



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.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

Warsaw, March, 2011

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1. Highlights

	2010	2009	2008	2007 COMBINED DATA*	2007	2006	2005
INCOME STATEMENT (PLN MILLION) – SELECTED ITEMS							
Operating income**	7,218	7,053	7,834	8,355	5,398	4,658	4,413
Operating costs**	(3,649)	(3,673)	(3,787)	(3,822)	(2,754)	(2,347)	(2,346)
Operating profit**	3,569	3,380	4,046	4,533	2,645	2,311	2,067
Profit before income tax**	3,102	2,998	4,346	4,366	2,605	2,180	1,874
Net profit for the period attributable to equity holders of the Bank	2,525	2,412	3,528	3,547	2,156	1,788	1,538
PROFITABILITY RATIOS							
Return on average equity (ROE)	13.1%	14.1%	23.5%	24.7%	23.7%	21.1%	19.2%
Net interest margin	3.6%	3.5%	4.1%	3.9%	4.1%	4.2%	4.4%
Non-interest income / operating income	40.4%	42.1%	39.3%	48.0%	49.3%	48.7%	46.9%
Cost / income	50.6%	52.1%	48.3%	45.7%	51.0%	50.4%	53.2%
STATEMENT OF FINANCIAL POSITION (PLN MILLION) – SELECTED ITEMS***							
Total assets	134,090	130,616	131,941	124,096	124,096	67,704	61,972
Loans and advances to customers ****	83,137	79,455	82,512	69,699	69,699	32,747	28,976
Amounts due to customers	100,573	97,250	90,889	89,944	89,944	51,794	46,848
Equity	20,257	18,371	16,036	14,747	14,747	8,893	8,423
STATEMENT OF FINANCIAL POSITION STRUCTURE RATIOS***							
Net loans / total assets	62.0%	60.8%	62.5%	56.2%	56.2%	48.4%	46.8%
Securities / total assets	23.7%	21.0%	17.1%	19.8%	19.8%	25.1%	30.3%
Deposits / total assets	75.0%	74.5%	68.9%	72.5%	72.5%	76.5%	75.6%
Loans / deposits	82.7%	81.7%	90.8%	77.5%	77.5%	63.2%	61.9%
Equity / total assets	15.1%	14.1%	12.2%	11.9%	11.9%	13.1%	13.6%
Capital Adequacy Ratio	17.6%	16.2%	12.2%	12.1%	12.1%	16.5%	19.5%
EMPLOYEES AND NETWORK							
Total number of employees	20,783	20,874	21,992	22,926	22,926	15,647	15,942
Number of outlets (Bank Pekao S.A. and OJSC UniCredit Bank)	1,073	1,089	1,102	1,100	1,100	795	780
Number of ATMs (Bank Pekao S.A. and OJSC UniCredit Bank)	1,910	1,968	2,004	1,885	1,885	1,262	1,244

In order to assure data comparability, selected positions for 2007 income statement are presented as combined data of the Bank Pekao S.A. Group and Pekao285, i.e. the part of Bank BPH SA merged with Bank Pekao S.A. as a result of the merger of the spun-off part of Bank BPH SA as registered on November 29, 2007.

Income statement items for 2005 - 2007 are in line with those published for these periods respectively.

The presentation of items in the income statement for 2008 - 2010 is in line with the presentation of short version of income statement used in UniCredit Group.

* Data not audited/reviewed by an independent auditor.

** Income statement for the period 2007-2010 include continuing and discontinued operations.

*** To ensure comparability, selected items of statement of financial position and related ratios as of December 31, 2010 are presented including respective assets and liabilities of OJSC UniCredit Bank.

**** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

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2. Summary of Performance

The Bank Pekao S.A. Group reported solid financial results for 2010, with net profit attributable to equity holders amounting to PLN 2,525.2 million, i.e. an increase of PLN 113.5 million (4.7%) in comparison to 2009.

The sound results for 2010 with the operating profit increasing by 5.6% in comparison with 2009 were driven by higher operating income as well as lower operating costs.

The strength of the capital and liquidity structure of the Bank Pekao S.A. Group is reflected by a capital adequacy ratio of 17.6% and loans to deposits ratio at the level of 82.7%* at the end of December 2010. This enables further sound and stable development of the Group's activities.

The Bank continued its policy of offering only PLN mortgage loans. The residual stock of mortgage loans denominated in foreign currencies, almost entirely acquired as a result of the merger of the spun-off part of Bank BPH SA, represents only 7.2% of total loans of the Bank.

- In 2010, the Group's operating income amounted to PLN 7,218.0 million, an increase of PLN 165.4 million (2.3%) in comparison to 2009 with growth in total net interest income, dividend income and income from equity investments as well as net fee and commission income.
- Total net interest income, dividend income and income from equity investments in 2010 amounted to PLN 4,303.0 million and increased by PLN 219.7 million (5.4%) in comparison with 2009. The increase was driven by efficient management of the interest margin.
- The Group's net non-interest income in 2010 amounted to PLN 2,915.0 million, with a reduction of PLN 54.3 million (1.8%) in comparison with 2009, mainly due to lower trading results. However, the Group's net fee and commission income in 2010 amounted to PLN 2,368.0 million, an increase of PLN 79.4 million (3.5%) in comparison with 2009, mainly as a result of an increase in commissions on loans, investment products and payment cards.
- In 2010, the operating costs were kept under control and amounted to PLN 3,649.1 million. They were lower than the operating costs in 2009 by PLN 23.7 million (0.6%).
- Net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 537.9 million in 2010, an increase of PLN 3.2 million (0.6%) compared to 2009.
As at December 31, 2010, the ratio of impaired receivables to total receivables amounted to 7.0%* as compared with 6.8% at the end of 2009.
- As at the end of December 2010, the total amounts due to the Group's customers (including customer deposits, structured certificates of deposits, repo and sell-buy-back transactions) amounted to PLN 100,828.8 million, an increase in comparable terms* of PLN 2,824.0 million (2.9%) in comparison to the end of 2009.
The total volume of retail customers deposits and structured certificates of deposits amounted to PLN 46,583.5 million at the end of December 2010, an increase in comparable terms* of PLN 1,432.3 million (3.2%) in comparison to the end of 2009. At the same time, the value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 18,058.8 million, an increase of PLN 2,766.5 million (18.1%) in comparison to the end of 2009.
The total volume of corporate customers deposits and repo and sell-buy-back transactions amounted to PLN 54,245.3 million at the end of December 2010, an increase in comparable terms* of PLN 1,391.7 million (2.6%) as compared to the end of 2009.
- As at the end of December 2010, the volume of retail loans amounted to PLN 31,936.0 million, an increase in comparable terms* of PLN 3,266.8 million (11.4%) in comparison to the end of 2009. The growth of volumes of retail loans was driven by improving dynamics in sales of key lending products. Thanks to commercial focus, the Bank's sales of new consumer loans in 2010 increased by 11.7% and sales of new PLN mortgage loans were higher by almost 62% compared with 2009. The volume of corporate loans, non quoted securities and reverse repo transactions increased in comparable terms* by PLN 343.8 million (0.6%) as compared to the end of 2009 and amounted to PLN 55,697.0 million at the end of December 2010.

* To ensure comparability, selected items of statement of financial position and related ratios as of December 31, 2010 are presented including respective assets and liabilities of OJSC UniCredit Bank.

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3. External Activity Conditions

GDP growth rate

In 2010, GDP growth in real terms amounted to 3.8% year on year according to initial estimates by the Polish Central Statistical Office (GUS). Gross value added in national economy increased by 3.3% in comparison with 2009. Both total sold production of industry and labor productivity in industry increased by 9.7% and by 10.4% respectively. Despite a slump caused by weather conditions, construction increased by more than 3% in comparison with 2009.

In 2010, the GDP growth rate was higher than expected as well as higher than the growth rate noted in 2009 (1.7% year on year). The major GDP growth factors changed in 2010 – domestic demand (accelerated mostly by individual consumption) started playing dominant role, while net exports had a lower contribution to GDP (its GDP contribution in the whole 2010 was slightly negative).

The individual consumption growth rate amounted to 3.2% year on year and the investment level was reduced by 2% year on year. Investment activity remained at a level slightly lower than expected. However, it still indicates a growing trend (-12.8% year on year in the first quarter, -1.7%, +0.4% and approx. +1% in the remaining quarters of 2010 respectively). In the context of further acceleration of EU funds disbursement (2011 will be a record-breaking year, even taking into account information on the reducing of expenditures on roads and motorways), solid investment growth is to be expected in 2011.

An improved situation on the labor market as well as accelerating investments (mainly the EU investments, private sector, except for the largest enterprises and energy sector, is still cautious) give hope for further acceleration of growth rate. Projected GDP growth for 2011 is 4.4% year on year. An additional factor, which will accelerate growth of the Polish economy will be the good economic situation of the Poland's largest trade partner – Germany, where the growth becomes stable with the increase of individual consumption.

Labor market

There was a gradual improvement on the labor market together with a growing employment rate observed in 2010. The average number of employees hired in the Polish companies amounted to 5,379.4 thousand in December 2010, i.e. 124 thousand more than in December 2009. During 2010, a moderate decrease of unemployment rate was observed. The unemployment rate fell to 12.3% in December 2010 compared with the highest value of this indicator at the level of 13.2% noted in February 2010. The employment rate increase took place together with growing number of job offers, which reflected the gradual recovery of the Polish economy. This positive trend should be continued in 2011.

2010 brought increasing elasticity on the job market due to larger scale of temporary employment. Promotion of professional activity co-financed by the EU funds was also significant for the situation of the Polish employees.

Salary pressure in the Polish enterprises' sector remained relatively low, the average salary grew by 3.3% compared with 4.4% in the previous year. Determinant salary growth factor was further economic situation improvement causing enhancement of financial situation of enterprises and enabling the Polish enterprises to pay bonuses at the end of the year. In 2010, the nominal wages increased by 4.4% year on year compared with 2.6% in 2009, which had a positive impact on individual consumption and in turn retail sales.

Inflation and monetary policy

According to initial estimates by the Polish Central Statistical Office, in December 2010 the CPI inflation rate amounted to 3.1% year on year. The average inflation rate remained close to the inflation target set by the National Bank of Poland and amounted to 2.6% year on year. On average, in the previous year, the most significant impact on the CPI index level was imposed by transportation and food prices together with substantial influence of energy and housing costs. The influence of these categories was the most considerable in the first half of 2010 and it was strengthened by the relative weakness of the Polish zloty, a rise in regulated prices (mainly energy prices and tobacco excise increase) and harsh weather conditions in Poland and Europe, which influenced an increase in food prices.

The CPI path flattened due to supply factors, which occurred in the first half of 2010. In the second half of the year CPI rate returned on the growth path due to base effects and this trend will be continued in the first half of 2011.

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Despite strengthening growth tendencies in the Polish economy, risk for growth perspectives resulted both from domestic and foreign factors. The uncertainty resulted mostly from the volatility of foreign financial markets and increasing concerns about the fiscal situation of not only Poland, but in particular, of some other European countries. Limited risk of increased pressure on inflation as well as limited demand pressure enabled the Monetary Policy Council not to change interest rates in 2010, with the reference rate kept at the level of 3.5%.

Unchanged interest rates in 2010 do not mean that there were no changes in monetary policy in Poland. The Monetary Policy Council (acting in a new composition) and the National Bank of Poland taking into account liquidity situation in the banking sector and general economic situation, made some decisions which have impacted the market situation. It concerns, among others, removal of the currency swaps transactions from the NBP's offer, limitation of repo transactions' offer, increase of the obligatory reserve requirements by 0.5 p.p. to 3.5% (back to the level prior June 30, 2009) and the first intervention on the currency market since 2000 (that is since introducing a liquid exchange rate for the zloty) carried out in April 2010.

The first months of 2011 will be for the Monetary Policy Council a period of evaluating pro-inflationary risks resulting from global (inter alia connected with expected price increase of commodities), as well as domestic factors (resulting from increase of VAT rate, regulated prices and individual consumption price increases), which may induce the MPC to start monetary policy tightening. The first increase of rates took already place on January 19, 2011, when all NBP interest rates were increased by 25 b.p.

Fiscal policy

The Ministry of Finance announced that at the end of 2010 the budgetary deficit was slightly below PLN 45 billion, which was below the level planned in Budgetary Act for 2010, that is PLN 52.2 billion. A Better than expected budget completion results from higher than forecasted non-tax income (mainly excise tax) and slightly better than predicted PIT revenue (thanks to recovery of labor market) as well as lower spending.

Despite the better budget completion, the Ministry of Finance confirmed its predictions on public sector deficit at the level of 7.9% of GDP compared with 7.1% of GDP at the end of 2009. The deficit level higher than PLN 100 billion resulted, among others, from social insurance sector deficit growth as well as municipalities' deficit.

The government presented the plan for the Budgetary Act for 2011 with a budgetary deficit up to PLN 40 billion in September 2010. This means a reduction of gross borrowing needs to the level of PLN 164.3 billion and lower issuances of Treasury securities on domestic and foreign markets. There are also the following government initiatives assumed in the plan of the Budgetary Act for 2011 leading to decrease the deficit of public sector to the level lower than 3% of GDP and maintaining public sector debt below 55% of GDP in 2012:

- introducing a fiscal rule, which limits spending growth to 1% in real terms,
- 'freezing' of wages in the public sector,
- increasing of selected VAT rates,
- changes in the pension system for people employed in the police, army, local civil service and other privileged sectors,
- limiting transfers to opened-end pension funds.

Foreign sector

According to initial estimates by the National Bank of Poland, the current account deficit increased to the level of EUR 11.6 billion vs. EUR 6.8 billion in 2009 and the current account balance accounted for ca. -3.3% of GDP vs. -2.1 % in 2009. The higher current account deficit was due to:

- doubled goods trade account deficit. In 2010, growth of imports' dynamics took place, which should be partly connected with low statistical base and consumption imports' growth. Exports' dynamics stayed at a relative high level, supported by improving economic situation of major trading partners of Poland. The trade deficit amounted to EUR 6,4 billion vs. EUR 3.1 billion in 2009, exports and imports grew by 20.1% year on year and 22.6% year on year respectively.

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- higher net income account deficit as a result of better than expected financial results of enterprises, that enabled profit growth of foreign investors holding shares in the Polish enterprises. This deficit amounted to EUR 13 billion vs. EUR 11.9 billion in 2009.

There was a significant growth of foreign portfolio investments noted in 2010 from EUR 11.3 billion in 2009 to ca. EUR 21 billion. The growth was due to the increase of foreign investors' engagement in the Polish Treasury. The inflow of foreign direct investments proved to be lower than in 2009 and accounted for ca. EUR 7.5 billion. Foreign direct investments financed ca. 65% of current account deficit. It is still acceptable level, however, its further decline in the medium-term prospects can be an additional factor for the zloty's depreciation.

In 2010, there was a further increase in the State Treasury's foreign debt. According to Ministry of Finance data, as at the end of November 2010, the indebtedness amounted to PLN 201.8 billion, which means PLN 33 billion growth (19.6%) in comparison to the end of December 2009. The growth was mainly the result of the weakening of the zloty against other currencies, in which the State Treasury's foreign debt is measured. The appreciation of the zloty in December 2010 could slightly reduce State Treasury's foreign debt, which in turn may have influenced the whole public sector debt, so that it remained below the second alert threshold of 55% of GDP.

Capital Market

During 2010 the stock indices listed on the Warsaw Stock Exchange (WSE) continued following an upward trend which started in 2009 after earlier significant decline resulted from the crisis.

The events on the WSE were influenced by foreign stock exchanges. The major global indices started 2010 with strong growth and spectacular correction in the second quarter. In the second half of the year they grew systematically to reach the levels noted before the bankruptcy of investment bank Lehman Brothers. The WSE was dominated by similar investors' moods. Except the periods of stronger declines in January, April and May, the demand side dominated the supply side and the mood was optimistic.

Appetite for risk and investments in shares was increased worldwide by the availability of cheap financing (interest rates were kept at historically low levels). Expansionary policy (including policy of quantitative easing) led by Fed and other central banks as well as widening of fiscal stimulus, mainly in the USA, were the key factors determining record high liquidity on financial markets. On the other side, the spreading of the debt crisis in some European countries slightly limited the appreciation tendency.

The better condition of the Polish economy and its return on the path of growth of nearly 4% year on year helped locally the tendency to invest in shares. The macroeconomic data presented a better situation quarter to quarter and forecasts growth continuation stimulated the demand for shares of companies, which generally noted results that better than expected.

The best result was achieved by mWIG40 index, which represents the behaviour of 40 medium companies quoted on the WSE (rate of return – 19.6%), and the weakest by sWIG80 representing 80 small companies quoted on the WSE (10.2%). Wide market index – WIG increased by 18.8%, while WIG20, the index representing 20 biggest and most liquid companies noted on the WSE, increased by 14.9%.

The WSE statistics confirmed the increased interest in the WSE, which is a natural occurrence during bull market. The overall turnover on the stock exchange increased by PLN 116.7 billion, up to PLN 468.6 billion and the market capitalization of companies listed on the WSE at the end of December 2010 accounted for PLN 796.5 billion, i.e. a 11.3% growth since December 2009. In 2010, 34 companies made their IPO on the WSE, which is almost twice more than in the previous year. The most important events were IPOs of PZU, Tauron and GPW, which attracted to capital market thousands of new clients, who were encouraged by the action of building civic shareholding by the Ministry of Treasury.

In contrast to 2009, in 2010 individual investors did not support clearly the demand on the stock exchange by investing in equity mutual funds. The investment funds had noted systematic growth since 2009, however, the clients chose lower risk funds. According to data of Analizy Online service, the assets of investment funds increased in 2010 by PLN 22.5 billion (over 24% growth). The positive net sales (PLN 9.4 billion) was four times higher than in the previous year. The major beneficiaries were money market funds (balance PLN 5.9 billion) and bond funds (PLN 3.1 billion). The statistics for equity and balanced funds indicated worse results (PLN 435 million vs. PLN 2.1 billion in 2009 and PLN – 340 million respectively).

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Banking sector

The condition and results of banking sector in 2010 were mainly determined by the overall macroeconomic situation, situation on financial markets and monetary policy of the Central Bank. The acceleration of economic growth, stabilization on financial markets and lack of material changes in monetary policy had a positive impact on banking sector and its results.

The growth rate of banks' assets accelerated. It amounted to 9.5% year on year at the end of December 2010 (vs. 1.8 % year on year in December 2009). Relating to main categories of deposits¹, 2010 brought:

- the growth of household deposits by 9.8% year on year (15.3% year on year in 2009). The major factors influencing the slowdown in growth of this category were moderate households' income growth and changes in the savings' structure (moving savings towards investment funds, mainly those with lower risk profile),
- an increase of corporate deposits by 9.9% year on year vs. similar level last year (10.4% year on year). Solid deposits' growth is mainly a derivative of good financial results as well as low investing tendency,
- the growth of other deposits by 3.6% year on year (vs. 12.5% decline year on year in 2009). The low growth rate of this category is due to the fall of deposits of the public sector, which compensated for in a limited way by the growth of deposits of non-banking financial institutions and non-profit institutions serving households.

As a result of the growth of particular deposit categories described above, households deposits constituted 61.8% of all deposits (61.4% at the end of 2009), corporate deposits 26.6% (26.4% at the end of 2009) and other deposits 11.6% (12.2% at the end of 2009).

In case of major categories of loans, 2010 brought:

- an increase of households loans by 13.9% year on year (12.0% year on year in 2009). This growth was achieved thanks to growth of mortgage loans against the stagnation of consumer loans. The main currency of loans granted is the zloty (more than 60% of portfolio). The loans denominated in the zloty other than mortgage loans constituted more than 95% of all such loans and mortgage loans in the zloty constituted ca. 40% of these loans,
- the decrease of corporate loans by 0.3% year on year (-3.7% year on year in 2009) was connected with the process of deleveraging of some companies and investment stagnation. These processes were particularly visible in case of companies hiring more than 250 employees. The growth of the credit portfolio was noted in the SME segment. Loans denominated in the zloty constitute 75% of corporate loans,
- the growth of the other loans by 9.3% year on year (43.1% year on year in 2009). This growth was mainly due to the growth of the credit portfolio of municipal units (+38% year on year). At the same time a reduction of indebtedness of the Social Security Fund and non-banking financial institutions was observed.

At the end of 2010, households loans constituted 62.4% of the whole credit portfolio (59.7% at the end of 2009). Corporate loans constituted 28.5% (31.2% at the end of 2009) and the other loans 9.1% (no change in comparison with 2009) of the whole credit portfolio.

Loans to deposits ratio remained at the same level as in December 2009 and amounted to 113%.

The quality of the credit portfolio remains an important issue. In 2010, especially in the second half of 2010, a gradual reduction of pace of growth of NPLs ratio was observed. At the end of November 2010, the share of such loans (in case of clients from non – financial sector) amounted to 8.8% compared with 7.9% at the end of 2009.

From the perspective of the banking sector' financial results, 2010 brought visible improvement. According to the Polish Financial Supervision Authority's data, the net profit of the banking sector for 2010 amounted to PLN 11.7 billion and was 40.9% higher than in 2009. The better result was due to a significant decrease in the banks' funding costs (interest expenses were lower by 10% year on year) and reduction of cost of risk (in 2010, net provisions in the sector amounted to nearly PLN 11 billion, i.e. a 15% decrease in comparison with 2009).

¹ The data is based on aggregates published by the National Bank of Poland for all of the monetary financial institutions, including apart from deposits also other liabilities, and in case of loans also other receivables.

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The most important regulatory events in 2010 were:

- implementation of rules introducing the EU directives creating European MiFID (Markets in Financial Instrument Directive) on the Polish market with main objective to create an integrated financial market in EU, enhance the investors' protection, increase competition in the area of investment services, as well as to increase transparency of the activities of companies offering investment products,
- implementation of T-Recommendation defining good practices in risk management of retail credit exposures.

Ukraine

In 2010, the Ukrainian economy recovered from a deep recession. The International Monetary Fund estimates, that the GDP of Ukraine grew by 3.7% in 2010 against a 15.1 % decline in 2009. Stronger foreign demand, accommodative monetary and fiscal policy and higher steel prices were among the most important factors supporting Ukrainian economic growth. The important element of growth was also a recovery of domestic demand, especially the high growth rate of investment in inventories. Consumption dynamics improved, mainly due to increase in real wages. A 50% gas price's increase, introduced in August 2010, was a factor, which affected negatively the individual consumption growth rate. The Ukrainian economy was still characterized by the fall of gross expenditure on fixed assets and in turn insignificant credit action and the reduction of government's capital spending.

The budgetary deficit of Ukraine (according to operative data provided by the Ministry of Finance of Ukraine), amounted to ca. UAH 64.4 billion (4.9% of GDP), i.e. 19% more (UAH 10.3 billion) than it was predicted in the national budget in 2010. The International Monetary Fund estimates that public sector debt equaled 41.5% of GDP against 34.1% of GDP in the previous year. Factors improving fiscal results were the reduction of the net loss of the state-owned energy company and an increase of budgetary income from indirect taxes. Income from direct taxes decreased despite better financial results of companies and growth in real wages. The government approved the budget deficit at the level of 3.08% GDP or UAH 38.6 billion for 2011.

In the first half of 2010, Ukraine noted a gradual fall of inflation (from 11.1% year on year in January to 6.8% year on year in July). Nevertheless, the second half of the year brought higher values of CPI, mainly due to increased food prices dynamics and the raising of regulated gas prices. The average annual inflation rate amounted to 9.4% in 2010. The National Bank of Ukraine pursued a moderate monetary policy. Since the beginning of the year, the major interest rate has been reduced by 250 b.p. and it has amounted to 7.75% since September. The reduction of interest rates and improving liquidity in the banking sector contributed to the decrease of interest rates on the interbank market. However, it did not result in a substantial increase in lending.

Further economic recovery can be expected in 2011, however at a moderate rate. The necessity of fiscal consolidation within the IMF's recovery program, will be not favourable for economic growth. Reducing the budgetary deficit to the level required by the IMF does not mean that avoiding re-worsening of the fiscal situation would succeed in view of minor progress in carrying out deep structural reforms. Difficult fiscal situation of Ukraine will not attract foreign capital, without which it will be difficult to finance the country's debt repayment. A restrictive fiscal policy, as well as further administrative prices' increases will influence the consumer spending negatively.

The Ukrainian banking sector is still facing difficulties. The National Bank of Ukraine, in connection with problems with maintaining financial liquidity, was forced to extend term of litigation trusts in nationalized banks. In March 2011, the International Monetary Fund will grant the third tranche of recovery credit to Ukraine provided that the Ukraine's government fulfills commitments towards the IMF concerning, inter alia, carrying out the pension system reform, works on which delay.

The IMF forecasts the growth of Ukrainian GDP at the level of 4.5% in 2011. Higher economic growth will be accompanied by further inflation growth – up to 10.8%, according to the IMF.

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4. Important Events and Achievements

4.1 Changes within the Group

The composition of the Bank Pekao S.A. Group is presented in the Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

The most significant developments concerning the Group are presented below.

Acquisition/disposal/ of shares/stock

On October 4, 2010, Bank Pekao S.A. acquired from Holding Sp. z o.o. 1 share of Pekao Bank Hipoteczny S.A. with nominal value of PLN 100,000 and purchase price PLN 132,903 being 0.04% in equity and voting rights at General Meeting of the company. Following the transaction the Bank holds 100% in equity and voting rights of Pekao Bank Hipoteczny S.A., i.e. 2,230 shares with total nominal value of PLN 223,000,000 million.

On December 22, 2010, Pekao Fundusz Kapitałowy Sp. z o.o. acquired from Bank Pekao S.A. 709,088 bearer shares of Polska Prasa Lokalna Holding Spółka Akcyjna located in Warsaw with a par value of PLN 1 per share and total nominal value of PLN 709,088 thousand, representing 23.91% of the company's share capital and conferring the right to 21.30% of the total vote at its General Shareholders Meeting. The purchase price amounted to PLN 1.

Share capital decrease

On March 24, 2010, the District Court for the Capital City of Warsaw, XIII Business Branch of the Domestic Registry Court registered a share capital reduction in the company Holding Sp. z o.o. from PLN 61,901,500 to PLN 5,000 through reducing the number of shares by 123,793 shares (par value of PLN 500 each) under the resolution passed by the Extraordinary Shareholders' Meeting of Holding Sp. z o.o. on August 18, 2009.

On October 20, 2010, the Extraordinary General Meeting of the company Holding Sp. z o.o. in liquidation, a 100% subsidiary of Bank Pekao S.A., took the resolution to commence the liquidation process of the company. The liquidation process of Holding Sp. z o.o. will be continued in 2011.

Liquidation of the company

On February 5, 2010, the Registrar of Companies for England and Wales incorporated a change in the legal form of Finanse plc from public limited company to Limited (Ltd). On April 19, 2010, the Bank acquired from the company Holding Sp. z o.o. one share in Finanse Ltd. Following the transaction the Bank holds 100% in voting rights and equity of Finanse Ltd. On April 21, 2010, the Shareholders' Meeting of Finanse Ltd. passed a resolution decreasing the company's share capital by GBP 49,999 from GBP 50,000. After the company's share capital reduction, the Bank holds one share in Finanse Ltd. with a par value of GBP 1 representing 100% of the company's equity and voting rights. On September 7, 2010, Finanse Ltd. was removed from UK Companies House register. The British proceedings provided for solvent companies were applied for liquidation. The Bank holds no shares in Finanse Ltd.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

4.2 Changes in the Statutory Bodies of the Bank

Supervisory Board

On January 12, 2010, Mrs. Alicja Kornasiewicz, Member of the Supervisory Board, resigned from her position in connection with her appointment to the Management Board of Bank Pekao S.A.

Mr. Paolo Fiorentino, Deputy Chairman, Secretary of the Supervisory Board resigned from his position on the Supervisory Board of the Bank effective from April 26, 2010.

On April 28, 2010, the Ordinary General Meeting of the Bank appointed Mr. Sergio Ermotti and Mr. Roberto Nicastro as Members of the Supervisory Board for the current common term of office of the Supervisory Board of the Bank effective from April 29, 2010.

The Supervisory Board of the Bank, at the meeting held on June 16, 2010, entrusted Mr. Federico Ghizzoni, Deputy Chairman of the Supervisory Board, with the function of the Secretary of the Supervisory Board and Mr. Roberto Nicastro with the function of the Deputy Chairman of the Supervisory Board.

Mr. Sergio Ermotti, Member of the Supervisory Board of the Bank, resigned from position held in the Supervisory Board effective February 23, 2011.

Composition of the Supervisory Board:

DECEMBER 31, 2010	DECEMBER 31, 2009
Jerzy Woźnicki Chairman of the Supervisory Board	Jerzy Woźnicki Chairman of the Supervisory Board
Federico Ghizzoni Deputy Chairman, Secretary of the Supervisory Board	Paolo Fiorentino Deputy Chairman, Secretary of the Supervisory Board
Roberto Nicastro Deputy Chairman of the Supervisory Board	Federico Ghizzoni Deputy Chairman of the Supervisory Board
Paweł Dangel Member of the Supervisory Board	Paweł Dangel Member of the Supervisory Board
Sergio Ermotti Member of the Supervisory Board	Oliver Greene Member of the Supervisory Board
Oliver Greene Member of the Supervisory Board	Alicja Kornasiewicz Member of the Supervisory Board
Enrico Pavoni Member of the Supervisory Board	Enrico Pavoni Member of the Supervisory Board
Leszek Pawłowicz Member of the Supervisory Board	Leszek Pawłowicz Member of the Supervisory Board
Krzysztof Pawłowski Member of the Supervisory Board	Krzysztof Pawłowski Member of the Supervisory Board

Management Board of the Bank

On November 24, 2009, Mr. Jan Krzysztof Bielecki, President of the Management Board, resigned from his position effective from January 11, 2010.

On January 12, 2010, the Supervisory Board adopted a resolution to appoint Mrs. Alicja Kornasiewicz as the President of the Bank's Management Board for the current joint term of office of the Bank's Management Board, effective as of the date of obtaining approval of the Polish Financial Supervision Authority. Until the above consent was obtained, Mrs. Alicja Kornasiewicz had been appointed, effective from February 15, 2010 as Member of the Management Board acting as the President of the Management Board.

Mr. Luigi Lovaglio acted as the President of the Bank's Management Board from January 12, 2010 up to February 14, 2010.

On April 28, 2010, the Supervisory Board of the Bank appointed the Members of the Management Board for the common term of office of three years, effective from April 29, 2010.

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On August 31, 2010, the Polish Financial Supervision Authority gave its consent to appoint Mrs. Alicja Kornasiewicz as the President of the Management Board of Bank Pekao S.A.

Composition of the Management Board:

DECEMBER 31, 2010	DECEMBER 31, 2009
Alicja Kornasiewicz President of the Management Board	Jan Krzysztof Bielecki President of the Management Board CEO
Luigi Lovaglio First Vice President of the Management Board General Manager	Luigi Lovaglio First Vice President of the Management Board General Manager
Diego Biondo Vice President of the Management Board	Diego Biondo Vice President of the Management Board
Marco Iannaccone Vice President of the Management Board	Marco Iannaccone Vice President of the Management Board
Andrzej Kopyrski Vice President of the Management Board	Andrzej Kopyrski Vice President of the Management Board
Grzegorz Piwowar Vice President of the Management Board	Grzegorz Piwowar Vice President of the Management Board
Marian Ważyński Vice President of the Management Board	Marian Ważyński Vice President of the Management Board

Members of the Bank's Management Board are appointed for a joint three-year term of office.

Management Board members are appointed and removed from office by the Supervisory Board. Vice Presidents and Members of the Management Board are appointed and removed from office on the motion of the President of the Management Board. Appointment of two members of the Management Board, including its President, is subject to approval by the Financial Supervision Authority; the body which applies for the approval is the Supervisory Board.

The scope of powers and duties of the Management Board Members is defined by the Bank's Statute, Commercial Companies Code and the Rules of Procedure of the Management Board. The scope of powers of the Bank's Management Board includes all matters which, pursuant to the provisions of applicable laws or the Bank's Statute, do not fall within the scope of competence of other governing bodies of the Bank.

As at the end of 2010, the scope of powers and duties of the Management Board members was as follows:

- Alicja Kornasiewicz, President of the Management Board, supervised the internal audit, legal service, compliance office, macroeconomic research and corporate communication units, as well as the President's Office.
- Luigi Lovaglio, First Vice President of the Management Board and General Manager:
 - coordinated the activity of the following divisions: retail banking, corporate banking and MIB, finance, risk management, logistics and procurement,
 - supervised the activity of the following divisions: household financing, private banking, human resources, organization, IT, as well as the marketing communications department, customer satisfaction department, investors relations and market strategic analysis department and Rocket Project.
- Diego Biondo, Vice President of the Management Board, supervised the activity of the Risk Management Division.
- Marco Iannaccone, Vice President of the Management Board, supervised the activity of the Financial Division.
- Andrzej Kopyrski, Vice President of the Management Board, supervised the activity of Corporate Banking and MIB Division.
- Grzegorz Piwowar, Vice President of the Management Board, supervised the activity of Retail Banking Division.
- Marian Ważyński, Vice President of the Management Board, supervised the activity of Logistics and Procurement Division.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

4.3 Organisational Changes

In 2010, there were no significant organizational changes in the Bank.

4.4 MiFID Implementation

The provisions of the EU directive – MiFID into the Polish legal system, the main objective of which is to create an integrated financial market in EU, enhance the investors' protection, increase competition in the area of investment services, as well as to increase transparency of the activities of companies offering investment products, took effect as of April 21, 2010.

MiFID imposes certain obligations on companies offering investment products to act in the best interest of clients, in particular to act in an honest, fair and professional way, provide them with clear and understandable rules governing the investment services, provide complete and not misleading information and to offer services and products appropriate for the clients.

In the first quarter of 2010, within the framework of the MiFID project implemented in Bank Pekao S.A., appropriate modifications to procedures, information systems, marketing information and clients documentation were introduced and professional training for the employees was provided.

In the area of individual customers' services, the Bank's activities were focused on providing customers with the earliest opportunity to sign the agreement for accepting and submitting orders relating to investment funds while satisfying other MiFID requirements in order to mitigate possible inconvenience with regard to the obligation of having such an agreement by April 21, 2010. These activities were accompanied by an information campaign, addressed first to those customers who do not personally place orders relating to investment funds in the Bank's premises but are operating by a proxy or using electronic channels.

In the area of corporate customers' services, the business specification for the information systems were completed. In order to adjust the client's documentation, the required procedures, agreements and regulations were prepared and a transparent process to manage client's documentation was put in place. Additionally, the sales processes were altered to incorporate new tasks and new internal regulations for dealers and relationship managers were created.

The activities relating to the implementation of MiFID requirements applied also to brokerage services rendered by Dom Maklerski Pekao (Dom Maklerski) – an entity operating within the Bank's structure and Centralny Dom Maklerski Pekao S.A. (CDM) – subsidiary of the Bank. The MiFID requirements resulting from secondary regulations to the Act on Financial Instruments Trading, in particular the Ministry of Finance Ordinance on procedure and conditions for the operations of investment companies, were fully implemented in Dom Maklerski and CDM on June 17, 2010. Prior to this date, Dom Maklerski and CDM had been modifying its activities in terms of operation, information technology and documentation, in particular to implement a range of internal regulations and regulations for customers. The customers were notified of being allocated to a relevant group specified in the provisions of law and of the new Rules and Regulations for rendering brokerage services together with the Information Package containing the Policy of performing the orders and acting in the best customer's interest, the Policy of classifying and reclassifying the customer and the description of risks relating to the investments in financial instruments.

Similar activities relating to the implementation of MiFID requirements have been undertaken in respect of services relating to management of financial instruments by Pioneer Pekao Investment Management S.A. (PPIM). Substantial efforts were made aiming at full alignment of operations, IT solutions and documentation with the requirements resulting from secondary regulations. Full implementation of MiFID requirements in PPIM was completed on June 17, 2010.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

4.5 Awards and Distinctions

The year 2010 brought Bank Pekao S.A. a large number of awards and distinctions from both Polish and foreign institutions. The Bank's activities gained wide recognition, as evidenced by the Best Bank in Poland titles awarded by the Euromoney and Global Finance magazines, as well as numerous other awards honouring the Bank's achievements in various areas of the banking business.

Euromoney Excellence Award 2010 for Bank Pekao S.A.

For the third consecutive time, Bank Pekao S.A. was named the *Best Bank in Poland* by the *Euromoney* magazine. Previously, the Bank won the *Euromoney Award for Excellence* in 2009, 2008, 2005, 2002, 2001 and 2000.

In 2010, the Bank was distinguished for the consistent implementation of sustainable development strategy, high profitability and product portfolio development. The judging panel especially commended customer satisfaction enhancement program, run for several years now, and the e-banking service development. The *Euromoney* award is yet another proof of Bank Pekao S.A.'s strengthening position in the Polish banking sector, despite the adverse environment in the wake of the financial crisis.

Euromoney is regarded as leading magazine devoted to international finance and it has granted the award since 1992 to financial institutions demonstrating the highest efficiency, including the best banks in over 100 countries.

In last year's edition of the *Euromoney Excellence Awards*, members of the UniCredit Group won a total of eight awards and distinctions.

Bank Pekao S.A. the Best Bank in Poland 2010 according to Global Finance

For the second consecutive time, the international financial magazine *Global Finance* selected Bank Pekao S.A. as the Best Bank in Poland in its *World's Best Banks 2010* ranking. The Bank already won the award in 2009, 2006, 2002, 2001 and 2000.

The *Best Bank in Poland 2010* title was awarded by *Global Finance* for the unique capabilities demonstrated by Bank Pekao S.A. as a partner and service provider in what was an exceptionally difficult time for the banking industry.

In awarding the *Best Bank* titles to banking institutions from Central and Eastern Europe, the international jury, composed of market analysts, banking consultants and senior corporate executives, considered growth of assets, financial performance, product offering development, the level of innovation, as well as strategic stakeholder relations. The key consideration determining the jury's decision was customer references, reviewed and verified by the *Global Finance* team.

Yet another *Best Bank in Poland* title awarded to the Bank by one of the most prominent international financial magazines is a proof of recognition for Bank Pekao S.A.'s consistent value creation.

Bank Pekao S.A. the Most Valuable Company in Poland

Bank Pekao S.A. was named the most valuable company in Poland 2009, topping the ranking published by the *Newsweek Polska* weekly and consulting firm A.T.Kearney.

In the ranking, the Bank surpassed all its peers from the banking sector, as well as the largest Polish companies from other industries.

Global Finance awards for Pekao Corporate Banking Services

In recognition of its trade finance and foreign exchange offering, Bank Pekao S.A. – as the only bank in Poland – for the third consecutive time received two prestigious awards from the *Global Finance* magazine:

- **Best Trade Finance Provider 2010** – as the best provider of trade finance services;
- **Best Foreign Exchange Provider 2010** – as the best provider of foreign exchange services in Polish Zloty category.

The *Global Finance* editors, with input from industry analysts, senior corporate executives and banking experts, selected the best trade finance providers in 71 countries and regions.

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Bank Pekao S.A. named the IT Security Leader in Corporate Banking according to *Global Finance*

Bank Pekao S.A. was named the leading internet bank for corporate customers in the CEE region, winning the *Global Finance 2010 World's Best Internet Banks* ranking in the **Best Information Security Initiatives** category.

Biometric user authentication solution based on fingerprints scanning, incorporated in the PekaoBIZNES²⁴ system, was recognised as the region's best IT security initiative in the area of internet banking dedicated to corporate customers.

The Bank was noted as the first in Europe, and one of the first in the world, to have introduced this innovative solution. The unique implementation of biometrics into the transaction platform was fully designed by the Bank's in-house experts.

Information security is a factor of key importance in on-line services. By implementing biometrics, Bank Pekao S.A. offers a solution significantly enhancing security in e-banking systems, while rendering the user authentication process much more convenient.

The winners of the *Global Finance* awards were selected by a judging panel composed of world-class experts.

Bank Pekao S.A. Top Rated by *Global Custodian Magazine*

Bank Pekao S.A. was honoured by *Global Custodian Magazine* for custodial services in the Polish market in the annual ranking prepared on the basis of a customer survey.

The Bank has won this prestigious award many times before.

In 2010, the Bank was Top-Rated in the most important category of *Leading Clients*. The Bank was also commended in the *Cross-Border Non-Affiliate* category.

The winners were selected by customers, who expressed their appreciation for Bank Pekao S.A.'s excellent understanding of the market and above-average quality of service, thanks to which the Bank provides services to the highest number of customers investing on the Polish capital market.

Global Custodian is a leading international magazine devoted to services related to processing of transactions executed on the global securities markets. The magazine is known for its annual rankings which measure the achievements and quality of service provided by banks and brokerage firms.

Top Quality Solutions for Corporate Customers

The judging panel of the **TOP QUALITY INTERNATIONAL 2010** award, organised by the *Business Forum* editorial board in the *Dziennik Gazeta Prawna* daily, commended the superior quality of the Bank's solutions dedicated to corporate customers in the three areas: product, service and management.

- **Convenient Accounts (*Wygodne rachunki*)** – selected the **top quality product** – is a cutting-edge form of cash payments enabling payment of household bills (electricity, gas, water, etc.) via selected retail outlets across Poland. The product effectively meets the needs of retail customers, agents (retail and service outlets) and invoice issuers, including public utilities and financial institutions charging fees for their services on a periodic basis. The solution is based on a technology using barcodes placed on invoice forms, which contain the information required to execute the transaction.
- **Pekao BusinessLine** – named the **top quality service** – is the largest service available on the market which offers corporate accounts and their advisers integrated post-sale services in the area of transactional banking, as well as the implementation, information and complaint resolution processes. It stands out for its unique organisational solutions and innovative technologies ensuring effective customer service, communication and practical reporting.
- **CRM Focus** – named the **top quality system** – is a tool supporting the management of the sales process and relations with the Bank's corporate customers. It is adjusted to the specifics of the service model dedicated to corporate customers, and thus effectively supports the work of advisers, sales managers and product specialists in the development of relationship banking.

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TOP QUALITY INTERNATIONAL is a ranking intended to honour entities striving for the highest quality of their product and service offering. The ranking's patrons include the Ministry of Regional Development, the Polish Forum ISO 9000 Club and the Polish Agency for Enterprise Development.

Triple Success in the EUROPRODUKT 2010 Competition

In the area of services for corporate clients, *PekaoTrade* and *eFinancing* services, corporate payment cards and the *CRM Focus* tool were awarded the prestigious *Europrodukt 2010* title in the jubilee 15th edition of the nationwide competition.

PekaoTrade and ***eFinancing*** services involve comprehensive on-line management of a wide range of trade finance products. Bank Pekao S.A. stands out for the diversity of the trade finance offering available to the customers via the Internet and the high functionality of its trade finance products.

Corporate payment cards is a flexible service which – thanks to added tools such as reports, club packages and insurance – enables corporate customers to effectively manage costs and control spending. The advantages of the offering include a choice between several deferred charge cards and the *Visa Business Lider* combined debit and charge card, which is a unique product on the Polish market.

CRM Focus is a state-of-the-art proprietary solution designed to support sales and corporate customer relations, which helps implement the concept of corporate relationship banking into practice. The *CRM Focus* system effectively supports the management of business relations with corporate customers in the following selected areas: acquisition and retention of corporate clients, reporting of business dealings, and change/update of product regulations.

EUROPRODUKT is a prestigious nationwide competition organised since 2000 under the auspices of the Ministry of Economy and the Polish Agency for Enterprise Development to recognise products, services and initiatives able to compete on the European market in terms of quality, innovation and professionalism.

Bank Pekao S.A. awarded the IT Leader Title

Bank Pekao S.A. won the fourteenth edition of the *IT Leader* award in the *Banking and Finance* category.

As *IT Leader*, Bank Pekao S.A. boasts innovation, commitment to deliver user-friendly solutions, and high security applications. The Bank received the distinction in recognition of its extensive use of new technologies, especially projects in the area of electronic access channels.

Bank Pekao S.A. blazed the trail of electronic banking in Poland as the first institution to have launched such service in 1998. Ever since, new technologies have been featuring more and more prominently in the Bank's operations, while applications offered to customers are increasingly more useful and accessible. The Bank has pioneered, not only in Poland but also in Europe, the implementation of the fingerprint biometrics in its transaction platform for corporates.

In 2010, 18 finalists made it to the final stage of the competition. The *IT Leader* titles were awarded in six categories: banking and finance, trade and services, public sector, industry, health care and public utilities. The *IT Leader* competition organised for fourteen years now by the editorial board of *Computerworld* weekly, is the most prestigious project of this kind in Poland. Every successive edition reflects in the most complete way the current impact of IT solutions on business and its efficiency at firms and public offices.

Pekao's Internet Banking Security Controls acclaimed as Innovations of the Year 2010

Bank Pekao S.A. was announced as the winner of the *Innovations of the Year 2010* ranking, receiving awards for two advanced e-banking security solutions: the fingerprint-based biometric technique of authentication for corporate customers and transactions applied in the Internet banking system *PekaoBIZNES*²⁴, and *PekaoToken* – an innovative method for authorisation of transactions within the *Pekao24* system, based on applications running on mobile phones.

Both awards are in recognition for the use of innovative e-banking technologies and delivery of services marked by the highest quality and security standards. They confirm the Bank's strong leading position in the Polish Internet banking market.

The *Innovation of the Year* competition is organised by *Forum Biznesu*, a supplement to the *Dziennik Gazeta Prawna* daily under the auspices of FIRE Information Centre. It is dedicated to firms, institutions and organisations active on the Polish

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market in various sectors of the economy. Its prime objective is to promote innovation, cutting-edge inventive solutions, as well as unique products and services. The Program is intended to stimulate the corporate sector to develop technological thinking, monitoring the market for innovative products and technologies.

Innovation of the Year 2010 in the Golden Banker Competition

Bank Pekao S.A. was named winner in the **Financial Innovations of the Year 2010** category of the *Golden Banker* competition organised by web portal Bankier.pl. It received the award in recognition of the biometric authentication of corporate customers and transactions in the PekaoBIZNES²⁴ on-line banking system based on user fingerprints.

Biometrics in the PekaoBIZNES²⁴ system honoured by the Electronic Economy Congress

During the fifth Electronic Economy Congress, Bank Pekao S.A. received a special mention in the **Project of the Year** category for the biometric identification of PekaoBIZNES²⁴ customers. It was appreciated, that the Bank introduced this identification method as the first in Poland and one of the first institutions in the world.

The intention behind the decisions of the jury panel of the Congress, organised by the Banking Technologies Forum and the Association of Polish Banks, was to honour institutions which contribute to the construction and development of electronic economy and information society in Poland.

Pekao24 – Best Interface according to PC WORLD

The new on-line service Pekao24 won recognition from reputed computer monthly *PC WORLD* as the *Best Interface*.

The *PC WORLD* experts have tested the internet banking systems offered by twenty leading Polish banks. The new Pekao24 service features prominently against similar solutions, thanks to its cutting-edge security controls and the option enabling customers to authorise transactions with the use of the PekaoToken mobile application.

In *PC WORLD*, a reputed magazine in the IT industry, experts rate the most recent products on global markets and keep track of current trends.

Bank Pekao recognised by experts for quality information channels

In the *Bank Closest to Clients* competition organised by the *Dziennik Gazeta Prawna* daily, the Bank won an award in the **Best Call Centre** category.

The ranking was compiled both by financial experts and customers.

The receipt of the award coincided with the publication of the results of a comprehensive research study of all banking information channels conducted by *ARC Rynek i Opinia*, in which Bank Pekao S.A. was ranked second.

In ARC's study, Bank Pekao S.A. emerged as the leading firm in terms of the most complete information on cash loans, credit cards and deposits available via the telephone channel, winning in three out of five categories.

Bank Pekao S.A. named Top Employer in Poland

Bank Pekao S.A. was ranked as the best employer in Poland in 2010, as evidenced by the **Top Employer** title awarded by the independent international Corporate Research Foundation (CRF) institute based in Netherlands. The Bank received the highest ratings of all the companies recognised in Poland. The titles, conferred for the first time to the Polish employers, went to a total of 14 institutions.

The *Top Employer* program was launched in 1991. On yearly basis, CRF evaluates and audits of the leading employers in 12 countries from different parts of the world. This year was the first one in which the scope of the ranking was extended to cover Central and Eastern Europe, including Poland.

The objective behind the audits is to identify top employers in terms of HR policies and practices. The final rating is determined by a report describing a firm's HR activities broken down into five categories (salaries/wages and additional benefits, training and development opportunities, career path development, work conditions and corporate culture), as well as interviews with employees at different levels of the organisation.

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Awards in the *Internale 2010 Competition*

Three internal communication projects implemented by Bank Pekao S.A. were honoured in the nationwide *Internale 2010 competition*.

The winners of the **Best Internal Communication Project** category included two of the Bank's projects designed to strongly support the two-way internal communication process, namely:

- The **Talks about Stress** project – as “an innovative solution designed to facilitate the two-way internal communication process”, and
- The **Integrity Charter Ombudsmen as a Guarantee of the Justice with the Integrity Charter System** project – for „grassroots work, opportunity to freely voice one's opinions, and strengthening the two-way staff-management communication”.

In the **Greatest Intranet Innovation** category, the judges commended the **Chatting at Bank Pekao** project – for “improving the efficiency of the two-way staff-management communication process and emphasis on staff feedback”.

The competition was open and the entries included all the leading financial institutions.

INTERNALE 2010 is the first award in Poland seeking primarily to promote experts and projects related to the Intranet and Internal Communication area. It is organised by *Intranety.pl*, the first web portal dedicated to issues relating to Intranets and Internal Communication.

The primary objective of the competition is to enhance the professionalism of, and set standards for, the Intranet and Internal Communication sector, while fostering a positive image of the sector by promoting its best projects and personages.

In addition to the awards for the Bank, other companies of the Bank Pekao S.A. Group also met with the market's appreciation.

Awards for Pioneer Pekao TFI S.A.

In the second edition of the independent *PremiumBrand for Firms* study, Pioneer Pekao TFI S.A. was awarded the **Most Reputable Brand certificate** and promotional emblem. The evaluation criteria included: confidence in the firm, media coverage of the firm, the firm's commitment to CSR initiatives, and its role as employer and business partner. The competition is organised by the Millward Brown SMG/KRC research institute and MMT Management.

Pioneer Obligacji Dolarowych Plus Otwarty Fundusz Inwestycyjny (US Dollar Bonds Plus Open-end Investment Fund) from the funds range offered by Pioneer Pekao TFI S.A. was honoured by the *Gazeta Giełdy Parkiet* daily with the **Golden Wallet** award. In 2009, the fund generated the highest return on investments (59.2%) in the category of foreign bond funds.

CDM Pekao S.A. acclaimed as the Leading Retail Brokerage House

Centralny Dom Maklerski Pekao S.A. was selected the winner of the **Brokerage Management of the Year** competition in the *Management Elite* ranking for its excellent performance relative to industry peers, and commitment to the idea of responsible business. The *Management Elite* program is intended to select managers who have helped the organisations run by them achieve the strongest position in their respective industries or categories.

Strong Performance of Pekao OFE

In the ranking published by the *Rzeczpospolita* daily, Pekao OFE was listed as the leader among all pension funds in terms of the five-year rate of return on investments as at December 31, 2010.

In the list of best pension funds compiled by industry economic service *Analizy Online*, Pekao OFE was ranked second in terms of the value of the notional pension account calculated on the assumption of regular savings from the launch of the open-end pension fund until the end of 2010, after deducting all charges on the contribution payments.

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Pekao Faktoring Sp. z o.o. among the best factoring companies

Pekao Faktoring is the highest-ranking provider of factoring services in Poland and the highest ranking UniCredit company listed in the International Factors Group ranking of services related to export and import trade. The ranking evaluated 160 factors from 56 countries.

In Poland, the factoring arm of Bank Pekao S.A. won the award from the *Gazeta Finansowa* weekly in the *Best Products for Business 2010* ranking for its specialised services involving receivables trade and management.

5. Information for the Investors

The Bank's share capital and share ownership structure

As at December 31, 2010, the share capital of Bank Pekao S.A. amounted to PLN 262,364,326 and it was divided into 262,364,326 shares of the following series:

- 137,650,000 Series A bearer shares with a par value of PLN 1 per share
- 7,690,000 Series B bearer shares with a par value of PLN 1 per share
- 10,630,632 Series C bearer shares with a par value of PLN 1 per share
- 9,777,571 Series D bearer shares with a par value of PLN 1 per share
- 373,644 Series E bearer shares with a par value of PLN 1 per share
- 621,411 Series F bearer shares with a par value of PLN 1 per share
- 497,669 Series G bearer shares with a par value of PLN 1 per share
- 359,840 Series H bearer shares with a par value of PLN 1 per share
- 94,763,559 Series I bearer shares with a par value of PLN 1 per share.

As at December 31, 2010, the share capital of the Bank amounted to PLN 262,364,326 and it has not changed until the date of submitting the report. In 2010, the share capital of the Bank has been increased by PLN 33,715 as a result of the issue of 33,715 series G ordinary bearer shares, which have been taken up by participants of the share option program.

All the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable laws.

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The shareholders of Bank Pekao S.A., who held directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Meeting of Bank Pekao S.A. are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	DECEMBER 31, 2010		DECEMBER 31, 2009	
UniCredit S.p.A.	155,433,755	59.24%	155,433,755	59.25%
Other shareholders	106,930,571	40.76%	106,896,856	40.75%
Total	262,364,326	100.00%	262,330,611	100.00%

UniCredit S.p.A. has been the Bank's major shareholder since August 1999. As at December 31, 2010, UniCredit S.p.A. held 59.24% of the Bank's share capital and the same percentage of the total vote at its General Meeting of Shareholders. The remaining shareholders' interests amounted to 40.76%. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Meeting of Shareholders, they are not required to disclose acquisitions of Bank Pekao S.A. shares.

Open-end pension funds (OFE) constitute the group of financial investors holding significant equity interests in the Bank. Based on their publicly available financial statements, as at December 31, 2010 OFE held in aggregate 12.2% of Bank Pekao S.A. shares.

Open-end pension funds' holdings in Bank Pekao S.A.:

SHAREHOLDER	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM	NUMBER OF SHARES AND VOTES AT GM	% OF SHARE CAPITAL AND TOTAL VOTE AT GM
	DECEMBER 31, 2010		DECEMBER 31, 2009	
Aviva OFE Aviva BZ WBK	7,286,512	2.78%	8,261,635	3.15%
ING OFE	7,007,925	2.67%	7,750,807	2.95%
OFE PZU „Złota Jesień”	4,848,129	1.85%	4,864,042	1.85%
Amplico OFE	2,694,960	1.03%	2,710,788	1.03%
AXA OFE	2,284,347	0.87%	1,853,507	0.71%
Generali OFE	1,739,058	0.66%	1,496,431	0.57%
Aegon OFE	1,360,182	0.52%	1,423,917	0.54%
Nordea OFE	1,426,725	0.54%	1,386,045	0.53%
Allianz Polska OFE	973,783	0.37%	993,583	0.38%
PKO BP Bankowy OFE	909,599	0.35%	885,698	0.34%
OFE Pocztynion	786,198	0.30%	546,922	0.21%
OFE Warta	506,093	0.19%	514,178	0.20%
OFE Polsat	149,116	0.06%	107,000	0.04%
Total	31,972,627	12.19%	32,794,553	12.50%

Source: Prospectuses and annual reports published by the open-end pension funds; closing share price of Bank Pekao S.A. as at the end of period.

Performance of Bank Pekao S.A.'s Stock

The shares of Bank Pekao S.A. are one of the most liquid share instruments in Central and Eastern Europe.

The Bank's market capitalization as at December 31, 2010 amounted to PLN 46.96 billion and it was by 10.7% higher in comparison with the previous year. Thanks to its high capitalization and liquidity the Bank's shares are part of many important stock indices maintained by domestic and foreign institutions including, inter alia, Polish 'blue chips' index – WIG20.

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With the Bank's average shares' daily turnover volume at the level of 493 thousand and the worth of the Bank's annual turnover value at the level of PLN 41.8 billion in 2010, the share of the Bank's shares' turnover in the WSE's turnover amounted to 10.05%.

The Bank's share's price increased by 10.7% in 2010 (from PLN 161.7 as at December 31, 2009 to PLN 179.0 as at December 31, 2010).

In 2010, the Bank's share's price fluctuated in a range from PLN 147.0 to PLN 197.2. Such volatility stemmed mainly from a sentiment dominating on global markets.

Dividend payment history

In 2010, the Bank has paid out a 2009 dividend of PLN 2.90 per share.

The dividend payments for the year 2001 to 2009 are presented below:

Date	2001	2002	2003	2004	2005	2006	2007	2008	2009
Dividend for the year (million PLN)	630	693	748	1 065	1 234	1 504	2 517	0	761
Dividend per 1 share (PLN)	3,80	4,18	4,50	6,40	7,40	9,00	9,60	0	2,90

Investor Relations Activity

The Bank's activity in areas concerning investor relations are focused on providing transparent and active communication with the market through active cooperation with investors, analysts and rating agencies as well as performing informative duties within applicable law regulations.

The Bank's representatives regularly hold a lot of meetings with investors in Poland and abroad countries, they take part in most of the regional and industry dedicated investors conferences and answer current questions from the market. Financial results of the Bank Pekao S.A. Group are quarterly presented on conferences that are simultaneously transmitted via the internet. In 2010, four conferences were held for financial results' presentation and over 500 meetings with investors and analysts took place.

The goal of the Bank's activities concerning contacts with investors is to enable the market to evaluate the Bank's financial situation, its position on the market as well as the effectiveness of the business model adopted in the context of financial condition of the banking sector and macroeconomic situation of domestic economy as well as international markets.

All necessary investor information is available on the Bank's website: http://www.pekao.com.pl/information_for_investors/.

Ratings of Financial Credibility

Bank Pekao S.A. is rated by three leading agencies: Fitch Ratings, Standard and Poor's, and Moody's Investors Service. In the case of the first two, the ratings are provided on a solicited basis under agreements signed and with respect to Moody's Investors Service, the ratings are unsolicited and they are based on publicly available information and review meetings.

The Bank's ratings being one of the highest ones in Poland remained unchanged in 2010. Rating agencies appreciated the Bank's strong position both in retail and corporate banking, the ability to generate sustainable profits, the country-wide distribution network, the strong capital position of the Bank and its high liquidity. The attention was also drawn to effective and cautious risk management demonstrated, inter alia, through refraining from granting loans in foreign currencies to individual clients. The significance of the Bank's Management that is able to successfully execute policy of balanced development of the Bank, was underlined as well.

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As at December 31, 2010, Bank Pekao S.A.'s creditworthiness was rated as follows:

FITCH RATINGS	BANK PEKAO S.A.	POLAND
Long-term rating (IDR)	A-	A-
Short-term rating	F2	F2
Individual rating	C	-
Support rating	1	-
Rating outlook	Negative	Stable
STANDARD AND POOR'S	BANK PEKAO S.A.	POLAND
Long-term rating	A-	A-
Short-term rating	A-2	A-2
Rating outlook	Stable	Stable
MOODY'S INVESTORS SERVICE LTD. (UNSOLICITED RATING)	BANK PEKAO S.A.	POLAND
Long-term foreign-currency deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Financial strength	C-	C-*
Rating outlook	Stable	Negative*

* Average for the Polish banking sector.

On February 3, 2011, Fitch Ratings agency raised the Individual rating from C to B/C level and the Long-term liabilities rating's perspective evaluation from Negative to Stable.

Other ratings of the Bank were confirmed. Long-term rating, short-term rating and support rating remained at the levels of A-, F2 and 1 respectively.

Bank Pekao S.A. received the highest Individual rating among other banks from Poland, Czech Republic and Hungary. The rating stood at the level of B/C.

Rating "A" for Covered Bonds Issued by Pekao Bank Hipoteczny S.A.

Fitch Ratings agency assigned the A rating to the covered bonds issued by Pekao Bank Hipoteczny S.A., a 100% subsidiary of Bank Pekao S.A. It was the highest rating ever awarded to the Polish debt securities issued by a private company. The reasons underlying the Agency's decision included the high rating assigned to Pekao Bank Hipoteczny (A-), legal regulations pertaining to the covered bonds security register, and the excess of security over the volume of covered bonds in issue, as declared by the bank. The high rating assigned to the covered bonds confirms Pekao Bank Hipoteczny S.A.'s ability to issue securities offering a high level of security and raise long-term capital to fund its lending activity.

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6. Activity of the Bank Pekao S.A. Group

6.1 Important Factors influencing the Group's Activities and Results

Bank Pekao S.A. activity in 2010 was determined by the economic situation of Poland and processes occurring in the banking sector.

The Polish economy has continued its cyclical recovery accelerating the pace of GDP growth up to 3.8%, mainly due to rising individual consumption. Investments have been showing negative dynamic influenced by both, the low level of capacity utilization at the beginning of 2010, and concerns about the sustainability of rebound. It should be highlighted however, that investments dynamics have been consistently improving during the year, which allows for optimism in estimating the growth rate of investments in 2011. Also, the situation on the labor market has started gradually to improve, particularly in the corporate sector where an increase in wages and employment was noticed.

The economy turned out to be resistant to the effects of the crisis in some European countries, mainly due to the significant improvement in the economic situation of Germany, largest trading partner of Poland.

The economic processes mentioned above influenced the development of the banking sector. Positive consumer sentiment translated into consumption increase, followed by higher demand for retail lending. A significant raise in the sales of consumer loans and mortgages was observed. The increase in mortgage loans sales was supported by the government subsidized program "Family on their own", which aims to support the purchase of a first dwelling by the Polish family.

Taking into account growing demand for retail credit as well as restarting of foreign currencies mortgages sales by some banks, the Polish Financial Supervision Authority has introduced new regulations - "Recommendation T and amendments to the Recommendation S" tightening credit conditions. The aim of the Regulator was to limit the excessive debt of individuals along with a reduction of foreign currency lending.

The negative investment dynamic resulted in a lack of demand for new corporate credit.

The significant impact on the sector results had net interest margin evolution, which in 2010 has slightly improved. On the deposit market, continuation of strong competition and high cost of deposits was noted. The level of the margin reflects an improvement in the loan portfolio structure and a pressure on margin contraction in the various categories of loans.

The capital market was volatile, reflecting on the one hand an improvement in the Polish economy and on the other an impact of global trends – risk aversion due to the crisis in some European countries and inflows of funds to the emerging markets.

The economic upturn enhanced the financial condition of most individuals and companies. This resulted in a gradual improvement of the loan portfolio quality but also in a significant decrease of cost of credit risk provisions in the banking sector.

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6.2 Major Sources of Risk and Threats

Risk Management

Effective risk management is a prerequisite for maintaining a high level of security of the funds entrusted to the Bank, and for achieving a sustainable and balanced profit growth.

The key risks inherent in the Group's financial instruments include credit risk, liquidity risk, market risk (interest rate risk, currency risk), business risk, real estate risk and financial investment risk. A significant element of the risk management system is also operational risk.

The Bank has adopted a comprehensive and consolidated approach to risk management. It extends to all units of the Bank and its subsidiaries. Risks are monitored and controlled with respect to profitability and the funds necessary to cover the exposure.

The Management Board is responsible for achieving the strategic risk management goals, while the Supervisory Board oversees whether the Bank's policy of exposure to various types of risk is compliant with the overall strategy and financial plan. The Bank's Credit Committee plays an important role in the credit risk management, the Asset, Liability and Risk Committee in market and liquidity risk management, and management of the operational risk falls within the scope of responsibility of the Operational Risk Committee.

The rules of managing each of the risks are defined in internal procedures and are subject to the assumptions of the credit and investment policies adopted annually by the Management Board and approved by the Supervisory Board. The rules of managing operational risk are determined by the objectives specified in the Operational Risk Management Strategy.

Credit and market risks reports analyzing details of their development are provided to the Management Board, Audit Committee and Supervisory Board.

The rules and instruments of managing each of the risks are described below. Information on the risk exposure is included in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

Credit Risk

Managing credit risk and maintaining it at a safe level is vital for the Bank's financial performance. In order to minimise credit risk, special procedures have been established, pertaining in particular to the rules of assessing transaction risk, collateralisation of loan and lease receivables, credit decision powers, and restrictions on lending to certain types of businesses.

Lending activities are subject to limits following both from the Banking Law and the Bank's internal standards, including limits concerning exposure concentration ratios for individual sectors of the economy, limit on the share of large exposures in the Bank's loan portfolio and limits of exposures to countries, foreign banks and domestic financial institutions.

The credit decision powers, lending restrictions as well as internal and external prudential standards, pertain to loans and guarantees as well as derivative transactions and debt instruments. The quality of the loan portfolio is also protected by way of periodic reviews and ongoing monitoring of the timely servicing of loans and the financial standing of customers.

Under the guidelines of UniCredit, the Bank has continued to work on further rationalisation of the credit process with a view to obtaining better efficiency and security, including in particular enhancement of the procedures and tools for risk measurement and monitoring.

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Credit Risk Concentration Limits

In accordance with the Banking Law, a bank's exposure to a single entity or to entities linked by equity or organisational connections may not exceed 20% of the bank's equity if any of such entities is a related party of the bank, or otherwise 25% of the bank's equity. Moreover, the aggregate amount of the bank's exposures equal or in excess of 10% of its equity may not exceed the large exposure limit which is 800% of the bank's equity. In 2010, the Bank did not exceed the maximum exposure limits defined in the Banking Law.

Sector Exposure Concentration

In order to mitigate the credit risk attributable to excessive sector concentration, the Bank has a system in place which allows it to control the sector structure of exposures. The system includes setting sector concentration ratios, monitoring the loan portfolio, and information exchange procedures. The system supports the management of exposures to individual business areas classified in accordance with the Polish Classification of Business Activities (PKD).

Concentration ratios are established based on an analysis of investment risk, the quality of the credit exposure, trends prevailing in a given sector, the Bank's own funds and the sector's assets. Monthly comparison of the Bank's exposures with the applicable concentration ratios enables a quick identification of those sectors where an excessive risk concentration might occur. If such concentration occurs, the Bank analyses the sector's economic situation (both existing and forecast trends) as well as the quality of the exposure to the sector. Based on these measures the Bank's policy of mitigating sector risk is defined and adjusted to the changing environment.

The rules for proceedings on residential mortgage secured loans

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

Credit risk management in the Subsidiaries located outside Republic of Poland

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

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

The majority of the loan portfolio relates to corporate clients which include the largest companies in Ukraine. Lending activity in corporate is driven by working capital and investment loans.

Liquidity and Market Risks

The management of liquidity and market risks is a vital element of the Group's risk management policy, which aims at optimising the structure of assets and liabilities and off-balance sheet items, taking into account the assumed relation of risk to income and a comprehensive approach to all types of risk taken by the Group in its business activities. The risks are monitored and controlled in relation to profitability and funds necessary to cover the exposure, and relevant reports are prepared on a regular basis.

The Asset, Liability and Risk Committee supports the Management Board in advising and recommending the appropriate action assuring proper realization of the Management Board policy. The Asset, Liability and Risk Committee is responsible, among the other things, for structural risk management of the Group's statement of financial position resulting from the liquidity gap between assets and liabilities, exchange rate and interest rate gap, market risk management, financial investment risk, as well as Pillar II (Basel II) risks. The Asset, Liability and Risk Committee decides on the process of assets and liabilities management, interest rates and investment policy management, and it controls the compliance of the risk exposures with internal limits and regulations.

The Asset, Liability and Risk Committee monitors and controls the capital adequacy and the exposure to liquidity and market risks against the external limits imposed by supervisory authorities and internal limits adopted by the Group.

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Liquidity Risk

The overall objective of liquidity risk management is to ensure and maintain the Group's ability to meet its current and future planned obligations, taking into account the cost of liquidity to avoid crisis situations, and define contingency solutions to be employed in the event of a crisis.

The Group invests primarily in treasury securities issued by the Polish government as well as financial instruments issued by countries and financial institutions with the highest ratings characterized by high liquidity. Being highly liquid instruments or instruments to be pledged, they constitute a regularly monitored liquidity reserve for the Group, which should allow the Group to overcome potential crisis situations.

The Bank's short-term (operational) liquidity including transactions executed on financial markets and the available amount of liquid securities – marketable or eligible as collateral when borrowing from central banks is monitored on a daily basis. Additionally, the structural liquidity encompassing the whole time horizon of the Bank's balance sheet, including its long-term liquidity is monitored on monthly basis as well.

The Bank's liquidity is managed by monitoring, setting the limits on, controlling and reporting to the Bank's management a number of liquidity indicators computed for the main foreign currencies, as well as on an aggregate basis. In accordance with the relevant recommendations by the financial supervision, the Group has introduced internal liquidity indicators, defined as the ratios of adjusted maturing assets to adjusted maturing liabilities for: the total balance, the total balance of foreign currencies as well as balances of the main currencies.

The Group has contingency procedures in place protecting it against an increase in its liquidity risk exposure and against any substantial deterioration in its financial liquidity.

The contingency plan to be employed in the event of deterioration in the Group's liquidity involves daily monitoring of certain early-warning indicators capturing both systemic and Group-specific risks, including four levels of liquidity risk depending on the amount and duration of cash outflow from the accounts of non-banking clients. The plan also specifies the sources and cost of funds required to cover the expected cash outflows. Additionally, it defines the procedures for monitoring the liquidity levels, the procedures for emergency measures, the organisational structures of taskforces charged with restoring the Group's liquidity, and the scope of the Management Board's responsibility for making decisions necessary to restore the required liquidity level. Both the emergency plan and the possibility of obtaining cash from the sources specified in it are reviewed periodically.

An integral part of the liquidity monitoring process at Bank Pekao S.A. for situations relating to a financial market crisis or a crisis triggered by internal factors that are specific for the Bank, is the stress test scenario analysis, conducted on a weekly basis.

Pursuant to the PFSA's Resolution No. 386/2008 on fixing liquidity norms for banks, since January 2008 the Bank has calculated regulatory liquidity measures on a daily basis. In 2010, the Bank's regulatory liquidity measures were above the required levels.

Market Risk

In its activities, the Group is exposed to market risk, as well as other risks resulting from changes in market risk factors.

Market risk is the risk that the Group's net profit or economic capital will decrease due to changes in market conditions. The four key market risk factors are related to interest rates, exchange rates, equity prices and commodity prices.

In connection with its exposure to market risk, the Group operates a market risk management system, which provides an organisational and methodological procedural framework designed to shape the statement of financial position structure and off-balance-sheet items in agreement with the strategic objectives. The main objective behind the market risk management strategy is to maximise the financial results in the trading book and the value of economic capital in the banking book so that its financial targets are attained and provision of high quality services to the Group's clients connected with the access to the market (market making) is ensured while the exposure to market risk remains within the limits approved by the Management and Supervisory Boards.

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The market risk management process is based on a three-tier control system, which conforms to international best banking practice, as well as recommendations issued by the banking supervisory. The market risk management process and procedures reflect the division into the trading book and the banking book.

The key tool for assessing the market risk is the Value at Risk (VaR) model. VaR represents the value of a one-day loss that may be exercised with a not greater than 1% probability. VaR is determined using historical simulation method based on two-years observation of dynamics of market risk factors.

The model is subject to statistical verification on an ongoing basis, which involves comparing the VaR value with the actual and revaluation results. The analyses for 2009 and 2010 have confirmed the model's adequacy.

Interest rate risk

The classification of assets and liabilities according to their exposure to interest rate risk is the following:

- assets and financial liabilities exposed to fair value risk related to interest rate: debt securities with fixed interest rate, loans with fixed interest rate, client deposits with fixed interest rate, liabilities due to the issue of securities,
- 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,
- assets and financial liabilities not directly exposed to the interest rate risk: equity securities.

The Group is exposed to interest rate risk also due to transactions on which fair values are recognized as assets or liabilities in the statement of financial position. These transactions include derivative transactions: forward rate agreements (FRA), interest rate swaps (IRS), interest rate options (Cap/Floor), currency swaps and foreign currency forward contracts.

In managing the interest rate risk, the Group aims to maximize the economic value of capital employed 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 (revaluation gap), VaR analysis, duration analysis, simulation analysis and stress testing.

Currency risk

The objective of currency risk management is to create a currency profile of assets and liabilities and off-balance sheet items which will remain within external and internal limits. The Group's exposure to currency risk is measured for internal purposes on a daily basis by means of the Value at Risk (VaR) model as well as the extreme conditions testing analysis that is supplementary to the VaR method.

Business Risk

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

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

Real Estate Risk

Real estate risk results from volatility of the market value of real estate owned by the Group. It covers the real estate portfolio of the Group. The risk does not cover real estate acquired through enforcement or those constituting collateral.

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

Financial Investment Risk

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

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

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

Operational Risk

Operational risk management is based on internal procedures approved by the Bank's Management Board. These procedures are consistent with Recommendation M, as well as the Polish Financial Supervision Authority's Resolution No. 369/2010 and 383/2008.

The system of control over operational risk management covers the Bank and its subsidiaries. Within the framework of the operational risk management system, is the Operational Risk Committee, whose mission is to support and advise the Management Board in creating a proper operational risk management process by introducing adequate internal regulations through the application of principles included in the strategy approved by the Supervisory Board.

The Bank's Management Board receives the operational risk reports, including an analysis of operating events broken down by types of events and regions, a review of risk ratios, and an analysis of capital necessary to cover the operational risk. Operational events data base, key risk ratios, self-assessment questionnaire and scenario analysis are the instruments dedicated for risk control process.

For the purpose of operational risk mitigation, the Bank pursues its security policy procedures, including:

- money laundering prevention program,
- security of the Bank's facilities,
- business continuity,
- protection of banking secrecy,
- personal data protection,
- rules for the Bank units' cooperation with third parties.

Other operational risk mitigation measures include contingency plans, internal audit controls, requirement of information on operational events to Operational Risk Management Department, insurance schemes, ongoing enhancement of the process quality and the monitoring of areas on which the Bank suffered loss. Moreover, in case any irregularities are identified, guidance is immediately provided concerning the scope, method and frequency of functional controls in the specific area of the Bank's operations.

Ongoing contacts between the employees of Operational Risk Management Department with the coordinators in charge of operational risk in the Bank's division and persons in charge of operational risk in the Bank's units contribute to raise the awareness of operational risk.

Compliance Risk

The purpose of the compliance risk management is to ensure that the Bank and its employees are not in conflict with the applicable norms, including in particular provisions of the law, the Bank's internal regulations, recommendations issued by supervisory and control bodies, as well as best practice and ethical standards. In pursuing its activities, the Bank must also follow the guidelines issued by the UniCredit Group, unless they conflict with the Polish law.

Compliance risk management applies to the areas of banking services, financial services, and securities. Implementation and observance of the compliance risk management standards are key factors in creating the enterprise value, reinforcing and protecting the Bank's reputation, and winning public trust in the Bank's activities and standing.

The responsibility for ensuring the Bank's and its employees' adherence to the standards lies with the Office for Compliance Risk Management. The tasks of the Office include in particular monitoring, identifying, eliminating and counteracting the compliance risk.

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At least once a year, the Supervisory Board of the Bank reviews the efficacy of the Bank's compliance risk management system. Additionally, to assess the compliance risk, at least once a year the Bank's exposure to the main compliance risks is reviewed.

The Bank uses the CAMP methodology for the compliance risk assessment, which enables it to identify the decisive factors in selecting key areas of the banking business which are to be subject to the compliance risk assessment, and to evaluate (on the basis of pre-defined criteria) the existing Bank's processes, mechanisms and regulations concerning selected areas of the banking business. As part of the methodology the compliance risk is assessed with the use of the appropriate Risk Map, reflecting the relationships between particular risk categories and the Bank's specific operating divisions and organisational functions participating in the process.

The compliance risk evaluation contributes to rationalization of the process of identification of compliance risk connected with the Bank's activities and, in turn, to risk minimization.

6.3 New Capital Accord – Basel II

Bank Pekao S.A. applied the Basel II guidelines developed by the Basel Committee for the purpose of computing capital adequacy requirements and capital adequacy ratio since 2008. The guidelines were introduced in EU Member States by virtue of Directives 2006/48/EC and 2006/49/EC, and in the Republic of Poland by virtue of Resolution No. 1 of the Banking Supervision Commission dated March 13, 2007, and subsequent regulations issued by the Polish financial supervisory authorities.

Given regulatory requirements and the strategic nature of the changes to risk management and the methods of estimating the Bank's regulatory and economic capital following from the New Capital Accord, responsibility for the direct supervision over compliance with the New Capital Accord's requirements rests with the Bank's Management Board. The Board is periodically informed of all new projects connected with the implementation of the New Capital Accord and their results. The Management Board's opinion on questions related the introduction of changes resulting from the implementation of the New Capital Accord is submitted to the Supervisory Board for approval.

The Master Plan for the implementation of the New Capital Accord, drafted and approved in 2005, assumes the alignment of operations with all three Pillars of the New Capital Accord, i.e. Pillar I (Minimum Capital Requirements), Pillar II (Supervisory Review), and Pillar III (Market Discipline).

In accordance with the adopted schedule, Bank Pekao S.A. computes capital adequacy requirements for credit and operational risk purposes under the Standardised Approach, remaining fully compliant with Pillar I requirements. In 2008, it also prepared and approved the Internal Capital Adequacy Assessment Process - the basic constituent of Pillar II. The disclosure requirements under Pillar III were met as at December 31, 2007.

The Master Plan was prepared in close cooperation with banking supervisory authorities and under specific guidelines of UniCredit Group. The Plan constitutes an integral part of the UniCredit Group's scheme for phased implementation of the Advanced Approach, approved by the Italian regulator in March 2008.

For credit and operational risk the pre-assessment/validation processes with Polish and Italian regulators are currently ongoing.

The process of achieving compliance with the New Capital Accord also involves meeting stringent organisational and IT requirements. Throughout the process, the Bank is supported by a reputable consulting firm and an IT system provider. The KRM system (Kamakura Risk Management) for capital charge calculation is tailored for running in parallel the Standardised and Advanced Approach, its efficiency is above reproach, and its high effectiveness ensures the processing of 99.997% of the credit transactions volume each month. Presently, the Bank is working, in cooperation with the system provider and the consulting firm, on the alignment of the IT system as well as other systems with the requirements of the Advanced IRB Approach.

The general implementation framework of the capital adequacy system, embracing the chief elements of the Bank's internal capital management, the organisational structure, and the responsibility for the process, has been adopted by the

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Management Board and subsequently approved by the Supervisory Board. The Bank's detailed internal procedures concerning the estimation of regulatory and internal capital, capital management, and capital planning were also approved.

Completion of the abovementioned tasks means that since January 2008, the Bank was effectively in compliance with the regulations of supervisory authorities introducing the Basel II requirements set by the Basel Committee on Banking Supervision.

6.4 Capital Adequacy

A basic measure of capital adequacy is the capital adequacy ratio (CAR). The minimum capital adequacy ratio required by law is 8%. At the end of 2010 CAR for the Group amounted to 17.61 %, which is more than doubled compared with the minimum value required by the law.

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

(PLN thousand)

CAPITAL REQUIREMENT	31.12.2010	31.12.2009
Credit risk	6,311,133	6,010,014
Exceeding large exposure limits	0	0
Market risk	135,914	166,919
Delivery and contractor risk	87,560	126,650
Exceeding exposure concentration limit	0	0
Operational risk	1,105,794	1,105,794
Total capital requirement	7,640,401	7,409,377
Capital for capital adequacy ratio calculation		
Tier 1 capital	16,819,902	15,041,821
Tier 2 capital	0	0
Capital for capital adequacy ratio calculation	16,819,902	15,041,821
Capital adequacy ratio (%)	17.61%	16.24%

The capital requirements calculation is based on the regulation of supervisory authorities.

The increase of capital adequacy ratio in December 2010, in comparison to the level of December 2009 (by 1.37 p.p.) was influenced by an increase of own funds by approx. 11.82% in this period with simultaneous increase of total capital requirement by ca. 3.12%.

The strengthening of the Group's own funds base in 2010 is mainly a consequence of a decision of the Ordinary General Meeting of Bank Pekao S.A. to allocate the net profit of Bank Pekao S.A. for 2009 in the amount of PLN 1.7 billion for the own funds of the Bank.

The increase of total capital requirement as at the end of 2010 was influenced by an increase of capital requirement for credit risk driven mainly by an increase of the loan portfolio of the Bank.

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6.5 Bank Pekao S.A. on the Polish Banking Market

Bank Pekao S.A. is a universal commercial bank providing a full range of banking services to individual and institutional clients, both in Poland and abroad. The Bank Pekao S.A. Group include financial institutions operating in banking, asset management, pension funds, brokerage services, leasing and factoring markets.

The Bank offers its clients a broad distribution network with ATMs and outlets conveniently located throughout Poland.

	31.12.2010	31.12.2009
Total number of outlets	1,014	1,028
Total number of own ATMs	1,800	1,854

As at the end of December 2010, the Bank maintained 4,743.0 thousand PLN-denominated current accounts, 201.9 thousand mortgage loan accounts, and 703.3 thousand consumer loan accounts.

(in thousand)

	31.12.2010	31.12.2009
Total number of PLN current accounts*	4,743.0	4,537.9
of which packages	3,489.2	3,357.2
Number of mortgage loans accounts**	201.9	187.4
of which PLN mortgage loans accounts	152.0	133.9
Number of consumer loan accounts ***	703.3	729.9

* Number of accounts including accounts of pre-paid cards.

** Retail customers accounts.

*** "Pożyczka Ekspresowa".

6.5.1 Individual clients

Retail Banking

The Bank's activity in 2010 concentrated on the integrated approach that, among others, covered re-organization of the branches network, establishing dedicated credit product corners in branches, enrichment of products' offer and review of the processes.

In 2010, the Bank successfully continued the sale of individual accounts for retail clients. The Bank's sale activities started concentrating to a greater extent on young clients. In 2010, the number of Eurokonto packages increased by more than 130 thousand. Almost 50% of new accounts were opened for clients younger than 30 years old.

In 2010, the Bank started limiting paper correspondence with clients, realizing in this way a strategy of supporting activities saving the environment. Thanks to this strategy, almost half million of clients decided to receive bank statements in electronic form instead of traditional paper statements.

In 2010, the Bank undertook informative and promotional activities, in order to encourage clients to use free Assistance insurance attached to individual accounts.

Affluent Customers

Affluent customers, who expect an individualized approach and non-standard solutions, are served through the Advisory Centres model.

The model, under which client relations are largely handled by a single adviser, helps building a personal relationship and intensify cooperation. It allows to gain an ever-better understanding of the needs of each client and to choose optimal financial solutions drawing on the Bank's wide array of products.

Clients are served through the Advisory Centres and have access to banking products, which are characterized by special price conditions and high functionality and client's requirements' compatibility.

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The basic element of the Bank's product offer is Eurokonto Premium Plus, which offers clients the following benefits:

- Personal Adviser service at the Advisory Centre,
- free and unique Assistance insurance, including personal assistant (Concierge) service,
- high rate of interest on the related Dobry Zysk saving account,
- free online transfers and standing orders,
- an option to open additional free of charge accounts for children and foreign-currency accounts,
- free debit card enabling making commission-free transactions in shops, trade and service points as well as commission-free cash withdrawals from ATMs belonging to the Bank, domestic network of ATMs belonging to Euronet and from European ATMs network of the UniCredit Group.

In 2010, affluent customers who used Eurokonto Premium Plus account were given the possibility of using free of charge prestige MasterCard Debit Gold card equipped with latest PayPass type functionalities.

In 2010, Bank Pekao S.A. started implementation of New Service Model for affluent clients in the area of investments. The model uses professional tool to analyze client's assets individually. Investment Navigator is one of the first tools on the Polish market, which helps clients to choose optimal product solution. The adviser uses the features offered by the Investment Navigator and helps clients going through particular stages of investing, starting from financial situation and objectives analysis and ending on monitoring of an investment during its life.

Private Banking

In the area of private banking, 2010 was a year full of activities performed to provide the most affluent clients of the Bank with the highest quality services. Organizational changes, introduction of a new model of client service, verification of product's and service's offer together with advanced training process for the advisers were the actions taken to enable clients to use the best solutions based on professional help of dedicated and well-trained advisers.

In 2010, marketing and product activities' intensification in the area of private banking, especially in the area of prestige credit cards, including Word Signia credit card—one of the most attractive product of this type on the market, took place. Activities were undertaken to inform clients about advantages of the card, increasing the frequency of the use of added services, including high quality concierge service, also in the Polish language.

In 2010, the sale's support of investment products was intensified through promoting the products as a long-term form of saving and investing. Training and meetings concerning those products as well as the current situation on financial markets were organized in each Private Banking Region to provide the highest quality service and efficiency of the activities. In order to constantly raise the quality of services, there is the Certified Financial Consultant training program based on the best standards of the UniCredit Group systematically realized.

The organization of investment meetings with clients was a substantial element influencing the growth of volume of assets invested in the Private Portfolio scheme, a specialized financial service consisting of discretionary management of securities portfolios on behalf of Pioneer Pekao Investment Management S.A. The entrusted assets are invested in a variety of financial instruments available on the capital market.

In 2010, the subscriptions of structured deposit accounts, designated as Indeks na Zysk were continued. The attractive terms of structured accounts, with the interest rate higher than the average interest rate of deposits accounts, encouraged clients to place their money in those accounts. New subscriptions of this product received also client's attention, which resulted in significant rise of volume.

Special offers with attractive conditions for credit products were introduced as well. Those products were one of the most competitive products of this type offered on the Polish market.

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In 2010, the Bank organised a quality research "The Portrait of the Polish Millionaire" performed by a research institute in order to gain new knowledge about the segment of affluent clients and to adjust the Bank's offer to the results of the research.

Saving Products

In 2010, Bank Pekao S.A. developed an offer of innovative investment products enabling its clients to invest their capital as well as making it easier for them to regularly and systematically collect their savings.

As a part of the development of saving products' offer, the Bank introduced in fourth quarter of 2010 the My Perspective Systematic Saving Program, which is an innovative product basing on unique mechanism of adjusting the safety level and potential of growth to planned saving period. The new program focuses clients' attention on products supporting collection of pension capital.

Due to the clients' huge interest in safe financial instruments, the Bank introduced four new mutual funds in 2010:

- Pioneer Funduszy Globalnych SFIO – Pioneer Gotówkowy,
- Pioneer Instrumentów Dłużnych FIO,
- Pioneer Zmiennej Alokacji 3 SFIO,
- Pioneer Obligacji – Dynamiczna Alokacja FIO.

In 2010, the structured products were consequently implemented and promoted among individual clients. The products are popular, because they feature 100% capital protection, while allowing its holder to earn potentially higher returns resulting from capital market exposure.

In 2010, for the first time the Bank offered certificates denominated in foreign currencies. The subscriptions of Structured Certificates of American Shares (USD) enabling investors to diversify their savings in USD and Structured Certificates of European Shares (EUR), enabling clients to add product available in euro to their portfolio, were launched.

In the range of investment products, the clients were offered Insurance Capital Fund SEKURA II as a part of group life insurance resulting from cooperation with insurer. The advantages connected with the insurance were combined with the investment on the currency market (EUR/PLN).

In the second half of 2010, the Bank introduced a new group life insurance with insurance capital fund – Inwestycja na Plus. The investment-insurance platform was prepared in cooperation with an insurance company. The product include four innovative investment strategies – three secured, protecting the capital and the other - share strategy. The clients gained additionally a wide package of insurance and the possibility of using electronic e-service to monitor their investments as well as to change the investment strategy and personal data.

Loans

Consumer Lending

In the area of consumer lending, the Bank was consistently implementing the strategy focused on strengthening its position on the consumer financial market and developing its activities in both product and distribution as well as maintaining careful credit risk policy. These activities were supported by the active promotion of Express Loan in advertising campaigns launched on local markets as well as country-wide on television, press and in the internet and resulted in systematic growth of sales during the year, altogether by 11.7% in comparison with 2009 and translated into the growth of amounts due from clients. Very good results of Express Loan sales in 2010, at the same time allowed the growth of market share from 5.5% in January 2010 to 6.1% in December 2010.

In 2010, the functionality of the Bank's webpage in the area connected with credit products for individual customers was extended. Easy and intuitive navigation enables use of new sections covering information on the current Bank offerings and answers to the most frequently asked questions.

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Moreover, the attractiveness of conditions under which the loan is granted was increased by extending the maximum period of credit to 72 months, introducing facilities for spouses separately taking loans, implementing promotional offer of Express Loans – 0% commission for existing and new clients as well as launching new integrated clients' applications' service system to reduce service time needed.

In 2010, a new type of sale campaign was launched, allowing to better adjust the offer to particular client's expectations. There was a number of pilot activities performed to check the efficiency of new product solutions and ways of attracting the clients.

The existing Bank's regulations for a range of new lending was adjusted to the Polish Financial Supervision Authority's recommendations included in the T-Recommendation concerning good practices of managing retail credit risk exposures.

Mortgage Loans

In 2010, the Bank consequently strengthened its marketing activities through promotional actions, including advertising campaigns in press, radio and in the internet, special price offers for short-term local and country-wide actions, participation in Housing Fair Trades organized all over the country and intensification of cooperation with Sales Partners and developers.

The mortgage loans offer was systematically updated and adjusted to changing conditions and market needs as well as to legal regulations and banking supervision's recommendations. The Bank continued its policy of offering only PLN mortgage loans.

In 2010, a new special website was launched – www.kredyty-hipoteczne.pekao.com.pl, which provides the clients with knowledge about mortgage loans and describing the whole loan-granting process.

These activities enabled the increased sale's dynamics and strengthening of the Bank's image, which has strong position on housing loans market and an outstanding product offer. They resulted in the growth of sale's value of PLN mortgage loans by nearly 62% in 2010 in comparison with 2009 and allowed to more than double the market share in sale of PLN mortgage loans in the period from December 2009 to December 2010.

The Bank was still actively involved in the sale of preferential subsidized loans within the framework of the governmental program "Family on their own". The share of such loans in the Bank's total sales remained substantial, as they accounted for nearly half of all housing loans extended by Bank Pekao S.A.

Payment Cards

In 2010, the process of development of credit cards offers was continued and non-cash payments were promoted. The special campaigns conducted in order to promote the active usage of the payment cards succeeded, almost 14% growth of the number of non-cash transactions in POS terminals in comparison with 2009 was noted. The Bank led the largest migration on the Polish market of traditional payment cards to payment cards equipped with built-in microprocessors, which are in accordance with EMV standard and clearly enlarged the security level in the usage of cards. During 2010, more than 2 million cards were exchanged. At the same time, the network of the Bank's ATMs was adjusted to the EMV standard.

At the end of 2010, new modern and functional MasterCard Debit cards were introduced to the Bank's offer. They enable contactless payments using PayPass technology, cash disbursements in stores using the CashBack system as well as online payments.

The Bank also introduced a limited edition of credit cards with the image of UEFA Champions League, whose official sponsor is the UniCredit Group. New cards with attractive images in Silver and Gold options received many clients' attention.

Dom Maklerski Pekao (Dom Maklerski)

In 2010, Dom Maklerski concentrated on adjusting its activities to the MiFID directive, described in the regulation of the Ministry of Finance concerning course and conditions of investment companies' activities and changes in regulations concerning anti-money laundering and terrorism' financing.

Adjusting its activities to new legal regulations, Dom Maklerski integrated its previous regulations into one Regulation of tendering brokerage activities, which enables to use widened offer of services with only one investment account. New rules

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concerning informing clients about entering into transactions, the "Policy of carrying out orders and acting in the best clients' interest" and a new Tariff of payments and commissions were introduced.

Client who enters into an agreement with Dom Maklerski gains automatic access to the Pekao24Makler internet system and the possibility of placing orders with Dom Maklerski Contact Center. After service adequacy evaluation, there is also a possibility of activating services in derivatives' and foreign markets' segments.

In 2010, the new, expanded in terms of functionality, information architecture and user's ergonomics Pekao24Makler internet system version was introduced. Pekao24Makler internet system is fully integrated with Bank Pekao S.A.'s internet platform. Moreover, to raise the standards and the service quality, a wide range of modifications and improvements were introduced, including, inter alia, the possibility of modification of orders and defining account for transfers in remote channels, new PekaoToken authorisation method, expanded version of SDiG system integrated with interactive graphics "ISPAG" service module.

In the end of May and in the beginning of June 2010, the possibility of performing transactions with the use of Alternative Turnover System (ASO) organized on Catalyst market was introduced.

Since October 2010, customers of Dom Maklerski have at their disposal the new service channel, which enables realization of investments and online quotation preview with mobile phone and other mobile devices equipped with web browser. New Pekao24Makler mobile service is fully integrated with Mobile Banking of the Bank Pekao S.A.

The clients, who are interested in investments in capital markets' products may enter into "Agreement on tendering brokerage services via Dom Maklerski" through the network of 642 Order Acceptance Points located in Bank's branches country-wide.

The key element of the development of direct service channel was introducing the possibility of entering into agreement with Dom Maklerski in the network of non-full-range Order Acceptance Points. In 2010, there were 6 thousand new investment accounts opened through the network of non-full-range Order Acceptance Points.

In 2010, Dom Maklerski took part in consortiums servicing 10 public offers aiming at individual clients receiving registrations totalling more than PLN 424 million. The vast majority of registrations were received with the use of remote channels, especially with the use of the internet. During this period, Dom Maklerski received registrations on behalf of UniCredit CA IB Polska S.A. according to three public summons to subscribe for the sale of shares and coordinated the sale as well as serviced the individual investors' subscription for three series of SCD issued by Bank Pekao S.A., including two series denominated in foreign currencies. Dom Maklerski held a function of the Bidder of Mortgage Bonds of Pekao Bank Hipoteczny S.A.

As at the end of 2010, Dom Maklerski maintained 175.5 thousand investment accounts, over 10% more in comparison with the end of 2009. The total assets held on the accounts, including SCD, amounted to PLN 5.4 billion (7.5% growth year on year).

Alternative distribution channels

The number of retail and business clients using alternative distribution channels such as internet banking platform and Contact Center has been growing systematically. Pekao24 service (for the retail clients), PekaoFIRMA²⁴ (for SME clients) and PekaoBIZNES²⁴ (for corporate clients) facilitate the management of financial assets, and the scope of services is being steadily extended.

Pekao24

The Pekao24 service is a convenient and safe tool for accessing accounts maintained by the Bank, Dom Maklerski Pekao or Centralny Dom Maklerski Pekao S.A. The service allows clients to manage the funds accumulated in their accounts through the Internet, fixed-line or mobile telephone.

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As at the end of December 2010 the number of Pekao24 clients totalled 1,711.3 thousand. In 2010, c.a. 1.1 million of clients logged into the electronic banking services and online transactions represented 91% of total transactions executed through the Pekao24 platform.

	31.12.2010	31.12.2009
Number of individual clients with an access to electronic banking as at the end of period	1,711.3	1,392.0
Number of individual clients actively using electronic banking*	1,021.0	855.2

* A customer actively using electronic banking is a customer who logged in to the system at least once during the last quarter.

The most important projects realized in 2010:

- launch of new Pekao24 internet service. The service was rebuilt in order to improve ergonomics and usage convenience. The menu arrangement, graphics and navigation methods were changed. There were latest technologic solutions guaranteeing safety of performed transactions applied to the service.
- enrichment Pekao24 service with new functions, such as enabling clients to sort defined transfers, quick access to information about safety certification through choosing certificate's issuer's logo, controlling time left to the end session thanks to introduced sessionmeter,
- enrichment of electronic banking offer with mobile banking service, which is a simple version of Pekao24 service available with mobile phone or other mobile device for the clients of the Bank and Dom Maklerski Pekao.
- introducing PekaoToken – new method of operation authorization in Pekao24 service. PekaoToken is an application installed in a mobile phone and it is a safe, convenient and modern alternative to SMSs and cards of disposable codes used by the clients,
- preparation and launch of microservice www.nowepekao24.pl, which informs clients about changes in Pekao24. The service includes: multimedia presentation, demo version of new Pekao24, system changes' guide, user's manual, quiz concerning safety of internet banking, answers to frequently asked questions and a form for customer's comments,
- widening of offer of anti-virus programs with new products of well known, prestige producers. Every Pekao24 user can download under special circumstances a full version of internet security program via internet service and smartphone (mobile security).

In 2010, electronic banking Pekao24 won a range of awards, it participated in winning in XIV edition of prestige competition "IT Leader" organized by the redaction of Computerworld in the "Banking and Finance" category, winning in the contest "Innovation of the Year 2010" organized by Business Forum for PekaoToken application, "The best interface" in web internet account ranking and the second spot in safety rating prepared by PC WORLD Magazine.

Contact Center

Contact Center is a professional telephone service available to the Bank's individual and business clients.

In 2010, Contact Center supported the implementation of the Bank's most important projects, for instance implementing new Pekao24 system, introducing new method of authorization with PekaoToken or action of resignation from paper statements.

In 2010, Contact Center actively supported sale's activities of the Bank. The number of phone calls initiated by consultants in order to organize an appointment of a client with an adviser amounted to 2,878.4 thousand, which means 136% growth in comparison with 2009. During advertising campaign the consultants promoted mainly cash loans, credit cards and saving accounts.

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In 2010, the consultants served 2,918.9 thousand inbound phone calls. They realized clients' instructions and supported clients in the scope of services offered by the Bank.

(in thousand)

	2010	2009
Total number of outbound calls initiated by Contact Center	9,535.6	5,947.3
of which number of commercial outbound calls initiated by Contact Center supporting sales activities of the Bank	2,878.4	1,218.4
Number of inbound calls served by Contact Center	2,918.9	3,012.7
Total number of inbound and outbound calls served by Contact Center	12,454.5	8,960.0

6.5.2 Business Customers (Small and Microenterprises)

The Bank's offering includes a comprehensive range of leading-edge products targeted to small-sized and micro enterprises.

In 2010, there were many organizational changes connected with service model, including creating new SME clients' service locations as well as implementing numerous procedural simplifications in the area of product, especially the credit offer. Integrated actions in order to strengthen the perception of the Bank Pekao S.A. as the bank of the first choice for business clients were taken as well.

In the framework of development of the service model, increasing sales potential and providing the highest quality services, over 60 dedicated SME Centers were opened. The SME Centers were equipped with special infrastructure and tools supported by teams of professional advisers in order to provide clients with the highest quality services. Moreover, there were 24 new business clients' service locations created. Previously, there were only services for individual clients offered in those locations.

In 2010, "Good Profit for the Company" account – a high-interest current account with saving characteristic and MasterCard MOTO Business credit card with 1% cash-back from transactions realized with this card at fuel stations were added to the product offer for business clients. The Family of My Business Packages was enriched with a new My Payment Business Package offered together with POS terminal for card acceptance, dedicated to retail trade and services.

The Bank signed two guarantee agreements with the European Investment Fund (EIF) in the framework of the European program "Competitiveness and Innovation". First of the agreements worth PLN 1 billion concerns guarantees of investment loans for small and microenterprises. The other agreement, worth PLN 200 million, enables granting working capital loans to microenterprises existing less than 2 years on the market. Business clients have better access to financing thanks to free EIF's guarantees and improved offer of loans guaranteed by the EIF. The credit offer for companies starting economic activities is unique on the Polish market.

In 2010, there was a considerable growth of loan sales volume thanks to a wide range of commercial campaigns based, inter alia, on a special tool, so called Finance Navigator, which supported the sale of loans. The volume of credit applications in the SME sector amounted to PLN 3 billion, that is 73% more than in the previous year.

Following the activities performed in order to strengthen the image of the Pekao S.A. brand as the bank of the first choice for business client, a marketing communication platform "Convenient solutions for companies" was created. A multiproduct advertising campaign for the selected product group was launched in wide-range of media and on the internet based on this new marketing communication platform.

The Bank sponsored the third edition of the National Innovation and Development Leaders contest in order to strengthen the brand. There were over 900 units (enterprises, communes and organisations) taking part in the contest. There were 16 conferences organized in every province of Poland, during which Regional Innovation and Development Leaders were selected.

In December 2010, the Bank also issued the first "Report on the situation of small and microcompanies" prepared in cooperation with a research institute. The Report included the results of the investigation of nearly 7 thousand enterprises

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relative to the economic and financial situation evaluation of the smallest companies and the circumstances, under which the businesses are run.

PekaoFIRMA²⁴

PekaoFIRMA²⁴ is a state-of-the-art internet banking system designed to meet the needs of small and micro business clients. Thanks to rich functionality, the system meets business clients' needs and flexible method of module and entitlement managing in PekaoFIRMA²⁴ also enables an individual approach adjusted to individual needs of particular enterprises.

The PekaoFIRMA²⁴ system supports the accounts of 155.6 thousand companies, 98 thousand of which are its active clients. In 2010, the number of orders through the PekaoFIRMA²⁴ system exceeded 19 million and the customers have ordered transactions worth more than PLN 82 billion.

	(in thousand)	
	31.12.2010	31.12.2009
Number of business clients (SME) with an access to electronic banking (PekaoFirma ²⁴ , Pekao24, PekaoBIZNES ²⁴ , Proffice) as at the end of period	208.6	182.7
Number of business clients (SME) actively using electronic banking (PekaoFirma ²⁴ , Pekao24, PekaoBIZNES ²⁴ , Proffice)*	127.4	118.4

* A customer actively using electronic banking is a customer who logged in to the system at least once during the last quarter.

The following functionalities were added to the system in 2010:

- the possibility of making transfers from credit and charge cards,
- the possibility of topping-up a mobile phone in pre-paid system,
- the possibility of paying for products and services with quick "Pekao24Przelew" internet transfer.

6.5.3 Corporate customers

Bank Pekao S.A., as a leader in servicing large and medium-sized companies, offers the widest range of products on corporate customers' market. Corporate Banking, Markets and Investment Banking Division is responsible for all service of companies, institutions and public sector entities.

The corporate customers service model is based on the primary role of dedicated Relationship Manager, responsible for identification of customer's needs and selection – in cooperation with product specialists – of appropriate banking products and services.

Large companies servicing is conducted on the individual rules by Relationship Managers working in the Large Companies Department in the Bank's Head Office, divided into service offices dedicated to different business lines.

Financial institutions and public finance sector entities service is provided by a specialized entity at the Bank's Head Office, tailoring offering to individual needs of those customers.

In order to provide comprehensive banking services and advisory for middle-sized companies, those companies are serviced in Regional Corporate Centers, organized in macro-regions structures, cooperating with products offices in the Bank's Head Office.

The services provided by the Bank include credit products, deposit products and other financial services such as: granting guarantees in domestic and foreign transactions, as well as services provided by leasing and factoring subsidiaries. The Bank is a leading organizer of financing investment projects, mergers and acquisitions and debt securities issuance. The Bank's customers benefit from the full range of transactional products and services. The Bank offers a wide range of money market products and currency exchange market products, both in current operations and long-term structures securing customers exposures such as exchange rate risk or interest rate volatility.

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Bank Accounts and Loan Products

The Pekao Integrated Agreement, which combines a comprehensive package of services for corporate customers, was improved in 2010. The exchange of information on amended regulations, which are part of the Integrated Agreement, takes place through electronic banking. This results in acceleration of the process of change acceptance by the customers.

The Bank's loans offer was enriched with a thermo-modernization loan, according to the agreement between Bank Pekao S.A. and Bank Gospodarstwa Krajowego. Thermo-modernization loan is designed for corporate and business customers. Partial repayment of the loan is from the Thermo-modernization and Renovations Fund in the form of a thermo-modernization premium under the program supported by the Polish government.

Transactional Services

The comprehensive offer of transactional services is the most competitive on the market both in terms of the types of products and the solutions applied.

In 2010, the following additional functions in the online banking system PekaoBIZNES²⁴ were introduced:

- implementation of biidentification method to PekaoBIZNES²⁴ system. The Bank as the first bank on the Polish market and one of the world's pioneers, provided corporate customers with the possibility of logging to the transactional platform and transaction authorization with fingerprints. New biidentification method ensures greater safety and makes usage of the online banking system more convenient for users,
- possibility of placing the electronic dispositions concerning configurations of advanced rights to use the system. Thanks to this functionality, customers are able to give or change the rights of particular employees, by whom they are serviced, without the need for paper forms delivery at Bank.
- faster and more flexible realization of salary transfers. The time for receiving salary transfers was extended, making possible to place salary orders for execution in the same working day and to place salaries orders at the first session of Elixir system.

In the first half of 2010, the Bank introduced a new service - eFaktura²⁴. It is an innovative solution on the financial services market improving the process of liabilities management. The service is aimed at companies that regularly issue a large number of invoices or bills to regular customers. The Bank offers comprehensive solution, which allows providing electronic invoices to users of Pekao24 system, PekaoFIRMA²⁴ system or the electronic banking system of other banks and enables regulating liabilities after the invoice amount is accepted by the payer.

In 2010, in the area of Trade Finance, the Bank was improving processes connected with servicing both financial and paper products through automation and electronization of services for corporate customers. Unique solutions contributed directly to the increase the value of executed transactions. The value of liabilities financed under the financial products group increased by 83.3% in comparison to 2009, and amounted to PLN 6.5 billion in 2010.

Within the framework of constant expansion of the Bank's payment cards offer, in December 2010 the Bank introduced:

- MasterCard Corporate Debit Pekao card – it is a debit card, which, in addition to standard functionalities, allows proximity operations, remote operations and CashBack type operations. Thanks to the last functionality, the users of corporate debit cards may comfortably withdraw small amounts of money from cash registers in shops, petrol stations and other sales outlets while paying with debit card. This is the first debit card aimed at corporate clients equipped with proximity operations functionality, that allows non-cash transactions without any contact, i.e. without a need to give the card to a seller to put it into a card's reader,
- electronic statements for debit cards and charge cards with deferred repayment, available for customers in PekaoBIZNES²⁴. They are convenient and environmentally friendly alternative to traditional paper statements.

In addition, in 2010 the Bank provided a new version of MC-Web service, that serves all customers using transactional banking products (such as bulk payments, direct debit, corporate debit cards etc.) and fast and safe data exchange about transactions with the Bank. Thanks to the changes introduced, MC-Web has been in the lead of solutions for mechanisms of electronic data exchange between bank and client.

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The 2010 awards and distinctions confirm the competitiveness of the Bank's transactional banking products and services. The most important awards in 2010 were: the golden emblem in the product category in 'Highest Quality of Quality International 2010' for Convenient Accounts, the '2010 Innovation' title for biometric identification and authorization method of PekaoBIZNES²⁴ users, the 'Best Trade Finance Provider 2010' title for the best trade financing services' supply in Poland, and the 'Europrodukt 2010' title for corporate payment cards.

Investment Banking and Structured Finance

In 2010, Bank Pekao S.A. maintained the leading position concerning structured and syndicated debt products. The Bank realized 40 transactions totaling over PLN 8 billion. In addition the Bank has also been active in the area of advisory in structuring and raising debt financing for investment projects.

The achieved results of the Bank should be considered as very good given the fact that the number of projects, both investment and acquisitions, was in the past two years very limited by the companies due to the overall economic situation.

In 2010, the market was dominated, in terms of amounts, by transactions refinancing previously contracted debt and by financing so called general corporate goals. The Bank recorded significant increase in transactions of leveraged buyouts, however the recovery in financing commercial infrastructure transactions and investments has not been observed so far.

Although transactions were realized for customers running business in virtually all sectors of the economy, a greater attention should be paid to large volume financing of companies in the fuel and energy sector, including among others, financing in the form of program of bond issue that is guaranteed to be covered by a bank syndicate. Bank Pekao S.A. served as a Lead Organizer and Issuance Underwriter in all the above mentioned transactions.

Commercial Real Estate

The year 2010 brought stability to the situation on the commercial real estate market. Transactions were realized in all its segments.

Both the strategic position and the experience of the Bank contributed to a doubling of the increase in loans granted to finance commercial real estate in 2010 (in comparison to previous year). The Bank focused on financing construction projects, which create tangible value for the Polish economy. The important sector in the group of new loans was financing of shopping centers.

Last year, the Bank achieved one of the leading position in the general classification in the 6th edition of Banks Crediting Housing Estates Developer Projects Ranking, organized by the Polish Association of Developer Companies.

Financial Markets and Commercial Debt Instruments of the Capital Market

In the area of organization and commercial debt securities servicing, Bank Pekao S.A., as at the end of 2010, maintained leader position with market share of 21% (based on the Rating & Market Bulletin published by Fitch Poland).

The market position of the Bank in each category was as follows:

- 1st place on corporate bonds market and corporate revenue bonds market (with maturities over 365 days) with a share of nearly 33%,
- 2nd place in the area of mortgage bonds with over 21% market share,
- 2nd place on municipal bonds market (over 365 days) with share almost 13%,
- 2nd place in the segment of short-term debt securities – with almost 20% market share,
- 3rd place in the segment of banking bonds and certificates of deposits (over 365 days) – nearly 12% market share.

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In 2010, Bank Pekao S.A. signed a record-breaking number of contracts concerning organization and servicing of debt securities issuance for corporations and municipalities, i.e.:

- 8 new corporate programs of bond issuance, both short- and mid-term, for companies in, among others: energy sector, telecommunications, fuel and financial agency services,
- 13 contracts of municipal bonds issuance for local government units,
- contract for mortgage bonds issuance program for a mortgage bank,
- contract for revenue bonds program for a communication company.

In addition, in the area of commercial debt securities issues, the Bank held, in most cases alone, as the sole dealer, many medium corporate bond issues targeted to market investors, in particular:

- issuance of 5-year Eurobonds denominated in PLN in the amount of PLN 1 billion for one of its customers, whereby Bank Pekao S.A. served as a “Joint Bookrunner”. This transaction was the first issuance of Eurobonds, which are dematerialized in National Depository of Securities (KDPW) and listed on ASO BondSpot S.A. and at the same time the biggest corporate issuance in Poland among institutional investors,
- issuance of 5.5-year bond at the amount of PLN 400 million. The Bank acted as exclusive organizer. At the date of the issue, it was the longest and largest unsecured corporate bond issuance since 2008 and the biggest corporate issue listed on the first trading day on ASO BondSpot S.A.,
- issuance of 5-year corporate bonds at total amount of PLN 200 million. The Bank acted as an exclusive dealer. Bonds are listed on ASO BondSpot S.A. The buyout of bonds is guaranteed by group’s subsidiaries listed on the stock exchange in London.

The issues listed above have strengthened the position of Bank Pekao S.A. as the mid-term corporate bond market leader, holding nearly one third of the market share (as at December 31, 2010).

Last year, Bank Pekao S.A., as the only institution in Poland, received ‘Best Exchange Provider 2010’ title (in the category of the Polish zloty) from the Global Finance magazine.

Bank Pekao S.A. obtained the status of Securities Dealer in 2011 and thus joined the group of Polish and foreign banks authorized by the Ministry of Finance to trade securities in 2011.

Custodial Activities

Custodial activities are provided under permission of the Polish Financial Supervision Authority. Domestic and foreign financial institutions, banks providing custodial and investing activities, insurance companies, investment and pension funds, as well as non-financial institutions are the Bank’s clients. The Bank provides services including, inter alia, the settlement of transactions on domestic and foreign markets, storage of client assets, managing securities accounts and cash accounts, asset valuation, handling dividend and interest payments and it acts as a depository for investment funds and pension funds.

In 2010, the Bank acquired new customers from segments of investment funds, insurance companies, foreign banks and investment companies that are remote members of the Warsaw Stock Exchange. The Bank acts for them as a clearing member. The Bank maintained its leading position servicing more than 50% of programs concerning depository receipts servicing.

The custodial activities of Bank Pekao S.A. were awarded with high marks in 2010 rankings of renowned industry magazines - Global Custodian Magazine and Global Investor Magazine: Top Rated for Leading Clients, Top Rated for Cross-Border Non-Affiliate Clients and Best Sub Custodian - Settlement and Clearing.

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Comprehensive Services for the Public Finance Sector

The public sector, including local governments, takes a special place in the philosophy of Bank Pekao S.A. The Bank sees the potential in the functioning on the local governments market and in its specific needs. Year 2010, due to the unprecedented public infrastructure's investment process in Poland thanks to availability of EU funds and preparations for the EURO 2012 European Championship, was characterized by intense growth in demand from the public sector for specialized banking services for the preparation and financing of investment projects.

As a result of its activities, Bank Pekao S.A. confirmed and strengthened its market position as a strong leader in public sector entities' servicing and succeeded in structuring infrastructure projects in this sector. The Bank has the market leader position in the category - current maintenance of budgets of the largest Polish cities and provinces, serving five out of the twelve largest Polish cities and in the category - structuring and financing of local infrastructure projects.

Moreover, the Bank is in the forefront in the financing of the largest budgets of municipalities and provinces.

Direct financing of the public sector's budgets is one of the strengths of Bank Pekao S.A. The total amount of funding granted in 2010 to the largest Polish local governments amounted to about PLN 2.5 billion, nearly PLN 1.5 billion of which in the form of loans and about PLN 1 billion in the form of bonds. The Bank won most major bids for credit financing for the largest Polish cities and provinces (among the others: Krakow, Lodz, Wroclaw, Silesia, Lower Silesia) and also for financing in the form of bonds (among the others: Poznań, Gdańsk). The Bank was also a financial partner of the State Treasury's special-purpose funds.

Bank Pekao S.A. works effectively on public sector products' and services' quality development and effectively looks for new tools for supporting local governments. The Bank is involved in many initiatives undertaken directly by local authorities, including for example participation in meetings of the Union of Polish Metropolises, as well as those organized by other institutions such as, e.g. the Polish Bank Association.

In the area of financing local governments' investment projects, Bank Pekao S.A. stands out both in qualitative and quantitative dimension. The Bank organized the third in Poland and the second in the sector of public transportation revenue bond program, whose goal was to raise capital for financing the development of resources and infrastructure of tram rolling stock in one of the largest Polish cities. The program is intended to finance the bond issue to build a modern exhibition and convention center is also noteworthy. This is a pioneering program on the Polish market, concerning the type of facility and the legal mechanism used to reduce the risk of the transaction. Bank Pekao S.A. has also developed a funding structure for the construction of the sports facility that will be used during the European Championship EURO 2012. The structure is based on the purchase of receivables. It is at the same time an innovative financing structure and the first sports stadium financing project in Poland. In addition, the Bank has financed other large projects in the form of loans. These included two urban tram communication projects in the largest Polish cities. The Bank participated in water and sanitation project as well. In 2010, the Bank finalized 5 major local government infrastructure projects in the total amount of nearly PLN 0.9 billion.

Bank Pekao S.A.'s Participation in Financing EU Projects

Bank Pekao S.A. has a leading position in the market of EU funding for companies through active participation in the use of European aid funds.

A new product was introduced to the Bank's offer - guarantees of advance repayment from the Agency for Restructuring and Modernization of Agriculture for customers interested in obtaining EU funds in the form of advances from the Rural Development Program.

Bank Pekao S.A. also introduced loans refinanced from funds of European Investment Bank. There are currently two credit lines in the Bank's offer – for middle and large-sized corporate customers and for companies from small and middle-sized companies.

The Bank is continuously developing and updating EU funds database and other tools enabling the obtaining of information on products offered by the various European funds. The search engine as well as the EU's newsletter informing about current legislative changes and UE programs are available on the Bank's website.

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Cooperation with International and Domestic Financial Institutions

The Bank maintains correspondent relations with over 2.6 thousand foreign and domestic banks (by number of swift keys).

At the end of 2010, the Bank maintained nostro accounts in 65 banks abroad, ran 235 loro accounts for 212 foreign customers and current accounts for 20 foreign financial entities.

The Bank mediates the settlement of transactions for customers of other domestic banks, running 39 loro currency accounts for 12 Polish banks and maintaining five foreign currency nostro accounts in two Polish banks, and provides services for the Polish banks and branches of foreign banks in Poland, in the sale and purchase of foreign and domestic currencies.

In 2010, the Bank added nearly 20 foreign banks from different regions of the world for cooperation and PLN clearing service.

The Bank expanded significantly its existing cooperation in the handling of interbank settlements and commercial communications with 3 foreign banks, which are world's leading financial institutions. The Bank improved the trading products offer targeted at customers of correspondent banking, reaching very high levels of STP (straight through processing), which was at the level of 98-99% of the interbank and customer transactions executed.

The Bank continued cooperation with the European Investment Bank (EIB). Through extensive cooperation with the EIB, Bank Pekao S.A. provides long-term investment loans not only to small and medium-sized businesses and local governments, but also to medium-sized corporations. In October 2010, the Bank signed two new credit lines agreements with the EIB, which totaled EUR 100 million, therein the agreement worth EUR 50 million for financing small and medium-sized businesses, increasing the number of contracts concluded with the EIB to 8, and their total value to EUR 500 million. The Bank launched new tranches of long-term funding for the public sector and small and medium-sized companies, offering to customers loans with interest rate lower than the Bank's standard offer and longer repayment terms.

As a result of this cooperation, Bank Pekao SA is the recipient of grants of the European Commission's banking programs, such as SME Finance Facility, Municipal Finance Facility and the Municipal Infrastructure Facility.

6.6 Major Areas of the Group's Activities

Bank Pekao S.A. is one of the leading providers of banking services and groups together a number of financial institutions active in the asset management, pension funds, brokerage services, leasing and factoring markets.

Below are described the areas of operations of the Group's key companies from the financial sector.

6.6.1 Banking Activity

OJSC UniCredit Bank – UniCredit Bank

OJSC UniCredit Bank operates in Ukrainian market as 100% subsidiary of Bank Pekao S.A. It pursues its activity through a network of 59 branches developed as a "green field project" and as a result of the merger with HVB Bank Ukraine, it provides services for 107.6 thousand individual customers and 3.2 thousand corporate clients. In 2010, UniCredit Bank generated net profit of PLN 37 million due to stabilization of quality of the loan portfolio and strict costs control. The bank maintains a sound capital structure with a capital adequacy ratio (Basel II) at the level of 23.41% as at the end of December 2010.

Performance of the bank is under continuous monitoring, specifically with the use of reinforced credit risk monitoring procedures.

In the next years, Pekao Group plans to concentrate its activities on local market and in connection with this the whole exposure of Bank Pekao SA in OJSC UniCredit Bank will be taken over by the purchaser.

The Bank intends to dispose of its exposure in Ukraine upon receiving all the necessary approvals by the end of 2011.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2010, Pekao Bank Hipoteczny, as a specialised mortgage bank, continued to pursue its strategy focused on the creation of a secure loan portfolio, by advancing housing loans to individuals, as well as loans for purchase, construction, refurbishment or modernisation of commercial properties.

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As a result of maintaining its own sale's network, which was reduced in 2009, the bank focused on cooperation with the sound intermediaries being a source of attracting customers – the number of loan applications submitted through the intermediaries accounted for nearly 75% of all loan applications received by Pekao Bank Hipoteczny in 2010.

6.6.2 Brokerage Services

Centralny Dom Maklerski Pekao S.A.

CDM is a brokerage house with the longest presence on the Polish capital market. It offers a full range of services related to intermediation in aftermarket trading in securities, from the opening of an investment account to the execution of trades. The same scope of services is offered on the futures and derivatives markets. The main strength of CDM lies in its professionalism and comprehensive offering in a retail brokerage.

As at the end of 2010, CDM maintained 217.4 thousand investment accounts and its market share reached the level of 14.7%. CDM offers also on-line access to investment accounts (www.cdm24.pl), allowing its customers to buy and sell all instruments listed on the Warsaw Stock Exchange and on the BondSpot market via the internet. As at the end of 2010, CDM maintained 82.6 thousand on-line accounts, an increase of 34 thousand compared with the end of 2009.

At the end of 2010, CDM cooperated with twelve Investments Fund Companies and four Transfer Agents, distributing units of 46 mutual funds, of which 15 were umbrella funds comprising 129 sub-funds.

In 2010 the company achieved the following shares on the Warsaw Stock Exchange:

- a 19.0% share in the bond trading volume,
- a 4.3% share in the futures trading volume,
- a 3.6% share in the stock trading volume.

6.6.3 Assets Management

Pioneer Pekao Investment Management S.A. – PPIM

Under a management agreement, PPIM manages the assets of mutual funds managed by Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych S.A. (Pioneer Pekao TFI). The company's service offering includes also management of private clients' portfolios on a fee basis. The Bank holds a 49% stake in PPIM.

As at December 31, 2010, the net asset value of mutual funds under the management of Pioneer Pekao TFI S.A. amounted to PLN 18,058.8 million, an increase of PLN 2,766.5 million as compared to the end of 2009. The increase was driven by positive net sales in this period also supported by assets valuation.

As at December 31, 2010, the net value of assets of mutual funds managed by Pioneer Pekao TFI acquired through the agency of Bank Pekao S.A., CDM and Xelion amounted to PLN 16,605.7 million (92% of total assets).

As at the end of December 2010, the company had 1,102 thousand open customer accounts (an increase by 3.1% in comparison to the end of 2009), managing portfolios of 33 mutual funds and sub-funds.

The value of net assets of investment funds managed by Pioneer Pekao TFI S.A. is presented in the table below.

	(PLN million)	
	31.12.2010	31.12.2009
Net asset value	18,058.8	15,292.3
bond and money market funds	6,548.8	3,906.1
equity funds	4,590.6	4,420.5
balanced funds	6,919.4	6,965.7

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Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. - Pekao Pioneer PTE

Pekao Pioneer PTE is the management company of an open-end pension fund (OFE), in which pension contributions are pooled and invested with the aim of their distribution to unit holders after they reach retirement age.

As at December 31, 2010, the number of open-end pension members was 349.5 thousand and was 1.1 thousand higher comparing to December 31, 2009. The number of persons with at least one contribution credited to their accounts was 338.7 thousand.

As at the end of 2010, the value of the pension fund's net assets was PLN 3,411.4 million, which represents an increase of PLN 570.3 million from the end of 2009. As at the end of 2010, PTE held 1.5% share in the market of open-end pension funds, i.e. on the similar level in comparison to previous year.

6.6.4 Leasing Activity

Pekao Leasing Sp. z o.o. – Pekao Leasing

Pekao Leasing provides financial services supporting purchases and sale of fixed assets, i.e. vehicles, plant and equipment, and office space, both in the form of operating and finance leases.

In 2010, the company concluded 11,243 new agreements. The value of leased assets stood at PLN 1,705.7 million, 68.2% of the leased assets were vehicles, 23.0% - plant and equipment, 5.5% - real estates and 3.3% -other.

Under an arrangement providing for mutual cooperation between the company and Bank Pekao S.A. in the area of sale, the value of assets leased via the Bank's branches amounted to PLN 749.5 million, which accounts for 43.9% of the company's total sales.

6.6.5 Other Financial Services

Centrum Kart S.A. - CK S.A.

The company's maintain services that include among other things support of payment card management, authorisation of transactions and card personalisation.

The company's activities in 2010 were focused on the services to Bank Pekao S.A. and completion of the system certification in order to accept cards containing microchips.

In the fourth quarter of 2010, after conducting a process leading to obtaining certification for CashBack functionality, the company's systems were adjusted in order to enable activities of the company in Maestro cards of Bank Pekao S.A.

In the end of 2010, the company obtained also certification from the card's issuer for the Contactless functionality (contactless transactions).

Pekao Faktoring Sp. z o.o. - Pekao Faktoring

The company, apart from factoring services (recourse and non-recourse factoring), offers related assistance, such as collecting information on debtors' standing, payments collection, debt recovery, settlements accounting and monitoring of payments on an ongoing basis. Additionally, the company offers settlement of mass transactions, financial advisory and consulting services regarding selection of business financing methods, as well as extending factoring-related loans. The company cooperates with Bank Pekao S.A. in developing new sales channels and enhancing sales through the existing ones.

In 2010, Pekao Faktoring was the top rated Polish factoring company in a ranking performed by International Factors Group, which evaluates import and export transactions' service. The ranking evaluated 160 factoring companies from 56 countries.

Pekao Financial Services Sp. z o.o. – PFS

The company acts as a transfer agent for all participants of the asset management market, i.e. mutual funds, pension funds, employee pension plans and insurance companies.

In 2010, PFS continued its strategy designed to strengthen its position on the market of transfer agents in Poland, as a leader in the sector of services provided to open-end pension funds (over 50% market share measured with assets). The number of mutual and pension fund accounts handled by PFS reached 3.3 million.

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Xelion. Doradcy Finansowi Sp. z o.o. – Xelion

The company focuses on serving affluent clients, who require a highly individualised approach.

In 2010, the company continued to develop a comprehensive offering, taking into account the challenging, volatile conditions prevailing on the equity market and ongoing aversion towards investment risk. As part of this effort, it modified its offer of regular savings and capital protection products. At the same time, it was extending its offering to include new domestic and foreign funds managed directly by foreign as well as Polish (included in the offer) investment management companies. The offer comprises of variety banking products, insurance and also “art banking” type proposed to adjust individual financial solutions to the clients’ needs. In 2009, the active promotion of closed-end funds was launched.

As at December 31, 2010, Xelion’s customers had an access to the products and services of eleven domestic and foreign investment management companies (including, inter alia, 54 domestic funds, 72 foreign funds offered by Polish investment management companies and 115 foreign funds managed by foreign investment management companies and 8 Asset Management strategies), four insurance companies offering life and property insurance and 9 products of Unit Linked type with 210 insurance capital funds.

As at the end of 2010, the value of clients’ assets under Xelion’s management exceeded PLN 1.5 billion.

6.7 Investing in Human Capital

Trends in Personnel Policy

The principles of personnel policy of the Bank reflect its mission and the key values of its corporate culture.

In 2010, the Bank followed the key principle of its personnel policy, which states that it is the people that are the most valuable asset of an organisation. The prevailing trend in the human resources management was focused on the professional development of employees by creating an environment conducive to the fulfillment of their true potential.

An important objective pursued by the Bank is offering all employees equal chances to contribute towards achievement of the Bank’s commercial goals. In 2010, the actions were focused on retention of key personnel by means of effective incentives, on efficient talent spotting within the organization, and on integration of the employees.

These priorities were accompanied by particular emphasis on promoting the corporate culture ethics shared across the UniCredit Group, as defined in the Integrity Charter.

Workforce in Numbers

At the end of 2010, the Bank Pekao S.A. Group headcount, including companies consolidated with the full method, totaled 20,783, as compared with 20,874 employees as at the end of 2009. Under comparable conditions, (i.e. notwithstanding the effect of the extension of consolidation of the company Centrum Bankowości Bezpośredniej Sp z o.o. in the first quarter of 2010) the employment in the Group would be reduced by 554 employees.

The Bank employed 18,276 people (a reduction by 636 in comparison with 2009) who are on average 42 years of age (no change compared to the end of 2009). 59% of the employees are university graduates (58% in 2009). Women represent 80% of the total workforce.

Remuneration Policy

In September 2010, the Supervisory Board of Bank Pekao S.A. approved, for appropriate use, the UniCredit Group Compensation Policy 2010, which is performance-oriented, market-aware and aligned with its business strategy and stakeholder interests. To ensure the competitiveness and effectiveness of remuneration as well as transparency and internal equity, the principles of ethical and sustainable conduct and performance, the following key pillars of the compensation policy have been defined:

- clear and transparent governance,
- compliance with regulatory requirements and principles of good business conduct,
- continuous monitoring of market trends and practices,

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- sustainable pay for sustainable performance,
- motivation and retention of all employees, with particular focus on talents and mission-critical resources.

Effective management of the employees' remuneration makes it possible to apply those principles while maintaining a high level of competitiveness of the benefits offered by the Bank.

The main remuneration policy tools include:

- MBO Incentive System,
- quarterly bonuses,
- additional benefits for employees.

Retention Plans

In 2010, there were four main retention schemes existing within the Bank:

- Long-Term Incentive Plans edition 2007-2011 and 2008-2012, addressed to top management,
- Five-Year Loyalty Plan, addressed to employees of key significance for achieving the Bank's business goals and to most promising employees selected under the Talent Management scheme,
- UniCredit Group Long-Term Incentive Cash Plan (2010-2012), addressed to top management,
- Retention Program 2010-2013 of Bank Pekao S.A., a local retention program dedicated to key employees.

Employee Share Ownership Plan

In 2010, the second edition of the Employee Share Ownership Plan was introduced at the Bank. The Plan is dedicated to all employees who are interested in buying shares of UniCredit S.p.A.

This Plan gives an opportunity to invest in the shares on preferential terms. The main goal behind its implementation is to support those employees who are interested in investing in the shares, as well as to reward the continued loyalty of the employees.

Additional Benefits for Bank Employees

Additional benefits available to the employees vary according to the position and responsibilities. The Bank provides all employees with access to a wide range of medical services for free. The medical packages offered to the employees can be further expanded at favourable conditions. The Bank also co-finances group accident insurance. Responding to the needs of employees, additional insurance options for employees' family members were launched.

Furthermore, the following payments from the Social Benefits Fund were made:

- funding to purchase sports, recreation, culture, and education services,
- funding for recreation,
- providing financial assistance to employees who find themselves in a difficult life situation,
- loans for housing purposes.

Incentive Systems

The main incentive tool is a system based on Management by Objectives (MBO). The system covers employees in the front-office sales jobs and in jobs which play a vital role in achieving the Bank's commercial goals. The employees covered by the MBO system receive individual goals, whose successful completion makes them eligible to obtain a specific amount of annual bonus.

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Training and Professional Development

The Bank's training policy in 2010 reflected the requirements for improving employees' qualifications and broadening their professional knowledge in order to better support the Bank's customers.

The Bank provided its employees with various forms of training: group classes conducted by internal and external trainers, e-learning courses, as well as individual training courses in Poland and abroad.

In 2010, the Bank delivered 17 classroom training hours per employee. Almost 12 thousand people, which is more than 64% of the Bank's employees, took part in the training.

The total number of classroom training days amounted to 39.2 thousand.

The activities in the field of training and professional development concentrated on the following areas:

- increasing customer satisfaction by developing employees' expertise,
- ensuring customers' financial security,
- developing employees' language skills,
- managerial training.

Increasing customer satisfaction by developing employees' expertise

In 2010, the Bank continued the process of developing professional knowledge of its employees. The training was conducted mainly by internal experts. 6.4 thousand employees took part in the training.

Three major training projects were launched, aimed at improving customer satisfaction as well as advancing employees' sales and managerial skills. It is expected that by the end of 2011 all front-office employees will have been trained in this area.

In 2010, the Bank supported employees in gaining new qualifications required for dealing with organisational changes resulting from implementation of the new branch model (2.7 thousand employees were trained).

Ensuring customers' financial security

The aim of these training activities was to improve employees' qualifications in the area of risk. Training courses relating to the Markets in Financial Instruments Directive (MiFID), Advanced Internal Rating-Based Approach (AIRB), Legal Security of Receivables and Financial Risk Analysis were the main projects pursued by the Bank in this area in 2010, and they involved over 9.8 thousand participants.

Developing employees' language skills

The Bank invests in the development of employees' command of English by organising individual and group classes, on-line courses, and by refunding a part of self-financed courses for those employees who use English in their everyday work. About 540 persons participated in language courses in 2010.

Managerial training

In order to develop managerial skills and competencies, and support the implementation of the Bank's business strategy, the Bank took advantage of the expertise of UniCredit leadership development centre, recognized for using innovative approach to professional advancement.

About 1.2 thousand employees participated in the managerial training projects.

Development programs and initiatives

One of the key priorities of the Bank's development programs is identification, review and development of future leaders of the Bank. In order to achieve this goal, the Bank operates three main development programs:

- Executive Development Program, dedicated to top executives (342 participants),

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- Talents Management Program, aimed at identification and development – through various forms of education – of employees with the highest potential (352 participants),
- UniQuest Program, held at the UniCredit Group level, whose objective is to identify and develop employees with high potential at the international level. Six participants from Poland took part in UniQuest 2010 program.

Furthermore, the Bank offers the following development initiatives focused on supporting the employees in their professional advancement and improvement of their skills, knowledge and competencies:

- Internal Job Market - a website serving as a tool for promotion of employees within the organisation. This contains information about current job openings in all units of the Bank, at all locations.
- Job Rotation – a project designed to give the employees a broader business perspective and an opportunity to gain new experience. Job Rotation has a form of a short-term assignment or structured cooperation with another business unit (team, department, division).
- Mentoring - a one-on-one relation where a mentor uses his or her rich work experience to provide guidance to the mentee and support him or her in performing particular tasks or solving problems. Mentoring at the Bank has the form of one year program.
- Coaching - a process supporting the participant in achieving development goals. It has the form of individual cooperation of the participant with a professional coach. The aim of coaching is to inspire participants to find new ways to achieve their objectives.

Succession Plans

Succession planning has a fundamental meaning for ensuring continuous employment at strategic positions, continuity of long-term projects, and therefore minimising operational risk. In 2010, Succession Plans encompassed key positions at the Head Office and the branch network. The program is integrated with processes aimed at identification and development of talented employees of the Bank.

Internship and trainee programs

The Bank offers students and graduates the following development programs:

- UniChallenge - a year-long internship program, addressed to talented last-year MA students and graduates. It provides opportunities for its participants to gain work experience and professional knowledge in a particular field. The UniChallenge Program is used to spot high-potential candidates for employees.
- UniStart/UniSummerStart – a traineeship program addressed to students, who are offered placements for period ranging from 1 to 3 months. UniStart is an opportunity to gain hands-on experience related to the student's field of study, in different areas of banking, in all of the Bank's divisions.
- UniTouch - an interactive program for students, which is focused on the development of local communities. Its aim is to equip the participants with knowledge and skills they will require in their further careers. Within this program the participants can develop and strengthen three major skills promoted through UniTouch: team work, project management and presentation skills by taking part in two custom-made training sessions and participating in project teams.

New model of HR services

In 2010, a new model of HR services was introduced to provide services for employees of Bank Pekao S.A. and its subsidiaries. Furthermore, a new HR Line application was launched to handle employees' requests regarding HR issues.

Implementation of Employee and Manager Self-Services Portals

Employee and manager self-service is a solution based on the most advanced technology. Implementation of self-service portals automated and simplified processes at the Bank.

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The employee self-service portal enables employees to access their data and provide a wide range of time management and holiday planning functionalities, as well as a possibility to print out the electronic pay-slip.

The manager self-service portal gives managers direct access to HR information concerning their subordinates. Data and reports available through the portal increase the efficiency of human capital management.

Internal Communication

Raising the quality and effectiveness of mutual relations between the employer and the employees is a priority for the Bank. To this end, the Bank exploits tools that encourage employees to express their opinions and suggestions about the areas which, in their opinion, require improvement. This facilitates strengthening the employees' identification with the organisation.

In 2010, another edition of People Survey 2010 was conducted. The purpose of this anonymous survey was to gauge the employees' opinions on many aspects of the organisation's functioning, including clarity of goals and objectives, quality of leadership and management, internal communication effectiveness, the Bank's image, as well as internal relations, effectiveness of training and sense of affiliation with the organisation. The response rate in People Survey 2010 was very high, significantly above market benchmarks – it amounted to 81%. As usual, the survey results were presented to the managers and the employees and then used as a basis for action plans prepared in order to improve employee satisfaction.

Internal communication at the Bank relies on a comprehensive range of tools and channels, including the intranet portal, e-mailing campaigns, brochures and newsletters distributed in electronic form, internal Employee Discussion Forum, corporate newsletter "Życie Żubra" as well as direct meetings with medium- and top-level managers.

In 2010, 11 intranet chats were organised, enabling employees to communicate directly with the top managers via a dedicated intranet platform. The project "Chats at Bank Pekao S.A." was awarded in the country-wide competition INTERNALE 2010, in the Greatest Intranet Innovation category for "improving the efficiency of the two-way staff-management communication process and emphasis on staff feedback".

Managing through Values

Based on the set of corporate values – the Integrity Charter, Bank Pekao S.A. introduced a network of Integrity Charter Ombudsmen, to whom employees may report any instances of behaviour contravening those values.

The project "Integrity Charter Ombudsmen as a Guarantee of the Justice with the Integrity Charter System" was awarded in the country-wide competition INTERNALE 2010 in the Best Internal Communication Project category. The Jury recognized the project for "grassroots work, opportunity to freely voice one's opinion, and strengthening the two-way staff-management communication".

Relations with Trade Unions

In 2010, the interaction between the Bank as an employer and trade unions representatives, which consisted in consultations, bargaining and seeking consensus on various issues, was conducted in accordance with the labor law provisions, with due regard to the interests of all parties and the principles of social dialogue.

Relations with Works Council

In July 2010, the term of office of the Works Council of Bank Pekao S.A. elected for 2006 - 2010 ended.

In accordance with the Act on Employee Information and Consultation, dated April 7, 2006, as amended, in May 2010, the Bank informed employees about their right to elect a new Works Council. Concurrently, a procedure for filing motions to hold the election of the Work Council members was commenced.

The motion to hold the election of the Work Council for a new term of office did not receive the statutorily required support of 10% of the employees. The Bank will commence preparation of the election after the required 10% threshold is met.

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7. Statement of Financial Position and Financial Results

In the next years, the Bank Pekao S.A. Group plans to concentrate its activities on local market and in connection with this the whole exposure of Bank Pekao S.A. in OJSC UniCredit Bank will be disposed.

The Bank intends to dispose of its exposure in Ukraine upon receiving all the necessary approvals by the end of 2011.

In the Consolidated Financial Statement of the Group as of December 31, 2010, the whole exposure in OJSC UniCredit Bank constituting assets and liabilities of the subsidiary has been classified as held for sale and respective income statement items were presented as discontinued operations.

To ensure comparability in this report, selected items of statement of financial position and related ratios as of December 31, 2010 are presented including respective assets and liabilities of OJSC UniCredit Bank classified as held for sale. Income statement items for 2010 are presented including discontinued operations.

The detailed information concerning assets and liabilities held for sale is presented in the Note 32 'Assets and liabilities held for sale and discontinued operations' to the Consolidated Financial Statements of Bank Pekao S.A. Group.

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7.1 Structure of the Consolidated Statement of Financial Position

The total assets and the structure of the assets and liabilities of the Group are mainly determined by total assets of Bank Pekao S.A. that constitutes 97.0% of the total assets of the whole Group as at the end of December 2010.

The table below presents selected and aggregated items of the Group's statement of financial position.

ASSETS	31.12.2010*		31.12.2009		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Cash and due from Central Bank	5,996.3	4.5%	9,620.3	7.4%	(37.7%)
Loans and advances to banks**	6,694.9	5.0%	7,231.6	5.5%	(7.4%)
Loans and advances to customers***	83,136.8	62.0%	79,454.8	60.8%	4.6%
Securities****	31,778.2	23.7%	27,422.1	21.0%	15.9%
Investments in associates	214.6	0.2%	239.9	0.2%	(10.5%)
Property, plant and equipment and intangible assets	2,548.6	1.9%	2,530.9	1.9%	0.7%
Other assets	3,720.5	2.8%	4,116.5	3.2%	(9.6%)
Total assets	134,089.9	100.0%	130,616.1	100.0%	2.7%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective assets of OJSC UniCredit Bank.

** Including net investments in financial leases to banks.

*** Including debt securities eligible for rediscounting at Central Bank and net investments in financial leases to customers.

**** Including financial assets held for trading and other financial instruments at fair value through profit and loss.

LIABILITIES	31.12.2010*		31.12.2009		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Amounts due to Central Bank	728.0	0.5%	1,100.2	0.8%	(33.8%)
Amounts due to other banks	7,098.7	5.3%	7,379.0	5.6%	(3.8%)
Amounts due to customers	100,573.2	75.0%	97,250.0	74.5%	3.4%
Debt securities issued	1,177.2	0.9%	2,032.2	1.6%	(42.1%)
Other liabilities	4,255.8	3.2%	4,483.6	3.4%	(5.1%)
Total equity, including	20,257.0	15.1%	18,371.1	14.1%	10.3%
non-controlling interests	82.9	0.1%	83.1	0.1%	(0.2%)
Total equity and liabilities	134,089.9	100.0%	130,616.1	100.0%	2.7%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective liabilities of OJSC UniCredit Bank.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

7.1.1 Assets

Changes in the Structure of Assets

Loans and advances to customers and securities represent items of the largest value under assets. As at the end of 2010, they accounted for 62.0% and 23.7% of the balance-sheet total, respectively, while as at the end of 2009, the respective figures were 60.8% and 21.0%.

Cash and due from Central Bank

(PLN million)

	31.12.2010*	31.12.2009	CHANGE
Cash and due from Central Bank, including:	5,996.3	9,620.3	(37.7%)
Cash	2,499.1	2,258.8	10.6%
Current account at Central Bank	3,495.5	7,359.8	(52.5%)
Other	1.7	1.7	0.0%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective assets of OJSC UniCredit Bank.

Loans and Advances to Customers

Customer structure of loans and advances

(PLN million)

	31.12.2010*	31.12.2009	CHANGE
Loans and advances at nominal value**	87,633.0	84,022.4	4.3%
Loans	83,642.3	80,055.2	4.5%
retail	31,936.0	28,669.2	11.4%
corporate	51,706.3	51,386.0	0.6%
Non quoted securities	2,579.1	1,552.1	66.2%
Reverse repo transactions	1,411.6	2,415.1	(41.6%)
Other	235.7	267.3	(11.8%)
Nominal value adjustment	(261.6)	(473.6)	(44.8%)
Impairment losses	(4,470.3)	(4,361.3)	2.5%
Net loans and advances	83,136.8	79,454.8	4.6%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective assets of OJSC UniCredit Bank.

** Including debt securities eligible for rediscounting at Central Bank, net investments in financial leases to customers, non quoted securities, reverse repo and buy-sell-back transactions.

As at the end of December 2010, the volume of retail loans amounted to PLN 31,936.0 million, an increase in comparable terms of PLN 3,266.8 million (11.4%) in comparison to the end of 2009. The growth of volumes of retail loans was driven by improving dynamics in sales of key lending products. Thanks to commercial focus, the Bank's sales of new consumer loans in 2010 increased by 11.7% and sales of new PLN mortgage loans were higher by almost 62% compared with 2009.

The volume of corporate loans, non quoted securities and reverse repo transactions increased in comparable terms by PLN 343.8 million (0.6%) as compared to the end of 2009 and amounted to PLN 55,697.0 million at the end of December 2010.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

Loans and impairment losses

(PLN million)

	31.12.2010*	31.12.2009	CHANGE
Gross receivables**	87,376.7	83,577.9	4.5%
not impaired	81,230.4	77,900.7	4.3%
impaired	6,146.3	5,677.2	8.3%
Impairment losses	(4,470.3)	(4,361.3)	2.5%
Interest	230.4	238.2	(3.3%)
Total net	83,136.8	79,454.8	4.6%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective assets of OJSC UniCredit Bank.

** Including debt securities eligible for rediscounting at Central Bank, net investments in financial leases to customers, non quoted securities, reverse repo and buy-sell-back transactions.

As at December 31, 2010, the ratio of impaired receivables to total receivables amounted to 7.0% as compared with 6.8% at the end of 2009.

Impairment loss provisions as at the end of December 2010 amounted to PLN 4,470.3 million.

Loans and advances to customers by currency*

	31.12.2010**		31.12.2009		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
denominated in PLN	66,039.8	75.4%	61,259.2	73.1%	7.8%
denominated in foreign currencies***	21,567.3	24.6%	22,556.9	26.9%	(4.4%)
Total	87,607.1	100.0%	83,816.1	100.0%	4.5%
Impairment losses	(4,470.3)	x	(4,361.3)	x	2.5%
Total net	83,136.8	x	79,454.8	x	4.6%

* Including interest and receivables in transit.

** To ensure comparability, volumes as of December 31, 2010 are presented including respective assets of OJSC UniCredit Bank.

*** Including indexed loans.

The currency structure of loans and advances to customers is dominated by amounts expressed in Polish zloty; as at the end of December 2010, their share was 75.4%. The largest portion of foreign currency loans and advances to customers were represented by those denominated in EUR (49.4%), CHF (32.2%) and USD (16.3%).

Loans and advances to customers by contractual maturities*

	31.12.2010**		31.12.2009		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current and up to 1 month	15,022.5	17.1%	14,765.9	17.6%	1.7%
1 to 3 months	3,523.3	4.0%	1,944.3	2.3%	81.2%
3 months to 1 year	12,858.9	14.7%	9,982.7	11.9%	28.8%
1 to 5 years	26,487.7	30.2%	23,280.5	27.8%	13.8%
Over 5 years	29,479.0	33.6%	33,575.4	40.1%	(12.2%)
Other	235.7	0.3%	267.3	0.3%	(11.8%)
Total	87,607.1	100.0%	83,816.1	100.0%	4.5%
Impairment losses	(4,470.3)	x	(4,361.3)	x	2.5%
Total net	83,136.8	x	79,454.8	x	4.6%

* Including interest and receivables in transit.

** To ensure comparability, volumes as of December 31, 2010 are presented including respective assets of OJSC UniCredit Bank.

Loans and advances with maturity over 5 years represents 33.6% of total loans and advances (mainly attributed to mortgage loans and receivables for which the maturity date already passed).

Information on loan concentration is included in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

7.1.2 Liabilities

Changes in the Structure of Liabilities

Amounts due to customers were the main item under the Group's liabilities and equity. As at the end of 2010, amounts due to customers totalled PLN 100,573.2 million, and their share in the total assets was 75.0%, compared with 74.5% as at the end of 2009. The share of total Shareholder's equity in the total assets increased from 14.1% at the end of 2009 to 15.1% at the end of 2010.

External Sources of Financing

(PLN million)

	31.12.2010*	31.12.2009	CHANGE
Amounts due to Central Bank	728.0	1,100.2	(33.8%)
Amounts due to other banks	7,098.7	7,379.0	(3.8%)
Amounts due to customers	100,573.2	97,250.0	3.4%
Debt securities issued	1,177.2	2,032.2	(42.1%)
Total external sources of financing	109,577.1	107,761.4	1.7%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective liabilities of OJSC UniCredit Bank.

In addition to customers deposits and funds borrowed on the interbank market, Bank Pekao S.A. also has a refinancing loan taken out from the National Bank of Poland for the financing of a credit facility granted to fund a central state investment project.

Bank Pekao S.A. acquires deposits mainly in Poland. As at the end of 2010, the geographical structure of deposits acquired through the Bank's domestic branches was as follows:

REGION	% OF TOTAL DEPOSITS
Warszawski	38.8%
Małopolski	11.1%
Centralny	9.7%
Mazowiecki	8.5%
Południowo-Wschodni	7.4%
Dolnośląski	5.6%
Śląski	5.1%
Zachodni	4.8%
Wielkopolski	4.7%
Pomorski	4.3%
Total	100.0%

As at the end of December 2010, the deposits borrowed on the Ukrainian market by OJSC UniCredit Bank amounted to 0.8% of the total volume of the Group's deposits. As at the end of December 2010, the total deposits of OJSC UniCredit Bank amounted to PLN 762.7 million, therein the total volume of deposits of retail customers amounted to PLN 245.5 million and the total volume of corporate customer deposits amounted to PLN 517.2 million.

The Group's deposit base is widely diversified. The Group is not dependent on any single customer nor group of customers.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

Total customer savings

(PLN million)

	31.12.2010*	31.12.2009	CHANGE
Amounts due to corporate	53,595.4	52,339.4	2.4%
non-financial entities	39,623.8	40,147.5	(1.3%)
non-banking financial entities	8,880.6	5,848.3	51.8%
budget entities	5,091.0	6,343.6	(19.7%)
Retail deposits	45,846.2	43,854.1	4.5%
Repo and sell-buy-back transactions	649.9	514.2	26.4%
Other	481.7	542.3	(11.2%)
Amounts due to customers	100,573.2	97,250.0	3.4%
Structured certificates of deposits (SCD)	737.3	1,297.1	(43.2%)
Total amounts due to customers (including SCD, repo and sell-buy-back transactions)**	100,828.8	98,004.8	2.9%
Investment funds of Pioneer Pekao TFI	18,058.8	15,292.3	18.1%
including investment funds distributed through the Group's network	16,605.7	13,888.3	19.6%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective liabilities of OJSC UniCredit Bank.

** Excluding Other liabilities (interest and funds in transit).

As at the end of December 2010, the total amounts due to the Group's customers (including customer deposits, structured certificates of deposits, repo and sell-buy-back transactions) amounted to PLN 100,828.8 million, an increase in comparable terms of PLN 2,824.0 million (2.9%) in comparison to the end of 2009.

The total volume of retail customers deposits and structured certificates of deposits amounted to PLN 46,583.5 million at the end of December 2010, an increase in comparable terms of PLN 1,432.3 million (3.2%) in comparison to the end of 2009. At the same time, the value of net assets of investment funds managed by Pioneer Pekao TFI S.A. amounted to PLN 18,058.8 million, an increase of PLN 2,766.5 million (18.1%) in comparison to the end of 2009. The increase was driven by positive net sales in this period also supported by assets valuation.

The total volume of corporate customers deposits and repo and sell-buy-back transactions amounted to PLN 54,245.3 million at the end of December 2010, an increase in comparable terms of PLN 1,391.7 million (2.6%) as compared to the end of 2009.

Amount due to customers by currency*

	31.12.2010**		31.12.2009		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
denominated in PLN	84,795.1	84.3%	81,855.6	84.2%	3.6%
denominated in foreign currencies	15,778.1	15.7%	15,394.4	15.8%	2.5%
Total	100,573.2	100.0%	97,250.0	100.0%	3.4%

* Including interest and amounts due in transit.

** To ensure comparability, volumes as of December 31, 2010 are presented including respective liabilities of OJSC UniCredit Bank.

The bulk of the amounts due to customers are denominated in the Polish currency. Their share as at the end of December 2010 amounted to 84.3%. The majority of amounts due to customers denominated in foreign currencies were in EUR (58.4%) and USD (35.1%).

Report on the activities of the Bank Pekao S.A. Group for the year 2010

Amount due to customers by contractual maturities

	31.12.2010*		31.12.2009		CHANGE
	PLN MILLION	STRUCTURE	PLN MILLION	STRUCTURE	
Current deposits	52,249.9	52.2%	45,053.6	46.6%	16.0%
Term deposits	47,841.6	47.8%	51,654.1	53.4%	(7.4%)
Total deposits	100,091.5	100.0%	96,707.7	100.0%	3.5%
Interest accrued	234.7	x	307.7	x	(23.7%)
Funds in transit	247.0	x	234.6	x	5.3%
Total	100,573.2	x	97,250.0	x	3.4%

* To ensure comparability, volumes as of December 31, 2010 are presented including respective liabilities of OJSC UniCredit Bank.

7.1.3 Off-balance Sheet Items

Statement of Off-balance Sheet Items

(PLN million)

	31.12.2010	31.12.2009	CHANGE
Contingent liabilities granted and received	48,993.1	48,132.7	1.8%
Liabilities granted:	33,284.7	30,524.4	9.0%
financial	24,698.6	25,634.1	(3.6%)
guarantees	8,586.1	4,890.3	75.6%
Liabilities received:	15,708.4	17,608.3	(10.8%)
financial	3,075.9	3,049.5	0.9%
guarantees	12,632.5	14,558.8	(13.2%)
Derivative financial instruments	164,916.4	168,350.6	(2.0%)
currency transactions	71,210.8	76,458.9	(6.9%)
interest rate transactions	91,154.5	87,248.4	4.5%
securities transactions	2,551.1	4,643.3	(45.1%)
Other	28,182.4	26,324.7	7.1%
Total off-balance sheet items	242,091.9	242,808.0	(0.3%)

More detailed information on off-balance-sheet items is included in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

7.2 Net Profit Structure

The structure of the net profit of the Group is shown in the following table:

(PLN million)

	2010	2009	CHANGE
Net profit of Bank Pekao S.A.	2,552.0	2,462.3	3.6%
Entities consolidated under full method			
Centralny Dom Maklerski Pekao S.A.	51.5	55.2	(6.7%)
OJSC UniCredit Bank*	37.0	16.5	124.2%
Pekao Bank Hipoteczny S.A.	17.5	26.8	(34.7%)
Pekao Leasing Holding S.A.**	16.1	0.7	2,200.0%
Pekao Pioneer PTE S.A.	12.4	18.6	(33.3%)
Pekao Faktoring Sp. z o.o.	11.3	11.3	0.0%
Pekao Financial Services Sp. z o.o.	9.8	8.6	14.0%
Pekao Leasing Sp. z o.o.***	4.8	28.0	(82.9%)
Centrum Kart S.A.	4.6	6.0	(23.3%)
Pekao Fundusz Kapitałowy Sp. z o.o.	2.8	2.5	12.0%
Centrum Bankowości Bezpośredniej Sp. z o.o.****	1.1	x	x
Pekao Telecentrum Sp. z o.o.	0.3	0.4	(25.0%)
Holding Sp. z o.o. in liquidation	0.3	2.7	(88.9%)
Finanse Ltd *****	x	(0.1)	x
Entities valued under the equity method			
Pioneer Pekao Investment Management S.A.	57.1	54.0	5.7%
Krajowa Izba Rozliczeniowa S.A.	8.4	8.7	(3.4%)
Xelion. Doradcy Finansowi Sp. z o.o.	0.8	(4.3)	x
Central Poland Fund LLC	0.5	(0.1)	(600.0%)
Pirelli Pekao Real Estate Sp. z o.o.	0.3	0.4	(25.0%)
Exclusions and consolidation adjustments *****	(263.4)	(286.5)	(8.1%)
Net profit of the Group attributable to equity holders of the Bank	2,525.2	2,411.7	4.7%

* In the Consolidated Financial Statement of the Group as of December 31, 2010, the whole exposure in OJSC UniCredit Bank constituting assets and liabilities of the subsidiary has been classified as held for sale and respective income statement items were presented as discontinued operations.

** The result of 2010 of Pekao Leasing Holding S.A. mainly includes the dividend received from Pekao Leasing Sp. z o.o.

*** The result of 2010 includes the effect of correction of VAT liabilities relating to the period from December 2005 to April 2010, resulted from the negative for leasing industry resolution of the Supreme Administrative Court as of 8 November 2010 (I FPS 3/10) concerning taxation of VAT on re-invoicing of the leased assets' insurance costs.

**** The company was consolidated from the first quarter of 2010.

***** On September 7, 2010, Finanse Ltd. has been removed from UK Companies House register. The British proceedings provided for solvent companies have been applied for liquidation.

***** Includes, among others, transactions within the Group (including dividends from subsidiaries for the previous year) and net profit attributable to non-controlling interest.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

Financial Results of Bank Pekao S.A.

The main items in the income statement of the Bank are as follows:

(PLN million)

	2010	2009	CHANGE
Net interest income*	3,900.9	3,608.5	8.1%
Dividend income	255.4	417.2	(38.8%)
Total net interest income and dividend income	4,156.3	4,025.7	3.2%
Net non-interest income	2,607.6	2,666.9	(2.2%)
Operating income	6,763.9	6,692.6	1.1%
Operating costs	(3,336.4)	(3,352.5)	(0.5%)
Operating profit	3,427.5	3,340.1	2.6%
Net result on other provisions	(27.7)	0.4	(7025.0%)
Net impairment losses on financial assets and off-balance sheet commitments	(449.9)	(406.5)	10.7%
Net result on investment activities	128.4	46.6	175.5%
Profit before tax	3,078.3	2,980.6	3.3%
Net profit for the period	2,552.0	2,462.3	3.6%

* Including income from SWAP transactions.

Bank Pekao S.A. reported solid financial results for 2010, with net profit amounting to PLN 2,552.0 million, i.e. an increase of PLN 89.7 million (3.6%) in comparison to 2009.

The main items in the Bank's statement of financial position are as follows:

	31.12.2010	31.12.2009	CHANGE
Total gross loans in PLN million*	77,100.7	73,241.7	5.3%
Impaired receivables to total receivables in %	6.4%	6.2%	0.2 p.p.
Total deposits in PLN million*	98,199.4	95,637.8	2.7%
Structured Certificates of Deposits in PLN million	737.3	1,297.1	(43.2%)
Repo and sell-buy-back transactions in PLN million	649.9	514.2	26.4%
Total assets in PLN million	130,125.1	126,918.0	2.5%
Investment funds distributed through the Bank's network in PLN million	15,125.9	12,519.8	20.8%
Capital adequacy ratio in %	17.2%	15.6%	1.6 p.p.

* The nominal value.

The volume of gross loans of the Bank's clients as at the end of December 2010 amounted to PLN 77,100.7 million, increasing by PLN 3,859.0 million (5.3%) as compared to the end of 2009. As at the end of December 2010, the volume of retail loans amounted to PLN 30,548.6 million and the volume of corporate loans amounted to PLN 46,552.1 million.

The total amounts due to the Bank's customers (including customer deposits, structured certificates of deposits, repo and sell-buy-back transactions) amounted to PLN 99,586.6 million and increased by PLN 2,137.6 million (2.2%) compared to the end of 2009.

Concurrently, as compared to the end of 2009, the value of net assets of investment funds managed by Pioneer Pekao TFI S.A. and distributed by the Bank's network increased by PLN 2,606.1 million (20.8%).

Report on the activities of the Bank Pekao S.A. Group for the year 2010

Results of key Subsidiaries

Centralny Dom Maklerski Pekao S.A. – CDM

In 2010, CDM generated a net profit of **PLN 51.2 million**, comparing to PLN 55.2 million earned in 2009. The results of 2010 were influenced by the implementation of MiFID directive limiting the possibilities of managing customer's assets and income from this activity, compensated partially by income increase from brokerage activities.

Pioneer Pekao Investment Management S.A. – PPIM

In 2010, the company's consolidated net profit amounted to PLN 116.6 million, which means a 5.9% increase year on year. The Bank's share in the company's profit was **PLN 57.1 million**. The increase was driven by positive net sales in this period also supported by assets valuation.

Pekao Leasing Sp. z o.o. – Pekao Leasing

In 2010, the company posted a net profit of PLN 4.8 million, compared with PLN 28 million in 2009. The result of 2010 includes the effect of correction of VAT liabilities relating the period from December 2005 to April 2010 resulted from the negative for leasing industry resolution of the Supreme Administrative Court as of 8 November 2010 (I FPS 3/10) concerning taxation of VAT on re-invoicing of the leased assets' insurance costs.

OJSC UniCredit Bank – UniCredit Bank

In 2010, the company reported a net profit of **PLN 37.0 million**, compared with PLN 16.5 million in 2009. Despite the weakened economy resulting from the crisis in Ukraine, UniCredit Bank reported a profit due to stabilization of credit portfolio and successful cost control.

Pekao Bank Hipoteczny S.A. – Pekao Bank Hipoteczny

In 2010, the company generated a net profit of **PLN 17.5 million**, relative to PLN 26.8 million as at the end of 2009. The net profit for 2009 included a positive influence of restructuring and debt collection activities carried out by the company (in the amount of approx. PLN 11 million).

Xelion. Doradcy Finansowi Sp. z o.o. – Xelion

In 2010, the company reported a net profit of PLN 1.6 million (the Bank's share equaled to **PLN 0.8 million**), compared with the net loss of PLN -8.6 million in 2009. The positive results were possible thanks to focusing on optimization of financial advisors network development, enhancing the product offer with assurance of best quality standards of services and strict cost control.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

7.3. Consolidated Income Statement - for the presentation purposes

The Bank Pekao S.A. Group reported solid financial results for 2010, with net profit attributable to equity holders amounting to PLN 2,525.2 million, i.e. an increase of PLN 113.5 million (4.7%) in comparison to 2009.

The sound results for 2010 with the operating profit increasing by 5.6% in comparison with 2009 were driven by higher operating income as well as lower operating costs.

The strength of the capital and liquidity structure of the Bank Pekao S.A. Group is reflected by a capital adequacy ratio of 17.6% and loans to deposits ratio at the level of 82.7% at the end of December 2010. This enables further sound and stable development of the Group's activities.

Selected and aggregated items of consolidated income statements for 2010 and 2009 are shown in the table below:

	2010	2009	CHANGE
Net interest income*	4,226.9	4,018.1	5.2%
Dividend income and income from equity investments	76.1	65.2	16.7%
Total net interest income, dividend income and other income from equity investments	4,303.0	4,083.3	5.4%
Net fee and commission income	2,368.0	2,288.6	3.5%
Trading result	480.7	604.6	(20.5%)
Net other operating income and expenses	66.3	76.1	(12.9%)
Net non-interest income	2,915.0	2,969.3	(1.8%)
Operating income	7,218.0	7,052.6	2.3%
Operating costs	(3,649.1)	(3,672.8)	(0.6%)
Operating profit	3,568.9	3,379.8	5.6%
Net result on other provisions	(50.7)	1.2	(4325.0%)
Net impairment losses on financial assets and off-balance sheet commitments	(537.9)	(534.7)	0.6%
Net result on investment activities	121.2	151.2	(19.8%)
Profit before tax	3,101.5	2,997.5	3.5%
Income tax expense	(571.2)	(576.2)	(0.9%)
Net profit for the period	2,530.3	2,421.3	4.5%
Attributable to equity holders of the Bank	2,525.2	2,411.7	4.7%
Attributable to non-controlling interest	5.1	9.6	(46.9%)

* Including income from SWAP transactions.

Operating Income

In 2010, the Group's operating income amounted to PLN 7,218.0 million, an increase of PLN 165.4million (2.3%) in comparison to 2009 with growth in total net interest income, dividend income and income from equity investments as well as net fee and commission income.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

Total net interest income, dividend income and income from equity investments

(PLN million)

	2010	2009	CHANGE
Interest income	6,551.2	6,747.9	(2.9%)
Interest expense	(2,447.5)	(2,945.6)	(16.9%)
Income from SWAP transactions	123.2	215.8	(42.9%)
Net interest income	4,226.9	4,018.1	5.2%
Dividend income	7.9	7.1	11.3%
Income from equity investments	68.2	58.1	17.4%
Total net interest income, dividend income and income from equity investments	4,303.0	4,083.3	5.4%

Total net interest income, dividend income and income from equity investments in 2010 amounted to PLN 4,303.0 million and increased by PLN 219.7 million (5.4%) in comparison with 2009. The increase was driven by efficient management of the interest margin.

Net non-interest income

(PLN million)

	2010	2009	CHANGE
Fee and commission income	2,796.3	2,716.2	2.9%
Fee and commission expense	(428.3)	(427.6)	0.2%
Net fee and commission income	2,368.0	2,288.6	3.5%
Trading result*	480.7	604.6	(20.5%)
Net other operating income and expense	66.3	76.1	(12.9%)
Net non-interest income	2,915.0	2,969.3	(1.8%)

* Excluding income from SWAP transactions.

The Group's net non-interest income in 2010 amounted to PLN 2,915.0 million, with a reduction of PLN 54.3 million (1.8%) in comparison with 2009, mainly due to lower trading results.

However, the Group's net fee and commission income in 2010 amounted to PLN 2,368.0 million, an increase of PLN 79.4 million (3.5%) in comparison with 2009, mainly as a result of an increase in commission on loans, investment products and payment cards.

Operating costs

In 2010, the operating costs were kept under control and amounted to PLN 3,649.1 million. They were lower than the operating costs in 2009 by PLN 23.7 million (0.6%).

(PLN million)

	2010	2009	CHANGE
Personnel expenses	(1,950.3)	(1,856.4)	5.1%
Other administrative expenses	(1,307.1)	(1,377.9)	(5.1%)
Depreciation and amortisation	(391.7)	(438.5)	(10.7%)
Operating costs	(3,649.1)	(3,672.8)	(0.6%)

In 2010, cost / income ratio amounted to 50.6% and was better by 1.5 p.p. than that reported in 2009 thanks to higher income and lower costs.

As at the end of December 2010, the Bank Pekao S.A. Group employed 20,783 employees (in the Bank and the companies consolidated under full consolidation method) as compared to 20,874 employees as at the end of 2009. Under comparable conditions, (i.e. notwithstanding the effect of the extension of consolidation of the company Centrum Bankowości Bezpośredniej Sp z o.o. in the first quarter of 2010) the employment in the Group would be reduced by 554 employees.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

As at the end of December 2010, the Bank employed 18,276 people, 636 less than at the end of 2009.

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

In 2010, net impairment losses on financial assets and off-balance sheet commitments amounted to PLN 537.9 million, an increase of PLN 3.2 million (0.6%) compared to 2009.

(PLN million)

	2010	2009	CHANGE
for loans and other financial assets	(544.6)	(571.1)	(4.6%)
for off-balance sheet commitments	6.7	36.4	(81.6%)
Total	(537.9)	(534.7)	0.6%

Provisions, deferred tax assets and liabilities

(PLN million)

	31.12.2010*	31.12.2009	CHANGE
Total provisions	305.9	255.0	20.0%
of which:			
provisions for off-balance sheet commitments	96.5	103.3	(6.6%)
provisions for liabilities to employees	164.7	133.1	23.7%
other provisions	44.7	18.6	140.3%
Deferred tax liabilities	15.9	2.5	536.0%
Deferred tax assets	722.0	462.1	56.2%

* To ensure comparability, items of statement of financial position as of December 31, 2010 are presented including respective assets and liabilities of OJSC UniCredit Bank.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

7.4 Consolidated Income Statement – short version

Presentation remarks

The Bank has introduced some changes to the presentation of specific items in the short version of income statement in order to standardise the presentation of financial statements within UniCredit Group.

The changes introduced for comparative periods were purely presentational and had no impact on the net results reported at the Group level. Additionally, in order to ensure better clarity of results achieved, net interest and fee and commission are presented providing separate information on both income and expenses.

The consolidated income statement for the period from January 1, 2009 to December 31, 2010 is presented in the long version. The reconciliation of the short version and the long version of the income statement is presented in point 7.4.4.

7.4.1 Consolidated Income Statement for the year 2010 and 2009 – short version

(PLN thousand)

	2010			2009		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	6,280,436	270,779	6,551,215	6,407,017	340,908	6,747,925
Interest expense	(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
Dividend income and income from equity investments	76,158	-	76,158	65,181	-	65,181
Total net interest income, dividend income and income from equity investments	4,031,063	148,769	4,179,832	3,662,288	205,179	3,867,467
Fee and commission income	2,758,056	38,237	2,796,293	2,677,765	38,392	2,716,157
Fee and commission expense	(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
Trading result	578,885	25,016	603,901	793,975	26,493	820,468
Net other operating income and expenses	64,836	1,417	66,253	78,700	(2,647)	76,053
Net non-interest income	2,990,572	47,610	3,038,182	3,139,986	45,128	3,185,114
OPERATING INCOME	7,021,635	196,379	7,218,014	6,802,274	250,307	7,052,581
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)
Refunding of administrative expenses	7,205	-	7,205	10,404	-	10,404
Depreciation and amortisation	(379,209)	(12,502)	(391,711)	(422,775)	(15,759)	(438,534)
Operating costs	(3,558,486)	(90,670)	(3,649,156)	(3,574,121)	(98,669)	(3,672,790)
OPERATING PROFIT	3,463,149	105,709	3,568,858	3,228,153	151,638	3,379,791
Net result on other provisions	(50,674)	-	(50,674)	1,162	-	1,162
Net impairment losses on financial assets and off-balance sheet commitments	(485,887)	(52,041)	(537,928)	(416,944)	(117,713)	(534,657)
Net result on investment activity	120,902	354	121,256	151,742	(558)	151,184
PROFIT BEFORE INCOME TAX	3,047,490	54,022	3,101,512	2,964,113	33,367	2,997,480
Income tax expense	(554,116)	(17,057)	(571,173)	(557,548)	(18,587)	(576,135)
NET PROFIT FOR THE PERIOD	2,493,374	36,965	2,530,339	2,406,565	14,780	2,421,345
attributable to equity holders of the Bank	2,488,269	36,965	2,525,234	2,396,955	14,780	2,411,735
attributable to non-controlling interest	5,105	-	5,105	9,610	-	9,610

Report on the activities of the Bank Pekao S.A. Group for the year 2010

(PLN thousand)

7.4.2 Quarterly Consolidated Income Statement – short version

Quarterly Consolidated Income Statement for 2010

Provided for comparability purposes - Not reviewed / audited by the independent auditor.

	Q1 2010			Q2 2010			Q3 2010			Q4 2010		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	1,502,030	74,842	1,576,872	1,533,892	72,712	1,606,604	1,584,131	67,890	1,652,021	1,660,383	55,335	1,715,718
Interest expense	(541,129)	(30,623)	(571,752)	(569,694)	(34,388)	(604,082)	(590,485)	(30,557)	(621,042)	(624,223)	(26,442)	(650,665)
Net interest income	960,901	44,219	1,005,120	964,198	38,324	1,002,522	993,646	37,333	1,030,979	1,036,160	28,893	1,065,053
Dividend income and income from equity investments	20,785	-	20,785	26,357	-	26,357	21,393	-	21,393	7,623	-	7,623
Total net interest income, dividend income and income from equity investments	981,686	44,219	1,025,905	990,555	38,324	1,028,879	1,015,039	37,333	1,052,372	1,043,783	28,893	1,072,676
Fee and commission income	672,763	8,478	681,241	683,200	8,437	691,637	682,209	11,136	693,345	719,884	10,186	730,070
Fee and commission expense	(104,989)	(4,024)	(109,013)	(98,624)	(4,570)	(103,194)	(98,960)	(3,791)	(102,751)	(108,632)	(4,675)	(113,307)
Net fee and commission income	567,774	4,454	572,228	584,576	3,867	588,443	583,249	7,345	590,594	611,252	5,511	616,763
Trading result	133,676	2,737	136,413	139,188	5,935	145,123	143,381	13,385	156,766	162,640	2,959	165,599
Net other operating income and expenses	15,455	885	16,340	11,984	523	12,507	23,449	305	23,754	13,948	(296)	13,652
Net non-interest income	716,905	8,076	724,981	735,748	10,325	746,073	750,079	21,035	771,114	787,840	8,174	796,014
OPERATING INCOME	1,698,591	52,295	1,750,886	1,726,303	48,649	1,774,952	1,765,118	58,368	1,823,486	1,831,623	37,067	1,868,690
Personnel expenses	(458,344)	(9,443)	(467,787)	(465,744)	(10,266)	(476,010)	(472,815)	(9,627)	(482,442)	(514,253)	(9,809)	(524,062)
Other administrative expenses	(320,681)	(9,304)	(329,985)	(318,263)	(10,335)	(328,598)	(327,400)	(11,067)	(338,467)	(308,982)	(8,317)	(317,299)
Refunding of administrative expenses	1,700	-	1,700	1,822	-	1,822	1,070	-	1,070	2,613	-	2,613
Depreciation and amortisation	(104,315)	(3,189)	(107,504)	(95,710)	(3,514)	(99,224)	(94,600)	(3,103)	(97,703)	(84,584)	(2,696)	(87,280)
Operating costs	(881,640)	(21,936)	(903,576)	(877,895)	(24,115)	(902,010)	(893,745)	(23,797)	(917,542)	(905,206)	(20,822)	(926,028)
OPERATING PROFIT	816,951	30,359	847,310	848,408	24,534	872,942	871,373	34,571	905,944	926,417	16,245	942,662
Net result on other provisions	837	-	837	320	-	320	441	-	441	(52,272)	-	(52,272)
Net impairment losses on financial assets and off-balance sheet commitments	(127,723)	(13,168)	(140,891)	(121,979)	(14,033)	(136,012)	(112,211)	(21,477)	(133,688)	(123,974)	(3,363)	(127,337)
Net result on investment activity	34,402	(4)	34,398	26,339	7	26,346	46,717	353	47,070	13,444	(2)	13,442
PROFIT BEFORE INCOME TAX	724,467	17,187	741,654	753,088	10,508	763,596	806,320	13,447	819,767	763,615	12,880	776,495
Income tax expense	(131,859)	(4,845)	(136,704)	(139,152)	(2,845)	(141,997)	(153,960)	(3,542)	(157,502)	(129,145)	(5,825)	(134,970)
NET PROFIT FOR THE PERIOD	592,608	12,342	604,950	613,936	7,663	621,599	652,360	9,905	662,265	634,470	7,055	641,525
Attributable to equity holders of the Bank	590,370	12,342	602,712	611,452	7,663	619,115	649,780	9,905	659,685	636,667	7,055	643,722
Attributable to non-controlling interest	2,238	-	2,238	2,484	-	2,484	2,580	-	2,580	(2,197)	-	(2,197)

Report on the activities of the Bank Pekao S.A. Group for the year 2010

(PLN thousand)

Quarterly Consolidated Income Statement for 2009

Provided for comparability purposes - Not reviewed / audited by the independent auditor.

	Q1 2009			Q2 2009			Q3 2009			Q4 2009		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	1,754,536	95,997	1,850,533	1,576,410	85,330	1,661,740	1,511,005	79,891	1,590,896	1,565,066	79,690	1,644,756
Interest expense	(894,166)	(46,687)	(940,853)	(680,020)	(33,583)	(713,603)	(593,176)	(27,468)	(620,644)	(642,548)	(27,991)	(670,539)
Net interest income	860,370	49,310	909,680	896,390	51,747	948,137	917,829	52,423	970,252	922,518	51,699	974,217
Dividend income and income from equity investments	13,051	-	13,051	18,104	-	18,104	14,972	-	14,972	19,054	-	19,054
Total net interest income, dividend income and income from equity investments	873,421	49,310	922,731	914,494	51,747	966,241	932,801	52,423	985,224	941,572	51,699	993,271
Fee and commission income	626,103	10,124	636,227	659,602	7,464	667,066	674,428	12,156	686,584	717,632	8,648	726,280
Fee and commission expense	(102,881)	(4,657)	(107,538)	(109,053)	(4,336)	(113,389)	(88,693)	(4,312)	(93,005)	(109,827)	(3,805)	(113,632)
Net fee and commission income	523,222	5,467	528,689	550,549	3,128	553,677	585,735	7,844	593,579	607,805	4,843	612,648
Trading result	196,677	13,677	210,354	264,986	5,437	270,423	171,606	7,042	178,648	160,706	337	161,043
Net other operating income and expenses	21,828	(1,585)	20,243	9,625	2,187	11,812	34,448	(1,489)	32,959	12,799	(1,760)	11,039
Net non-interest income	741,727	17,559	759,286	825,160	10,752	835,912	791,789	13,397	805,186	781,310	3,420	784,730
OPERATING INCOME	1,615,148	66,869	1,682,017	1,739,654	62,499	1,802,153	1,724,590	65,820	1,790,410	1,722,882	55,119	1,778,001
Personnel expenses	(449,069)	(12,854)	(461,923)	(457,835)	(9,885)	(467,720)	(450,742)	(9,101)	(459,843)	(459,325)	(7,530)	(466,855)
Other administrative expenses	(344,778)	(12,304)	(357,082)	(352,206)	(10,960)	(363,166)	(319,871)	(10,807)	(330,678)	(327,924)	(9,469)	(337,393)
Refunding of administrative expenses	3,469	-	3,469	2,296	-	2,296	2,729	-	2,729	1,910	-	1,910
Depreciation and amortisation	(104,700)	(4,655)	(109,355)	(105,105)	(4,318)	(109,423)	(106,279)	(3,171)	(109,450)	(106,691)	(3,615)	(110,306)
Operating costs	(895,078)	(29,813)	(924,891)	(912,850)	(25,163)	(938,013)	(874,163)	(23,079)	(897,242)	(892,030)	(20,614)	(912,644)
OPERATING PROFIT	720,070	37,056	757,126	826,804	37,336	864,140	850,427	42,741	893,168	830,852	34,505	865,357
Net result on other provisions	(98)	-	(98)	1,018	-	1,018	222	-	222	20	-	20
Net impairment losses on financial assets and off-balance sheet commitments	(67,985)	(23,670)	(91,655)	(119,240)	(34,200)	(153,440)	(114,075)	(37,109)	(151,184)	(115,644)	(22,734)	(138,378)
Net result on investment activity	45,356	(69)	45,287	43,513	26	43,539	23,445	(572)	22,873	39,428	57	39,485
PROFIT BEFORE INCOME TAX	697,343	13,317	710,660	752,095	3,162	755,257	760,019	5,060	765,079	754,656	11,828	766,484
Income tax expense	(129,010)	(12,004)	(141,014)	(139,536)	(1,377)	(140,913)	(141,569)	(880)	(142,449)	(147,433)	(4,326)	(151,759)
NET PROFIT FOR THE PERIOD	568,333	1,313	569,646	612,559	1,785	614,344	618,450	4,180	622,630	607,223	7,502	614,725
Attributable to equity holders of the Bank	564,982	1,313	566,295	611,419	1,785	613,204	616,278	4,180	620,458	604,276	7,502	611,778
Attributable to non-controlling interest	3,351	-	3,351	1,140	-	1,140	2,172	-	2,172	2,947	-	2,947

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(PLN thousand)

7.4.3 Quarterly Consolidated Statement of Comprehensive Income

Provided for comparability purposes - Not reviewed / audited by the independent auditor.

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Net profit	604,950	621,599	662,265	641,525	569,646	614,344	622,630	614,725
Attributable to equity holders of the Bank	602,712	619,115	659,685	643,722	566,295	613,204	620,458	611,778
Attributable to non-controlling interest	2,238	2,484	2,580	(2,197)	3,351	1,140	2,172	2,947
Other comprehensive income								
Foreign currency translation differences	4,745	51,915	(49,522)	4,818	47,418	(12,553)	(51,676)	(49,963)
Change in fair value of available-for-sale financial assets	195,966	(168,900)	121,556	(131,294)	(198,427)	105,306	132,571	12,671
Change in fair value of cash flow hedges	53,329	47,808	3,548	(37,116)	(87,271)	(52,669)	(12,847)	2,006
Income tax expense on other comprehensive income	(47,285)	23,233	(24,165)	63,713	54,730	(11,337)	(22,830)	(2,991)
Other comprehensive income (net)	206,755	(45,944)	51,417	(99,879)	(183,550)	28,747	45,218	(38,277)
Total comprehensive income	811,705	575,655	713,682	541,646	386,096	643,091	667,848	576,448
Attributable to equity holders of the Bank	809,467	573,171	711,102	543,843	382,745	641,951	665,676	573,501
Attributable to non-controlling interest	2,238	2,484	2,580	(2,197)	3,351	1,140	2,172	2,947

Report on the activities of the Bank Pekao S.A. Group for the year 2010

(PLN thousand)

7.4.4 Reconciliation of Consolidated Income Statement for 2010 – short and long form

INCOME STATEMENT- SHORT FORM'S ITEMS	LONG FORM'S ITEMS RECLASSIFIED TO SHORT FORM	COMMENTS
I. Total net interest income, dividend income and income from equity investments		<u>4,179,832</u>
	Net interest income	4,103,674
	Dividend income	7,889
	Gains (losses) from associates	68,269 1/
II. Net fee and commission income	Net fee and commission income	<u>2,368,028</u>
III. Trading result		<u>603,901</u>
	Result on financial assets and liabilities held for trading	584,216
	Result on fair value hedge accounting	6,801
	Net result on other financial instruments at fair value through profit and loss	13,952
	Gains (losses) on disposal of financial liabilities	(1,068)
IV. Net other operating income and expenses		<u>66,253</u>
	Net other operating income and expenses	66,414
	less - Refunding of administrative expenses	(7,205) 2/
	Gains (losses) on disposal of loans and other financial receivables	7,044
OPERATING INCOME		7,218,014
V. Personnel expenses	Personnel expenses	<u>(1,950,301)</u>
VI. Other administrative expenses	Other administrative expenses	<u>(1,314,349)</u>
VII. Refunding of administrative expenses		<u>7,205</u> 2/
VIII. Depreciation and amortisation	Depreciation and amortisation	<u>(391,711)</u>
OPERATING COSTS		(3,649,156)
OPERATING PROFIT		3,568,858
IX. Net result on other provisions	Net result on other provisions	<u>(50,674)</u>
X. Net impairment losses on financial assets and off-balance sheet commitments		<u>(537,928)</u>
	Net impairment losses on loans and advances	(544,660)
	Net impairment provision for off-balance sheet commitments	6,732
XI. Net result on investment activity		<u>121,256</u>
	Gains (losses) on disposal of property, plant and equipment, and intangible assets.	(371)
	Gains (losses) on disposal of available for sale financial assets and held to maturity investments	121,627
PROFIT BEFORE INCOME TAX		3,101,512
XII. Income tax expenses	Income tax expenses	<u>(571,173)</u>
XIII. NET PROFIT FOR THE PERIOD	NET PROFIT FOR THE PERIOD	2,530,339
attributable to equity holders of the Bank	attributable to equity holders of the Bank	2,525,234
attributable to non-controlling interest	attributable to non-controlling interest	5,105

1/ In the long form the item "Profit (loss) of associates valued at equity" included in the item "Profit (loss) from subordinated entities".

2/ In the long form the item "Refunding of administrative expenses" included in the item "Net other operating income/expenses", in short form is recognized as a separate line.

Report on the activities of the Bank Pekao S.A. Group for the year 2010

8. Other Information

Subsequent Events

After the balance sheet date, the composition of the Supervisory Board of the Bank has been changed. Description of the changes is presented in point 4.2.

Management Board position regarding the possibility of achieving previously published Forecasts

On August 1, 2008 Management Board of Bank Pekao S.A. published in the current report no 69/2008 the forecast of Bank Pekao S.A.'s financial results in years 2008-2010.

Given the high volatility of the macroeconomic scenario, influenced by the global financial crisis, the Management Board of Bank Pekao S.A. has decided to refrain from the forecast's evaluation of the Bank's results for years 2008-2010.

Management Board and Supervisory Board Remuneration

The total amount of remuneration and benefits (both cash and payments in kind) paid or payable to Management Board Members in 2010

(PLN thousand)

	BASE SALARY AND BONUS PAID OR PAYABLE FOR 2010	OTHER BENEFITS FOR 2010	TOTAL 2010	BONUSES PAID IN 2010 RELATED TO PRIOR YEARS	COMMENTS
Jan Krzysztof Bielecki	38	4	42		remuneration until January 11, 2010
Diego Biondo	1,193	1	1,194	707	
Marco Iannaccone	1,280	1	1,281	282	
Andrzej Kopyrski	957	83	1,040	375	
Alicja Kornasiewicz	1,607	192	1,799	0	remuneration since February 15, 2010
Luigi Lovaglio	3,108	157	3,265	375	
Grzegorz Piwowar	1,020	89	1,109	350	
Marian Ważyński	879	40	919	988	
2010 bonus provisions	7,820	0	7,820	0	
Total	17,902	567	18,469	3,077	

"The 2010 bonus provisions" include provisions for bonuses in the amount of PLN 6,270 thousand and Long Term Incentive Program in the amount of PLN 1,550 thousand.

The column "Bonuses paid in 2010 related to prior years" shows the value of payments to individual Members of the Management Board realized in 2010, which in previous years were included in the total amount of provisions, which could not be directly attributed to the individual Members of Management Board.

A decision on bonuses for 2010 for Management Board Members has not yet been taken by the Supervisory Board.

In 2010, the expense for the stock option program that may be executed by Management Board Members (subject to fulfillment of given conditions) amounted to PLN 789 thousand.

For description of incentive programs refer to Notes to the Consolidated Financial Statement of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

In 2010 Management Board Members did not receive nor are due any compensation from subsidiaries, jointly controlled companies, and associated entities.

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The total amount of remuneration (in cash and payments in kind) paid or payable to Supervisory Board Members in 2010

(PLN thousand)

	2010
Jerzy Woźnicki	167
Paweł Dangel	98
Oliver Greene	124
Enrico Pavoni	98
Leszek Pawłowicz	118
Krzysztof Pawłowski	97
Total	702

In 2010, Supervisory Board Members did not receive nor are due any compensation from subsidiaries, jointly controlled companies, and associated entities.

Stock option program

The Bank Pekao S.A. Group is running an incentive program in the form of management stock options. The Program covers the Management Board of the Bank, other managerial staff, key employees for implementing the Bank's strategy, as well as employees of the Bank's subsidiaries. The persons who meet the requirements set in the program will be able to acquire the Bank's shares.

As at the date of submitting this report the incentive program for 2004 includes 14 persons for a total 82,708 shares, 32,678 of which will be eligible for purchase by the management.

The Members of the Supervisory Board did not participate in the management stock options program.

The table below presents the number of management stock options held by the Management Board Members:

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2010	FOR THE THIRD QUARTER OF 2010	FOR THE YEAR 2009
Luigi Lovaglio	32,678	32,678	32,678
Total	32,678	32,678	32,678

All the pre-emptive rights to take up F series shares pursuant to the implementation of the right of priority ensuing from the A and B series bonds and all the pre-emptive rights to take up G series shares pursuant to the implementation of the right of priority ensuing from the C series bonds were executed.

The execution of the pre-emptive rights to take up G series shares can be exercised in respect of D series bonds from January 1, 2009 to December 31, 2012.

The issue price of G series shares amounts to PLN 123.06.

Furthermore, as at December 31, 2010, 39 employees of the Bank Pekao S.A. Group, including 3 members of the Management Board, are participating in the Long-Term Incentive Plan 2007 program. 58 employees of the Bank Pekao S.A. Group, including 3 members of the Management Board, are participating in Long-Term Incentive Plan 2008 program.

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Shares in the Bank and related entities held by the Bank's Directors

According to information available to the Bank as at the date of submitting of this report, the members of the Bank's management and supervisory bodies held 40,857 shares of Bank Pekao S.A. with face value of PLN 40,857.

The table below presents the number of shares held by the Management Board Members:

	AS AT THE DATE OF SUBMITTING THE REPORT		
	FOR THE YEAR 2010	FOR THE THIRD QUARTER OF 2010	FOR THE YEAR 2009
Luigi Lovaglio	31,357	31,357	31,357
Diego Biondo	9,500	9,500	9,500
Total	40,857	40,857	40,857

Moreover, as at December 31, 2010 UniCredit S.p.A. shares were held by: Mrs. Alicja Kornasiewicz – 9,560 shares with face value EUR 4,780.0, Mr. Luigi Lovaglio – 167,029 shares with face value EUR 83,514.5, Mr. Diego Biondo – 8,423 shares with face value EUR 4,211.5, Mr. Marco Iannaccone – 4,516 shares with face value EUR 2,258.0, Mr. Grzegorz Piwowar – 3,235 shares with face value EUR 1,617.5, Mr. Federico Ghizzoni – 117,000 shares with face value EUR 58,500.0, Mr. Roberto Nicastro – 817,889 shares with face value EUR 408,944.5, Mr. Sergio Ermotti – 1,461,730 shares with face value EUR 730,865.0.

Information regarding contracts for post termination benefits

The employment contracts concluded by the Bank with the following Board Members provide compensation equal to 18 fold of monthly base salary for the final month of employment in case of non renewal of contract:

- Mrs. Alicja Kornasiewicz, President of the Management Board,
- Mr. Andrzej Kopyrski, Vice President of the Management Board,
- Mr. Grzegorz Piwowar, Vice President of the Management Board,
- Mr. Marian Ważyński, Vice President of the Management Board.

This does not apply in case of dismissal pursuant to Art. 52 or Art. 53 of the Labor Code or improper performance of duties, or breach of the Pekao Charter, or Management Board or Supervisory Board resolutions.

In case the President's of the Management Board mandate expires due to resignation, retirement payment equal to 25 fold of monthly base salary is to be paid.

In case the President's of the Management Board mandate expires and on this date President of the Management Board is entitled to retirements rights, retirement payment in amount of 7 monthly base salary is to be paid. That payment does not influence other payments resulting from the employment contract.

Moreover the above mentioned Management Board Members have signed a non – competition agreements with Bank setting rights and responsibilities of the parties to the contracts concerning competitive activities during and after termination of employment with the Bank.

Employment contracts with the remaining Management Board Members do not cover such compensations.

Agreements with companies entitled to auditing of financial reports

On the basis of the agreement concluded on July 8, 2010, KPMG Audyt sp. z o.o. is the company appointed to audit and review the financial statements of Bank Pekao S.A. and the Bank Pekao S.A. Group for 2010 – 2011.

Audit remuneration for services of the Bank Pekao S.A. Group.

(PLN thousand)

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	2010	2009
Fee for the audit of annual financial statements	3,947	4,078
Fee for other attestation services, including review of financial statements	2,555	3,426

The amounts above do not include value added tax (VAT).

Average interest rates in Bank Pekao S.A. in December 2010

The average nominal interest rates for the basic types of PLN and foreign currency deposits for non-financial sector residents:

PLN retail deposits	1.38% p.a.
PLN corporate clients deposits	2.91% p.a.
Total foreign currency deposits in USD	0.04% p.a.
Total foreign currency deposits in EUR	0.11% p.a.

The average nominal interest rates for the PLN loans for non-financial sector residents:

Total retail loans	8.64% p.a.
mortgage	5.55% p.a.
consumption	16.72% p.a.
Other	9.78% p.a.
Corporate loans	5.76% p.a.

Number and value of titles of execution and value of collaterals

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

The type of collateral and its value are carefully analyzed and chosen regarding the particular risk of the secured transaction.

The Bank obeys the rule, according to which the value of collateral should relate directly to the value of secured liability, that is cash provided by the Bank to a client (capital or the amount of off-balance sheet commitments granted by the Bank) together with extraneous amounts due, for example, interest or commissions.

The collateral used by the Bank to hedge against risks related to its lending activities includes: bank guarantees, sureties under the Civil Code, blank promissory notes, endorsement on bills, transfer of debts, mortgages, registered pledges, pledges, assignment as collateral, appropriation of assets in bank accounts, deposits.

For corporate clients, the total value of the collateral for impaired transactions as at December 31, 2010 amounted to PLN 1,334.9 million. In 2010, 311 titles of execution were issued on behalf of the Bank in the total amount of PLN 221.8 million.

For retail clients, the total value of the collateral for impaired transactions as at December 31, 2010 amounted to PLN 469.7 million. In 2010, 50,268 titles of execution were issued on behalf of the Bank in the total amount of PLN 501.5 million.

Pending litigations

In 2010 the number of the legal proceedings pending before courts, arbitration bodies or public administration authorities in respect of the Group's liabilities was 1,679 with the total value amounting to PLN 630.9 million. The number of legal proceedings in respect of receivables was 20,124 with the total value of PLN 1,175.6 million. The value of legal proceedings relating to the liabilities and/or receivables of the Group in 2010 does not exceed 10% of the Bank's equity.

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In the opinion of the Bank none of the pending proceedings before any courts, arbitration bodies or public administration authorities during 2010, nor all the proceedings in aggregate pose any threat to the Bank's financial liquidity.

Transactions with related entities

Transactions with related entities are described in the Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

Information on significant agreements

On December 10, 2010, Bank Pekao S.A. signed the agreement with UniCredit Luxembourg S.A. based in Luxembourg (entity from the UniCredit Group) concerning obtaining the right to get funds in the form of a loan from UniCredit Luxembourg S.A. for current operating purposes in amount up to EUR 500,000, 000 for one year from the date of signing the agreement. The conditions for obtaining funds under the agreement do not differ from the market ones. The interest rate of loan has been established on the basis of EURIBOR rate plus a margin. The agreement does not contain penalty clauses.

On November 9, 2010, Bank Pekao S.A. signed together with a consortium of other banks two agreements with an entity from energy sector based on which a bond issue program to the total amount of PLN 10,000,000,000 was established, i.e. Bond Purchase Commitment Agreement valid till October 31, 2013 and Bond Issue Program Agreement valid for 36 months from signing and maturing not later than November 8, 2013. Under the Program, the Bank will act as the agent, paying sub-agent, sub-depositary and the underwriter, as a result of which, it may purchase bonds in the amount not higher than PLN 2,000,000,000.

Information on the agreement with the Central Bank

Bank Pekao S.A. uses a refinancing loan from the National Bank of Poland for financing a loan contracted for a central state investment, which starting from the beginning of 1999 has been repaid quarterly and the final repayment date of the loan is December 30, 2012. The loan contracted for a central state investment is guaranteed by the State Treasury.

Information on Derivative Financial Instruments and Hedge Accounting

Information on derivative financial instruments and hedge accounting is included in Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

Accounting Principles adopted in the Preparation of the Consolidated Financial Statements

Accounting principles adopted in the preparation of the report are described in the Notes to the Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on December 31, 2010.

Issuance, redemption and repayment of debt securities

Issuance of bonds of Bank Pekao S.A.

Under Resolution No. 6 of the Bank's Extraordinary General Meeting dated July 25, 2003 on the issue of registered bonds under an incentive program, the Bank issued registered A and B series bonds with pre-emptive rights to take up the Bank's F series shares as well as registered C and D series bonds with pre-emptive rights to take up the Bank's G series shares.

All the pre-emptive rights to take up F series shares pursuant to the implementation of the right of priority ensuing from the A and B series bonds and all the pre-emptive rights to take up G series shares pursuant to the implementation of the right of priority ensuing from the C series bonds were exercised.

The pre-emptive rights to take up G series shares can be exercised in respect of D series bonds from January 1, 2009 to December 31, 2012.

The issue price of G series shares amounts to PLN 123.06.

Structured Certificates of Deposits

Structured Certificates of Deposits are investment products for the Bank's clients that form an alternative to traditional banks' deposits. The total value of the Bank's liabilities relating to these products amounted to PLN 737.3 million (principal value) as at the end of December 2010. There are 16 issues of Structured Certificates of Deposits open in PLN, EUR and USD with the maximum maturity date set at May 7, 2013. Those liabilities that mature in 2011, 2012 and 2013 account for 51.7%, 43.1% and 5.2% of its total value, respectively.

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Pekao Leasing Sp. z o.o. bonds

The total value of the company's liabilities under these bonds amounted to PLN 31.6 million as at December 31, 2010 with the maturity date up to 3 months.

Pekao Bank Hipoteczny S.A. mortgage bonds

The total value of liabilities due to mortgage bonds amounted to PLN 604.6 million as at December 31, 2010. The liabilities under mortgage bonds with maturity date up to 1 year account for 33.9%, with maturity date from 1 up to 3 years account for 49.6% and with maturity date over 3 years account for 16.5% of the total nominal value.

9. Prospects for Development

9.1 Factors which will affect the Results of the Group

Bank Pekao S.A. and its subsidiaries operate predominantly on the territory of Poland. Therefore, the Group's performance will be influenced by the economic events in Poland and international developments that have an impact on Poland's economy.

Most probably, 2011 will bring further acceleration of economic growth, to 4.4% (year on year) from 3.8% in 2010. The main growth drivers will be private consumption, investments and, to a smaller extent, rebuilding of stocks.

Consumption is expected to rise on the back of continued improvement of the situation on the labor market – both pay levels and the employment rate accelerated its growth in the second half of 2010 and it may be expected that this tendency will hold in 2011 as well. Another factor contributing to pay rises will be the opening of the German labor market for Poles. In 2011, it is expected that Germany's economy will continue on an upward trend, fuelled not only by exports to Asia, but also, increasingly, by the internal consumption. Given the low unemployment rate and clear demographical problems in Germany, it seems only natural that this market will attract foreign workers. In this situation Polish companies will be forced to increase salaries, which may stimulate consumption. However, it should not be expected that this process will immediately have a significant effect on Poland's economy, but undoubtedly it will be a factor driving up workers pay in the mid-term perspective.

Another factor with a positive bearing on the GDP level in Poland will be an increase in public spending, mainly on investment projects co-financed with European funds and accelerated by the upcoming European Football Championship EURO 2012. This public investment activity is likely to peak in 2011. On the other hand, private sector investment will begin to recover after the crisis, although there have been no announcements of any intended major project launches from the enterprise sector. The most optimistic declarations about investments are coming from big companies and the energy sector, in which investment activity is expected to pick up at the fastest pace in 2011.

GDP growth will be probably accompanied by rising inflation. The inflation rate may exceed the target of 3.5% as early as in the second quarter of 2011, after which it should remain at a similar level until the end of the year.

Faced with the growing inflation, the Monetary Policy Council will increase interest rates. The cycle of rate hikes already started in January 2011 (25 b.p.), and by the end of the year two increases of a similar scale could be expected.

The most important factors for the performance of the banking sector will be:

- The implemented or planned regulatory changes, i.e. the T-Recommendation, which includes a set of best practices for managing the risk related to retail credit exposures and specifies more precise rules for assessing credit rating of retail clients and security monitoring, and the S2-Recommendation, concerning best practices in the area of mortgage secured credit exposures, and addressing, among other issues, rules of granting foreign currency loans, which may reduce the scale of lending in the retail segment,
- Decisions of the Monetary Policy Council, in particular those related to interest rate levels and affecting interest rates on deposits and loans,
- Decisions of other central banks (in particular European Central Bank, Central Bank of Switzerland and the Federal Reserve Bank of the United States of America), which determine the liquidity of the global financial system and interest

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rate levels. Those decisions may affect financial markets behaviour and the cost of debt service (and hence ability to service them) by customers having loans denominated in foreign currencies,

- Global developments, including fiscal problems of some EU countries, which may influence volatility and valuations of particular assets on financial markets.
- Price movements of the shares listed on the Warsaw Stock Exchange and the resultant level of customers' interest in investment funds, which may increase/decrease income from brokerage and investment activities.

9.2 Directions of the Activities and business Priorities

Bank Pekao S.A. plans to concentrate its activities on the Polish market.

The Bank emerged from the crisis in a robust condition, having proven resilience and stability of its business model. The Bank plans to strengthen its position of the best Polish bank in terms of profitability, sustainability of profits, operational efficiency and risk management effectiveness as well as its reputation and client and employee satisfaction.

These goals are going to be accomplished through developing commercial activities in the most crucial business areas, strengthening the multi-channel distribution of products and services, reinforcing the Bank's leading position, raising brand awareness, continuing client and employee satisfaction improvement programs, and further optimising the risk management process to achieve higher commercial efficiency.

The business model and competitive advantages

The Bank will continue commercial activities on the financial services market basing on the client segmentation model.

- The individual clients segment was split into the retail, affluent clients and private banking sub-segments. Each of the sub-segments has a dedicated business model, with a defined service level and an appropriate product offering. For instance, affluent and private banking clients are provided with the services of account managers.
- SME clients are provided with professional products and services offered by account managers dedicated to this customer segment.
- The corporate clients segment was divided into medium-sized and large companies. The segmentation is based on clients' turnover, sector of the economy, type of ownership (public/private, domestic/international, other). Clients are served by Relationship Managers, which makes it possible to optimise the level and cost of service. The Relationship Managers concentrate on providing high quality and efficient service, using best practices and integrated sales management tools.

The Bank offers products and services which are competitive on the Polish market, top service quality, a wide network of branches and ATMs easily available across Poland, a professional call-centre and a competitive Internet banking platform for individual and corporate clients as well as small and medium-sized companies.

The scale of operations, robust capital and liquidity structure, a strong balance sheet with a high capital adequacy ratio and a significant excess of deposits over loans granted, give the Bank an edge to successfully compete on the market.

Business priorities

Given the positive outlook for Poland's economy development, the Bank will be able to concentrate on the growth of business while maintaining high risk management standards.

The priorities in the area of commercial activities will be to continue the sales of mortgage loans in Polish zloty, consumer loans for individual clients, and loans to the SME segment, as well as to increase financing of medium-sized enterprises and infrastructure projects.

The Bank will seek to maintain a strong balance-sheet structure by increasing the volume of deposits. At the same time, the Bank will offer its clients the possibility of investing via mutual funds.

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A number of initiatives have been planned to support business growth in selected segments. They will include intensifying marketing actions as well as the selective development of the distribution network in the regions where the Bank's market penetration is lower.

Individual Clients

The Bank work towards achieving the position of leader on the consumer finance market by adapting its offering efficiently and effectively to meet the clients' needs, and towards becoming the bank of choice in the consumer loans segment, while adhering to the principles of ethics in lending and reasonable risk levels. In the area of consumer loans the Bank will focus on long-term value of Bank Pekao S.A.'s reputation and sustainable margins.

It is also an intention to improve the Bank's position on the market of mortgage loans in Polish zloty. To this end the Bank will leverage its many years' experience gained by specialising in this product. The capital strength and distribution network, supported by cooperation with selected partners, will enable the Bank to further expand the sales volumes.

In the area of savings products the Bank will continue to offer attractive deposit products and mutual funds.

The pursuit of the above objectives will be assisted by seasonal marketing campaigns and promotional offers, active development of direct marketing and CRM activities, intensified local marketing, development of electronic distribution channels, and further streamlining of the lending processes (especially using Internet banking).

Private Banking

The Bank will further develop the products and services portfolio and tools dedicated to the private banking clients. The range of products and services will be tailored to the clients' expectations, which were defined based upon The Portrait of Polish Millionaire research conducted in 2010.

The Bank plans to maintain active contact with the clients by organising investment meetings. Furthermore, certain activities will be initiated to support diversification of investment solutions offered to clients, including investment products and products combining investment with insurance.

The Certified Financial Consultant training program will be continued in order to advance the advisers' qualifications and skills in the scope of comprehensive client service.

Corporate and Business Clients

The Bank is committed to strengthening its leading position in the corporate banking, corporate finance and transactional banking segments. It is also the Bank's goal to achieve the leading position in major infrastructure projects, including in the public sector.

With a view to ensuring top quality of service to corporate and business clients (medium-sized and large corporations, as well as small and micro enterprises), the Bank will continue to develop its offering, maintain its comprehensive nature, and provide modern banking products to meet even the most demanding requirements of the clients. There is an intention to concentrate on offering safe products and innovative solutions, providing expertise and advisory services to the corporate clients, going beyond the scope of the basic banking activities.

There has been set the goal of reinforcing the Bank's position that enjoys the highest recognition among corporate clients in Poland for its expertise and capabilities, customer satisfaction, and creation of value. A particular focus will be placed on strengthening the Bank's position in the medium-sized companies segment and on active search for opportunities on the market of large infrastructure projects.

In line with the Bank's new mission, the activities of the Pekao Group on the financial services market will be guided by a focus on the delivery of value for customers and increasing their satisfaction with services by meeting their needs as closely as possible, continuous improvement of the service quality, and offering customers simple and comprehensible solutions, reliable and effective in helping them attain their financial goals.

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10. Representations of the Bank's Management Board

The Management Board of Bank Pekao S.A. declares to the best of its knowledge that:

- Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on 31 December 2010 and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner the Bank Pekao S.A. Group financial position and their results,
- Report on the activities of the Bank Pekao S.A. Group for the year 2010 provides the true picture of the Bank Pekao S.A. Group development, achievements and situation, including the main threats and risks.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the review of Consolidated Financial Statements of the Bank Pekao S.A. Group for the period ended on 31 December 2010 has been selected in line with the binding legal regulations. The company and the registered auditors performing the review meet the requirements indispensable for issuing an objective and independent report on the annual consolidated financial statement, in line with the binding provisions of the law and professional standards.

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11. Statement of Bank Polska Kasa Opieki Spółka Akcyjna on application of Corporate Governance Standards in 2010

According to the ordinance of Minister of Finance dated 19 February 2009 *on current and periodic information published by issuers of securities and the conditions for recognition as equivalent the information required by the laws of a non-member state*¹, as well as pursuant to Par. 29.5 of the Rules of the Warsaw Stock Exchange (WSE), in conjunction with the WSE Management Board's Resolution No. 1013/2007 on the scope and structure of statements of compliance with corporate governance rules by listed companies, dated December 11, 2007, Bank Polska Kasa Opieki Spółka Akcyjna (the "Bank") states as follows:

Identification of corporate governance standards, that apply to issuer, that issuer apply voluntarily and any other relevant information on corporate governance practices used by issuer beyond the requirements under national law together with information on corporate governance practices used by issuer.²

General corporate governance rules i.e. a system of regulations and procedures defining guidelines for the activities of the Bank's governing bodies, including their relations with entities interested in the Bank's activities (stakeholders) result from laws' regulations, especially from the Commercial Companies Code and the Banking Law, capital market regulations, as well as the rules laid down in Code of Best Practice of Polish Bank Association together with Code of Best Practice for WSE Listed Companies.

The Bank applies corporate governance rules laid down in the Code of Best Banking Practice of Polish Bank Association.³

The Bank applied corporate governance rules laid down in the Code of Best Practice for WSE Listed Companies⁴ set by WSE Supervisory Board's Resolution No. 17/1249/2010 of May 19, 2010.

Furthermore, the Bank applies corporate governance rules resulting from UniCredit Group Integrity Charter⁵ as requirements beyond requirements under national law.

The activities undertaken by the Bank comply with the laws' regulations, Statute, internal Bank's regulations, supervisory and control bodies' recommendations, good practices standards and ethic norms.

Acting in compliance with par. 91.5.4.c–k of above mentioned ordinance of Minister of Finance dated 19 February 2009, the Bank presents following information:

1) The description of Key Features of the Bank's internal control and risk management systems related to the preparation of financial statements and consolidated financial statements⁶

The Bank's Management Board is responsible for designing, implementing and functioning of the internal control system and risk management system with respect to the preparation of financial statements.

The Supervisory Board oversees the functioning of the internal control system by assessing its adequacy and effectiveness through the Audit Committee and the Internal Audit Department.

The internal control system is aimed at ensuring reliable, complete and correct disclosure of all commercial transactions executed over a given period.

¹ Journal of Laws of 2009 no.33 item 259, as amended

² Par. 91.5.4.a of the ordinance of the Minister of Finance of 19 February 2009

³ The document is publicly accessible on the Polish Bank Association web site: http://www.zbp.pl/prawo_bankowe

⁴ The document is publicly available on the WSE webpage: http://www.corp-gov.gpw.pl/lad_corp.asp

⁵ The document is publicly available on the Bank Pekao S.A. webpage: http://www.pekao.com.pl/o_banku/misja/#tab2

⁶ Par. 91.5.4.c of the ordinance of the Minister of Finance of 19 February 2009

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The accounting policies adopted by the Bank, which are compliant with the International Financial Reporting Standards (IFRS), the chart of accounts and reporting databases take into account the format and the extent of detail of the financial data disclosed in the financial statements, in accordance with the requirements and rules applied by the dominant entity. The Bank maintains its accounting books in the form of separate IT resources in its IT systems, in line with the adopted business structure. The IT systems ensure access to intelligible and centralised data, separately for each system, which confirm the accounting records and make it possible to control records continuity and transfer account activity and balances, as well as draw up financial statements.

The accounting books are reconciled against reporting databases.

The responsibility for preparing financial statements and periodic financial reports and for management information rests with the Financial Division supervised by the Vice President of the Bank's Management Board.

UniCredit S.p.A. as the parent company of the Bank is subject to the provisions of the Italian "Saving Act 262" (law 262/2005 and Legislative Decree 303/2006), modelled on the US provisions of the "Sarbanes-Oxley Act." Therefore the Bank is subject to verification of its operational and audit procedures applied in the drawing up of the financial statements, in accordance with UniCredit S.p.A. guidelines arising from the above provisions.

2) Identification of shareholders owning directly or indirectly a significant block of shares together with identification of number of shares owned by those shareholders, percentage of shareholders' share in share capital, number and percentage of votes at the General Meeting resulting from owned shares⁷

Since August 1999, the Bank's principal shareholder has been UniCredit S.p.A. As at December 31, 2010, UniCredit S.p.A. held 59.24% of the Bank's share capital and the same percentage of the total vote at its General Shareholders Meeting. The remaining shareholders' interests amounted to 40.76%. Since none of the remaining shareholders holds more than 5% of the total vote at the Bank's General Shareholders Meeting, they are not required to disclose acquisitions of the Bank's shares.

The shareholders of the Bank owning directly or indirectly through their subsidiaries at least 5% of the total number of voting rights at the General Shareholders Meeting are as follows:

SHAREHOLDER'S NAME	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING	NUMBER OF SHARES AND VOTES AT THE GENERAL MEETING	SHARE IN SHARE CAPITAL AND TOTAL NUMBER OF VOTES AT THE GENERAL MEETING
	DECEMBER 31, 2010		DECEMBER 31, 2009	
UniCredit S.p.A.	155,433,755	59.24%	155,433,755	59.25%
Other shareholders	106,930,571	40.76%	106,896,856	40.75%
Total	262,364,326	100.00%	262,330,611	100.00%

3) Identification of holders of any securities with special control rights with description of those rights⁸

According to the Bank's Statute all the existing shares are ordinary bearer shares. There are no special preferences or limitations connected with the shares, or differences in the rights attached to them. The rights and obligations related to the shares are defined by the provisions of the Polish Commercial Companies Code and other applicable laws.

Securities issued by the Bank do not give their holders any special control rights.

4) Identification of any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with cooperation of a company, rights resulting from securities are separated from the fact of holding those securities⁹

⁷ Par. 91.5.4.d of the ordinance of the Minister of Finance of 19 February 2009

⁸ Par. 91.5.4.e of the ordinance of the Minister of Finance of 19 February 2009

⁹ Par. 91.5.4.f of the ordinance of the Minister of Finance of 19 February 2009

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According to the Bank's Statute there are no restrictions of voting rights.

5) Identification of any restrictions of ownership transfer of securities issued by the Bank¹⁰

According to the Bank's Statute all the existing shares are ordinary bearer shares. There are no restrictions of ownership transfer of shares.

There are no restrictions of ownership transfer of securities issued by the Bank.

6) Description of rules governing appointment and dismissal of members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares¹¹

Management Board

The Management Board is composed of 5 to 9 members. Members of the Management Board are appointed by the Supervisory Board for the common term, which shall last three years. The Management Board comprises the President of the Management Board of the Bank, Deputy Presidents of the Management Board of the Bank and Members of the Management Board of the Bank. Deputy Presidents and Members of the Management Board are appointed and removed on the motion of the President. Appointment of two Members of the Management Board, including its President of the Management Board, is subject to approval by the Financial Supervision Authority. The body which applies to the Financial Supervision Authority for the approval is the Supervisory Board.

At least half of the Members of the Management Board, including its President, should possess a thorough knowledge of the Polish banking market, i.e. they should meet all of the following criteria:

- they have professional experience gained on the Polish market, relevant for the performance of a managerial function at the Bank,
- they are permanently domiciled in Poland,
- they have command of the Polish language.

Each Member of the Bank's Management Board is obliged to act in such a way as to further the Bank's interests. According to the Code of Professional Ethics effective at the Bank, each Member of the Management Board is expected to be honest and loyal in pursuing the common objectives, and to respect the Bank's resources and use them in a prudent manner. Moreover, Members of the Management Board are prohibited from taking any decisions or actions that would lead to conflicts of interests or that would be incompatible with the Bank's interests or their official duties. A Management Board Member is obliged to notify the Supervisory Board of any situation in which a conflict of interests might occur or has occurred. A Management Board Member who becomes aware of any situation where an employee or a representative of a business partner of the Bank demanded any benefits, regardless of their scope and nature, should promptly notify the Supervisory Board of such demand.

Members of the Management Board shall have rights under the generally applicable law. According to the Bank's Statute they have no right to decide whether to issue or purchase shares.

7) Description of rules governing amendment of the Statute of the Bank¹²

Amendment of the Bank's Statute and drafting its consolidated text is adopted by way of resolution of the General Shareholders Meeting. Procedure of the General Shareholders Meeting of the Bank¹³ defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Bank applies Par. 415 of the Code of Commercial Partnerships and Companies, according to which resolutions of the General Shareholders Meetings to amend statute shall be adopted by a three-quarter majority as well as Par. 34.2 of the Banking Act, according to which any amendment of the

¹⁰ Par. 91.5.4.g of the ordinance of the Minister of Finance of 19 February 2009

¹¹ Par. 91.5.4.h of the ordinance of the Minister of Finance of 19 February 2009

¹² Par. 91.5.4.i of the ordinance of the Minister of Finance of 19 February 2009

¹³ Adopted by virtue of the Resolution of the General Shareholders Meeting No. 19 of April 8th 2003

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Statute of the Bank shall require the authorization of the Polish Financial Supervision Authority where such amendment relates to:

- the company name,
- the bank's registered office, objects and scope of activity taking into consideration activities defined in par. 69.2.1-7 of the Act on Trading in Financial Instruments of July 29, 2005 that the Bank intends to perform according to Par. 70.2 of this Act,
- the management bodies and their competences, including particularly the competences of the members of the management board referred to in Par. 22b.1 of the Banking Act, and the decision making principles, the basic organizational structure of the bank, the procedures applicable to making legally binding statements regarding property rights and obligations, the procedures for issuing internal regulations and the procedure for making decisions concerning the undertaking of commitments or disposal of assets whose total value with regard to a single entity exceeds 5% of the bank's own funds,
- the principles of functioning of the internal control system,
- the own funds and financial management principles,
- voting preference or limitation attached to shares at a bank.

8) Functioning of the General Shareholders Meeting and its key powers, as well as description of the rights of shareholders and the manner of exercising these rights, in particular rules resulting from Rules of Procedure for the General Shareholders Meeting, unless these rules result directly from generally applicable law¹⁴

The operation of the Bank's General Shareholders Meeting is governed by the Rules of Procedure for the Bank's General Shareholders Meeting, adopted by way of Resolution No. 19 of April 8, 2003, amended by way of Resolution No. 41 of May 5, 2009 which defines detailed rules of conducting General Shareholders Meetings and adopting resolutions. The Rules of Procedure are available to the public at the Bank's website¹⁵.

Apart from powers and authorities mentioned in the Code of Commercial Companies and the Bank's Statute, the General Shareholders Meeting has the following powers and authority:

- to review and approve the report on the Bank's operations and the Bank's financial statements for the previous financial year,
- to adopt a resolution on profit distribution or coverage of loss,
- to review and approve the report on the activities of the Supervisory Board,
- to grant discharge to members of the Supervisory Board and Management Board in respect of their duties,
- to review and approve the report on the Bank Pekao S.A. Group's operations and the Group's financial statements,
- to set the dividend record date and dividend payment date,
- to dispose of or lease a business or its organised part, and to encumber it with limited property rights,
- to amend the Bank's Statute and to draft its consolidated text,
- to increase or decrease the Bank's share capital,
- to issue convertible bonds, bonds with pre-emptive rights to acquire shares, and subscription warrants,

¹⁴ Par. 91.5.4.j of the ordinance of the Minister of Finance of 19 February 2009

¹⁵ http://www.pekao.com.pl/informacje_dla_inwestorow/walne-zgromadzenia-banku/

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- to retire shares and to define the terms of retirement,
- to decide on the Bank's merger, demerger or liquidation,
- to create and release special accounts,
- to appoint and remove from office members of the Supervisory Board,
- to define the remuneration rules for members of the Supervisory Board,
- to conclude an agreement with a subsidiary which provides for the management of the subsidiary or for the transfer of profit by the subsidiary,
- to appoint an external auditor,
- to decide upon other matters falling within the scope of the Bank's activities, which have been submitted to the General Shareholders Meeting for discussion.

The Bank's General Shareholders Meeting is convened via the Bank's website and in a way determined for passing current information according to rules regarding public offer and conditions, under which the financial instruments are introduced to organized turnover system and to rules regarding public companies. The convocation have to take place at last twenty-six days before General Shareholders Meeting.

When determining the date of the General Shareholders Meeting, the Management Board seeks to enable as many shareholders as possible to participate in the Meeting.

The Bank's Supervisory Board can convene Ordinary General Meeting if the Bank's Management Board does not holds it within time limit set by Statute or by the Code of Commercial Partnerships and Companies and it is necessary to convene General Meeting.

The full documentation which is to be presented to the General Meeting, together with the drafts of resolutions and information concerning General Meeting are made available to persons entitled to participate in the General Meeting on the internet page of the Bank or in paper form which is available in Bank's Head Office, Warsaw, Żwirki i Wigury Street 31. Information in this respect is covered by announcement about convening the General Meeting, in accordance with Art. 402² of Code of Commercial Companies.

Official copies of the Bank's Management Board on the Bank's operations and financial statements as well as copies of the Supervisory Board's report and external auditor's opinion are issued to shareholders upon request no later than 15 days prior to the General Meeting date.

The rights of Bank's shareholders include in particular:

- the right of shareholders holding at least a half of the share capital or at last a half of the votes to convene Extraordinary Meeting of Shareholders. In this case, the shareholders elect the chairman of General Meeting
- the right of shareholders holding at least the twentieth of share capital to demand that specific issues be placed on the agenda of the next General Shareholders Meeting, The demand should include the justification and the project of resolution's project concerning proposed issue and should be submitted to the Management Board no later than 21 days prior to the Meeting date. The Management Board is obliged to announce changes in the Meeting agenda introduced because of shareholder's demand as fast as possible and no later than 18 days prior to the Meeting date. The Announcement takes place according to the way proper for General Meeting convocation,
- the right of shareholders holding at least the twentieth of share capital to submit via electronic communication media projects of resolutions concerning issues introduced to the General Meeting agenda or issues, which are supposed to be introduced to the Meeting agenda before the date of holding the General Meeting. The Bank instantly announces projects of resolutions on the Bank's webpage.
- the right of every shareholder to submit projects of resolutions concerning issues introduced to the Meeting's agenda

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- the right of shareholders to participate in the General Shareholders Meeting personally or by proxy,
- the right of shareholders holding a tenth of the share capital represented at the General Shareholders Meeting to demand that the attendance list of the General Shareholders Meeting be checked by a committee appointed for that purpose and composed of at least three persons, including one person appointed by the parties making the demand,
- the right according to which the General Shareholders Meeting is not allowed to adopt a resolution to remove an item from the agenda or not to consider an issue which was placed on the agenda upon request of shareholders unless the shareholders express their consent to the same,
- the right according to which the General Shareholders Meeting may not be adjourned deliberately to obstruct the exercise of the shareholders' rights,
- the right of each individual participant of the General Shareholders Meeting to nominate one or more candidates for membership on the Bank's Supervisory Board,
- the right of shareholders holding at least a fifth of the share capital to demand block voting on the appointment of the Supervisory Board; a relevant request should be submitted to the Management Board in writing at such time as to enable its placement on the agenda of the General Shareholders Meeting,
- the right to inspect the book of minutes and to receive copies of resolutions authenticated by the Management Board,
- the right according to which the Chairperson of the General Shareholders Meeting is obliged to ensure that the rights of minority shareholders are respected,
- the right of shareholders who raise an objection against a resolution to justify the objection in a concise manner,

All issues submitted to the General Shareholders Meeting have the recommendation of the Supervisory Board. According to Par. 9 of the Bank's Statute, the Management Board is obliged to present the issues submitted to the General Shareholders Meeting for consideration by the Supervisory Board.

The General Shareholders Meetings are attended by members of the Supervisory Board and Management Board. An auditor is present at the Annual General Shareholders Meeting or the Extraordinary General Shareholders Meeting if financial matters of the Bank are to be discussed at the Meeting.

The Bank's Management Board, as a body responsible for providing legal service to the General Shareholders Meeting, exerts every effort to ensure that resolutions are formulated in a clear and unambiguous manner.

The Rules of Procedure for the General Shareholders Meeting contain provisions (Par. 13.10–17) regarding block voting on the appointment of the Supervisory Board.

Any amendments to the Rules of Procedure for the General Shareholders Meeting take effect as of the date of the next General Shareholders Meeting.

In the course of performing their responsibilities, the Bank's governing bodies ensure that the interests of majority shareholders are served in such a way as not to prejudice the interests of the minority shareholders. The above principle finds its practical implementation in the proper composition of the Supervisory Board, which comprises representatives of both majority and minority shareholders. Thus, the interests of all shareholder groups are accounted for in carrying out the supervisory function. The principle of the majority rule is reflected in Par. 10.2 of the Bank's Statute, whereby the General Shareholders Meeting may adopt resolutions if at least 50% of the share capital plus one share is represented at the Meeting. The purpose of this provision is to guarantee that resolutions on matters most important to the Bank and its shareholders are adopted by the General Shareholders Meeting in the presence of shareholders representing jointly an absolute majority of the share capital. However, if a resolution is not adopted for lack of quorum, as defined above, the resolution may be adopted at the next Meeting with the same agenda, in the presence of shareholders representing at least 20% of the share capital.

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The Chairperson of the General Shareholders Meeting is responsible for the orderly conduct of the meeting and ensures that the rights and interests of all shareholders are respected, that any abuse of rights by the participants is prevented, and that the rights of minority shareholders are observed.

Within the scope of their competence and to the extent necessary to resolve issues placed under discussion of the General Shareholders Meeting, members of the Supervisory Board, members of the Management Board and the auditor provide the participants with the required explanations and information concerning the Bank.

Voting on procedural matters may be carried out only on issues related to the conduct of the Meeting. This voting procedure cannot be applied to resolutions which may have impact on the exercise of the shareholders' rights.

Removing an item from the agenda or a decision not to consider an issue placed on the agenda at the request of shareholders requires a resolution of the General Shareholders Meeting, adopted with a three-quarter majority of the votes, following approval by all the present shareholders who submitted such a request.

9) Composition of Bank's managerial, supervisory or administrative bodies and its committees, and its changes that occurred during last financial year as well as rules of procedure¹⁶ **Management Board**

As at January 1, 2010, the Bank's Management Board was composed of the following persons:

Jan Krzysztof Bielecki – President of the Management Board, CEO,
Luigi Lovaglio – First Vice President of the Management Board and General Manager,
Diego Biondo – Vice President of the Management Board,
Marco Iannaccone – Vice President of the Management Board,
Andrzej Kopyrski – Vice President of the Management Board,
Grzegorz Piwowar – Vice President of the Management Board,
Marian Ważyński – Vice President of the Management Board.

Mr. Jan Krzysztof Bielecki resigned from his posts of President of the Management Board, CEO, effective on January 11, 2010,

Mr. Luigi Lovaglio performed duties of President of the Management Board from January 12, 2010 to February 14, 2010.

Effective from February 15, 2010, the Supervisory Board entrusted Mrs. Alicja Kornasiewicz with duties of President of the Bank's Management Board. Mrs. Alicja Kornasiewicz was appointed as Member of the Management Board for current, joint three-year term of office, which ended on April 28, 2010.

Effective from April 29, 2010, the Supervisory Board appointed the Management Board for the three-year joint term of office composed of the following persons:

Alicja Kornasiewicz – President of the Management Board, effective at the moment of obtaining the approval of the Polish Financial Supervision Authority. Until the consent mentioned above is obtained, Mrs. Alicja Kornasiewicz is appointed as Member of the Management Board acting as President of the Management Board,
Luigi Lovaglio – First Vice President of the Management Board and General Manager,
Diego Biondo – Vice President of the Management Board,
Marco Iannaccone – Vice President of the Management Board,

¹⁶ Par. 91.5.4.k of the ordinance of the Minister of Finance of 19 February 2009

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Andrzej Kopyrski – Vice President of the Management Board,
Grzegorz Piwowar – Vice President of the Management Board,
Marian Ważyński – Vice President of the Management Board.

On August 31, 2010, the Polish Financial Supervision Authority gave its approval for appointment of Mrs. Alicja Kornasiewicz for the President of the Management Board.

The composition of the Management Board did not change till December 31, 2010.

The Bank's Management Board acts according to the Rules of procedure adopted by virtue of its Resolution No. 101/VI/03 of June 3, 2003. The Rules of procedure shall in particular define the matters which require joint consideration by the Management Board, as well as the procedure for adopting a resolution in writing. The Rules of Procedure of the Management Board are available at the Bank's website.¹⁷ The members of the Management Board shall coordinate and supervise the activity of the Bank pursuant to the binding division of competence.

According to the Bank's Statute, the Management Board shall conduct the matters of the Bank and represent the Bank. All issues not reserved by virtue of the provisions of the law or of the Statute to fall within the scope of competence of other authorities, shall fall within the scope of competence of the Bank's Management Board. The Management Board of the Bank in the framework limited by the rules of the binding Polish law submits all required information and data to UniCredit S.p.A. as the parent company. The Management Board of the Bank, operating through the statutory bodies of the subsidiaries of the Bank, coordinates and affects their activities aimed at ensuring the stability of the group.

Pursuant to the provisions of the Rules of procedure, the Bank's Management Board prepares the development strategy for the Bank and is responsible for the implementation and execution of that strategy. The Supervisory Board issues its opinions on the Bank's long-term development plans and annual financial plans, prepared by the Management Board. The Management Board ensures that the management system at the Bank is transparent and effective, and runs the Bank's affairs in compliance with applicable laws and Best Practices. The core values underlying the management of the Bank are professionalism, credibility and confidentiality, while customer relations are underpinned by reliability and integrity, as well as compliance with applicable laws, including the provisions governing the prevention of money laundering and financing of terrorism. These values are among the principles incorporated in the Code of Professional Ethics implemented by the Bank.

Pursuing the principle of efficient and prudent management, the Management Board is responsible for initiation and implementation of programs aimed at increasing the Bank's value and rate of return for the shareholders, as well as protection of the employees' long-term interests. In its decisions, the Bank's Management Board makes every effort to ensure, to the maximum extent possible, the promotion of the interests of the shareholders, creditors, employees, as well as other entities and persons cooperating with the Bank in its business activity.

Supervisory Board

As at January 1, 2010, the Bank's Supervisory Board was composed of the following persons:

Jerzy Woźnicki – Chairman of the Supervisory Board,
Paolo Fiorentino – Deputy Chairman and Secretary of the Supervisory Board,
Federico Ghizzoni – Deputy Chairman of the Supervisory Board,
Paweł Dangel – Member of the Supervisory Board,
Oliver Greene – Member of the Supervisory Board,
Alicja Kornasiewicz – Member of the Supervisory Board,
Enrico Pavoni – Member of the Supervisory Board,

¹⁷ http://www.pekao.com.pl/o_banku/wladze_Banku/

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Leszek Pawłowicz – Member of the Supervisory Board,

Krzysztof Pawłowski – Member of the Supervisory Board.

On January 12, 2010, Mrs. Alicja Kornasiewicz, Member of the Supervisory Board, resigned from her posts due to her appointment to the Management Board.

Mr. Paolo Fiorentino, Deputy Chairman and Secretary of the Supervisory Board, resigned from his posts in the Supervisory Board effective from April 26, 2010.

On April 28, 2010, the Bank's General Shareholders Meeting appointed Mr. Sergio Ermotti and Mr. Roberto Nicastro as the Members of the Supervisory Board for the current joint term of Supervisory Board, effective from April 29, 2010.

On June 16, 2010, the Supervisory Board Meeting appointed Mr. Federico Ghizzoni, Deputy Chairman of the Supervisory Board, as the Secretary of the Supervisory Board and Mr. Roberto Nicastro as Deputy Chairman of the Supervisory Board.

As at December 31, 2010, the Bank's Supervisory Board was composed of the following persons:

Jerzy Woźnicki – Chairman of the Supervisory Board,

Federico Ghizzoni – Deputy Chairman and Secretary of the Supervisory Board,

Roberto Nicastro – Deputy Chairman of the Supervisory Board,

Paweł Dangel – Member of the Supervisory Board,

Sergio Ermotti – Member of the Supervisory Board,

Oliver Greene – Member of the Supervisory Board,

Enrico Pavoni – Member of the Supervisory Board,

Leszek Pawłowicz – Member of the Supervisory Board,

Krzysztof Pawłowski – Member of the Supervisory Board.

The Supervisory Board acts on the basis of the Rules of procedure adopted by virtue of its Resolution No. 17/03 of May 22, 2003, amended by way of Resolution No. 20/05 of June 27, 2005. The Rules of procedure of the Supervisory Board are available at the Bank's website¹⁸.

The role of the Supervisory Board is to exercise a general and permanent supervision over the Bank's activities, taking into consideration Bank's function of a parent company regarding subsidiaries of the Bank. The Supervisory Board in particular examines every matter submitted to the General Shareholders Meeting.

The Supervisory Board members always act with due regard to the Bank's interests and take all actions necessary to ensure efficient functioning of the Supervisory Board.

Each year, according to regulations in force, the Supervisory Board prepares and submits to the General Shareholders Meeting an assessment of the Bank's annual statements prepared by the Bank's Management Board and annual statements of the Bank Pekao S.A. Group's activities, assessment of Bank's financial statements and consolidated financial statements of the Bank Pekao S.A. Group, assessment of motion concerning profit's division or losses' coverage, as well as the Supervisory Board activities statements. The assessments prepared by the Supervisory Board are made available to the shareholders before the General Shareholders Meeting.

The Supervisory Board set up dedicated committees which deal with specific areas of the Bank's operations, including the Audit Committee, the Remuneration Committee and the Financial Committee. Reports of the committees set up by the

¹⁸ http://www.pekao.com.pl/o_banku/wladze_Banku/#tab2

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Supervisory Board are stored at the Bank's Head Office and made available by the President's Office to the shareholders at the request. Annual reports of committees are annexed to and published with the Supervisory Board statement.

Audit Committee

As at January 1, 2010, the Audit Committee was composed of the following persons:

Oliver Greene – President of the Committee,
Paolo Fiorentino – Member of the Committee (till April 26, 2010),
Federico Ghizzoni - Member of the Committee,
Leszek Pawłowicz - Member of the Committee,
Jerzy Woźnicki - Member of the Committee.

Since June 16, 2010, the Audit Committee had been composed of the following persons:

Oliver Greene – President of the Committee,
Federico Ghizzoni – Member of the Committee,
Roberto Nicastro - Member of the Committee,
Leszek Pawłowicz - Member of the Committee,
Jerzy Woźnicki - Member of the Committee.

The composition of the Audit Committee did not change till December 31, 2010.

The scope of the Audit Committee's remit has been determined by the Supervisory Board's Resolution No. 42/07 of October 2, 2007.

The Audit Committee supports the Supervisory Board in the performance of its duties, therein related to the adequacy and effectiveness of the Bank's internal control mechanisms, including identification, measurement and management of risk, compliance with applicable laws and procedures governing the Bank's operations, correct application of accounting rules in the process of drawing up financial statements, and ensuring independence of external auditors and the resources of the Internal Audit Department.

The Audit Committee is composed of five persons selected from among the members of the Supervisory Board, and includes at least three independent members. The Chairman of the Audit Committee is an independent member of the Supervisory Board.

Meetings of the Audit Committee are held as need arises, but not less frequently than four times a year, and dates of these meetings coincide with key dates in the Bank's quarterly reporting cycle and the review of the annual audit plan presented by the Director of the Internal Audit Department.

Remuneration Committee

As at January 1, 2010, the Remuneration Committee was composed of the following persons:

Paolo Fiorentino – till April 26, 2010.
Federico Ghizzoni
Enrico Pavoni
Jerzy Woźnicki

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Since June 16, 2010, the Remuneration Committee had been composed of the following persons:

Sergio Ermotti
Federico Ghizzoni
Enrico Pavoni
Jerzy Woźnicki

The composition of the Remuneration Committee had not changed until December 31, 2010.

The Remuneration Committee operates on the basis of the Supervisory Board's resolution. The Remuneration Committee makes recommendations to the Supervisory Board regarding: the amount of remuneration to be paid to members of the Management Board, the remuneration policy for the Bank's managerial staff, submission of recommendations to the General Shareholders Meeting regarding the amount of remuneration to be paid to members of the Supervisory Board.

Financial Committee

As at January 1, 2010, the Financial Committee was composed of the following persons:

Federico Ghizzoni
Alicja Kornasiewicz – till January 12, 2010.
Enrico Pavoni

Since June 16, 2010, the Financial Committee had been composed of the following persons:

Federico Ghizzoni
Enrico Pavoni
Sergio Ermotti

The composition of the Financial Committee had not changed until December 31, 2010.

The Financial Committee operates on the basis of the Supervisory Board's resolution. Its role is to exercise supervision over the implementation of the Bank's financial objectives. Members of the Committee have the right to use services of advisors.

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Signatures of all Members of the Bank's Management Board

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