATION YEAR OF TEMPORARY DIFFERENCES	AMOUNT OF DIFFERENCES AS AT 31.12. 2010	AMOUNT OF DIFFERENCES AS AT 31.12.2009
2010	-	-
2011	1 736	4 245
2012	2 520	2 520
2013	-	-
2014	-	-
2015	-	-
No time limits	33 111	33 111
Total	37 367	39 876

20. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing net profit of the Group by the weighted average number of the ordinary shares outstanding during the given period.

Earnings per share

	2010	2009
Net profit	2 525 234	2 411 735
Weighted average number of ordinary shares in the period	262 352 988	262 237 721
Earnings per share (in PLN per share)	9.63	9.20

Diluted earnings per share

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

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

	2010	2009
Net profit	2 525 234	2 411 735
Weighted average number of ordinary shares in the period	262 352 988	262 237 721
Adjustments to the number of shares for the purpose of calculation of diluted earnings per share	85 877	5 312
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 438 865	262 243 033
Diluted earnings per share (in PLN per share)	9.62	9.20

Notes to financial statements (cont.)

(In PLN thousand)

21. Dividend proposal

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

For 2010, the Management Board of the Bank will propose to the Shareholder's General Meeting a dividend payment in the amount of PLN 6.80 per share.

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

22. Cash and due from Central Bank

	31.12.2010	31.12.2009
Cash	2 471 939	2 258 805
Current account at Central Bank	3 495 458	7 359 850
Interest	314	274
Other funds	1 393	1 400
Total	5 969 104	9 620 329

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 as at 31 December 2010 3.75 %. As at 31 December 2009 this interest rate amounted to 3.75 %.

23. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2010	31.12.2009
Current accounts and overnight placements	2 992 440	3 317 570
Interbank placements	1 378 647	201 698
Loans and advances	1 374 329	822 449
Repo transactions	250 133	1 471 910
Debt securities	291 622	1 275 560
Receivables in transit	28 331	172 743
Interest accrued	20 308	18 990
Total gross amount	6 335 810	7 280 920
Impairment provision	(76 999)	(78 245)
Total net amount	6 258 811	7 202 675

Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to banks by quality

	31.12.2010	31.12.2009
Loans and advances to banks, including:		
gross value of non impaired receivables	6 252 451	7 197 966
gross value of impaired receivables	83 359	82 954
individual impairment charges	(55 024)	(54 985)
collective impairment charges (*)	(21 975)	(23 260)
Total	6 258 811	7 202 675

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

Loans and advances to banks by contractual maturities

	31.12.2010	31.12.2009
Loans and advances to banks, including:		
up to 1 month	5 369 210	5 150 553
between 1 and 3 months	1 347	51 551
between 3 months and 1 year	838 225	1 030 357
between 1 and 5 years	65 962	874 059
over 5 years	40 758	155 410
Interest accrued	20 308	18 990
Total gross amount	6 335 810	7 280 920
Impairment provision	(76 999)	(78 245)
Total net amount	6 258 811	7 202 675

Loans and advances to banks by currencies

	31.12.2010	31.12.2009
PLN	1 417 026	3 507 448
CHF	117 204	7 948
EUR	4 366 380	2 098 512
USD	174 382	1 334 799
Other currencies	183 819	253 968
Total	6 258 811	7 202 675

Changes in the level of impairments charges in 2010 and 2009 are presented in the Note 17.

24. Financial assets and liabilities held for trading

31.12.2010	ASSETS	LIABILITIES
Securities issued by State Treasury	768 237	114 228
T- bills	100 752	-
T- bonds	667 485	114 228
Securities issued by banks	197 404	-
Total	965 641	114 228
Including:		
quoted	768 237	114 228
unquoted	197 404	-

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2009	ASSETS	LIABILITIES
Securities issued by State Treasury	3 557 385	981 354
T- bills	367 134	-
T- bonds	3 190 251	981 354
Securities issued by banks	196 594	-
Total	3 753 979	981 354
Including:		
quoted	3 546 025	981 354
unquoted	207 954	-

Financial assets / liabilities held for trading by maturities

31.12.2010	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	959	-
between 1 and 3 months	236 845	-
between 3 months and 1 year	574 172	-
between 1 and 5 years	139 139	104 280
over 5 years	14 526	9 948
Total	965 641	114 228

31.12.2009	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	2 765	-
between 1 and 3 months	842 989	-
between 3 months and 1 year	1 639 015	-
between 1 and 5 years	544 499	498 978
over 5 years	724 711	482 376
Total	3 753 979	981 354

25. Derivative financial instruments held for trading

Derivative financial instruments at the Group

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

Derivative foreign exchange transactions include either the obligation or the right to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on the 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 a given market.

Notes to financial statements (cont.)

(In PLN thousand)

Foreign exchange swaps are a combination of a swap of specific currencies as at spot date and of reverse a 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 Group'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 a 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 of time 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 and 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 when a predetermined knock-in barrier price is breached. 'OUT' options start their lives active and become null and void when 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 related to interest rates enable the Group 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 (cross currency IRS with floating coupon) takes into account market quotations of basis spread (Basis swap 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 (method of discounting cash flows by 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 of time 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 valued using the Black-Scholes model. The model is parameterized 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 the stock market. Stock exchange index and stock futures are contracts quoted on the Warsaw Stock Exchange GPW. Index contracts refer to transactions based on MIDWIG indices.

Notes to financial statements (cont.)

(In PLN thousand)

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

Derivative financial instruments embedded in other instruments

The Group 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 valued separately.

The Group 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 the deposit agreement, the embedded instrument is separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognized in the income statement. 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-Scholes 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 Group 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.

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 Group uses the same method as for credit risk assessment. In order to control its credit risk levels the Group performs assessments of other contract parties using the same methods as for credit decisions.

Notes to financial statements (cont.)

(In PLN thousand)

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 Group'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.

Fair value of trading derivatives as at 31.12.2010

	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 177 331	1 388 521
Forward Rate Agreements (FRA)	2 092	1 551
Options	7 729	7 729
Other	727	376
Foreign currency transactions		
Cross-Currency Interest Rate Swaps (CIRS)	7 851	10 792
Currency Forward Agreements	41 156	51 446
Currency Swaps (fx-swap)	234 921	49 193
Options bought	22 006	-
Options sold	-	20 432
Transactions based on equity securities		
Options	63 220	62 405
Total	1 557 033	1 592 445

Fair value of trading derivatives as at 31.12.2009

	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 214 132	1 329 631
Forward Rate Agreements (FRA)	260	183
Options	9 616	9 617
Other	1 191	3 235
Foreign currency transactions		
Cross-Currency Interest Rate Swaps (CIRS)	292 498	12 988
Currency Forward Agreements	164 542	90 399
Currency Swaps (fx-swaps)	633 501	48 721
Options bought	30 363	-
Options sold	-	35 857
Transactions based on equity securities		
Options	61 442	61 442
Total	2 407 545	1 592 073

Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives as at 31.12.2010

	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 474 583	4 645 730	10 690 652	44 083 456	12 909 012	74 803 433
Forward Rate Agreements (FRA)	-	-	11 100 000	130 000	-	11 230 000
Options	-	-	14 258	1 088 830	223 231	1 326 319
Other	1 112 937	-	-	-	-	1 112 937
Foreign currency transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	158 412	157 966	104 042	-	420 420
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	163 160	157 966	99 199	-	420 325
Currency Forward Agreements - currency bought	6 466 051	963 051	1 308 239	353 693	-	9 091 034
Currency Forward Agreements - currency sold	6 479 632	958 846	1 317 738	364 066	-	9 120 282
Currency Swaps (fx-swap) – currency bought	4 715 410	2 673 862	5 212 523	4 869	-	12 606 664
Currency Swaps (fx-swap) – currency sold	4 715 727	2 601 629	5 023 720	4 196	-	12 345 272
Options bought	464 955	949 474	741 744	2 316	-	2 158 489
Options sold	445 810	940 596	727 428	2 316	-	2 116 150
Transactions based on equity securities						
Options	-	646 408	147 096	644 624	-	1 438 128
Total	26 875 105	14 701 168	36 599 330	46 881 607	13 132 243	138 189 453

Nominal value of trading derivatives as at 31.12.2009

	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	3 437 036	6 133 154	18 503 744	36 633 735	14 161 137	78 868 806
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
Foreign currency transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	193 627	433 667	1 057 680	1 673 292	-	3 358 266
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	194 271	428 956	1 053 510	1 515 576	-	3 192 313
Currency Forward Agreements – currency bought	4 039 422	1 614 369	1 460 117	90 792	-	7 204 700
Currency Forward Agreements – currency sold	4 021 155	1 557 644	1 461 826	96 694	-	7 137 319
Currency Swaps (fx-swap) – currency bought	10 341 710	5 566 079	4 910 444	28 712	-	20 846 945
Currency Swaps (fx-swap) – currency sold	10 205 865	5 322 223	4 645 893	28 014	-	20 201 995
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	35 471 013	24 039 718	36 044 661	42 976 513	14 432 021	152 963 926

Notes to financial statements (cont.)

(In PLN thousand)

26. Other financial instruments at fair value through profit or loss

	31.12.2010	31.12.2009
Debt securities	16 735	2 394 040
Equity securities	-	46
Total	16 735	2 394 086

	31.12.2010	31.12.2009
Securities issued by State Treasury	16 735	2 394 040
T-bonds	16 735	2 394 040
Securities issued by business entities	-	-
Total	16 735	2 394 040
Including:		
quoted	16 735	2 394 040
unquoted	-	-

Debt securities measured at fair value through profit or loss by maturities

	31.12.2010	31.12.2009
Debt securities, including:		
between 3 months and 1 year	505	-
between 1 and 5 years	16 230	2 394 040
over 5 years	-	-
Total	16 735	2 394 040

27. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2010	31.12.2009
Mortgage	23 021 989	20 222 229
Current accounts	9 933 994	10 257 743
Operating loans	15 098 689	16 165 666
Investment loans	15 184 856	16 642 896
Payment cards receivables	742 682	726 928
Purchased debt receivables	1 783 532	961 238
Other loans and advances	11 879 171	11 362 632
Debt securities	2 579 089	1 552 129
Repo transactions	1 411 577	2 415 121
Receivables in transit	5 225	29 029
Interest accrued	214 803	238 228
Total gross amount	81 855 607	80 573 839
Impairment provision	(4 051 877)	(4 193 778)
Total net amount	77 803 730	76 380 061

Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by customer type

	31.12.2010	31.12.2009
Receivables from corporate	43 386 092	47 514 278
Receivables from individuals	31 432 488	28 385 843
Receivables from budget entities	6 822 224	4 435 490
Interest accrued	214 803	238 228
Total gross amount	81 855 607	80 573 839
Impairment provision	(4 051 877)	(4 193 778)
Total net amount	77 803 730	76 380 061

Loans and advances to customers by quality

	31.12.2010	31.12.2009
Loans and advances to customers, including:		
gross value of non impaired receivables	76 538 484	75 242 029
gross value of impaired receivables	5 317 123	5 331 810
individual impairment charges	(1 751 227)	(1 920 569)
collective impairment charges (*)	(2 300 650)	(2 273 209)
Total	77 803 730	76 380 061

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

Loans and advances to customers by contractual maturities

	31.12.2010	31.12.2009
Loans and advances to customers, including:		
up to 1 month	14 087 637	14 557 850
between 1 and 3 months	3 135 421	1 740 718
between 3 months and 1 year	11 542 859	9 119 543
between 1 and 5 years	24 273 289	21 604 373
over 5 years	28 601 598	33 313 127
Interest accrued	214 803	238 228
Total gross amount	81 855 607	80 573 839
Impairment provision	(4 051 877)	(4 193 778)
Total net amount	77 803 730	76 380 061

Loans and advances to customers by currencies

	31.12.2010	31.12.2009
PLN	60 212 560	55 609 026
CHF	6 655 950	6 466 200
EUR	9 147 050	10 722 334
USD	1 719 464	3 100 699
Other currencies	68 706	481 802
Total	77 803 730	76 380 061

Changes in the level of impairment charges in 2010 and 2009 are presented in the Note 17.

Notes to financial statements (cont.)

(In PLN thousand)

28. Receivables from finance leases

The Group conducts leasing operations through its subsidiaries Pekao Leasing Sp. z o.o. and Open Joint Stock Company UniCredit Bank. The value of gross lease investments and minimum lease payments were respectively:

31.12.2010	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to one year	1 540 358	1 370 977
Between 1 and 5 years	1 883 328	1 715 334
Over 5 years	156 867	134 458
Total	3 580 553	3 220 769
Unrealized financial revenues	(359 784)	
Net leasing investment	3 220 769	
Non-guarantee residual values attributed to lessor	-	
Present value of minimum lease payments	3 220 769	
Value of provision	(181 794)	
Statement of financial position value	3 038 975	

31.12.2009	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to one year	1 644 755	1 483 042
Between 1 and 5 years	1 846 465	1 691 725
Over 5 years	104 631	96 224
Total	3 595 851	3 270 991
Unrealized financial revenues	(324 860)	
Net leasing investment	3 270 991	
Non-guarantee residual values attributed to lessor	-	
Present value of minimum lease payments	3 270 991	
Value of provision	(167 514)	
Statement of financial position value	3 103 477	

The Group is acting as a lessor in finance leases mainly for transport vehicles, machines and equipment.

Moreover, when the Capital Group is a lessee in a finance lease contract among the Group entities, the inter-company transactions relating to the finance lease are subject to elimination in the consolidated financial statements.

Notes to financial statements (cont.)

(In PLN thousand)

29. Hedge accounting

As at 31 December 2010 the Group applies fair value hedge accounting and cash flow hedge accounting as follows:

- The Group continues to apply fair value hedge accounting for fixed-rate debt securities classified as available-for-sale hedged with interest rate swap (IRS) transactions,
- The Group continues to apply the cash flow hedge accounting for floating-rate financial assets with interest rate swap (IRS) transactions,
- The Group continues to apply cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions,
- In the fourth quarter of 2010 the Group designated at fair value hedged a new hedging relationship for interest rate risk for deposits portfolio in EUR hedged with cross-currency interest rate swap (CIRS).

Fair value hedge

Description of hedging relationship

The Group 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 transactions.

Hedged items

The hedged items are fixed-coupon debt securities classified as available for sale ('AFS'), denominated in EUR and USD.

Hedging derivatives

Hedging items are IRS transactions in EUR and USD (short position in fixed-rate), due to which the Group receives floating-rate cash flows, and pays fixed-rate.

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

FAIR VALUE	31.12.2010	
	ASSETS	LIABILITIES
Interest Rate Swaps (IRS)	-	147 768
Total	-	147 768

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

Nominal value of derivatives

31.12.2010	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest Rate Swaps (IRS)	-	-	-	1 405 516	277 221	1 682 737
Total	-	-	-	1 405 516	277 221	1 682 737

Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of derivatives

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

Financial Statement presentation

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 the 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	2010	2009
Gains/losses from revaluation of hedging instruments to fair value	(28 506)	(9 362)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	40 859	23 307
Result on fair value hedge accounting	12 353	13 945
Net interest income of hedging instruments	(59 997)	(28 648)

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

Description of hedging relationship

The Group hedges a 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.

Hedging derivatives

The hedging items constitute of a portfolio of CIRS transactions (basis swap), where the Group 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 accounting:

FAIR VALUE	31.12.2010	
	ASSETS	LIABILITIES
Cross- Currency Interest Rate Swaps (CIRS)	31 534	562 391
Total	31 534	562 391

Notes to financial statements (cont.)

(In PLN thousand)

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

Nominal value of derivatives

31.12.2010	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Cross – Currency Interest Rate Swaps (CIRS) – currency bought	651 000	-	2 681 210	3 904 356	2 744 660	9 981 226
Cross – Currency Interest Rate Swaps (CIRS) – currency sold	655 169	-	2 699 101	4 032 750	3 167 064	10 554 084
Total	1 306 169	-	5 380 311	7 937 106	5 911 724	20 535 310

31.12.2009	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Cross – Currency Interest Rate Swaps (CIRS) – currency bought	-	-	2 063 935	1 688 871	1 860 765	5 613 571
Cross – Currency Interest Rate Swaps (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 Statement 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 12). The interest result on CIRS transactions and hedged items is presented in interest margin (Note 9).

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

	2010	01.04-31.12.2009
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	12 932	(35 395)
Interest income on hedging derivatives	166 173	89 597
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	(1 994)	(4 359)
Period in which the cash flows related to the hedged items are expected to occur	01.01.2011 – 09.09.2019	01.01.2010 – 09.09.2019

Changes in revaluation reserves in 2010:

	2010	2009
Opening balance	(35 395)	-
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	48 327	(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	12 932	(35 395)

Notes to financial statements (cont.)

(In PLN thousand)

Cash flow hedge of floating-rate loans

Description of hedging relationship

The Group hedges a part of the interest rate risk resulting from the volatility of cash flows on floating-rate assets with the designated IRS transactions.

Hedged items

Cash flows from floating-rate portfolio of assets are the hedged items.

Hedging derivatives

The hedging derivatives consist of IRS transactions (short position in floating-rate) portfolio. The Group pays floating rate currency cash flows and receives fixed rate currency/PLN cash flows.

The table below presents fair value of hedging derivatives in cash flow hedge:

FAIR VALUE	31.12.2010	
	ASSETS	LIABILITIES
Interest Rate Swaps (IRS)	56 039	407
Total	56 039	407

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

Nominal value of derivatives:

31.12.2010	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest Rate Swaps (IRS)	-	100 000	367 000	1 255 000	390 000	2 112 000
Total	-	100 000	367 000	1 255 000	390 000	2 112 000

31.12.2009	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
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

Financial Statement presentation

The effective portion of change in hedging derivatives fair value is recognized in revaluation reserve in equity. The ineffective portion of changes in hedging derivatives fair value is presented in the result on fair value hedge accounting. The interest result on IRS transactions and hedged items is presented in interest margin (Note 9).

Notes to financial statements (cont.)

(In PLN thousand)

During the current period the Group recognized the following amounts – related to cash flow hedge for floating-rate loans – in the income statement and equity:

	2010	2009
Revaluation reserves (deferred changes in fair value of hedging financial instruments in the part designed as effective hedge – gross value)	12 138	(7 104)
Interest income on hedging derivatives	27 427	3 799
Period in which the cash flows related to the hedged items are expected to occur	01.01.2011 – 20.11.2017	01.01.2010-20.11.2017

Changes in revaluation reserves during the period:

	2010	2009
Opening balance:	(7 104)	108 283
Deferred changes in fair value of hedging derivatives in the part considered as effective hedge	18 893	(116 472)
Amount of deferred change in fair value of hedging instruments in the part considered to be an effective hedge, removed from revaluation reserve and recognized in net profit/loss	349	1 085
Closing balance	12 138	(7 104)

Fair value hedge of interest rate risk

Description of hedging relationship

The Group hedges interest rate risk resulting in the volatility of fair value of hedged item due to the volatility of market interest rate with the designated CIRS transactions.

Hedged items

Deposit portfolio in EUR with interest rate non sensitive for the volatility of interest rates is the hedged item.

Hedging derivatives

The hedging derivatives consist of CIRS transactions. The Bank pays floating rate PLN and receives fixed rate currency EUR.

The table below presents fair value of hedging derivatives in fair value hedge:

FAIR VALUE	31.12.2010	
	ASSETS	LIABILITIES
Cross-currency Interest Rate Swaps (CIRS)	171 115	-
Total	171 115	-

Nominal value of hedging derivatives:

31.12.2010	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Cross-currency Interest Rate Swaps (CIRS)- Currency bought	-	-	-	1 246 827	-	1 246 827
Cross-currency Interest Rate Swaps (CIRS)- Currency sold	-	-	-	1 150 000	-	1 150 000
Total	-	-	-	2 396 827	-	2 396 827

Financial Statement presentation

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' and as a separate line on the liabilities side. Interest on deposits is presented in net interest income

Notes to financial statements (cont.)

(In PLN thousand)

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 the 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	2010
Gains/losses from revaluation of hedging instruments to fair value	(45 679)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	40 127
Result on fair value hedge accounting	(5 552)
Net interest income of hedging instruments	3 156

30. Investment securities

	31.12.2010	31.12.2009
Debt securities available for sale (AFS)	25 841 525	17 451 329
Equity securities available for sale (AFS)	14 862	14 873
Debt securities held to maturity (HTM)	4 542 058	3 807 823
Total	30 398 445	21 274 025

Debt securities available for sale (AFS)

	31.12.2010	31.12.2009
Securities issued by State Treasury	13 119 015	13 086 790
T-bills	30 747	20 709
T-bonds	13 088 268	13 066 081
Securities issued by Central Banks	12 556 926	4 249 195
Securities issued by business entities	81 097	-
Securities issued by local governments	84 487	115 344
Total	25 841 525	17 451 329
including impairment of assets	-	(4 335)
including:		
quoted	13 119 016	12 132 342
unquoted	12 722 509	5 318 987

Equity securities available for sale (AFS)

	31.12.2010	31.12.2009
Shares	14 862	14 873
quoted	364	329
unquoted	14 498	14 544
Total	14 862	14 873
including impairment of assets	(481)	(2 945)

Notes to financial statements (cont.)

(In PLN thousand)

Debt securities held to maturity (HTM)

	31.12.2010	31.12.2009
Securities issued by State Treasury	4 107 554	3 510 704
T- bills	363 828	491 977
T- bonds	3 743 726	3 018 727
Securities issued by Central Banks	434 504	297 119
Securities issued by business entities	-	-
Total	4 542 058	3 807 823
including impairment of assets	-	-

Investment debt securities according to contractual maturities

	31.12.2010	31.12.2009
Debt securities, including:		
up to 1 month	13 016 367	4 613 889
between 1 and 3 months	393 079	203 852
between 3 months and 1 year	978 778	2 248 175
between 1 and 5 years	11 168 462	10 046 393
over 5 years	4 826 897	4 146 843
Total	30 383 583	21 259 152

Changes in investment (placement) securities

	31.12.2010	31.12.2009
DEBT SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	17 466 202	13 249 845
Increases (purchase)	369 777 564	176 156 164
Decreases (sale and redemption)	(362 409 711)	(172 623 198)
Financial assets transferred to assets held for sale	(175 240)	-
Changes in fair value	67 621	85 695
Exchange rate differences	89 731	(209 819)
Accrued interest	587 801	561 116
Other changes	452 419	246 399
Closing balance	25 856 387	17 466 202
DEBT SECURITIES HELD TO MATURITY (HTM)		
Opening balance	3 807 823	1 879 061
Increases (purchase)	20 148 442	14 280 687
Decreases (sale and redemption)	(19 606 757)	(12 493 991)
Impairment charges	-	126
Exchange rate differences	(6 190)	(2 181)
Accrued interest	58 172	66 984
Other changes	140 568	77 137
Closing balance	4 542 058	3 807 823
Total investment (placement) securities	30 398 445	21 274 025

Notes to financial statements (cont.)

(In PLN thousand)

31. Reclassification of 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 2010 and 2009, the Group did not take advantage of this possibility.

On 1 October 2008, however, due to the exceptional situation related to the financial crisis, the Bank applied the change introduced into IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures', which enables, under certain circumstances, the possibility for reclassification of financial instruments into other categories.

The tables below present the information on the reclassified financial assets

	31.12.2010			31.12.2009		
	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	792 253	805 328	783 944	1 146 993	1 166 680	1 139 803
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	290 500	290 857	290 780	1 274 000	1 276 846	1 276 174
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	563 669	643 505	641 524	563 669	628 733	599 810
Total	1 646 422	1 739 690	1 716 248	2 984 662	3 072 259	3 015 787

	31.12.2008			01.10.2008		
	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	1 297 877	1 329 760	1 328 936	1 302 577	1 331 580	1 331 580
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	1 529 000	1 534 650	1 535 070	1 529 000	1 534 077	1 534 077
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	563 669	615 036	581 149	563 669	602 507	602 507
Total	3 390 546	3 479 446	3 445 155	3 395 246	3 468 164	3 468 164

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

31.12.2010	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	(378)
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	-	5
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	18 808	-
Total	18 808	(373)

31.12.2009	NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	REVALUATION RESERVE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	-	(31 261)
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	-	(1 907)
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	5 503	-
Total	5 503	(33 168)

Notes to financial statements (cont.)

(In PLN thousand)

Net interest income on reclassified financial assets

	2010	2009
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	51 536	70 247
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	37 260	56 000
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	36 231	38 470
Total	125 027	164 717

32. Assets held for sale and discontinued operations

According to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Bank identified non-current assets meeting requirements of IFRS 5 (concerning classification of non-current assets as held for sale) from the item 'Assets held for sale'.

As at 31 December 2010, non-current assets classified as held for sale included following items classified as held for sale:

- exposure in the subsidiary OJSC UniCredit Bank,
- real property, and
- other tangible assets owned by the Group.

Specification of assets held for sale and liabilities associated with those assets:

	31.12.2010	31.12.2009
ASSETS HELD FOR SALE		
Assets of OJSC UniCredit Bank	3 200 087	-
Property, plant and equipment	23 440	16 446
Other assets	23 458	23 462
Total assets	3 246 985	39 908
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Liabilities of OJSC UniCredit Bank	1 009 074	-
Total liabilities	1 009 074	-

In the next years Pekao Group plans to concentrate its activities on local market and in connection with this the Group plans to dispose of the whole investment in Ukraine. The investment consists of:

- the shares in OJSC UniCredit Bank worth PLN 577 349 thousand,
- loans and deposit worth altogether PLN 1 831 857 thousand, and
- off-balance sheet commitments, including guarantees and letters of credit worth PLN 5 928 thousand and PLN 541 920 thousand respectively.

The disposal of the Bank's investment in Ukraine will be possible upon receiving all the necessary approvals.

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents assets and liabilities of OJSC UniCredit Bank classified by the Pekao Group as assets held for sale.

	31.12.2010 BEFORE ELIMINATION	ELIMINATION OF INTERCOMPANY TRANSACTIONS/ CONSOLIDATION ADJUSTMENTS	31.12.2010 AFTER ELIMINATION
ASSETS HELD FOR SALE			
Cash and due from Central Bank	27 193	-	27 193
Loans and advances to banks	431 217	(229)	430 988
Financial assets held for trading	222 143	-	222 143
Loans and advances to customers	2 303 570	(8 737)	2 294 833
Receivables from finance leases	2 241	-	2 241
Investments securities	175 240	-	175 240
Intangible assets	4 845	-	4 845
Property, plant and equipment	24 810	-	24 810
Investment properties	727	-	727
Income tax assets	390	-	390
Other assets	16 900	(223)	16 677
TOTAL ASSETS	3 209 276	(9 189)	3 200 087
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE			
Amounts due to other banks	2 024 321	(1 838 755)	185 566
Amounts due to customers	765 974	-	765 974
Income tax liabilities	15 201	-	15 201
Other liabilities	42 425	(92)	42 333
TOTAL LIABILITIES	2 847 921	(1 838 847)	1 009 074

The table below presents the income statement of discontinued operations of OJSC UniCredit Bank

	31.12.2010	31.12.2009
Interest income	270 779	340 908
Interest expense	(122 010)	(135 729)
Net interest income	148 769	205 179
Fee and commission income	38 237	38 392
Fee and commission expense	(17 060)	(17 110)
Net fee and commission income	21 177	21 282
Result on financial assets and liabilities held for trading	25 016	26 493
Gains (losses) on disposal of:	1 734	(558)
loans and other financial receivables	1 380	-
available for sale financial assets and held to maturity investments	354	(558)
Operating income	196 696	252 396
Net impairment losses on financial assets and off-balance sheet commitments:	(52 041)	(117 713)
loans and other financial receivables	(52 041)	(117 942)
off-balance sheet commitments	-	229
Net result on financial activity	144 655	134 683
Administrative expenses	(78 168)	(82 910)
personnel expenses	(39 145)	(39 370)
other administrative expenses	(39 023)	(43 540)
Depreciation and amortization	(12 502)	(15 785)
Net other operating income and expenses	37	(2 621)
Operating costs	(90 633)	(101 316)
Profit before income tax	54 022	33 367
Income tax expense	(17 057)	(18 587)
Net profit for the period	36 965	14 780

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents the cash flow statement of discontinued operations of OJSC UniCredit Bank

	31.12.2010
Net cash flows from operating activities	299 973
Net cash flows from investing activities	(113 828)
Net cash flows from financing activities	(30 869)
Total	155 276

The main component of property, plant and equipment category is Bank's property located at Marynarska Street in Warsaw including perpetual usufruct right to the land.

The changes in the balance of assets held for sale and liabilities associated with assets held for sale in 2010 are presented in the table below:

ASSETS HELD FOR SALE	
Opening balance	39 908
Increases including:	3 213 277
assets of OJSC UniCredit Bank	3 200 087
transfer from investment properties	9 221
other changes	3 969
Decreases including:	(6 200)
transfer to property, plant and equipment	(83)
disposal	(1 833)
other changes	(4 284)
Closing balance	3 246 985
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	
Opening balance	-
Increases including:	1 009 074
liabilities of OJSC UniCredit Bank	1 009 074
Closing balance	1 009 074

The 2010 disposals have been settled as follows:

	PROPERTIES
Sales revenues	1 846
Net carrying amount of disposed assets (including sales)	1 854
Profit/loss on sale before income tax	(8)

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents changes in the balance of non-current assets held for sale in 2009:

ASSETS HELD FOR SALE	REAL PROPERTY
Opening balance	141 783
Increases including:	18 065
transfer from investment properties	5 563
transfer from property, plant and equipment	9 691
other changes	2 811
Decreases including:	(119 940)
transfer to property, plant and equipment	(557)
disposal	(110 229)
other changes	(9 154)
Closing balance	39 908

The item 'disposal' includes the divestment of real property situated at Towarowa Street.

The 2009 disposals have been settled as follows:

	REAL PROPERTY
Sales revenues	160 903
Net carrying amount of disposed assets (including sale costs)	110 229
Profit/loss on sale before income tax	50 674

33. Investments in associates and subsidiaries

Information on associated entities valued using equity method:

NAME OF ENTITY	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
31.12.2010 (*)						
Pirelli Pekao Real Estate Sp. z o.o.	48 596	11 949	9 446	1 217	25.00	9 162
Krajowa Izba Rozliczeniowa S.A.	111 339	20 160	110 871	24 573	34.44	31 402
Pioneer Pekao Investment Management S.A.	344 194	64 223	543 926	116 553	49.00	137 186
Xelion. Doradcy Finansowi Sp. z o.o.	16 672	7 386	40 589	1 674	50.00	4 643
Central Poland Fund LLC (**)	1 054	58	-	(35)	53.19	849
Total						183 242
31.12.2009 (*)						
Pirelli Pekao Real Estate Sp. z o.o.	64 609	20 999	20 400	1 690	25.00	10 903
Krajowa Izba Rozliczeniowa S.A.	111 244	19 389	105 778	25 386	34.44	31 635
Pioneer Pekao Investment Management S.A.	370 381	41 341	398 597	110 129	49.00	161 230
Xelion. Doradcy Finansowi Sp. z o.o.	11 404	3 793	23 198	(8 557)	50.00	3 806
Central Poland Fund LLC (**)	675	-	-	(41)	53.19	329
Total						207 903

(*) The data available as at the day of preparation of the Financial Statements

(**) The data given in USD, carrying amount in PLN

Notes to financial statements (cont.)

(In PLN thousand)

Information concerning subsidiaries, which were not consolidated full method:

NAME OF ENTITY	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
31.12.2010 (*)						
Pekao Property S.A.	35 767	1 583	1 639	1 352	100.00	24 376
Property Sp. z o.o. /in liquidation/	15 325	404	1	369	100.00	6 998
FPB Media Sp. z o.o.	20 284	14 982	2 166	3 288	100.00	-
Metropolis Sp. z o.o.	19 840	14 467	78	(84)	100.00	-
Jana Kazimierza Development Sp. z o.o.	93 755	90 174	51 041	535	100.00	-
Total						31 374
31.12.2009 (*)						
Pekao Property S.A.	34 403	1 571	3 487	1 919	100.00	24 376
Property Sp. z o.o. /in liquidation/	14 864	312	-	389	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	11 984	3 447	23 845	1 439	100.00	672
PKBL S.A. /in bankructy/	n.a.	n.a.	n.a.	n.a.	100.00	-
FPB Media Sp. z o.o.	21 095	19 081	2 304	389	100.00	-
Metropolis Sp. z o.o.	19 692	14 235	658	(38)	100.00	-
Jana Kazimierza Development Sp. z o.o. (**)	155 748	149 353	36 784	6 277	100.00	-
Total						32 046

(*) The data available as at the day of preparation of the Financial Statements

(**) The data as at 30.11.2009.

The change in value of investments in subsidiaries:

	2010	2009
Opening balance	32 046	32 046
Reclassification into 'Subsidiary investments subject to full method consolidation'	(672)	-
Closing balance	31 374	32 046

The change in value of investments in associates:

	2010	2009
Opening balance	207 903	276 710
Share in profits/losses	68 269	58 076
Dividends	(92 930)	(134 374)
Acquisition	-	7 500
Other	-	(9)
Closing balance	183 242	207 903

Notes to financial statements (cont.)

(In PLN thousand)

34. Intangible assets

	31.12.2010	31.12.2009
Intangible assets, including:	642 675	653 913
research and development expenditures	23 855	9 368
licenses and patents	415 496	459 951
other	4 471	4 557
expenditures on intangible assets and advances to expenditures on intangible assets	198 853	180 037
Goodwill	54 560	54 560
Total	697 235	708 473

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) in Lublin 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.

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

At 31 December 2010 the Group 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.

Notes to financial statements (cont.)

(In PLN thousand)

Please find below the specification of changes in the item 'Intangibles assets' in the course of the reporting period:

2010	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER(*)	TOTAL
GROSS VALUE				
Opening balance	79 496	1 537 075	215 106	1 831 677
Increases including:	18 074	113 009	22 826	153 909
increases from being consolidated for the first time	-	353	-	353
acquisitions	-	3 104	148 549	151 653
other	-	697	1 206	1 903
transfer from investments outlays	18 074	108 855	(126 929)	-
Decreases, including:	(9 020)	(14 671)	(2 926)	(26 617)
liquidation	(9 020)	(3 245)	(844)	(13 109)
other	-	(11 426)	(2 082)	(13 508)
Closing balance	88 550	1 635 413	235 006	1 958 969
ACCUMULATED AMORTIZATION				
Opening balance	70 128	1 077 124	19 551	1 166 803
Increases from being consolidated for the first time	-	53	-	53
Amortization for the period	3 587	152 191	2 013	157 791
Liquidation	(9 020)	(3 245)	(844)	(13 109)
Other	-	(6 206)	1	(6 205)
Closing balance	64 695	1 219 917	20 721	1 305 333
IMPAIRMENT DEDUCTIONS				
Opening balance	-	-	10 961	10 961
Value changes	-	-	-	-
Closing balance	-	-	10 961	10 961
NET VALUE				
Opening balance	9 368	459 951	184 594	653 913
Closing balance	23 855	415 496	203 324	642 675

(*) Item covering mainly investment outlays

Notes to financial statements (cont.)

(In PLN thousand)

2009	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER(*)	TOTAL
GROSS VALUE				
Opening balance	69 115	1 344 192	256 654	1 669 961
Increases including:	10 381	201 385	(29 546)	182 220
acquisitions	-	9 345	159 961	169 306
other	4 956	1 925	6 033	12 914
transfer from investments outlays	5 425	190 115	(195 540)	-
Decreases, including:	-	(8 502)	(12 002)	(20 504)
liquidation	-	(7 188)	-	(7 188)
other	-	(1 314)	(12 002)	(13 316)
Closing balance	79 496	1 537 075	215 106	1 831 677
ACCUMULATED AMORTIZATION				
Opening balance	66 039	881 950	19 659	967 648
Amortization for the period	2 845	202 098	1 750	206 693
Liquidation	-	(6 910)	-	(6 910)
Other	1 244	(14)	(1 858)	(628)
Closing balance	70 128	1 077 124	19 551	1 166 803
IMPAIRMENT DEDUCTIONS				
Opening balance	-	251	10 961	11 212
Value changes	-	(251)	-	(251)
Closing balance	-	-	10 961	10 961
NET VALUE				
Opening balance	3 076	461 991	226 034	691 101
Closing balance	9 368	459 951	184 594	653 913

(*) Item covering mainly investment outlays

In 2010 and in 2009 there have been no restrictions to legal titles to intangible assets, not pledges in place as security for liabilities.

35. Property, plant and equipment

	31.12.2010	31.12.2009
Non-current assets, including:	1 657 613	1 776 298
Land and buildings	1 239 235	1 318 314
Machinery and equipment	331 956	364 550
Transport vehicles	57 276	53 724
Other	29 146	39 710
Non-current assets in progress and prepayments for non-current assets in progress	164 110	46 098
Total	1 821 723	1 822 396

Notes to financial statements (cont.)

(In PLN thousand)

Below is presented the specification of changes in the item 'Property, plant and equipment' in the course of the reporting period:

2010	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	2 285 071	1 494 455	109 639	385 803	4 274 968
Increases including:	35 575	89 618	36 344	7 807	169 344
increases from being consolidated for the first time	54	565	366	900	1 885
acquisitions	1 679	3 643	7 046	823	13 191
transfer from non-current assets under construction	21 465	83 887	1 427	4 567	111 346
other	12 377	1 523	27 505	1 517	42 922
Decreases, including:	(65 364)	(78 646)	(40 498)	(24 546)	(209 054)
liquidation and sale	(17 754)	(57 473)	(37 628)	(10 974)	(123 829)
transfer to non-current assets held for sale	(31 876)	(18 228)	(1 804)	(11 152)	(63 060)
other	(15 734)	(2 945)	(1 066)	(2 420)	(22 165)
Closing balance	2 255 282	1 505 427	105 485	369 064	4 235 258
ACCUMULATED DEPRECIATION					
Opening balance	964 161	1 123 057	53 008	345 581	2 485 807
Increases including:	95 017	115 592	20 570	11 885	243 064
increases from being consolidated for the first time	9	56	68	215	348
depreciation for the period	86 795	114 620	18 798	10 703	230 916
other	8 213	916	1 704	967	11 800
Decreases including:	(43 212)	(71 835)	(27 437)	(18 057)	(160 541)
liquidation and sale	(16 673)	(56 821)	(26 286)	(10 942)	(110 722)
transfer to non-current assets held for sale	(23 004)	(12 732)	(433)	(5 973)	(42 142)
other	(3 535)	(2 282)	(718)	(1 142)	(7 677)
Closing balance	1 015 966	1 166 814	46 141	339 409	2 568 330
IMPAIRMENT DEDUCTIONS					
Opening balance	2 596	6 848	2 907	512	12 863
Increases	-	1	237	-	238
Decreases	(2 515)	(192)	(1 076)	(3)	(3 786)
Closing balance	81	6 657	2 068	509	9 315
NET VALUE					
Opening balance	1 318 314	364 550	53 724	39 710	1 776 298
Closing balance	1 239 235	331 956	57 276	29 146	1 657 613

Notes to financial statements (cont.)

(In PLN thousand)

2009	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	2 244 187	1 457 804	113 067	392 788	4 207 846
Increases including:	86 951	104 985	22 837	13 959	228 732
acquisitions	285	1 687	5 972	733	8 677
transfer from non-current assets under construction	85 593	94 739	-	12 784	193 116
other	1 073	8 559	16 865	442	26 939
Decreases, including:	(46 067)	(68 334)	(26 265)	(20 944)	(161 610)
liquidation and sale	(20 437)	(64 390)	(23 161)	(19 324)	(127 312)
transfer to non-current assets held for sale	(13 616)	(2 386)	-	(49)	(16 051)
other	(12 014)	(1 558)	(3 104)	(1 571)	(18 247)
Closing balance	2 285 071	1 494 455	109 639	385 803	4 274 968
ACCUMULATED DEPRECIATION					
Opening balance	905 347	1 071 514	51 013	354 746	2 382 620
Increases including:	89 888	117 499	17 734	10 965	236 086
depreciation for the period	89 660	114 004	17 271	10 850	231 785
other	228	3 495	463	115	4 301
Decreases including:	(31 074)	(65 956)	(15 739)	(20 130)	(132 899)
liquidation and sale	(18 069)	(63 184)	(15 301)	(18 797)	(115 351)
transfer to non-current assets held for sale	(4 418)	(1 810)	-	(44)	(6 272)
other	(8 587)	(962)	(438)	(1 289)	(11 276)
Closing balance	964 161	1 123 057	53 008	345 581	2 485 807
IMPAIRMENT DEDUCTIONS					
Opening balance	2 377	6 936	4 467	513	14 293
Increases	328	26	-	-	354
Decreases	(109)	(114)	(1 560)	(1)	(1 784)
Closing balance	2 596	6 848	2 907	512	12 863
NET VALUE					
Opening balance	1 336 463	379 354	57 587	37 529	1 810 933
Closing balance	1 318 314	364 550	53 724	39 710	1 776 298

As at 31 December 2010, the amount of expenditures in the item 'property, plant and equipment under construction' stood at PLN 163 599 thousand (PLN 44 999 thousand as at 31 December 2009).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2010 stood at PLN 2 979 thousand (PLN 7 352 thousand in 2009).

In 2010 and 2009 there have been no restrictions to legal titles to property, plant and equipment, nor pledges in place as security for liabilities.

Contractual liabilities

As at 31 December 2010 the Group signed agreements with counterparties for the future purchase of intangible assets totaling PLN 53 827 thousand (including PLN 53 827 thousand in 2011) and property, plant and equipment totaling PLN 20 165 thousand, (including PLN 15 408 thousand in 2011).

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2009, the Group signed agreements with counterparties for the future purchase of intangible assets totaling PLN 74 421 thousand (including PLN 74 421 thousand in 2010) and property, plant and equipment totaling PLN 62 160 thousand (including PLN 62 160 thousand in 2010).

36. Investment property

The Group 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 not a subject to limitations.

Specification of changes in the item 'Investment property' during the reporting period:

	2010	2009
GROSS VALUE		
Opening balance	114 082	121 239
Increases including:	17 335	10 326
acquisitions	331	327
transfer from property plant and equipment	16 929	9 999
other	75	-
Decreases, including:	(28 266)	(17 483)
transfer to non-current assets held for sale	(16 135)	(16 436)
other	(12 131)	(1 047)
Closing balance	103 151	114 082
ACCUMULATED DEPRECIATION		
Opening balance	44 491	40 408
Increases including:	7 898	15 383
transfer from property plant and equipment	5 109	7 009
other	23	5 541
depreciation for the period	2 766	2 833
Decreases, including:	(14 281)	(11 300)
transfer to non-current assets held for sale	(6 187)	(10 847)
other	(8 094)	(453)
Closing balance	38 108	44 491
IMPAIRMENT DEDUCTIONS		
Opening balance	4 352	9 979
Decreases, including:	(3 802)	(5 627)
transfer to non-current assets held for sale	-	(26)
foreign currency exchange differences	(96)	(60)
other	(3 706)	(5 541)
Closing balance	550	4 352
NET VALUE		
Opening balance	65 239	70 852
Closing balance	64 493	65 239

The fair value of investment property as at 31 December 2010 stood at PLN 109 458 thousand (PLN 113 778 thousand as at 31 December 2009). Fair value was made on the assessment of a property surveyor holding a recognized and relevant professional qualification.

Notes to financial statements (cont.)

(In PLN thousand)

The following amounts of revenues and costs associated with investment real properties have been recognized in the income statement:

	2010	2009
Rental revenues from investment properties	4 214	4 866
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(1 168)	(1 051)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(317)	(210)

37. Other assets

	31.12.2010	31.12.2009
Prepaid expenses	44 948	40 177
Perpetual usufruct rights	16 465	16 706
Accrued income	35 684	37 912
Interbank and interbranch settlements	54	4 025
Other debtors	957 011	734 398
Other	56	265
Total	1 054 218	833 483

Prepaid expenses represent expenditures, which will be amortized against income statement in the forthcoming reporting periods.

In 2010, Administrative Supreme Court made a resolution stating that the lessor should charge VAT on re-invoiced insurance, questioning the approach applied by part of leasing sector in Poland before. As a result an adjustment of VAT declaration for the period from December 2005 to October 2010 was submitted and VAT due was paid in the amount of PLN 59 421 thousand and penalty interest in the amount of PLN 16 977 thousand. As at 31 December 2010 estimation on possible reimbursement from the lessees was made and write-down on unrecoverable receivables in the amount of PLN 23 793 thousand was established. The amounts due from customers associated to adjustment of VAT invoices are presented in caption 'Other assets', including write-down on unrecoverable receivables.

38. Assets pledged as collateral

As at 31 December 2010 the Group held the following financial assets pledged as collateral:

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo	bonds	-	-	-
Sell-buy-back	bonds	1 960 068	1 968 547	1 966 188
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds, bills	398 042	380 060	-
Lombard and technical loan	bonds, bills	6 656 255	6 737 060	-
Other loans	bonds, leases encumbrances	630 869	668 427	470 572
Issue of mortgage bonds	receivables backed by mortgage, bonds and hedging instruments	1 450 764	1 459 778	439 359
Derivatives	bonds	220 356	239 609	96 605

Notes to financial statements (cont.)

(In PLN thousand)

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

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO 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	1 636 608
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds, bills	390 938	381 600	-
Lombard and technical loan	bonds, bills	4 025 273	4 148 371	-
Other loans, leases encumbrances	bonds	874 125	869 690	637 301
Issue of mortgage bonds	receivables backed by mortgage, bonds and hedging instruments	1 372 172	1 385 020	705 773

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 loans and Derivatives – terms and conditions of the agreement, entered between Bank Pekao S.A. and its clients,
- in case of Issue of mortgage bonds – binding provisions of the Law on Mortgage Bonds and Mortgage Banks.

39. Amounts due to Central Bank

	31.12.2010	31.12.2009
Loans received	727 979	1 100 176
Repo transactions	-	-
Total	727 979	1 100 176

40. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2010	31.12.2009
Current accounts and overnight deposits	1 796 339	2 023 297
Deposits from other banks and other liabilities	1 051 612	1 361 917
Loans and advances received	2 708 758	2 819 659
Funds in transit	31 281	33 816
Repo transactions	1 316 102	1 133 077
Interest accrued	9 031	7 239
Total	6 913 123	7 379 005

Notes to financial statements (cont.)

(In PLN thousand)

Amounts due to other banks by currencies

	31.12.2010	31.12.2009
PLN	3 804 164	4 674 035
CHF	941 414	598 133
EUR	1 815 314	1 661 918
USD	79 885	241 938
Other currencies	272 346	202 981
Total	6 913 123	7 379 005

41. Amounts due to customers

Amounts due to customers by product type

	31.12.2010	31.12.2009
Amounts due to corporate, including:	48 070 898	46 085 463
current accounts and overnight deposits	18 909 508	16 686 591
term deposits and other liabilities	29 077 615	29 309 212
interest accrued	83 775	89 660
Amounts due to budget entities, including:	5 103 614	6 348 830
current accounts and overnight deposits	3 327 666	3 766 810
term deposits and other liabilities	1 763 336	2 576 741
interest accrued	12 612	5 279
Amounts due to individuals, including:	45 735 642	44 066 783
current accounts and overnight deposits	29 469 302	24 600 199
term deposits and other liabilities	16 131 495	19 253 940
interest accrued	134 845	212 644
Repo transactions, including:	650 086	514 281
forward term transactions	649 905	514 156
interest accrued	181	125
Funds in transit	246 996	234 639
Total	99 807 236	97 249 996

Amounts due to customers by currencies

	31.12.2010	31.12.2009
PLN	84 794 848	81 855 622
CHF	122 703	105 768
EUR	9 050 655	8 604 177
USD	5 323 683	5 955 292
Other currencies	515 347	729 137
Total	99 807 236	97 249 996

Notes to financial statements (cont.)

(In PLN thousand)

42. Debt securities issued

Debt securities issued by type

	31.12.2010	31.12.2009
Bonds	-	28 094
Certificates of deposit	737 271	1 297 058
Mortgage bonds	434 633	699 282
Interest accrued	5 254	7 800
Total	1 177 158	2 032 234

There have been no instances of default on repayment of principal or interest or redemption of its own securities by the Group.

Changes in debt securities issued

	2010	2009
Opening balance	2 032 234	2 470 702
Increase (issuance)	78 401	495 928
Decrease (repurchase)	(928 639)	(876 968)
Decrease (partial payment)	(30 263)	(55 560)
Foreign currency exchange differences	4 195	8 398
Other changes	21 230	(10 266)
Closing balance	1 177 158	2 032 234

43. Provisions

Roll-forward of provisions in the reporting period

2010	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	16 977	121 022	103 251	13 759	255 009
Provision charges/revaluation	30 777	15 689	51 453	60 618	158 537
Provision utilization	(4)	-	-	(35 766)	(35 770)
Provision releases	(3 428)	(103)	(58 185)	(467)	(62 183)
Foreign currency exchange differences	(984)	-	237	-	(747)
Other changes	(1 186)	(8 756)	(256)	1 275	(8 923)
Closing balance	42 152	127 852	96 500	39 419	305 923

Notes to financial statements (cont.)

(In PLN thousand)

2009	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	18 529	116 197	140 661	31 352	306 739
Provision charges/revaluation	2 149	13 811	52 232	4 275	72 467
Provision utilization	(212)	(8 926)	-	(16 628)	(25 766)
Provision releases	(3 458)	(70)	(88 634)	(4 247)	(96 409)
Foreign currency exchange differences	(977)	-	(385)	44	(1 318)
Other changes	946	10	(623)	(1 037)	(704)
Closing balance	16 977	121 022	103 251	13 759	255 009

Litigation provision

Provision for litigation includes court, administrative and other legal proceedings.

Other provisions

Other provisions include in particular provisions for long term employee benefits resulting from MSR 19 and provision for employment restructuring concerning planned liquidation of the Branch in Paris. Cash flows connected with the branch's liquidation are expected to be received until the end of 2012.

44. Other liabilities

	31.12.2010	31.12.2009
Deferred income	178 060	171 384
Provisions for holiday leave	55 626	57 147
Provisions for other employee-related liabilities	256 542	178 281
Provisions for administrative costs	76 393	105 709
Other costs to be paid	28 370	20 025
Other creditors	540 285	509 535
Interbank and interbranch settlements	353 210	456 518
Total	1 488 486	1 498 599

45. Employee benefits

Incentive program- management share option plan in the 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 Group strategy. These were established by resolution of Extraordinary General Shareholders 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.

Notes to financial statements (cont.)

(In PLN thousand)

TYPE OF SHARES	NUMBER OF SHARES ISSUED THROUGH THE CONDITIONAL INCREASE OF SHARE CAPITAL	NOMINAL VALUE OF 1 SHARE	THE ISSUE PRICE OF ONE SHARE	THE BASIS FOR ISSUE PRICE ESTABLISHMENT
Common bearer shares, F-class	830 000	PLN 1	PLN 108.37	The average of market closing prices of the Bank's shares quoted on the Warsaw Stock Exchange for July and August 2003
Common bearer shares, G-class	830 000	PLN 1	PLN 123.06	The average of market closing prices of the Bank's shares quoted on the Warsaw Stock Exchange for February and March 2004

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

The incentive program is implemented within the subprograms (divided into two parts each) with following parameters:

	PROGRAM BASED ON F-CLASS ISSUE		PROGRAM BASED ON G-CLASS ISSUE	
Expiry date	31.12.2010		31.12.2012	
Realization price (in PLN)	108.37		123.06	
Number of options	415 000	415 000	415 000	415 000
Acquisition of rights criteria	1 Realization of individual goals within the MBO program in 2003. 2 Remaining under contract of employment within the Bank's Group on the date of option rights execution.		1 Realization of individual goals within the MBO program in 2004. 2 Remaining under contract of employment within the Bank's Group on the date of option rights execution.	
	3. Realization of assumed ROE for 2004	3. Realization of assumed ROE for 2005	3. Realization of assumed ROE for 2006	3. Realization of assumed ROE for 2007
Fair value (in PLN thousand)	6 462	6 775	7 849	7 734

ASSUMPTIONS OF THE FAIR VALUE MODEL ADOPTED ON THE DAY OF GRANTED RIGHTS				
Dividend rate (%)	4.27		5.12	
Volatility index (%)	31.75		31.75	
Risk free interest rate (%)	5.33	5.41	6.66	6.70
Expected 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 amounted to PLN 28 820 thousand. It was settled over the estimated period of acquisition of rights to Bank's shares by the participants of the program.

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 the 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 equity instruments.

The expected effective term of the pre-emptive rights to take up the Bank's shares is determined basing on the assumption that the rights will be realized steadily and the Bank 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.

Notes to financial statements (cont.)

(In PLN thousand)

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

	2010		2009	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Opening balance	116 423	123.06	293 275	123.06
Granted during the year	-	-	-	-
Redeemed during the year	-	-	58 870	-
Exercised during the year (*)	33 715	168.99	117 982	163.69
Terminated during the year	-	-	-	-
Existing at the period-end	82 708	123.06	116 423	123.06
Executable at the period-end	-	-	-	-

(*) Average weighted price of option execution on exercise dates in 2010 stood at PLN 168.99 (against PLN 163.69 in 2009)

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 the market conditions and Group's performance.

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

- create incentives for realization of the strategic goals of the Group;
- retain the key employees;
- effectively compete in the international employment market.

The actual choice of the beneficiaries 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 2010 amounted to PLN 8 935 thousand as at 31 December 2010. It is amortized over the vesting period.

The year 2010 remuneration expense increased by the amount of PLN 3 614 thousand with respect to that (in 2009 – PLN 2 502 thousand).

Notes to financial statements (cont.)

(In PLN 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:

2010	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)
Opening balance	3 255 898	16.57/28.09	1 063 979	-
Granted during the year	-	-	-	-
Redeemed during the year	519 076	16.57/28.09	131 057	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 736 822	16.57/28.09	932 922	-
Executable at the period-end	-	-	-	-

(*)The value of PLN 16.57 applies to the stock options program of UniCredit S.P.A. in 2008 (PLN 28.09 for 2007)

2009	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)
Opening balance	3 679 455	17.19/29.14	1 068 838	-
Granted during the year	-	-	135 677	-
Redeemed during the year	423 557	17.19/29.14	140 536	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	3 255 898	17.19/29.14	1 063 979	-
Executable at the period-end	-	-	-	-

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

46. Operating leases

The Group as a Lessor

In operating lease of buildings classified as investment properties the Group acts as a lessor.

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

	31.12.2010	31.12.2009
Up to one year	18 501	27 599
Between 1 and 5 years	16 653	43 492
Over 5 years	10 719	8 054
Total	45 873	79 145

The amount of the minimum operating lease payments classified as income in 2010 amounted to PLN 28 833 thousand (against PLN 45 085 thousand in 2009).

Notes to financial statements (cont.)

(In PLN thousand)

The Group as Lessee

The Group is a lessee of buildings' lease contracts classified as operating lease.

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

	31.12.2010	31.12.2009
Up to one year	130 287	121 193
Between 1 and 5 years	297 288	261 011
Over 5 years	32 170	62 456
Total	459 745	444 660

The amount of the minimum operating lease payments recognized as an expense in 2010 amounted to PLN 232 633 thousand (expense in 2009 amounted to PLN 233 901 thousand).

The lease agreements are usually entered into for an indefinite period. In case of lease agreements concluded for an indefinite term, the minimum lease payments are determined based upon notice of termination periods ensuing from relevant contracts. The notice period is usually fixed at 3 or 6 months. Lease agreements are denominated in PLN as well as in foreign currencies. Payments are made in PLN, regardless of the contract currency.

47. Contingent liabilities

Litigation

As at 31 December 2010, there were no legal claims against the Bank and its subsidiaries, which accounted for at least 10% of the Group's own funds.

In 2010 the total value of legal proceedings against the Group amounted to PLN 630 933 thousand (as at 31 December 2009 PLN 825 449 thousand).

As at 31 December 2010, the most significant claim against the Bank and Centralny Dom Maklerski Pekao S.A. was lodged by private individuals and relates to the alleged damage arising as a result of shares purchased and execution process. The total amount in dispute is PLN 306 622 thousand. In the opinion of the Group the suit is groundless.

As at 31 December 2010, the Group created provisions for litigation against the Group, which according to legal opinion are associated with a risk of outflow of funds related to the fulfillment of court rulings. The value of provisions, created as at 31 December 2010 stood at PLN 42 152 thousand (as at 31 December 2009 PLN 16 977 thousand).

Financial commitments

Financial commitments by entities

	31.12.2010	31.12.2009
Financial commitments to:		
financial entities	1 920 620	2 931 772
non - financial entities	21 358 414	21 634 284
budget entities	1 419 580	1 068 025
Total	24 698 614	25 634 081

Notes to financial statements (cont.)

(In PLN thousand)

Guarantees

Guarantees by entities

	31.12.2010	31.12.2009
Liabilities to financial entities	411 993	344 413
guarantees	387 502	286 044
sureties	15 381	20 961
confirmed export letters of credit	9 110	37 408
Liabilities to non-financial entities	7 987 382	4 519 749
guarantees	5 309 362	4 369 749
securities' underwriting guarantees	2 678 020	150 000
Liabilities to budget entities	186 763	26 185
guarantees	6 763	24 185
securities' underwriting guarantees	180 000	2 000
Total	8 586 138	4 890 347

Securities underwriting

As at 31 December 2010, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE	TYPE OF UNDERWRITING
Zakład Komunikacji Miejskiej w Gdańsku Sp. z o.o.	bonds	107 870	26.03.10 - 30.04.12	Conditional
Międzynarodowe Targi Łódzkie Sp. z o.o.	bonds	37 950	31.05.10 - 30.06.11	Conditional
Polskie Górnictwo Naftowe i Gazownictwo S.A.	bonds	437 000	23.07.10 - 30.06.13	Conditional
Miasto Poznań	community bonds	180 000	29.07.10 - 31.12.11	Conditional
PGE Polska Grupa Energetyczna S.A.	bonds	2 000 000	15.11.10 - 31.10.13	Conditional
Tauron Polska Energia S.A.	bonds	75 200	16.12.10 - 30.12.15	Conditional
Zakład Utylizacyjny Sp. z o.o.	bonds	20 000	16.12.10 - 29.02.12	Conditional

Securities issued by Zakład Komunikacji Miejskiej w Gdańsku Sp. z o.o., Międzynarodowe Targi Łódzkie Sp. z o.o., Polskie Górnictwo Naftowe i Gazownictwo S.A., Miasto Poznań, PGE Polska Grupa Energetyczna S.A., Tauron Polska Energia S.A., Zakład Utylizacyjny Sp. z o.o. covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated off-the-floor trading.

As at 31 December 2009, the following securities programs have been in place, covered by underwriting:

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE	TYPE OF UNDERWRITING
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 underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and not subject to regulated off-the-floor trading.

Notes to financial statements (cont.)

(In PLN thousand)

48. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	REGISTRATION DATE	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	497 669	497	fully paid-up	29.08.2003	15.05.2008
H	Common bearer stock	359 840	360	fully paid-up	12.08.2004	01.01.2004
I	Common bearer stock	94 763 559	94 764	fully paid-up	29.11.2007	01.01.2008
Total number of Shares (pcs)		262 364 326				
Total share capital in PLN thousand			262 364			
Nominal value per share = PLN 1.00						

Change in the number of shares in 2010 (pcs):

	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 330 611	262 330 611
Issue of G- Class shares (realization of the Bank's program of management share option plan)	33 715	33 715
Closing balance	262 364 326	262 364 326

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 (realization of the Bank's program of management share option plan)	117 982	117 982
Closing balance	262 330 611	262 330 611

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2010	31.12.2009
Reserve capital	9 440 966	9 433 202
issue of shares above face value	9 124 344	9 120 232
other	316 622	312 970
Revaluation reserve	22 099	(46 762)
revaluation of financial assets portfolio available for sale	2 034	(15 287)
deferred tax	(242)	2 948
revaluation of financial hedging instruments portfolio	25 070	(42 498)
deferred tax	(4 763)	8 075
General Banking Risk Fund	1 437 850	1 337 850
Other reserve capital	6 540 418	5 008 547
Foreign currency translation differences	(136 072)	(179 560)
Bonds convertible into shares- capital component	37 356	33 755
Total other capital	17 342 617	15 587 032
Profit (loss) from previous periods, allocated to Bank's shareholders	43 897	26 921
Net profit for the period, allocated to Bank's shareholders	2 525 234	2 411 735
Total	19 911 748	18 025 688

From 1982 to 1984 and from 1988 to 1996, the Group operated in a hyperinflationary economic environment. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires restatement of each component of owners' equity (except for retained earnings and revaluation surplus) by applying a general price index 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 restatement would not have any effect on the total amount of the Group's equity.

50. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2010	31.12.2009
Cash and amounts due from Central Bank	5 969 104	9 620 329
Loans and receivables from banks with maturity up to 3 months	5 161 372	5 032 873
Cash and Cash equivalents presented in the cash flow statement	11 130 476	14 653 202

Restricted availability cash and cash equivalents as at 31 December 2010 amounted to PLN 3 395 080 thousand (PLN 2 958 991 as at 31 December 2009).

Notes to financial statements (cont.)

(In PLN thousand)

51. Related party transactions

The credit granting process applicable to the Bank's management and entities related to the Bank

According 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 organizationally therewith shall be effected in compliance with the By-Laws, adopted by the Bank Supervisory Board.

The By-Laws provide detailed decision-making procedures, applicable to transactions with such persons and entities, also defining the decision-making levels, authorized 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 organizationally, are subject to decisions taken by the Bank Management Board and Supervisory Board.

Members of the Bank Management and entities related therewith financially or organizationally 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 is 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 are applied, with transaction-related decisions taken exclusively at level of the Bank Head Office.

Notes to financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2010

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity						
UniCredit S.p.A.	3 558 996	-	1	25 428	-	7 897
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	772 535	206 642	23 633	3 004 336	555 732	344
Bank Pekao S.A. Group entities						
Subsidiaries						
Property Sp. z o.o. (in liquidation)	-	-	-	3 227	-	-
Pekao Property S.A.	-	-	3	397	-	-
Jana Kazimierza Development Sp. z o.o.	56 512	-	-	5 217	-	-
Metropolis Sp. z o.o.	-	-	-	816	-	-
FPB Media Sp. z o.o.	12 995	-	-	87	-	-
Associates						
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	694	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	9 376	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	142 422	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	21 149	-	-
Total Bank Pekao S.A. Group entities	69 507	-	3	183 385	-	-
Key management Staff of the Bank or its parent entity	3 693	-	-	11 562	-	-
Total	4 404 731	206 642	23 637	3 224 711	555 732	8 241

On 10 December 2010, 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.

Notes to financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2009

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity						
UniCredit S.p.A.	2 712 916	-	-	826	-	8 487
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	429 553	270 987	19 929	2 696 088	286 901	32 532
Bank Pekao S.A. Group entities						
Subsidiaries						
Property Sp. z o.o. (in liquidation)	-	-	-	3 294	-	-
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	-	-
Total Bank Pekao S.A. Group entities	112 256	-	76	220 381	-	-
Key management Staff of the Bank or its parent entity	3 658	-	-	13 905	-	-
Total	3 258 383	270 987	20 005	2 931 200	286 901	41 019

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.

Notes to financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2010 to 31 December 2010

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	OTHER INCOME	OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	1 728	(120)	244	(3 857)	995	(12 318)
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	115 380	(93 581)	280 219	(5 554)	7 245	(94 250)
Bank Pekao S.A. Group entities						
Subsidiaries						
Metropolis Sp. z o.o.	-	(38)	3	-	-	-
Property Sp. z o.o. (in liquidation)	-	(121)	2	-	-	-
Pekao Property S.A.	1	(19)	5	-	17	-
Jana Kazimierza Development Sp. z o.o.	5 218	(76)	52	-	-	-
FPB Media Sp. z o.o.	591	(1)	4	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(5 485)	551	-	84	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	(289)	22	(42)	150	-
Krajowa Izba Rozliczeniowa S.A.	-	(615)	19	-	-	(10 361)
Pirelli Pekao Real Estate Sp. z o.o.	1	(152)	24	-	5	-
Total Bank Pekao S.A. Group entities	5 811	(6 796)	682	(42)	256	(10 361)
Key management Staff of the Bank or its parent entity	172	(453)	6	-	-	-
Total	123 091	(100 950)	281 151	(9 453)	8 496	(116 929)

Notes to financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2009 to 31 December 2009

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	OTHER INCOME	OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	2 330	(666)	1 238	(3 301)	749	(29 609)
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	102 645	(172 740)	223 612	(2 383)	339 918	(29 364)
Bank Pekao S.A. Group entities						
Subsidiaries						
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(201)	3	(1 980)	2 541	(16 114)
Metropolis Sp. z o. o.	-	(41)	3	-	27	-
Property Sp. z o.o. (in liquidation)	-	(121)	2	-	3	-
Pekao Property S.A.	2	(35)	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)	446	-	91	-
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.	2	(850)	16	-	5	-
Total Bank Pekao S.A. Group entities	8 432	(12 142)	814	(2 044)	2 834	(26 202)
Key management Staff of the Bank or its parent entity	216	(441)	4	-	-	-
Total	113 623	(185 989)	225 668	(7 728)	343 501	(85 175)

Notes to financial statements (cont.)

(In PLN thousand)

The off-balance sheet exposure related to financing as at 31 December 2010 amounted to PLN 711 288 thousand (PLN 894 921 thousand as at 31 December 2009); guarantee-related exposure as at 31 December 2010 amounted to PLN 218 742 thousand (PLN 148 980 thousand as at 31 December 2009). There are no credit card limits as at 31 December 2010 (PLN 30 thousand as at 31 December 2009).

Remuneration of Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2010	2009
Management Board of the Bank		
Short-term employee benefits (*)	16 919	13 402
Other long-term benefits	1 550	325
Benefits resulting from the termination of employment relationship	-	7 129
Share-based payments (**)	789	377
Total	19 258	21 233
Supervisory Board of the Bank		
Short-term employee benefits (*)	702	612
Total	702	612

(*) 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. Provision for the expected amount of bonus to be paid in 2011 for the year 2010 in the amount of PLN 6 270 thousand is presented in '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 income statement, 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 Management Board of the Bank.

Bank's Management Board and Supervisory Board Members did not receive any remuneration from subsidiaries and associated entities in 2010 and 2009.

Remuneration of Members of Supervisory Boards and management Boards of Group subsidiaries

	VALUE OF BENEFITS	
	2010	2009
Companies' Management Boards		
Short-term employee benefits	15 195	14 663
Other long-term benefits	236	55
Benefits resulting from the termination of employment relationship	635	576
Share-based payments	283	187
Total	16 349	15 481
Companies' Supervisory Boards		
Short-term employee benefits	29	35
Total	29	35

Notes to financial statements (cont.)

(In PLN thousand)

52. Repo and reverse repo transactions

The Group 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 derecognized from the statement of financial position due to the fact that the Group holds all the benefits and the risk deriving from these assets.

	31.12.2010		31.12.2009	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES
Financial assets held for trading				
up to 1 month	146 772	147 011	261 165	261 205
Total financial assets held for trading	146 772	147 011	261 165	261 205
Financial assets available for sale				
up to 1 month	1 813 296	1 819 177	1 382 855	1 386 340
Total financial assets available for sale	1 813 296	1 819 177	1 382 855	1 386 340
Total	1 960 068	1 966 188	1 644 020	1 647 545

The Group purchases 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 statement of financial position due to the fact that the Group do not holds all the advantages of risks and awareness deriving from these assets.

	31.12.2010		31.12.2009	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and advances from banks				
up to 1 month	250 149	249 987	1 472 304	1 470 527
Loans and advances from customers				
up to 1 month	1 411 882	1 409 902	2 415 918	2 421 734
Total	1 662 031	1 659 889	3 888 222	3 892 261

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

Notes to financial statements (cont.)

(In PLN thousand)

53. 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 ZFŚS Funds and are making periodic charges to the ZFŚS Funds in amounts required by the Act. The aim of the ZFŚS Funds is to finance social activities in benefit of the employees and subsidize the social premises.

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

In the consolidated statement of financial position, the Group netted the ZFŚS Funds assets against the ZFŚS Funds value, due to the fact that the assets of the ZFŚS Funds do not represent the assets of the Group. For this reason the amount pertaining to the ZFŚS Funds in the consolidated statement of financial position as at 31 December 2010 and 31 December 2009 was nil.

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

	31.12.2010	31.12.2009
Loans granted to employees	46 276	43 889
Cash at ZFŚS account	5 347	6 474
ZFŚS assets	51 623	50 363
ZFŚS value	51 623	50 363
	2010	2009
Deductions made to ZFŚS during fiscal period	27 903	27 358

54. Subsequent events

There have been no significant subsequent events.

Signatures of all Management Board Members

07.03.2011	Alicja Kornasiewicz	President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.03.2011	Luigi Lovaglio	First Vice-President of the Management Board, General Manager	
Date	Name/Surname	Position/Function	Signature
07.03.2011	Diego Biondo	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.03.2011	Marco Iannaccone	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.03.2011	Andrzej Kopyrski	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.03.2011	Grzegorz Piwowar	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
07.03.2011	Marian Ważyński	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature

Annexes 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 date.

IAS 32 (amendment) 'Financial Instruments: Disclosure and Presentation'

EU approval date: 23 December 2009

Date of application: the first financial year beginning after 31 December 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.

IFRS 1 (amendment) 'First-time Adoption of International Financial Reporting Standards'

EU approval date: 30 June 2010

Date of application: the first financial year beginning after 30 June 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 ends earlier than 31 December 2009.

IAS 24 'Related Party Disclosures'

EU approval date: 19 July 2010

Date of application: the first financial year beginning after 31 December 2010

Description:

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

IFRIC 14 'Prepayments of a Minimum Funding'

EU approval date: 19 July 2010

Date of application: the first financial year beginning after 31 December 2010

Description:

The amendment removes unintended results of IFRIC 14, in case when entity included in minimum funding prepays fees, which in the specific situation should be recognized as expense. If a specific funding program is included in minimum funding, such a prepayment should be recognized as an asset, in accordance with amendments to IFRIC 14.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

EU approval date: 23 July 2010

Date of application: the first financial year beginning after 30 June 2010

Description:

The aim of IFRIC 19 is to clarify how the creditor should recognize equity instruments issued by himself as a result of financial liability conditions renegotiation, aiming to extinguish financial liability fully or partially.

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.

IFRS 9 'Financial Instruments'

Date of application: the first financial year beginning after 31 December 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.

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 counterparties, under which parties 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 Agreement – 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 A-IRB method which determines the probability of debtor's insolvency. PD denotes with what probability is credit loss expected within time period of one year.

LGD – Loss Given Default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

A-IRB – Advanced Internal Rating-Based approach – advanced method where all parameters of risk (PD, LGD, EAD) are estimated by the bank using its own quantitative model to determine the amount of the 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 – the maximum decrease of earnings, relative to specific goal, which might occur due to influence of market risk on specific risk factors for the given time period and confidence level.

ICAAP – Internal Capital Adequacy Assessment Process – the process of assessing internal capital adequacy.