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

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Unconsolidated income statement

(In PLN thousand)

	NOTE	2010	2009
Interest income	7	6 118 093	6 223 962
Interest expense	7	(2 340 399)	(2 831 223)
Net interest income		3 777 694	3 392 739
Fee and commission income	8	2 516 677	2 454 980
Fee and commission expense	8	(403 928)	(399 044)
Net fee and commission income		2 112 749	2 055 936
Dividend income	9	255 419	417 171
Result on financial assets and liabilities held for trading	10	537 410	702 001
Result on fair value hedge accounting	26	6 801	13 945
Gains (losses) on other financial instruments at fair value through profit or loss	11	13 952	54 558
Gains (losses) on disposal of:	12	125 868	100 132
loans and other financial receivables		5 664	2 584
available for sale financial assets and held to maturity investments		121 272	97 466
financial liabilities		(1 068)	82
Operating income		6 829 893	6 736 482
Net impairment losses on financial assets and off-balance sheet commitments	15	(449 878)	(406 454)
loans and other financial receivables		(457 235)	(412 443)
available for sale financial assets and held to maturity investments		-	126
off-balance sheet commitments		7 357	5 863
Net result on financial activity		6 380 015	6 330 028
Administrative expenses	13	(2 987 044)	(2 963 166)
personnel expenses		(1 731 073)	(1 664 606)
other administrative expenses		(1 255 971)	(1 298 560)
Depreciation and amortization		(358 448)	(403 597)
Net result on other provisions		(27 689)	450
Net other operating income and expenses	14	64 376	67 892
Operating costs		(3 308 805)	(3 298 421)
Gains (losses) on associates and subsidiaries	16	7 629	(105 000)
Gains (losses) on disposal of property, plant and equipment, and intangible assets		(492)	53 963
Profit before income tax		3 078 347	2 980 570
Income tax expense	17	(526 325)	(518 307)
Net profit for the period		2 552 022	2 462 263
Earnings per share (in PLN per share)	18		
basic for the period		9.73	9.39
diluted for the period		9.72	9.39

For presentation of unconsolidated income statement information consistent with the quarterly format please refer to Report on Activities 7.3.1 of Bank Pekao S.A. for 2010.

Unconsolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2010	2009
Net profit		2 552 022	2 462 263
Other comprehensive income			
Foreign currency translation differences		(81)	(123)
Change in fair value of available-for-sale financial assets		16 026	50 291
Change in fair value of cash flow hedges		67 569	(150 781)
Income tax expenses on other comprehensive income	17	(15 741)	17 781
Other comprehensive income (net)		67 773	(82 832)
Total comprehensive income		2 619 795	2 379 431

Unconsolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2010	31.12.2009
ASSETS			
Cash and due from Central Bank	20	5 968 748	9 587 211
Debt securities eligible for rediscounting at Central Bank		224	158
Loans and advances to banks	21	6 609 869	9 138 563
Financial assets held for trading	22	965 641	3 685 551
Derivative financial instruments (held for trading)	23	1 614 154	2 431 471
Other financial instruments at fair value through profit or loss	24	16 735	2 394 040
Loans and advances to customers	25	77 059 221	73 042 722
Hedging instruments	26	258 688	87 543
Investment securities	27	30 429 860	21 293 507
1. Available for sale		25 920 038	17 526 224
2. Held to maturity		4 509 822	3 767 283
Assets held for sale	29	2 456 104	38 580
Investments in subsidiaries	30	793 268	1 426 442
Investments in associates	31	39 345	39 345
Intangible assets	32	671 352	678 462
Property, plant and equipment	33	1 778 425	1 745 821
Investment properties	34	57 874	54 967
Income tax assets	17	505 429	557 768
1. Current tax receivable		-	219 798
2. Deferred tax assets		505 429	337 970
Other assets	35	900 192	715 869
TOTAL ASSETS		130 125 129	126 918 020
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	37	727 979	1 100 176
Amounts due to other banks	38	5 392 159	5 462 055
Financial liabilities held for trading	22	114 228	981 354
Derivative financial instruments (held for trading)	23	1 592 859	1 594 037
Amounts due to customers	39	99 328 808	96 701 298
Hedging instruments	26	710 566	150 452
Fair value hedge adjustments of hedged items due to interest rate risk	26	(40 127)	-
Debt securities issued	40	737 800	1 297 785
Income tax liabilities	17	23 305	-
1. Current income tax payable		23 305	-
2. Deferred tax liabilities		-	-
Provisions	41	331 864	281 369
Other liabilities	42	1 371 949	1 381 925
TOTAL LIABILITIES		110 291 390	108 950 451
Equity			
Share capital	46	262 364	262 331
Other capital and reserves	47	17 019 353	15 242 975
Retained earnings and profit for the period	47	2 552 022	2 462 263
TOTAL EQUITY		19 833 739	17 967 569
TOTAL EQUITY AND LIABILITIES		130 125 129	126 918 020

Unconsolidated statement of changes in equity

(In PLN thousand)

	OTHER CAPITAL AND RESERVES								RETAINED EARNINGS AND CURRENT YEAR PROFIT	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES	OTHER		
Equity as at 1.01.2010	262 331	15 242 975	9 120 232	1 337 850	4 590 737	(46 588)	3 046	237 698	2 462 263	17 967 569
Management options	33	7 438	4 112	-	-	-	-	3 326	-	7 471
Options exercised (share issue)	33	4 112	4 112	-	-	-	-	-	-	4 145
Revaluation of management share options	-	3 326	-	-	-	-	-	3 326	-	3 326
Valuation of financial instrument	-	67 854	-	-	-	67 854	-	-	-	67 854
Revaluation of available-for-sale investments net of tax	-	13 123	-	-	-	13 123	-	-	-	13 123
Revaluation of hedging financial instruments net of tax	-	54 731	-	-	-	54 731	-	-	-	54 731
Appropriation of retained earnings and current year profit	-	1 701 167	-	100 000	1 601 167	-	-	-	89 759	1 790 926
Dividend paid	-	-	-	-	-	-	-	-	(761 096)	(761 096)
Profit appropriation	-	1 701 167	-	100 000	1 601 167	-	-	-	(1 701 167)	-
Net profit for the period	-	-	-	-	-	-	-	-	2 552 022	2 552 022
Other	-	(81)	-	-	-	-	(81)	-	-	(81)
Foreign currency translation differences	-	(81)	-	-	-	-	(81)	-	-	(81)
Equity as at 31.12.2010	262 364	17 019 353	9 124 344	1 437 850	6 191 904	21 266	2 965	241 024	2 552 022	19 833 739

Unconsolidated statement of changes in equity (cont.)

(In PLN thousand)

	OTHER CAPITAL AND RESERVES								TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES	OTHER	
Equity as at 1.01.2009	262 213	11 963 276	9 105 832	1 237 850	1 344 892	36 121	3 169	235 412	15 571 334
Management options	118	16 686	14 400	-	-	-	-	2 286	16 804
Options exercised (share issue)	118	14 400	14 400	-	-	-	-	-	14 518
Revaluation of management share options	-	2 286	-	-	-	-	-	2 286	2 286
Valuation of financial instrument	-	(82 709)	-	-	-	(82 709)	-	-	(82 709)
Revaluation of available-for-sale investments net of tax	-	39 424	-	-	-	39 424	-	-	39 424
Revaluation of hedging financial instruments net of tax	-	(122 133)	-	-	-	(122 133)	-	-	(122 133)
Appropriation of retained earnings and current year profit	-	3 345 845	-	100 000	3 245 845	-	-	-	2 462 263
Dividend paid	-	-	-	-	-	-	-	-	-
Profit appropriation	-	3 345 845	-	100 000	3 245 845	-	-	-	-
Net profit for the period	-	-	-	-	-	-	-	-	2 462 263
Other	-	(123)	-	-	-	-	(123)	-	(123)
Foreign currency translation differences	-	(123)	-	-	-	-	(123)	-	(123)
Equity as at 31.12.2009	262 331	15 242 975	9 120 232	1 337 850	4 590 737	(46 588)	3 046	237 698	17 967 569

Unconsolidated cash flow statement

(In PLN thousand)

	2010	2009
Cash flow from operating activities – indirect method		
Net profit for the period	2 552 022	2 462 263
Adjustments:	3 630 933	6 080 288
Depreciation expense	358 448	403 597
(Gains) losses on foreign exchange differences	(83 160)	217 449
(Gains) losses on investing activities	(120 781)	(151 429)
Financial assets impairment	-	105 000
Interest and dividend	(1 338 016)	(1 315 154)
Change in loans and advances to banks	3 091 917	4 460 533
Change in financial assets held for trading and other financial instruments at fair value through profit or loss	5 097 215	1 361 059
Change in derivative financial instruments (assets)	817 318	2 058 281
Change in loans and advances to customers and debt securities eligible for rediscounting at Central Bank	(4 016 565)	2 063 106
Change in investment securities available for sale	(51 675)	(30 662)
Change in tax assets	36 598	(253 288)
Change in other assets	(2 305 180)	424 714
Change in amounts due to banks	(442 093)	(6 346 703)
Change in liabilities held for trading	(867 126)	575 375
Change in derivative financial instruments (liabilities) and other financial instruments at fair value	(1 178)	(3 556 347)
Change in amounts due to customers	2 627 510	6 243 224
Change in debt securities issued	-	(8 557)
Change in provisions	75 355	(16 808)
Change in other liabilities	499 989	298 979
Income tax paid (negative sign)	(457 168)	(1 003 878)
Current tax expense	709 525	551 797
Net cash flows from operating activities	6 182 955	8 542 551
Cash flow from investing activities		
Investing activity inflows	380 389 908	185 562 185
Sale of investment securities	379 499 982	184 522 082
Sale of intangible assets and property, plant and equipment	1 430	1 486
Other investing inflows	888 496	1 038 617
Investing activity outflows	(388 284 570)	(190 630 782)
Acquisition of investments in subsidiaries and associates	(133)	(7 500)
Acquisition of investment securities	(387 913 028)	(190 327 921)
Acquisition of intangible assets and property, plant and equipment	(371 409)	(295 361)
Net cash flows from investing activities	(7 894 662)	(5 068 597)

Unconsolidated cash flow statement (cont.)

(In PLN thousand)

	2010	2009
Cash flows from financing activities		
Financing activity inflows	82 546	495 680
Issue of debt securities	78 401	481 162
Issue of shares	4 145	14 518
Financing activity outflows	(1 426 078)	(902 239)
Redemption of debt securities	(664 982)	(902 239)
Dividends and other payments to shareholders	(761 096)	-
Net cash flows from financing activities	(1 343 532)	(406 559)
Total net cash flows	(3 055 239)	3 067 395
Net change in cash and cash equivalents	(3 055 239)	3 067 395
Cash and cash equivalents at the beginning of the period	14 577 917	11 510 522
Cash and cash equivalents at the end of the period	11 522 678	14 577 917

Notes to financial statements

(In PLN thousand)

1. General information

Bank Polska Kasa Opieki Spółka Akcyjna (hereafter referred to as 'Bank Pekao S.A.' or 'the Bank'), with Head Office in Warsaw, at 53/57 Grzybowska Street, 00-950 Warsaw. Bank Pekao operates as a public listed company in compliance with binding law regulations, especially Banking Law Act, Commercial Code and Bank's Articles of Association.

The Bank was incorporated on 29 October 1929 in the Commercial Register of the District Court in Warsaw and has been continuously in operation since its incorporation.

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

The Bank's statistical REGON number is 000010205.

The entity has been established for an indefinite period of time.

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

The Bank's shares are quoted on the Warsaw Stock Exchange. Bank's securities, traded on regulated markets, are classified in the banking sector.

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

2. Approval of the Financial Statements

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

3. Significant accounting policies

3.1 Statement of compliance

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

Notes to financial statements (cont.)

(In PLN thousand)

3.2 Basis of preparation of Unconsolidated Financial Statements

General information

The financial statements of Bank Pekao S.A. have been prepared for the period from 1 January 2010 to 31 December 2010. Comparable data have been presented for the period of 1 January 2009 to 31 December 2009. The financial statements of the Bank have been prepared in Polish zloty, and all amounts are presented in PLN thousand, unless indicated otherwise.

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

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

During the period covered by The Financial Statements the Bank did not introduce significant changes in the accounting policy concerning valuation of assets and liabilities and profit measurement in comparison with previous period. According to changes in IFRS 2 'Share-based Payment', the presentation concerning motivational program of UniCredit Group was changed in the scope of share-based payment.

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

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

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

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

IFRS 9 concerning financial assets and published in November 2009 and in October 2010 in the scope of financial liabilities, will become effective for fiscal years starting on 1 January 2013 or following that date. This standard replaces IAS 39 'Financial Instruments – Recognition and Valuation'. The main changes, introduced by the new standard, are as follows:

- elimination of the category of available for sale financial assets and held to maturity,
- introduction of two categories of financial assets: subject to measured at amortized cost and measured at fair value,
- new criteria for classification of financial assets, measured at amortized cost,
- new principles for recognition of revaluation at fair value of investments into equity financial instruments,
- elimination of the necessity to separate embedded derivatives.

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

Unconsolidated Financial Statements of the Bank have been prepared based on the following valuation methods:

- at fair value for: derivatives, financial assets and liabilities held for trading, financial assets recognized initially at fair value through profit or loss and available-for-sale financial assets, except for those for which the fair value cannot be reliably measured,
- at amortized cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for non-financial assets and liabilities,
- non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount or the fair value less costs to sell.

The Bank also prepares the Consolidated Financial Statements of Bank Pekao S.A. Capital Group.

Notes to financial statements (cont.)

(In PLN thousand)

3.3 Accounting estimates

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

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

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

- **Impairment of financial assets**
The assumptions regarding the measurement of impairment of loans and advances are described in Note 3.6 in the section titled 'Impairment of financial assets'.

- **Impairment of non-current assets**
At each balance sheet date the Bank reviews its assets for indications of impairment. Where such indications exist, the Bank makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is identified and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If there are indications of impairment of corporate assets, which do not generate cash flows independently from other asset or group of assets, and the recoverable value of the individual asset included among the group of assets cannot be determined, the Bank establishes the recoverable value at the level of a cash generating unit to which the given asset belongs.

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

- **Measurement of derivatives and unquoted debt securities available for sale**
The fair value of derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Bank also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments.
- **Measurement of management share options**
Assumptions made regarding measurement of management share options are described in Note 43 'Employment Benefits'.
- **Calculation of provision for retirement and pension severance payments**
The provision for severance payments is determined case-by-case, for each employee separately, in accordance with the projected individual eligibility forecast method.

The basis for the calculation of a provision for an employee is the expected amount of retirement or pension severance payment, depending upon:

- the base amount of retirement or pension severance payment and the percentage rate dependent upon the duration of employment according to the rules of Corporate Collective Labour Agreement,
- expected increase in the payment base until the retirement age.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

3.4 Foreign currencies

- **Functional and presentation currency**
The financial statements of the Bank, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates.

The Unconsolidated Financial Statements are presented in Polish zlotys. Polish zloty is the functional currency and the presentation currency of the Bank.

The Bank applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.

- **Transactions and balances**
Foreign currency transactions are calculated into the functional currency using the spot exchange rate from the date of the transaction. Gains and losses from foreign currency translation differences resulting from settlements of such transactions and from the statement of financial position valuation of monetary assets and liabilities expressed in foreign currencies are recognized in the income statement.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

- Bank's Branch in Paris

The assets and liabilities of the entity are translated into the Polish currency i.e. to the presentation currency as per the closing exchange rate for the balance sheet date. Revenues and expenses in the income statement are recalculated as per average exchange rates calculated on the basis of the exchange rates of the reporting period except for situations where exchange rates fluctuate significantly such that the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such situations revenue and expenses are translated on the basis of the exchange rate from the date of transaction. Financial statements of the Bank's Branch in Paris are translated into Polish zloty using the following exchange rates:

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

	31.12.2010	31.12.2009
PLN 1 for EUR 1	3.9603	4.1082

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

	2010	2009
PLN 1 for EUR 1	4.0044	4.3406

The foreign exchange rate differences from the valuation of Bank's branch net profit at the average weighted exchange rate announced by the NBP are presented in the 'Revaluation reserves' position.

3.5 Income statement

Interest income and expenses

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Fee and commission income and expense

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

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

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

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

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

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

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

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

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

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

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

Other operating income/expense

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

Notes to financial statements (cont.)

(In PLN thousand)

3.6 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

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

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

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

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

Financial assets classified into this category are measured at amortized cost using the effective interest rate method. The recognition of amortized cost with the use of effective interest rate is recognized in interest income.

- Loans and receivables
Loans and receivables are non-derivative financial assets, with fixed or determinable payments, not quoted on active markets, other than:
a) those that the entity intends to sell immediately or in the near term which are classified as held for trading and those that the entity designates as at fair value through profit or loss upon initial recognition;
b) those that the Bank designates upon the initial recognition as available for sale; or
c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

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

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

Available for sale financial assets are measured at fair value, whereas gains and losses resulting from changes in fair value against amortized cost are recognized in the revaluation reserves. Amounts in the revaluation reserves are recognized in the income statement either on the sale of an asset, or its impairment. In case of impairment of an asset, previous increases from revaluation to fair value will decrease the 'Revaluation reserves'. Should the amount of previously recognized increases be insufficient to cover the impairment, the difference will be recorded in the income statement as 'Net impairment losses on financial assets and off-balance sheet commitments'.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

Derivative instruments are recognized and derecognized on transaction dates.

Reclassification of financial assets

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

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

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

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

Impairment of financial assets

Assets valued at amortized cost- loans and receivables

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

For the portfolio of performing loans with no impairment triggers identified, the Bank records a provision for losses incurred but not reported (IBNR). The IBNR impairment allowance reflects the loan impairment amount incurred as a result of impairment events that have already occurred, which the Bank has not yet specifically identified at the balance-sheet date. This impairment allowance is determined using the historical pattern of losses on assets with similar risk features. The IBNR impairment allowance is calculated using statistical models for loan groups combined in homogeneous portfolios developed using historic observations data. The IBNR calculation takes into account the default emergence period concept for each type of homogeneous loan portfolio.

Financial assets available for sale

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

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

Off-balance sheet liabilities

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

Notes to financial statements (cont.)

(In PLN thousand)

Repo and reverse-repo agreements

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

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

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

Derivative financial instruments and hedge accounting

The Bank acquires the derivative financial instruments: currency transactions (spot, forward, currency swap and currency options, CIRS), exchange rate transactions (FRA, IRS, CAP), derivative transactions based on security prices and stocks indices. Derivative financial instruments are initially recorded at fair value as at the transaction date and subsequently re-measured at fair value at each balance sheet date. The fair value is established on the basis of market quotations for an instrument traded in an active market, as well as on the basis of valuation techniques, including models using discounted cash flows and options valuation models, depending on which valuation method is appropriate. Positive valuation of derivative financial instruments is presented in the caption 'Derivative financial instruments' as an asset, and as a liability side if the change in the fair value is negative. For financial instruments with an embedded derivative component, if the whole or part of the cash flows related to such a financial instrument changes in a way similar to what would be the case with the embedded derivative instrument on its own, then the embedded derivative instrument is reported separately from the basic contract. This occurs under the following conditions:

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

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

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

The changes in fair value of the derivative financial instruments held for trading are recognized in the income statement.

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

Fair value hedge accounting principles

Changes in the measurement to fair value of financial instruments indicated as hedged positions are recognized: - in the part ensuing from hedged risk - in the income statement, in the remaining part, changes in the carrying amount are recognized in accordance with the principles applicable for the given class of financial instruments.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

Cash flow hedge accounting principles

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

3.7 Valuation of other items in the Bank's unconsolidated statement of financial position

Investments in subsidiaries, entities under common control and associates

Subsidiaries

Subsidiaries are entities controlled - directly and indirectly by the Bank. Control is the power to govern the entity's financial and operating policies in order to obtain economic benefits. Control is typically demonstrated by holding the majority of voting rights at the governing body of the entity.

Associates

Associates are entities, over which the Bank has a significant influence and which are neither subsidiaries, nor joint ventures. The Bank usually holds from 20% to 50% of voting rights at the governing body of the entity.

Entities under common control

The division of the control in the entities under common control is based on the agreement, defining that the strategic decisions concerning entity's activities require unanimous partners' agreement.

Recognition and measurement

In the Bank's Financial Statements, the investments in subsidiaries, associates and entities under common control are measured at purchase price. The carrying amount of the investment is tested for impairment according to IAS 36 'Impairment of assets'. The impairment is recognized in the income statement under 'Gains (losses) from subordinated entities'. Dividends constituting an income from the investments are recognized in the income statement at the payment date.

Moreover, the capital investments in the entity operating abroad are non-financial assets. Non-financial assets are valued at historical cost in foreign currency, are translated into PLN using the exchange rate at the transaction date. Investments in foreign entity, acquired before the date of adoption of IFRS, are recognized at the carrying amount as at that date.

Recognition of common control transactions at book value

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

The adopted accounting principles are as follows:

The acquirer recognizes the assets and liabilities of the target entity at their existing book value adjusted only as a result of aligning the combining enterprises' accounting policies. Neither goodwill, nor negative goodwill is recognized. The difference between the book value of acquired net assets and the fair value of the amount paid is recognized in the Bank's equity. In applying the book value method of accounting, the data concerning the comparative periods is not restated.

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

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

Intangible assets

Goodwill

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

Notes to financial statements (cont.)

(In PLN thousand)

Other intangible assets

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

These mainly include:

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Depreciation and amortization

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

Notes to financial statements (cont.)

(In PLN thousand)

The statement of financial position depreciation rates applied to property, plant and equipment, investment properties and intangible assets are as follows:

a) depreciation rates applied for non-current assets:

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

b) amortization rates for intangible assets:

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

c) depreciation rates for investment properties:

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

Depreciation and impairment deductions are charged to the income statement in the item 'Depreciation and amortization'.

Investment properties

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

Investment property assets are derecognized from the statement of financial position when disposed of, or when such investment property is permanently decommissioned and no future benefits are expected from its sale. Any gains or losses resulting from de-recognition of an investment property are recognized in the income statement in the period when such de-recognition occurred.

Non-current assets held for sale

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

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

Leases

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Operating leases

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

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

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

Finance leases

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

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

Provisions

Provisions are recorded when the Bank has an obligation (legal or constructive) resulting from the past events and where it is probable that the settlement of such obligation will result in an outflow of economic benefits from the Bank and it is possible to reliably estimate the amount of such liability.

If the time value of money is significant, the amount of provisions is established by discounting forecasted future cash flows to the present value, using a discount rate corresponding to current market estimates of money-over-time and the possible risk associated with such obligation.

Provisions also include provisions relating to long-term employee benefits, subject to actuarial valuation. All provisions are charged to the income statements.

Employee benefits provisions

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

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

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

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

Deferred income and accrued expenses (liabilities)

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

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

Deferred income and accrued expenses are presented in the statement of financial position under the caption 'Other liabilities'.

Notes to financial statements (cont.)

(In PLN thousand)

Bank's equity

Equity is comprised of the capital and funds created by the companies of the Bank in accordance with the binding legal regulations and the appropriate laws and Articles of Association. Equity also includes retained earnings and net profit for the period.

Bank's equity comprises of the following:

- a) share capital – can be increased through the issue of new shares or through an increase of the nominal value of already issued shares. At the General Shareholder's Meeting the share capital can be increased by means of reserve capital or other capital, if it is in accordance with the Bank's Articles of Association and Corporate Code,
- b) reserve capital – created out of the annual net profit write-offs to be called in the event of loss, which may occur due to Bank's operations. Annual write-off should amount to at least 8% of net profit and should be made until the reserve capital reaches 1/3 of share capital value. Share premium formed from agio obtained from the issue of share, reduced by the attributable direct costs incurred with that issue is also a part of reserve capital,
- c) revaluation reserve arises from the revaluation of financial instruments classified as available for sale, cash flow hedge derivatives, exchange rate differences resulting from foreign branch net profit recalculation at average weighted exchange rate as at the balance sheet date in relation to average NBP exchange rate and the value of deferred tax for items classified as temporary differences recognized as revaluation reserve. In the statement of financial position revaluation reserve is recognized in net value,
- d) other reserve capital utilized for the purposes defined in the Articles of Association is created from appropriations of profits,
- e) capital component - bonds convertible to shares - includes the fair value of financial instruments issued as part of transactions settled in equity instruments,
- f) general banking risk fund in Bank Pekao S.A. is created in accordance with the Banking Act dated 29 August 1997 with subsequent amendments, from profit after tax,
- g) retained earnings from prior periods is created from undistributed result from previous years,
- h) Net profit/loss, which constitutes of profit/loss for the period. Net profit is after taxation.

Share-based payment

Employee participation programs are established by the Bank under which key management staff is granted pre-emptive rights to buy shares of the Bank and shares of UniCredit S.p.A. (see Note 43).

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

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as at the grant date. The fair value is assessed on the basis of the Black-Scholes model for appraisal of dividend-yielding stock options according to expectations of the Management Board concerning the number of rights to be exercised. No efficiency/results data except those related to the price of shares ('market conditions') are taken into account in the assessment of transactions settled in equity instruments.

The cost of share-based payments is recognized together with the accompanying increase in the value of equity in the period in which effectiveness/performance conditions were fulfilled ending on the date when certain employees acquire full rights to the benefits ('vesting date'). The accumulated cost recognized for transactions settled in equity instruments for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares the rights to which – in the opinion of the Bank's Management Board for that date based on best available estimates of the number of equity instruments – will be eventually vested. In the event of modifications of conditions for granting remuneration settled in equities as a part of fulfillment of the minimum requirements costs are recognized as if such conditions have not changed. Also, costs are recognized resulting from each increase in the value of the transaction resulting from modifications measured from the date of change.

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

The diluting effect of options issued is taken into account in the calculation of earnings per share as additional dilution of shares (see Note 18).

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

3.8 Income tax

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

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

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

A deferred tax liability is calculated using the balance sheet method based on identification of positive temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

3.9 Other

Contingent liabilities and commitments

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

- a potential obligation the existence of which will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond the control of the Bank (e.g. litigations),
- a current obligation which arises as a result of past events but is not recognized in the statement of financial position as it is improbable that it will result in an outflow of benefits to settle the obligation or the amount of the obligation cannot be reliably measured (mainly: unused credit lines and guarantees and letters of credit issued).

Cash and cash equivalents

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

Segment reporting

Information concerning segment reporting of the Group are presented in Consolidated Financial Statement of the Bank Pekao S.A. Group for the year ended on 31 December 2010.

Notes to financial statements (cont.)

(In PLN thousand)

4. Purposes and rules of financial risk management

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

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

4.1 Organizational structure of risk management

Supervisory Board

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

Management Board

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

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

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

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

Assets, Liabilities and Risk Management Committee (ALCO)

The Committee is responsible for reviewing and controlling the risk management function. In particular, the tasks of ALCO include:

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

Risk Management Division

The Division is responsible for:

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

Notes to financial statements (cont.)

(In PLN thousand)

4.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Bank. The percentage share of credits and loans in the Bank's statement of financial position makes the maintenance of this risk at safe level essential to the Bank's performance. The process of credit risk management is centralized and managed mainly by Risk Management Division units, situated at the Bank Head Office or in local units. The integration of various risks in the Risk Management Division, where apart from credit risk, market and operational risk are dealt with, facilitates effective management of all credit-related risks. This process covers all credit functions – credit analysis, disbursement, monitoring and loan administration, as well as restructuring and collection. Each of the functions referred to above is implemented in compliance with the Bank's credit policy, adopted by the Bank's Management Board and the Bank's Supervisory Board for given year and its related guidelines. The effectiveness and efficiency of credit functions are achieved using diverse credit methods and methodologies, supported by advanced IT tools, integrated into the Bank's general IT system. The Bank's procedures facilitate credit risk mitigation. In particular those related to transaction risk evaluation, establishing collateral, setting authorization limits for granting loans and limiting of exposure to some areas of business activity in line with current client's segmentation scheme in the Bank.

The Bank's lending activity is limited by the restrictions of the Banking Law as well as internal limits in order to increase safety. These refer in particular to concentration limits for specific sectors of the economy, share of large exposures in the loan portfolio of the Bank and exposure limits for particular foreign countries, banks and domestic financial institutions. Credit granting limits include not only credits, loans and guarantees, but also derivatives transactions and debt securities.

The Bank established the following portfolio limits:

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

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

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

Rating models utilized in the credit risk management process

For credit risk management purposes, the Bank uses the internal rating models depending on the client's segment and/ or exposure type.

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

Credit risk reports are generated on a monthly basis, with their scope varying depending upon the recipient of the report (the higher the management level, the more aggregated the information presented). Hence, the reports are being effectively used in the credit risk management process.

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

1. For the retail clients, the Bank has developed three separate models applicable for:
 - mortgage loans,
 - consumer loans,
 - non-installment loans (limits, credit cards, etc.).
2. For the SME clients, the Bank uses models selected depending on the scope of information available. The models for SME are dedicated for:
 - full accounting records SME,
 - simplified accounting records SME,
 - private entrepreneurs.
3. The Bank divides clients belonging to corporate segment into the following groups:
 - clients with income not exceeding PLN 30 million,
 - clients with income exceeding PLN 30 million.

Client/transaction rating and credit risk decision-making level

Decision-making level connected with transaction approval is directly dependent upon client's rating .

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

- the Bank's total exposure to a client, including the amount of the requested transaction,
- type of a client,
- commitments of persons and entities associated with the client.

Validation of rating models

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Exposure to credit risk

The maximum credit risk exposure

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

	31.12.2010	31.12.2009
Cash and due from Central Bank	3 495 420	7 353 018
Loans and advances from banks and from customers	83 669 314	82 181 443
Financial assets held for trading	965 641	3 685 551
Derivative financial instruments (held for trading)	1 614 154	2 431 471
Other financial instruments at fair value through profit or loss	16 735	2 394 040
Hedging instruments	258 688	87 543
Investment securities	30 429 860	21 293 507
Other assets	1 682 570	2 138 460
Balance sheet exposure	122 132 382	121 565 033
Obligations to grant loans	24 440 333	24 782 127
Other contingent liabilities	10 113 984	6 716 419
Off-balance sheet exposure	35 554 317	31 498 546
Total	156 686 699	153 063 579

Notes to financial statements (cont.)

(In PLN thousand)

Credit risk mitigation methods

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

The most frequently used types of collateral for credits and loans, accepted in compliance with the relevant policy of Pekao Bank, are as follows:

COLLATERAL	COLLATERAL VALUATION PRINCIPLES
MORTGAGES	
- commercial	Collateral value is defined as the fair market value endorsed by a real estate expert. Other evidenced sources of valuation are acceptable, e.g. binding purchase offer, value dependent on the stage of tendering procedure, etc.
- residential	
REGISTERED PLEDGE/ ASSIGNMENT:	
- inventories	The value is defined basing on well evidenced sources e.g. amount derived from pledge agreement, amount disclosed in last financial statement, insurance policy, stock exchange quotations, the value disclosed through foreclosure procedure supported with evidence e.g. prepared by bailiff/receiver.
- machines and appliances	The value is defined as expert appraisal or present value determined based on other, sound sources, such as current purchase offer, register of debtor's non-current assets, value evidenced by bailiff or court receiver, etc.
- vehicles	The value is defined based on available tables (e.g. from insurance companies) proving the car value depending on its producer, age, initial price, or other reliable sources e.g. value stated in the insurance policy.
- other	The value is defined upon individually. The valuation should result from reliable sources.
- securities and cash	The value is defined upon individually estimated fair market value. Recovery rate shall be assessed prudently reflecting the securities price volatility.
TRANSFER OF RECEIVABLES	
- from clients with investment rating assigned by independent rating agency or by internal rating system of the Bank	The value is defined upon individually assessed claims' amount.
- from other counterparties	The value is defined upon individually assessed claim's amount.
GUARANTIES/SURETIES (INCL. RAFTS)/ACCESSION TO DEBT	
- from banks and the State Treasury	Up to the guaranteed amount.
- from other counterparties enjoying good financial standing, particularly when confirmed by investment rating, assigned by an independent rating agency or by the internal rating system of the Bank	The value is defined upon individually assessed claim's amount.
- from other counterparties	Individually assessed fair market value.

Notes to financial statements (cont.)

(In PLN thousand)

Overall characteristics of monitoring process

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

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

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

The monitoring of individual clients is carried by IT systems and is based on the results of behavioral scoring.

Overall characteristics of provisioning model

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

The quality analysis of the Bank's financial assets

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
– not past due	1 024	985	642 696	302 594
– up to 1 month	-	-	24 460	35 307
– between 1 month and 3 months	-	-	15 903	98 692
– between 3 months and 1 year	-	52 876	264 903	519 348
– between 1 year and 5 years	62 964	10 088	1 227 338	832 725
– above 5 years	-	-	687 879	851 010
Total gross carrying amount	63 988	63 949	2 863 179	2 639 676
ALLOWANCE FOR IMPAIRMENT				
– not past due	(1 024)	(985)	(109 257)	(28 873)
– up to 1 month	-	-	(7 265)	(7 251)
– between 1 month and 3 months	-	-	(5 272)	(14 885)
– between 3 months and 1 year	-	(45 000)	(84 792)	(352 676)
– between 1 year and 5 years	(54 000)	(9 000)	(927 490)	(652 665)
– above 5 years	-	-	(560 364)	(744 115)
Total allowance for impairment	(55 024)	(54 985)	(1 694 440)	(1 800 465)
Net carrying amount of exposure individually impaired	8 964	8 964	1 168 739	839 211
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
– not past due	-	-	43 727	60 049
– up to 1 month	-	-	18 565	15 450
– between 1 month and 3 months	-	-	31 783	27 656
– between 3 months and 1 year	-	-	504 179	511 198
– between 1 year and 5 years	-	9 952	1 020 559	761 226
– above 5 years	19 371	9 053	656 585	712 860
Total gross carrying amount	19 371	19 005	2 275 398	2 088 439
ALLOWANCE FOR IMPAIRMENT				
– not past due	-	-	(24 725)	(57 415)
– up to 1 month	-	-	(11 643)	(9 429)
– between 1 month and 3 months	-	-	(20 067)	(16 956)
– between 3 months and 1 year	-	-	(343 062)	(333 402)
– between 1 year and 5 years	-	(9 933)	(852 744)	(607 399)
– above 5 years	(19 361)	(9 053)	(650 451)	(701 684)
Total allowance for impairment	(19 361)	(18 986)	(1 902 692)	(1 726 285)
Net carrying amount of exposure collectively impaired	10	19	372 706	362 154

Notes to financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS			
			CORPORATE		RETAIL	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
– not past due	6 604 987	9 140 330	46 665 927	46 390 460	27 474 386	24 477 902
– up to 30 days	-	-	324 170	113 473	1 115 372	960 823
– between 30 days and 60 days	-	-	49 319	37 697	168 671	157 992
– between 60 days and 89 days	-	-	8 354	8 853	104 584	92 838
Total gross carrying amount	6 604 987	9 140 330	47 047 770	46 550 483	28 863 013	25 689 555
IBNR PROVISION:						
– not past due	(4 092)	(10 750)	(158 037)	(182 147)	(71 694)	(67 294)
– up to 30 days	-	-	(8 793)	(8 814)	(59 500)	(51 634)
– between 30 days and 60 days	-	-	(11 329)	(8 700)	(37 410)	(37 042)
– between 60 days and 89 days	-	-	(2 084)	(2 873)	(44 160)	(40 177)
Total IBNR provision	(4 092)	(10 750)	(180 243)	(202 534)	(212 764)	(196 147)
Net carrying amount of exposure with no impairment	6 600 895	9 129 580	46 867 527	46 347 949	28 650 249	25 493 408

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

RATING	DEBT SECURITIES					TOTAL
	HELD FOR TRADING	DESIGNATED TO FAIR VALUE THROUGH PROFIT & LOSS	AVAILABLE FOR SALE	HELD TO MATURITY	REPO TRANSACTIONS	
AAA	-	-	-	-	-	-
AA- to AA+	-	-	-	-	-	-
A- to A+	768 237	16 735	13 026 522	4 075 318	1 659 889	19 546 701
BBB+ to BBB-	-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-	-
B+ to B-	-	-	-	-	-	-
below B-	-	-	-	-	-	-
no rating	197 404	-	12 887 714 (*)	434 504 (**)	-	13 519 622
Total	965 641	16 735	25 914 236	4 509 822	1 659 889	33 066 323

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

Derivative financial instruments

	TRADING DERIVATIVES		DERIVATIVE HEDGING INSTRUMENTS	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Banks	1 406 759	1 777 743	87 573	87 543
Other financial institutions	6 609	61 338	-	-
Non-financial entities	200 786	592 390	171 115	-
Total	1 614 154	2 431 471	258 688	87 543

Credit risk concentration

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

As at 31 December 2010, the maximum exposure limits stipulated in the Banking Law have not been exceeded.

Notes to financial statements (cont.)

(In PLN thousand)

a) Breakdown by individual entities:

As at 31.12.2010

EXPOSURE TO 10 LARGEST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	1.9%
Client 2	1.3%
Client 3	1.3%
Client 4	1.2%
Client 5	0.9%
Client 6	0.8%
Client 7	0.8%
Client 8	0.8%
Client 9	0.8%
Client 10	0.7%
Total	10.5%

12.7% of the exposure is accounted for by the State Treasury, while 87.3% pertain to exposure to large corporate clients. None of the exposures mentioned above were classified as non-performing.

b) Concentration by capital groups:

As at 31.12.2010

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	3.1%
Group 2	2.3%
Group 3	1.4%
Group 4	1.3%
Group 5	1.2%
Total	9.3%

c) Breakdown by industrial sectors:

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

Notes to financial statements (cont.)

(In PLN thousand)

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

SECTOR DESCRIPTION	31.12.2010	31.12.2009
Construction and real estate	18.7%	18.6%
Financial intermediation	17.3%	22.6%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	11.5%	11.4%
Public administration and national defense, compulsory social security	9.7%	5.4%
Electricity, gas and water supply	8.5%	6.1%
Other manufacturing and recycling	5.6%	5.9%
Transport, storage and communication	5.4%	6.8%
Renting and business activities, research and development, computer science	4.8%	3.3%
Manufacture of basic metals and fabricated metal products	3.4%	4.1%
Manufacture of food products, beverages and tobacco	3.3%	3.9%
Manufacture of chemical products	2.2%	2.1%
Manufacture of pulp, paper and paper products, publishing and printing	2.1%	2.3%
Other sectors	7.5%	7.5%
Total	100.0%	100.0%

4.3 Market risk

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

Market risk is the risk of decreasing financial result and economic capital of the Bank resulting from market changes.

The main factors of market risk are as follows:

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

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

The main objective of market risk management strategy is to maximize income in trading books and value of economic capital in banking books in a manner assuring the implementation of financial goals and assuring the maximal quality of market risk-related services to Bank's clients (market making) while keeping the exposure to market risk within the limits of risk, approved by the Management Board and the Supervisory Board.

The organization of the market risk management process is based on a three-tier control system, established in compliance with the best international banking practices and recommendations from banking supervision. The process of market risk management and procedures regulating it have been developed taking into consideration the split into the trading and banking books.

The main tool for measuring market risk is Value at Risk (VaR). This value corresponds to the level of a one-day loss, which will be incurred with the probability of 1%. VaR value is calculated with historical simulation method based on 2 years of historical observations of market risk factors' dynamics.

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

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents the market risk exposure of the trading portfolio of the Bank measured by Value at Risk in 2010 and 2009:

IN PLN THS	31.12.2010	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
Foreign exchange risk	121	10	319	2 453
Interest rate risk	2 240	1 371	3 286	6 479
Trading portfolio	2 249	1 408	3 373	6 473

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

Interest rate risk

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

1) Financial assets and liabilities exposed to fair value risk related to interest rate:

- debt securities with fixed interest rate,
- loans with fixed interest rate,
- client deposits with fixed interest rate,
- liabilities due to the issue of securities.

2) Financial assets and liabilities exposed to cash flow risk related to interest rate:

- debt securities with variable interest rate,
- loans with variable interest rate,
- client deposits with variable interest rate.

3) Financial assets and liabilities not directly exposed to the interest rate risk:

- Investments in equity securities.

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Currency risk

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

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

CURRENCY	31.12.2010	31.12.2009
USD	305	708
EUR	800	1 446
CHF	171	76
Other	71	72
Currencies total(*)	783	1 938

(*) The VaR value presented in 'Currencies total', constitutes to the VaR value in the whole portfolio, i.e. includes correlations between currencies.

4.4 Liquidity risk

The objective of liquidity risk management is to:

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

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

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

Financial liquidity management also includes the monitoring, limiting, controlling and reporting to the Bank Management of a number of liquidity ratios, broken down by main currencies and presented as aggregate values. In accordance with the banking supervisory recommendations, the Bank introduced internal liquidity indicators, defined as relation of adjusted maturing assets to adjusted maturing liabilities due in 1 month and 1 year, as well as covering ratios showing relation of adjusted maturing liabilities to adjusted maturing assets due in more than 1, 2, 3, 4 or 5 years.

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

The adjusted liquidity gaps described below present, inter alia, the adjustments concerning the stability of core deposits and their maturities, and introduced by the Bank in 2010 adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted as well as adjusted flows stemming from Bank security portfolio. These are the main elements differentiating adjusted gaps from unadjusted ones. The maturity tables below present financial liabilities arranged according to contractual maturities.

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

Adjusted liquidity gap as at 31 December 2010

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Assets	46 392 952	5 310 897	21 295 810	32 463 494	24 661 976	130 125 129
Liabilities	27 992 844	8 460 029	11 900 486	21 970 946	59 800 824	130 125 129
Net off-balance sheet items	(6 123 703)	(982 581)	3 629 328	2 352 782	942 456	(181 718)
Periodic gap	12 276 405	(4 131 713)	13 024 652	12 845 330	(34 196 392)	(181 718)
Cumulated gap		8 144 692	21 169 344	34 014 674	(181 718)	

Adjusted liquidity gap as at 31 December 2009

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

Structure of financial liabilities by contractual maturities

31.12.2010	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	4 132 291	12 685	152 437	969 078	853 647	6 120 138
Amounts due to customers	80 873 006	9 927 859	8 001 231	471 397	55 315	99 328 808
Debt securities issued	-	267 145	121 604	349 051	-	737 800
Financial liabilities held for trading	-	-	-	104 280	9 948	114 228
Total	85 005 297	10 207 689	8 275 272	1 893 806	918 910	106 300 974
OFF-BALANCE SHEET COMMITMENTS (**)						
Off-balance sheet commitments Financial liabilities granted	24 559 653	-	-	-	-	24 559 653
Off-balance sheet commitments Guarantees liabilities granted	9 691 866	-	-	-	-	9 691 866
Total	34 251 519	-	-	-	-	34 251 519

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2009	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	3 963 913	224 680	159 023	1 500 571	714 045	6 562 231
Amounts due to customers	77 431 262	11 396 889	6 933 809	535 023	404 315	96 701 298
Debt securities issued	194	122 604	509 709	665 278	-	1 297 785
Financial liabilities held for trading	-	-	-	498 978	482 376	981 354
Total	81 395 369	11 744 173	7 602 541	3 199 850	1 600 735	105 542 668
OFF-BALANCE SHEET COMMITMENTS (**)						
Off- balance sheet commitments Financial liabilities granted	25 841 565	-	-	-	-	25 841 565
Off- balance sheet commitments Guarantees liabilities granted	5 383 803	-	-	-	-	5 383 803
Total	31 225 368	-	-	-	-	31 225 368

(*) Including Central Bank

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

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

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

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

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

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

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2010	22 887	143 996	151 781	1 017 284	292 865	1 628 813
31.12.2009	24 917	80 504	226 448	891 323	334 801	1 557 993

Notes to financial statements (cont.)

(In PLN thousand)

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2010						
proceeds	12 673 579	3 795 325	9 359 938	5 876 319	2 744 660	34 449 821
outflows	12 441 768	3 723 635	9 198 525	5 850 211	3 167 064	34 381 203
31.12.2009						
proceeds	15 962 474	7 614 115	9 499 799	3 711 190	1 860 765	38 648 343
outflows	14 885 689	7 308 823	9 245 914	3 513 691	1 871 654	36 825 771

4.5 Operating risk

Operating risk management is based on internal procedures approved by Management Board which are in compliance by 'The Recommendation M' and Polish Financial Supervision Authority Resolution 369/2010 and 383/2008.

Operating risk managing system comprises the Bank Pekao S.A. and its subsidiaries. The Operating Risk Committee was established in December 2009 in order to develop operating managing system. Its mission is to support and advise to the Management Board in development of adequate operating risk management process throughout introducing relevant internal regulations, taking into consideration strategy approved by the Supervisory Board.

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

4.6 Business risk

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

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

4.7 Real estate risk

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

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

4.8 Financial investments risk

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

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

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

4.9 Equity management

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

- assurance of safe operations by maintaining the balance between the capacity to undertake risk (limited by Bank's equity), and the risk levels generated,
- maintenance of risk capital above the minimum stated levels in order to assure further business operations, taking into consideration the possible, future changes in capital requirements and safeguarding the interests of shareholders,
- maintenance of the preferred capital structure in order to maintain the desired quality of risk coverage capital,
- creation of value to shareholders by the best possible utilization of the Bank funds.

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

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

The capital adequacy of the Bank is controlled by the Assets, Liabilities and Risk Management Committee and the Management Board of the Bank. Periodic reports on the scale and direction of changes of the capital adequacy ratio together with indication of potential threats are prepared for the Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Bank.

Notes to financial statements (cont.)

(In PLN thousand)

Analyses and evaluations are carried out on directions of business development activities from the point of view of compliance with capital requirements. Forecasting and monitoring of risk weighted assets, Bank's equity and capital adequacy ratio constitute an integral part of the planning and budgeting process.

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

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

Regulatory capital requirements

The basic measure applied in the measurement of capital adequacy is the capital adequacy ratio. The minimum capital adequacy ratio required by law equals to 8%, both for the Bank and the Group. As at the end of December 2010, the Bank's capital adequacy ratio stood at 17.17%, i.e. more than twice as much as the minimum value required by the law.

The improvement of capital adequacy ratio in December 2010 compared with December 2009 (growth by 1.53 p.p.) was achieved by increasing Bank's equity by allocating the entire net profit for 2009 while reducing the total capital requirement.

The strengthening of Bank's capital base in 2010 is a consequence of the decision, adopted by the Regular General Meeting of Shareholders on the allocation of the PLN 1.7 billion of net profit for 2009 to the Bank's equity (which accounts for 69.09% of net profit for 2009).

The calculations of the regulatory capital requirement as at 31.12.2010 were based on the provisions under Resolution No. 76/2010 Polish Financial Supervision Authority ('KNF') of 10.03.2010 and the Resolution No. 369/2010 KNF of 12.10.2010 amending the resolution of KNF on the scope and detailed procedures for determining capital requirements for specific types of risk. As at 31.12.2009, calculations were made based on the provisions under Resolution No. 380/2008 KNF of 17.12.2008 with subsequent amendments (Resolution No. 335/2009 KNF of 10.11.2009).

The Bank is using the standard method to calculate the capital requirements related to credit risk (in compliance with Enclosure No. 4 to Resolution No. 76/2010 KNF and Resolution No. 369/2010 KNF), whereas for the purpose of credit risk mitigation, it is using the financial collateral comprehensive method (in accordance with Enclosure No. 17 to Resolution No. 76/2010 KNF and Resolution No. 369/2010 KNF).

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2010	31.12.2009
Capital (Tier 1)	15 258 199	13 497 012
Share capital	262 364	262 331
Supplementary capital	9 313 651	9 309 539
Reserve capital	6 243 619	4 639 127
General risk fund for unidentified risk of banking operations	1 437 850	1 337 850
Net profit for present reporting period minus forecasted liabilities and dividends	-	-
Deductions from the core capital:		
Intangible assets	(671 352)	(678 462)
Unrealized losses from debt instruments available for sale	(100 737)	(123 959)
Unrealized losses from capital instruments available for sale	-	(10)
Capital exposure to financial institutions	(1 227 196)	(1 249 404)
Supplementary funds (Tier 2)		
Unrealized gains from debt instruments available for sale	81 530	65 477
Unrealized gains from capital instruments available for sale	7	-
Positive foreign currency translation differences,	2 965	-
Deductions:		
Capital exposure to financial institutions	(84 502)	(65 477)
Total equity	15 258 199	13 497 012
Capital adequacy ratio	17.17%	15.64%

Internal capital adequacy assessment

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

The Bank applies the following risk assessment methods:

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

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

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

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

4.10 Fair value of financial assets and liabilities

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

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

As at 31 December 2010 and 31 December 2009, the Bank classified the financial assets and liabilities measured at fair value into the following three categories, broken down by valuation method:

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

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2010

	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	13 811 858	14 366 187	597 211	28 775 256
Financial assets held for trading	768 237	-	197 404	965 641
Derivative financial instruments, including:	-	1 550 574	63 580	1 614 154
- Banks	-	1 343 539	63 220	1 406 759
- Customers	-	207 035	360	207 395
Other financial instruments at fair value through profit or loss	16 735	-	-	16 735
Hedging instruments	-	258 688	-	258 688
Securities available for sale	13 026 886	12 556 925	336 227	25 920 038
Liabilities:	114 228	2 240 175	63 250	2 417 653
Financial liabilities held for trading	114 228	-	-	114 228
Derivative financial instruments, including:	-	1 529 609	63 250	1 592 859
- Banks	-	1 326 558	4 069	1 330 627
- Customers	-	203 051	59 181	262 232
Hedging instruments	-	710 566	-	710 566

As at 31 December 2009

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	196 594	67 169	321 871	61 444
Increases, including:	20 704 985	23 590	229 704	18 194
Acquisition	20 680 746	-	200 000	-
Revenues from financial instruments	24 239	23 590	29 704	18 194
recognized in the income statement	24 239	23 590	27 347	18 194
recognized in Revaluation reserves from financial instruments	-	-	2 357	-
Decreases, including:	(20 704 175)	(27 179)	(215 348)	(16 388)
Settlement/redemption	(530 884)	(1 800)	(21 000)	(6 254)
Sale	(20 172 354)	-	(194 348)	-
Loss on financial instruments	(937)	(25 379)	-	(10 134)
recognized in the income statement	(937)	(25 379)	-	(10 134)
Closing balance	197 404	63 580	336 227	63 250
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	(62)	13 242	15 538	(16 596)
recognized in 'Interest income'	203	-	14 217	-
recognized in 'Result on financial assets and liabilities held for trading'	(265)	13 242	-	(16 596)
recognized in 'Revaluation reserves from financial instruments'	-	-	1 321	-

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

In case of debt instruments exposed to credit spread risk, the sensitivity of exposure to spread changes by 1 bp amounts to PLN 4.2 thousand impacting on income statement and PLN 115 thousand impacting on equity, respectively.

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

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

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

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

The fair value of central investment credits is presented on net basis, inclusive of the fair value of the NBP refinancing credit used for financing such investments. When gross value is used, the adjustment to fair value stands at PLN 90 million in case of credits for

Notes to financial statements (cont.)

(In PLN thousand)

central investments, and PLN 83 million in case of refinancing credits (as at 31 December 2009, fair value stood at PLN 178 million for central investment credit and PLN 165 million for refinancing credit).

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

31.12.2010	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
Assets			
Cash and due from Central Bank	5 968 748	5 968 748	-
Receivables from banks	6 609 869	6 609 720	(149)
Financial assets held for trading	965 641	965 641	-
Assets from derivatives	1 614 154	1 614 154	-
Other financial instruments recognized at fair value through profit or loss	16 735	16 735	-
Loans and advances to customers (*)	77 059 445	75 897 204	(1 162 241)
Hedging instruments	258 688	258 688	-
Securities available for sale	25 920 038	25 920 038	-
Securities held for maturity	4 509 822	4 523 781	13 959
Investments in subsidiaries	793 268	793 268	-
Investments in associates	39 345	39 345	-
Total	123 755 753	122 607 322	(1 148 431)

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

In case of deposits received by the Bank, the adjustment to fair value as at 31 December 2010 stood at PLN plus 7 765 thousand (against plus PLN 695 thousand as at 31 December 2009) for deposits from clients, and PLN plus 3 524 thousand (against PLN plus 3 107 thousand as at 31 December 2009) for deposits from banks.

The fair value of deposits is calculated based on contractual maturities.

In case of debt securities in issue, the adjustment to fair value as at 31 December 2010 stood at PLN minus 10 392 thousand (against PLN minus 25 031 thousand as at 31 December 2009).

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

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

Notes to financial statements (cont.)

(In PLN thousand)

5. Custody activity

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

In 2010, the Bank acquired a number of new clients from the segment of foreign custody banks and stockbroking companies, registered as remote members of the Warsaw Stock Exchange GPW, for the benefit of which the Bank serves as a clearing agent. The Bank also maintained its leading position in terms of depositary notes, by handling more than 50% of all programmes.

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

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

6. Brokerage activity

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

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

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

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

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

	quantity (pcs)	value (pcs)
Dom Maklerski Pekao		
Equity securities and rights to such financial assets	926 037 495	4 157 666
Debt instruments and rights to such financial assets	5 671 099	213 965
Goods and rights to such assets	-	-

Customers' cash on brokerage accounts as at 31 December 2010

	DOM MAKLEPSKI PEKAO
Invested in debt securities issued by the State Treasury	-
Located on cash accounts in brokering house and paid for securities bought in IPO or public primary turnover	217 458
Transferred from clearing fund	-

Notes to financial statements (cont.)

(In PLN thousand)

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

DOM MAKLESKI PEKAO	
Receivables from stock exchange transactions, including:	14 539
Warsaw Stock Exchange	14 539
BondSpot	-
NewConnect	-
Receivables from over-the-counter transactions	-
Receivables from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-
Receivables from affiliation	-
Receivables from automatic loans realized through the intermediary of the National Depository of Securities	-
Total	14 539
Liabilities from stock exchange transactions, including:	17 684
Warsaw Stock Exchange	17 684
BondSpot	-
NewConnect	-
Liabilities from over-the-counter transactions	-
Liabilities from representing other banks conducting brokerage activities and brokerage houses on regulated securities markets	-
Liabilities from affiliation	-
Liabilities from automatic loans realized through the intermediary of the National Depository of Securities	-
Total	17 684

Settlements with National Depository of Securities (KDPW) and other stock exchange clearing houses as at 31.12.2010

DOM MAKLESKI PEKAO	
Receivables from clearing fund	13 905
Receivables from compensation fund	29
Total	13 934
Amounts due to clearing fund	-
Amounts due to compensation fund	-
Total	-

Settlements with entities running regulated securities markets and commodity exchanges as at 31.12.2010

DOM MAKLESKI PEKAO	
Receivables from Warsaw Stock Exchange	-
Receivables from BondSpot	-
Total	-
Amounts due to Warsaw Stock Exchange	185
Amounts due to BondSpot	1
Total	186

Notes to financial statements (cont.)

(In PLN thousand)

7. Interest income and expense

Interest income

	2010	2009
Loans, advances and other receivables from customers	4 676 058	4 748 590
Placements in other banks	247 897	292 307
Reverse repo transactions	51 337	40 356
Investment securities	1 039 572	869 361
Financial assets held for trading	69 116	105 736
Financial assets designated to fair value through profit or loss	34 113	167 612
Total	6 118 093	6 223 962

Interest income for 2010 includes income from impaired financial assets in the amount of PLN 210 893 thousand (in 2009 PLN 191 369 thousand).

Total amount of interest income for 2010, measured at amortized cost using the effective interest rate method with reference to the financial assets which are not measured at fair value through profit or loss amounted to PLN 3 297 841 thousand (in 2009 PLN 3 365 618 thousand).

Interest expense

	2010	2009
Customers' deposits	(2 104 178)	(2 444 394)
Other banks' deposits	(59 874)	(104 755)
Repo transactions	(54 061)	(128 357)
Loans from other banks	(75 434)	(126 927)
Debt securities issued	(46 852)	(26 790)
Total	(2 340 399)	(2 831 223)

Total amount of interest expenses for 2010, measured at amortized cost using the effective interest rate method with reference to financial liabilities, which are not valued at fair value through profit or loss amounted to PLN 2 098 646 thousand (in 2009 PLN 2 584 213 thousand).

Notes to financial statements (cont.)

(In PLN thousand)

8. Fee and commission income and expense

Fee and commission income

	2010	2009
Customer accounts maintenance and payment orders	825 549	906 180
Payment cards	780 760	770 669
Loans and advances	428 061	371 011
Acquisition services	239 942	206 114
Securities operations	55 331	32 330
Custody activity	52 784	46 196
Guarantees, letters of credit and similar transactions	56 257	54 471
Other	77 993	68 009
Total	2 516 677	2 454 980

Fee and commission expense

	2010	2009
Payment cards	(341 659)	(341 124)
Bank drafts and transfers	(23 370)	(24 684)
Securities operations	(8 921)	(9 729)
Accounts maintenance	(781)	(1 668)
Custody activity	(7 294)	(4 981)
Intermediation services	(4 277)	(1 981)
Other	(17 626)	(14 877)
Total	(403 928)	(399 044)

9. Dividend income

	2010	2009
From subsidiaries	154 615	275 777
From associates	92 930	134 374
From other entities	7 874	7 020
Total	255 419	417 171

Notes to financial statements (cont.)

(In PLN thousand)

10. Result on financial assets and liabilities held for trading

	2010	2009
Foreign currency exchange result	558 739	697 937
Gains (losses) on derivatives	(11 783)	(47 084)
Gains (losses) on securities	(9 546)	51 148
Total	537 410	702 001

In 2010, the total change in the fair value of financial instruments valued at fair value through profit or loss, determined with the use of valuation techniques (when no published quotations from active markets are available) amounted to PLN minus 3 762 thousand (in 2009 PLN minus 7 121 thousand).

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

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

12. Gains (losses) on disposal

Realized gains

	2010	2009
Loans and other financial receivables	5 664	2 816
Available for sale financial assets – debt instruments	114 338	23 787
Available for sale financial assets – equity instruments (*)	6 934	78 703
Debt securities issued	303	842
Total	127 239	106 148

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

(In PLN thousand)

Realized losses

	2010	2009
Loans and other financial receivables	-	(232)
Available for sale financial assets – debt instruments	-	(5 024)
Debt securities issued	(1 371)	(760)
Total	(1 371)	(6 016)

Net realized profit	125 868	100 132
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The change in fair value of financial assets available for sale referred in 2010 directly to equity amounted to PLN 130 363 thousand (increase), in 2009 PLN 79 043 thousand (increase).

The change in fair value of financial assets, related in 2010 from equity to financial income amounted to PLN 114 338 thousand (profit), in 2009 PLN 28 752 thousand (profit).

13. Administrative expenses

Personnel expenses

	2010	2009
Wages and salaries	(1 476 243)	(1 411 017)
Insurance and other charges related to employees	(251 504)	(251 303)
Share-based payments expense	(3 326)	(2 286)
Total	(1 731 073)	(1 664 606)

Other administrative expenses

	2010	2009
General expenses	(1 163 566)	(1 198 024)
Taxes and charges	(33 371)	(34 642)
Bank Guarantee Fund fee	(38 811)	(45 187)
Polish Financial Supervision Authority fee	(20 223)	(20 707)
Total	(1 255 971)	(1 298 560)

Total administrative expenses	(2 987 044)	(2 963 166)
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Notes to financial statements (cont.)

(In PLN thousand)

14. Net other operating income and expenses

Other operating income

	2010	2009
Rental income and other (miscellaneous income)	39 198	42 319
Credit insurance charges	28 422	22 143
Recovery of debt collection costs	10 549	7 986
Compensation, penalty fees and fines received	5 282	14 835
Refund of administrative costs	9 128	11 682
Income from written-off liabilities	2 964	93
Releases of impairment of litigation and other assets	6 284	1 459
Releases of provisions for liabilities	-	6 028
Gains on sale of other assets	6	18
Other	30 100	38 105
Total	131 933	144 668

Other operating expense

	2010	2009
Credit insurance costs	(19 236)	(19 056)
Customers complaints expense	(6 342)	(7 412)
Impairment of litigations receivables and other assets	(1 806)	(11 467)
Costs of litigation and claims	(4 778)	(3 381)
Compensation, penalty fees and fines paid	(1 071)	(5 893)
Losses on disposal of other assets	(136)	(104)
Other	(34 188)	(29 463)
Total	(67 557)	(76 776)

Net other operating income and expenses	64 376	67 892
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Notes to financial statements (cont.)

(In PLN thousand)

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

2010	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON NET RESULT (**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off- balance sheet commitments								
Loans and advances to banks valued at amortized cost	84 721	4 862	5 890	-	(3 401)	(13 595)	78 477	(1 461)
Derivative financial instruments	4 793	-	480	-	-	(4 793)	480	-
Loans and advances to customers valued at amortized cost	3 925 431	1 110 195	111 749	(405 764)	(645 004)	(106 468)	3 990 139	(465 191)
Financial assets available for sale	7 258	-	464	(4 804)	-	(2 459)	459	-
Impairment of off-balance sheet commitments	135 194	50 828	911	-	(58 185)	(256)	128 492	7 357
Total financial assets and off-balance sheet commitments	4 157 397	1 165 885	119 494	(410 568)	(706 590)	(127 571)	4 198 047	(459 295)
Impairment of other assets:								
Investments in subsidiaries and associates	148 056	-	-	-	-	(80 000)	68 056	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Goodwill	-	-	-	-	-	-	-	-
Other intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	11 191	-	-	-	(2 451)	(1 335)	7 405	2 451
Investment properties	4 352	-	-	-	(3 706)	(96)	550	3 706
Other	104 324	1 806	187	(627)	(6 284)	(6 844)	92 562	4 478
Total impairment of other assets	278 884	1 806	187	(627)	(12 441)	(88 275)	179 534	10 635
Total								
	4 436 281	1 167 691	119 681	(411 195)	(719 031)	(215 846)	4 377 581	(448 660)

(*) Including foreign exchange differences and transfers between positions

(**) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 459 295 thousand and proceeds from recovered bad debt in the amount of PLN 9 417 thousand, the total is PLN minus 449 878 thousand.

Notes to financial statements (cont.)

(In PLN thousand)

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

(*) Including foreign exchange differences and transfers between positions

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

(***) 'Impairment of financial assets and off-balance sheet commitments' balance includes net impairment in the amount of PLN minus 414 679 thousand and proceeds from recovered bad debt in the amount of PLN 8 225 thousand, the total is PLN minus 406 454 thousand.

Notes to financial statements (cont.)

(In PLN thousand)

16. Gains (losses) on associates and subsidiaries

	2010	2009
Profit from liquidation of shares in associates and subsidiaries	1 627	-
Profit from decreases of associates and subsidiaries capital	6 002	-
Impairment of shares in associates and subsidiaries	-	(105 000)
Total gains (losses) from associates and subsidiaries	7 629	(105 000)

17. Income tax

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

	2010	2009
Profit before income tax	3 078 347	2 980 570
Tax charge according to applicable tax rate at 19%	584 886	566 308
Permanent differences:	(58 561)	(48 001)
Non taxable income	(71 587)	(86 431)
Non tax deductible costs	16 784	38 735
Impact of other tax rates applied under a different tax jurisdiction	(2 973)	420
Tax relieves not included in the income statement	319	1 498
Other	(1 104)	(2 223)
Effective income tax charge on gross profit	526 325	518 307

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

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

	2010	2009
INCOME STATEMENT		
Current income tax	(709 525)	(551 797)
Current tax charge disclosed in the income statement	(699 504)	(552 246)
Adjustments related to the current tax from previous years	(741)	13 064
Other taxes (for example withholding tax, income tax relating to foreign branches)	(9 280)	(12 615)
Deferred income tax	183 200	33 490
Occurrence and reversal of temporary differences	183 200	33 490
Tax charge disclosed in the Bank's income statement	(526 325)	(518 307)
EQUITY		
Deferred income tax	(15 741)	17 781
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	(12 838)	28 648
revaluation of available for sale financial assets – debt securities	(2 899)	(11 431)
revaluation of available for sale financial assets – with equity rights	(4)	564
Tax charge presented in other comprehensive income	(15 741)	17 781
Total charge	(542 066)	(500 526)

Notes to financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2010							
	OPENING BALANCE			CHANGES RECOGNIZED IN		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY
DEFERRED TAX LIABILITY								
Accrued income – securities	22 126	22 126	-	(7 163)	-	14 963	14 963	-
Accrued income – loans	181 249	181 249	-	(51 374)	-	129 875	129 875	-
Upward revaluation of the financial assets	339 502	339 502	-	(163 387)	4 989	181 104	176 115	4 989
Accelerated depreciation	112 434	112 434	-	5 561	-	117 995	117 995	-
Investment relief	7 469	7 469	-	(559)	-	6 910	6 910	-
Other	22 104	22 104	-	3 603	-	25 707	25 707	-
Gross deferred tax liability	684 884	684 884	-	(213 319)	4 989	476 554	471 565	4 989
DEFERRED TAX ASSET								
Accrued costs related to securities	-	-	-	-	-	-	-	-
Accrued costs related to deposits and loans received	183 040	183 040	-	(55 701)	-	127 339	127 339	-
Downward revaluation of financial assets	308 841	298 089	10 752	(12 632)	(10 752)	285 457	285 457	-
Income received to be amortized over time from loans and current accounts	111 703	111 703	-	(8 700)	-	103 003	103 003	-
Loan provisions charges	304 875	304 875	-	28 805	-	333 680	333 680	-
Personnel expenses provisions	61 411	61 411	-	23 792	-	85 203	85 203	-
Accruals	18 407	18 407	-	(8 556)	-	9 851	9 851	-
Losses from previous years	-	-	-	894	-	894	894	-
Other	34 577	34 577	-	1 979	-	36 556	36 556	-
Gross deferred tax asset	1 022 854	1 012 102	10 752	(30 119)	(10 752)	981 983	981 983	-
Deferred tax charge	X	X	X	183 200	(15 741)	X	X	X
Net deferred tax assets	337 970	327 218	10 752	X	X	505 429	510 418	-
Net deferred tax provision	-	-	-	X	X	-	-	4 989

Notes to financial statements (cont.)

(In PLN thousand)

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

Notes to financial statements (cont.)

(In PLN thousand)

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

As at 31 December 2010 and 31 December 2009, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

18. Earnings per share

Basic earnings per share

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

Earnings per share

	2010	2009
Net profit	2 552 022	2 462 263
Weighted average number of ordinary shares in the period	262 352 988	262 237 721
Earnings per share (in PLN per share)	9.73	9.39

Diluted earnings per share

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

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

	2010	2009
Net profit	2 552 022	2 462 263
Weighted average number of ordinary shares in the period	262 352 988	262 237 721
Adjustments to the number of shares for the purpose of calculation of diluted earnings per share	85 877	5 312
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 438 865	262 243 033
Diluted earnings per share (in PLN per share)	9.72	9.39

Notes to financial statements (cont.)

(In PLN thousand)

19. Dividend proposal

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

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

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

20. Cash and due from Central Bank

	31.12.2010	31.12.2009
Cash	2 471 935	2 232 793
Current account at Central Bank	3 495 106	7 352 744
Interest	314	274
Other	1 393	1 400
Total	5 968 748	9 587 211

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

Funds in the mandatory reserve account bear interest in the amount of 0.9 of the rediscount rate for bills of exchange amounts as at 31 December 2010 3.75 %. As at 31 December 2009 this interest rate amounted to 3.75 %.

21. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2010	31.12.2009
Current accounts and overnight placements	2 991 846	3 076 299
Interbank placements	1 337 889	2 146 916
Loans and advances	1 767 996	1 042 918
Repo transactions	250 133	1 471 910
Debt securities	291 622	1 290 432
Receivables in transit	28 331	172 743
Interest accrued	20 529	22 066
Total gross amount	6 688 346	9 223 284
Impairment provision	(78 477)	(84 721)
Total net amount	6 609 869	9 138 563

Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to banks by quality

	31.12.2010	31.12.2009
Loans and advances to banks, including:		
gross value of non-impaired receivables	6 604 987	9 140 330
gross value of impaired receivables	83 359	82 954
individual impairment charges	(55 024)	(54 985)
collective impairment charges (*)	(23 453)	(29 736)
Total	6 609 869	9 138 563

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

Loans and advances to banks by contractual maturities

	31.12.2010	31.12.2009
Loans and advances to banks, including:		
up to 1 month	5 762 283	5 158 383
between 1 and 3 months	1 347	5 066
between 3 months and 1 year	838 225	2 383 553
between 1 and 5 years	65 962	1 527 504
over 5 years	-	126 712
Interest accrued	20 529	22 066
Total gross amount	6 688 346	9 223 284
Impairment provision	(78 477)	(84 721)
Total net amount	6 609 869	9 138 563

Loans and advances to banks by currencies

	31.12.2010	31.12.2009
PLN	1 745 196	3 466 132
CHF	137 699	243 238
EUR	4 368 775	2 345 176
USD	174 382	2 918 569
Other currencies	183 817	165 448
Total	6 609 869	9 138 563

Changes in impairment losses in 2010 and 2009 are presented in the Note 15.

Notes to financial statements (cont.)

(In PLN thousand)

22. Financial assets and liabilities held for trading

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

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

Financial assets / liabilities held for trading by maturities

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

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

Notes to financial statements (cont.)

(In PLN thousand)

23. Derivative financial instruments held for trading

Derivative financial instruments at the Bank

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

Derivative foreign exchange transactions include either the obligation or the right to buy or sell foreign and domestic currency assets. Forward foreign exchange transactions are based on the foreign exchange rates, specified on the transaction date for a predefined future date. These transactions are valued using the discounted cash flow model. Cash flows are discounted according to zero-coupon yield curves, relevant for a given market.

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

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

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

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

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

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

In the case of Interest Rate Swaps (IRS), counterparties exchange between each other the flows of interest payments, accrued on the nominal amount identified in the contract. These transactions are valued using the discounted cash flow model. Floating (implied) cash flows are estimated on base of respective IRS rates. Floating and fixed cash flows are discounted by relevant zero-coupon money market rates.

Forward Rate Agreements involve both parties undertaking to pay interest on a predefined nominal amount for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement. The parties settle the transaction on value date with the interest difference between the FRA rate (forward rate as at transaction date) and the reference rate. These transactions are valued using the discounted cash flow model.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. These transactions are valued using the discounted cash flow model. Valuation of Basis Swap transactions (cross currency IRS with floating coupon) takes into account market quotations of basis spread (Basis swap spread).

In the case of forward transactions on securities, counterparties agree to buy or sell specified securities on a forward date for a payment fixed on the date of transaction. Such transactions are measured based upon the valuation of the security (mark-to-market or mark-to-model) and valuation of the related payment (method of discounting cash flows by money market rate).

Interest rate options (cap/floor) are contracts where one of the parties, the option buyer, purchases from the other party, the option writer, at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points of time in the

Notes to financial statements (cont.)

(In PLN thousand)

future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Transactions of this type are valued using the Black-Scholes model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

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

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

Derivative financial instruments embedded in other instruments

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

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

The Bank owns deposits and certificates of deposits on offer which include embedded derivatives. As the nature of such instrument is not strictly associated with the nature of the deposit agreement, the embedded instrument is separated and classified into the portfolio held-for-trading. The valuation of such instrument is recognized in the income statement. Embedded instruments include simple options (plain vanilla) and exotic options for single stocks, indices and other market indices, including interest rate indices, foreign exchange rates and their related baskets.

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Risk involved in financial derivatives

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

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

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities, prices of commodities, currency exchange rates, price index, credit standing or credit index or another market parameter. In case of such changes, the derivatives held become more or less advantageous than instruments with the same residual maturities, available at that moment on the market.

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

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

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

Fair value of trading derivatives as at 31.12.2010

	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 178 599	1 388 521
Forward Rate Agreements (FRA)	2 092	1 551
Options	7 729	7 729
Other	727	376
Foreign currency transactions		
Cross-Currency Interest Rate Swaps (CIRS)	63 715	10 773
Currency Forward Agreements	41 145	51 446
Currency Swaps (fx-swap)	234 921	49 626
Options bought	22 006	-
Options sold	-	20 432
Transactions based on equity securities		
Options	63 220	62 405
Total	1 614 154	1 592 859

Notes to financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives as at 31.12.2009

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

Nominal value of trading derivatives as at 31.12.2010

	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 474 583	4 645 765	10 708 880	44 101 427	12 915 759	74 846 414
Forward Rate Agreements (FRA)	-	-	11 100 000	130 000	-	11 230 000
Options	-	-	14 258	1 088 830	223 231	1 326 319
Other	1 112 937	-	-	-	-	1 112 937
Foreign currency transactions						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	158 412	157 966	366 574	-	682 952
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	163 160	157 966	299 199	-	620 325
Currency Forward Agreements – currency bought	6 470 339	963 051	1 308 239	353 693	-	9 095 322
Currency Forward Agreements – currency sold	6 483 934	958 846	1 317 738	364 066	-	9 124 584
Currency Swaps (fx-swap) – currency bought	4 870 592	2 673 862	5 212 523	4 869	-	12 761 846
Currency Swaps (fx-swap) – currency sold	4 871 376	2 601 629	5 023 720	4 196	-	12 500 921
Options bought	464 955	949 474	741 744	2 316	-	2 158 489
Options sold	445 810	940 596	727 428	2 316	-	2 116 150
Transactions based on equity securities						
Options	-	646 408	147 096	644 624	-	1 438 128
Total	27 194 526	14 701 203	36 617 558	47 362 110	13 138 990	139 014 387

Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives as at 31.12.2009

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Debt securities measured at fair value through income statement by maturities

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

25. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2010	31.12.2009
Mortgage	22 002 377	18 990 611
Current accounts	10 242 356	10 236 438
Operating loans	16 309 368	15 864 588
Investment loans	15 328 866	15 839 990
Payment cards receivables	742 682	691 926
Purchased debt receivables	1 273 616	504 113
Other loans and advances	10 948 687	10 649 385
Debt securities	2 579 089	1 552 129
Repo transactions	1 411 577	2 415 121
Receivables in transit	5 225	29 029
Interest accrued	205 517	194 823
Total gross amount	81 049 360	76 968 153
Impairment provision	(3 990 139)	(3 925 431)
Total net amount	77 059 221	73 042 722

Loans and advances to customers by customer type

	31.12.2010	31.12.2009
Receivables from corporate	43 597 165	45 333 164
Receivables from individuals	30 436 733	27 018 635
Receivables from budget entities	6 809 945	4 421 531
Interest accrued	205 517	194 823
Total gross amount	81 049 360	76 968 153
Impairment provision	(3 990 139)	(3 925 431)
Total net amount	77 059 221	73 042 722

Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by quality

	31.12.2010	31.12.2009
Loans and advances to customers, including:		
gross value of non impaired receivables	75 910 783	72 240 038
gross value of impaired receivables	5 138 577	4 728 115
individual impairment charges	(1 694 440)	(1 800 465)
collective impairment charges (*)	(2 295 699)	(2 124 966)
Total	77 059 221	73 042 722

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

Loans and advances to customers by contractual maturities

	31.12.2010	31.12.2009
Loans and advances to customers, including:		
up to 1 month	14 267 503	14 072 897
between 1 and 3 months	2 921 097	1 056 861
between 3 months and 1 year	11 429 572	8 658 050
between 1 and 5 years	25 067 129	21 471 600
over 5 years	27 158 542	31 513 922
Interest accrued	205 517	194 823
Total gross amount	81 049 360	76 968 153
Impairment provision	(3 990 139)	(3 925 431)
Total net amount	77 059 221	73 042 722

Loans and advances to customers by currencies

	31.12.2010	31.12.2009
PLN	60 185 752	55 450 817
CHF	5 898 358	5 793 302
EUR	9 193 001	10 372 709
USD	1 713 411	1 338 791
Other currencies	68 699	87 103
Total	77 059 221	73 042 722

Changes in impairment balances in 2010 and 2009 are presented in the Note 15.

Notes to financial statements (cont.)

(In PLN thousand)

26. Hedge accounting

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

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

Fair value hedge

Description of hedging relationship

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

Hedged items

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

Hedging derivatives

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

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

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

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

Nominal value of derivatives

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

Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of derivatives

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

Financial Statements presentation

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

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

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

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

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

Description of hedging relationship

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

Hedged items

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

Hedging derivatives

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

Nominal value of derivatives

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

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

Financial Statements presentation

The effective portion of the change in hedging derivatives fair value is recognized in revaluation reserve in equity. The ineffective portion of changes in hedging derivatives fair value is recognized in the result on financial instruments held for trading (Note 10). The interest result on CIRS transactions and hedged items is presented in interest margin (Note 7).

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Changes in revaluation during the period:

	2010	2009
Opening balance	(35 395)	-
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	48 327	(35 395)
Amount of the deferral of fair value changes of hedging instruments of the effective hedge removed from revaluation reserves and presented in net profit or loss	-	-
Closing balance	12 932	(35 395)

Cash flow hedge of floating-rate loans

Description of hedging relationship

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

Hedged items

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

Hedging derivatives

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

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

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

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

Nominal value of derivatives:

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Financial Statement presentation

The effective portion of change in hedging derivatives fair value is recognized in revaluation reserve in equity. The ineffective portion of changes in hedging derivatives fair value is presented in the result on hedge accounting of fair value. The interest result on IRS transactions and hedged items is presented in interest margin (Note 7).

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

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

Changes in revaluation reserves during the period:

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

Fair value hedge of interest rate risk

Description of hedging relationship

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

Hedged items

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

Hedging derivatives

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of hedging derivatives

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

Financial Statement presentation

The portion of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Fair value adjustments in hedge accounting' and as a separate line on the liabilities side. Interest on deposits is presented in net interest income.

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

27. Investment securities

	31.12.2010	31.12.2009
Debt securities available for sale (AFS)	25 914 236	17 520 440
Equity securities available for sale (AFS)	5 802	5 784
Debt securities held to maturity (HTM)	4 509 822	3 767 283
Total	30 429 860	21 293 507

Debt securities available for sale (AFS)

	31.12.2010	31.12.2009
Securities issued by State Treasury	13 026 522	13 004 605
T-bills	-	-
T-bonds	13 026 522	13 004 605
Securities issued by Central Banks	12 556 925	4 199 418
Securities issued by banks	165 205	201 073
Securities issued by business entities	81 097	-
Securities issued by local governments	84 487	115 344
Total	25 914 236	17 520 440
including impairment of assets	-	(4 335)
including:		
quoted	13 191 727	12 251 230
unquoted	12 722 509	5 269 210

Equity securities available for sale (AFS)

	31.12.2010	31.12.2009
Shares	5 802	5 784
quoted	364	329
unquoted	5 438	5 455
Total	5 802	5 784
including impairment of assets	(459)	(2 923)

Debt securities held to maturity (HTM)

	31.12.2010	31.12.2009
Securities issued by State Treasury	4 075 318	3 470 164
T- bills	363 828	491 977
T- bonds	3 711 490	2 978 187
Securities issued by Central Banks	434 504	297 119
Securities issued by business entities	-	-
Total	4 509 822	3 767 283
including impairment of assets	-	-

Notes to financial statements (cont.)

(In PLN thousand)

Investment debt securities according to contractual maturities

	31.12.2010	31.12.2009
Debt securities, including:		
up to 1 month	13 016 366	4 564 110
between 1 and 3 months	362 836	203 852
between 3 months and 1 year	917 032	2 323 484
between 1 and 5 years	11 200 877	10 049 434
over 5 years	4 926 947	4 146 843
Total	30 424 058	21 287 723

Changes in investment (placement) securities

	2010	2009
DEBT SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	17 526 224	13 363 698
Increases (purchase)	367 796 141	176 088 631
Decreases (sale and redemption)	(360 593 363)	(172 604 652)
Changes in fair value	67 700	80 826
Exchange rate differences	91 010	(205 583)
Accrued interest	588 514	558 149
Other changes	443 812	245 155
Closing balance	25 920 038	17 526 224
DEBT SECURITIES HELD TO MATURITY (HTM)		
Opening balance	3 767 283	1 879 061
Increases (purchase)	20 116 886	14 239 290
Decreases (sale and redemption)	(19 564 357)	(12 491 591)
Impairment charges	-	126
Exchange rate differences	(6 190)	(2 181)
Accrued interest	56 009	65 189
Other changes	140 191	77 389
Closing balance	4 509 822	3 767 283
Total investment (placement) securities	30 429 860	21 293 507

28. Reclassification of securities

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

In 2010 and 2009, the Bank did not reclassify any financial instruments into other categories.

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

Notes to financial statements (cont.)

(In PLN thousand)

The tables below present the carrying amount and fair value of the reclassified financial assets

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Net interest income on reclassified financial assets

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

29. Assets and liabilities held for sale and discontinued operations

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

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

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

	31.12.2010	31.12.2009
OJSC UniCredit Bank exposure	2 409 206	-
Property, plant and equipment	23 440	15 118
Other assets	23 458	23 462
Total	2 456 104	38 580

As at 31 December 2010, the exposure in OJSC UniCredit Bank in Ukraine constitutes:

- shares in OJSC UniCredit Bank amounting to PLN 577 349 thousand,
- granted loans and advances and interbank placements totaling to PLN 1 831 857 thousand,
- off-balance sheet commitments, in this guarantees amounting to PLN 5 928 thousand and letter of credits amounting to PLN 541 920 thousand.

In the next years, Pekao Group plans to concentrate its activities on local market and in connection with this the whole exposure in Ukraine will be disposed. Bank intends to dispose of its exposure in Ukraine upon receiving all the necessary approvals.

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

Notes to financial statements (cont.)

(In PLN thousand)

The table below presents changes in the balance of non-current assets held for sale in 2010:

ASSETS HELD FOR SALE	
Opening balance	38 580
Increases, including:	2 418 552
transfer from investments in subsidiaries	577 349
transfer from investment properties	9 221
transfer from loans and advances banks	1 831 857
exchange rate differences	62
other changes	63
Decreases, including:	(1 028)
transfer to property, plant and equipment	(83)
disposal	(693)
exchange rate differences	(163)
other changes	(89)
Closing balance	2 456 104

The 2010 disposals have been settled as follows:

Sales revenues	991
Net carrying amount of disposed assets (including costs of sale)	714
Profit/loss on sale before income tax	277

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

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

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

The 2009 disposals have been settled as follows:

	PROPERTIES
Sales revenues	160 903
Net carrying amount of disposed assets (including costs of sale)	105 434
Profit/loss on sale before income tax	55 469

Notes to financial statements (cont.)

(In PLN thousand)

30. Investments in subsidiaries

Condensed information about subsidiaries as at 31 December 2010 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	1 230 459	1 057 132	180 701	51 506	100.00	56 332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	516 337	453 714	36 600	11 274	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	54 402	225	2 105	2 797	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	57 481	4 085	32 970	12 361	65.00	88 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	36 373	4 431	42 752	9 805	100.00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 339 411	2 881 283	220 327	4 811	36.49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	46 818	12 053	613	4 590	100.00	17 592
PekaoTelecentrum Sp. z o.o.	Cracow	Services	9 468	2	373	337	100.00	8 193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	1 941 461	1 661 121	96 879	17 480	100.00	233 823
Pekao Leasing Holding S.A.	Warsaw	Lease services	225 764	24	1 159	16 118	80.10	166 345
Holding Sp. z o.o. (in liquidation)	Warsaw	Non-financial holding	402	97	491	283	100.00	5
Pekao Property S.A.	Warsaw	Real estate development services	35 767	1 583	1 639	1 352	100.00	24 376
Property Sp. z o.o. (in liquidation)	Warsaw	Real estate management	15 325	404	1	369	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	10 502	5 475	4 387	1 131	100.00	672
Total								793 268

(*) Data available at the date of financial statement.

(**) Total Bank's share in equity of Pekao Leasing Sp. z o.o. amounted to 87.36% (direct Bank's share amounted to 36.49%, indirect share through Pekao Leasing Holding S.A. amounted to 50.87%).

Notes to financial statements (cont.)

(In PLN thousand)

Condensed information about subsidiaries as at 31 December 2009 (*)

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

(*) Data available at the date of financial statement.

(**) Consolidated data including financial data of subsidiaries.

(***) Total Bank's share in equity of Pekao Leasing Sp. z o.o. amounted to 87.36% (direct Bank's share amounted to 36.49%, indirect share through Pekao Leasing Holding S.A. amounted to 50.87%).

Changes in investment into subsidiaries:

	2010	2009
Opening balance	1 426 442	1 506 442
Increases including:	133	-
acquisitions or increase of equity	133	-
Decreases including:	(633 307)	(80 000)
change of impairment losses	-	(80 000)
sale and decrease of equity	(55 958)	-
transfer to non-current assets classified as held for sale	(577 349)	-
Closing balance	793 268	1 426 442

Notes to financial statements (cont.)

(In PLN thousand)

	31.12.2010	31.12.2009
Investment in subsidiaries, including:		
banks	233 823	811 037
other financial institutions	519 201	519 266
non-financial institutions	40 244	96 139
Total	793 268	1 426 442

31. Investments in associates

Information about associates as at 31 December 2010 (*)

NAME OF THE ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing services	111 339	20 160	110 871	24 573	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	344 194	64 223	543 926	116 553	49.00	14 995
Xelion Doradcy Finansowi Sp. z o.o.	Warsaw	Supporting activities, financial and insurance activities	16 672	7 386	40 589	1 674	50.00	12 557
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Property development	48 596	11 949	9 446	1 217	25.00	8 858
CPF Management	Tortola, British Virgin Islands	Advisory services – currently does not provide its services	-	-	-	-	40.00	-
Cental Poland Fund LLC (**)	Wilmington, Delaware, USA	Investment Fund	1 054	58	-	(35)	53.19	1 060
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n.a.	n.a.	n.a.	n.a.	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n.a.	n.a.	n.a.	n.a.	36.20	-
Total								39 345

(*) Data available as at the reporting date

(**) Amounts in USD, the carrying amount in PLN

Notes to financial statements (cont.)

(In PLN thousand)

Information about associates as at 31 December 2009 (*)

NAME OF THE ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing services	111 244	19 389	105 778	25 386	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	370 381	41 341	398 597	110 129	49.00	14 995
Xelion Doradcy Finansowi Sp. z o.o.	Warsaw	Supporting activities, financial and insurance activities	11 404	3 793	23 198	(8 557)	50.00	12 557
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Property development	64 609	20 999	20 400	1 690	25.00	8 858
CPF Management	Tortola, British Virgin Islands	Advisory services – currently does not provide its services	-	-	-	-	40.00	-
Cental Poland Fund LLC (**)	Wilmington, Delaware, USA	Investment Fund	675	-	-	(41)	53.19	1 060
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n.a.	n.a.	n.a.	n.a.	48.90	-
PPP Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n.a.	n.a.	n.a.	n.a.	36.20	-
Total								39 345

(*) Data available as at the reporting date

(**) Amounts in USD, the carrying amount in PLN

Changes in investment in associates

	2010	2009
Opening balance	39 345	56 845
Increases including:	-	7 500
acquisitions or increase of equity	-	7 500
Decreases including:	-	(25 000)
change of impairment losses	-	(25 000)
Closing balance	39 345	39 345

	31.12.2010	31.12.2009
Investment in associates, including:		
banks	-	-
other financial institutions	30 487	30 487
non-financial institutions	8 858	8 858
Total	39 345	39 345

As at December 31, 2010 and December 31, 2009, the Bank did not have the investment in entities under common control.

Notes to financial statements (cont.)

(In PLN thousand)

32. Intangible assets

	31.12.2010	31.12.2009
Intangible assets, including:	619 677	626 787
research and development expenditures	23 855	9 368
licenses and patents	396 169	437 036
other	4 472	4 557
expenditures on intangible assets and advances to expenditures on intangible assets	195 181	175 826
Goodwill	51 675	51 675
Total	671 352	678 462

Goodwill - represents goodwill which has been transferred to Pekao on integration with Bank BPH S.A.

This represents goodwill arising on Bank BPH S.A.'s acquisition of Pierwszy Komercyjny Bank S.A. (PKBL) w Lublinie and relates to those branches of the former PKBL which have been transferred to the Bank in effect of the integration of the Banks. The recognized goodwill related to PKBL amounts to PLN 51 675 thousand.

At 31 December 2010 the Bank carried out a test for impairment of PKBL. The impairment was not recognized.

Below is presented the specification of changes in the item 'Intangibles assets' during the reporting period:

2010	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER (*)	TOTAL
GROSS VALUE				
Opening balance	78 820	1 459 741	210 875	1 749 436
Increases, including:	18 074	104 214	22 772	145 060
acquisitions	-	72	143 993	144 065
other	-	3	992	995
transfer from investments outlays	18 074	104 139	(122 213)	-
Decreases, including:	(9 020)	(3 161)	(2 333)	(14 514)
liquidation	(9 020)	(3 044)	(844)	(12 908)
other	-	(117)	(1 489)	(1 606)
Closing balance	87 874	1 560 794	231 314	1 879 982
ACCUMULATED AMORTIZATION				
Opening balance	69 452	1 022 705	19 531	1 111 688
Amortization for the period	3 587	145 059	2 014	150 660
Liquidation	(9 020)	(3 044)	(844)	(12 908)
Other	-	(95)	(1)	(96)
Closing balance	64 019	1 164 625	20 700	1 249 344
IMPAIRMENT DEDUCTIONS				
Opening balance	-	-	10 961	10 961
Value changes	-	-	-	-
Closing balance	-	-	10 961	10 961
NET VALUE				
Opening balance	9 368	437 036	180 383	626 787
Closing balance	23 855	396 169	199 653	619 677

(*) The item covers mainly investment outlays.

Notes to financial statements (cont.)

(In PLN thousand)

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

(*) The item covers mainly investment outlays.

In 2010 and in 2009 there have been no restrictions to legal titles to intangible assets pledged as collateral.

33. Property, plant and equipment

	31.12.2010	31.12.2009
Non-current assets, including:	1 618 017	1 705 536
land and buildings	1 235 761	1 306 004
machinery and equipment	312 303	336 084
transport vehicles	43 068	32 678
other	26 885	30 770
Non-current assets in progress and prepayments for non-current assets under construction	160 408	40 285
Total	1 778 425	1 745 821

Notes to financial statements (cont.)

(In PLN thousand)

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

2010	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	2 228 334	1 397 404	71 238	359 814	4 056 790
Increases including:	20 677	81 248	25 065	5 195	132 185
acquisitions	-	-	-	31	31
transfer from non-current assets under construction	20 677	80 525	-	4 530	105 732
other	-	723	25 065	634	26 422
Decreases, including:	(32 196)	(57 798)	(19 975)	(11 098)	(121 067)
liquidation and sale	(16 462)	(55 218)	(19 971)	(10 085)	(101 736)
other	(15 734)	(2 580)	(4)	(1 013)	(19 331)
Closing balance	2 216 815	1 420 854	76 328	353 911	4 067 908
ACCUMULATED DEPRECIATION					
Opening balance	919 780	1 054 502	37 249	328 532	2 340 063
Increases including:	80 212	103 943	14 571	8 717	207 443
depreciation for the period	80 195	103 476	13 325	8 282	205 278
other	17	467	1 246	435	2 165
Decreases including:	(18 973)	(56 520)	(18 795)	(10 732)	(105 020)
liquidation and sale	(15 439)	(54 574)	(18 791)	(9 974)	(98 778)
other	(3 534)	(1 946)	(4)	(758)	(6 242)
Closing balance	981 019	1 101 925	33 025	326 517	2 442 486
IMPAIRMENT DEDUCTIONS					
Opening balance	2 550	6 818	1 311	512	11 191
Decreases	(2 515)	(192)	(1 076)	(3)	(3 786)
Closing balance	35	6 626	235	509	7 405
NET VALUE					
Opening balance	1 306 004	336 084	32 678	30 770	1 705 536
Closing balance	1 235 761	312 303	43 068	26 885	1 618 017

Notes to financial statements (cont.)

(In PLN thousand)

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

As at 31 December 2010, the amount of expenditures in the item 'property, plant and equipment under construction' stood at PLN 160 196 thousand (PLN 40 285 thousand as at 31 December 2009).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2010 stood at PLN 2 955 thousand (PLN 1 310 thousand in 2009).

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

Contractual liabilities

As at 31 December 2010, the Bank signed agreements with counterparties for the future purchase of intangible assets totaling PLN 53 340 thousand (including PLN 53 340 thousand in 2011) and property, plant and equipment totaling PLN 20 031 thousand (including PLN 15 274 thousand in 2011).

As at 31 December 2009, the Bank signed agreements with counterparties for the future purchase of intangible assets totaling PLN 74 421 thousand (including PLN 74 421 thousand in 2010) and property, plant and equipment totaling PLN 60 735 thousand (including PLN 60 735 thousand in 2010).

Notes to financial statements (cont.)

(In PLN thousand)

34. Investment property

The Bank values investment property using the historical cost model.

The rights to sell the investment property and the rights to transfer related revenues and profits are not a subject to limitations.

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

	2010	2009
GROSS VALUE		
Opening balance	95 123	112 219
Increases including:	17 260	327
acquisitions	331	327
transfer from property plant and equipment	16 929	-
Decreases, including:	(16 953)	(17 423)
transfer to non-current assets held for sale	(14 841)	(16 436)
other	(2 112)	(987)
Closing balance	95 430	95 123
ACCUMULATED DEPRECIATION		
Opening balance	35 804	38 957
Increases including:	7 620	8 119
transfer from property plant and equipment	5 109	-
other	-	5 541
depreciation for the period	2 511	2 578
Decreases, including:	(6 418)	(11 272)
transfer to non-current assets held for sale	(5 619)	(10 847)
other	(799)	(425)
Closing balance	37 006	35 804
IMPAIRMENT DEDUCTIONS		
Opening balance	4 352	9 979
Decreases, including:	(3 802)	(5 627)
transfer to non-current assets held for sale	(96)	(26)
foreign currency exchange differences	-	(60)
other	(3 706)	(5 541)
Closing balance	550	4 352
NET VALUE		
Opening balance	54 967	63 283
Closing balance	57 874	54 967

The fair value of investment property as at 31 December 2010 stood at PLN 102 852 thousand (PLN 94 541 thousand as at 31 December 2009). Fair value was made on the assessment of a property surveyor holding a recognized and relevant professional qualification.

Notes to financial statements (cont.)

(In PLN thousand)

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

	2010	2009
Rental revenues from investment properties	3 847	4 095
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(938)	(931)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	-	(85)

35. Other assets

	31.12.2010	31.12.2009
Prepaid expenses	33 713	26 225
Perpetual usufruct rights	16 465	16 706
Accrued income	35 684	34 638
Interbank and interbranch settlements	54	4 025
Other debtors	814 220	634 010
Other	56	265
Total	900 192	715 869

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

36. Assets pledged as collateral

As at 31 December 2010 the Bank held the following financial assets pledged as collateral.

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo	bonds	-	-	-
Sell-buy-back	bonds	1 960 068	1 968 547	1 966 188
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	397 982	380 000	-
Lombard and technical loan	bonds	6 625 567	6 706 120	-
Other loans	bonds	462 442	500 000	331 893
Derivatives	bonds	220 356	239 609	96 605

Notes to financial statements (cont.)

(In PLN thousand)

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

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo	bonds	10 953	11 411	10 937
Sell-buy-back	bonds	1 633 067	1 679 470	1 636 608
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds	389 356	380 000	-
Lombard and technical loan	bonds	4 006 146	4 128 971	-
Other loans	bonds	614 435	610 000	377 611

The freeze on securities is a consequence of:

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

37. Amounts due to Central Bank

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

38. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2010	31.12.2009
Current accounts and overnight deposits	1 822 474	1 763 460
Deposits from other banks and other liabilities	1 052 946	1 357 630
Loans and advances received	1 163 389	1 171 416
Funds in transit	31 281	33 816
Repo transactions	1 316 102	1 133 077
Interest accrued	5 967	2 656
Total	5 392 159	5 462 055

Notes to financial statements (cont.)

(In PLN thousand)

Amounts due to other banks by currencies

	31.12.2010	31.12.2009
PLN	3 060 573	3 576 027
CHF	379 537	255 844
EUR	1 601 651	1 263 087
USD	78 052	172 385
Other currencies	272 346	194 712
Total	5 392 159	5 462 055

39. Amounts due to customers

Amounts due to customers by product type

	31.12.2010	31.12.2009
Amounts due to corporate, including:	48 486 220	46 426 147
current accounts and overnight deposits	19 782 795	16 592 063
term deposits and other liabilities	28 618 613	29 736 123
interest accrued	84 812	97 961
Amounts due to budget entities, including:	5 103 516	6 348 733
current accounts and overnight deposits	3 327 568	3 766 713
term deposits and other liabilities	1 763 336	2 576 741
interest accrued	12 612	5 279
Amounts due to individuals, including:	44 841 990	43 177 498
current accounts and overnight deposits	28 632 620	23 854 359
term deposits and other liabilities	16 074 525	19 111 789
interest accrued	134 845	211 350
Repo transactions, including:	650 086	514 281
forward term transactions	649 905	514 156
interest accrued	181	125
Funds in transit	246 996	234 639
Total	99 328 808	96 701 298

Amounts due to customers by currencies

	31.12.2010	31.12.2009
PLN	84 555 830	81 871 698
CHF	122 680	105 810
EUR	8 825 168	8 447 340
USD	5 309 783	5 777 050
Other currencies	515 347	499 400
Total	99 328 808	96 701 298

Notes to financial statements (cont.)

(In PLN thousand)

40. Debt securities issued

Debt securities issued by type

	31.12.2010	31.12.2009
Bonds	-	-
Certificates of deposit	737 272	1 297 059
Interest accrued	528	726
Total	737 800	1 297 785

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

Changes in debt securities issued

	2010	2009
Opening balance	1 297 785	1 719 894
Increase (issuance)	78 401	481 162
Decrease (repurchase)	(634 719)	(846 679)
Decrease (partial payment)	(30 263)	(55 560)
Foreign currency exchange differences	1 737	9 804
Other changes	24 859	(10 836)
Closing balance	737 800	1 297 785

41. Provisions

Roll-forward of provisions in the reporting period

2010	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	15 289	119 410	135 194	11 476	281 369
Provision charges/revaluation	30 357	15 141	50 828	35 760	132 086
Provision utilization	-	-	-	(11 476)	(11 476)
Provision releases	(2 668)	-	(58 185)	-	(60 853)
Foreign currency exchange differences	(984)	-	911	-	(73)
Other changes	(1 185)	(8 933)	(256)	1 185	(9 189)
Closing balance	40 809	125 618	128 492	36 945	331 864

Notes to financial statements (cont.)

(In PLN thousand)

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

Litigation provision

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

Other provisions

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

42. Other liabilities

	31.12.2010	31.12.2009
Deferred income	167 841	163 663
Provisions for holiday leave	50 518	51 132
Provisions for other employee-related liabilities	228 584	151 945
Provisions for administrative costs	66 492	97 466
Other costs to be paid	23 507	15 816
Other creditors	481 797	445 636
Interbank and interbranch settlements	353 210	456 267
Total	1 371 949	1 381 925

43. Employee benefits

Incentive program- management share option plan in the Bank Pekao S.A.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

PROGRAM BASED ON F-CLASS ISSUE		PROGRAM BASED ON G-CLASS ISSUE	
Expiry date	31.12.2010	31.12. 2012	
Realization price (in PLN)	108.37	123.06	
Number of options	415 000	415 000	415 000
Acquisition of rights criteria	1. Realization of individual goals within the MBO program in 2003.	1. Realization of individual goals within the MBO program in 2004.	
	2. Remaining under contract of employment within the Bank's Group on the date of option rights execution.	2. Remaining under contract of employment within the Bank's Group on the date of option rights execution.	
	3. Realization of assumed ROE for 2004	3. Realization of assumed ROE for 2005	3. Realization of assumed ROE for 2006
Fair value (in PLN thousand)	6 462	6 775	7 849
			7 734

ASSUMPTIONS OF THE FAIR VALUE MODEL ADOPTED ON THE DAY OF GRANTED RIGHTS			
Dividend rate (%)	4.27	5.12	
Volatility index (%)	31.75	31.75	
Risk free interest rate (%)	5.33	5.41	6.66
Expected option validity period (in years)	4.76	5.26	6.18
Weighted average of stock price (in PLN)	112.50	125.00	

The fair value of the pre-emptive rights to take up the Bank's shares amounted to PLN 28 820 thousand. It was settled over the estimated period of acquisition of rights to Bank's shares by the participants of the program.

The fair value of the pre-emptive rights to take up the Bank's shares was recognized as at the day of granting the options (pre-emptive rights to take up the Bank's shares) based on the Black-Scholes model for appraisal of dividend-yielding stock options, according to the expectations of the Management Board concerning the number of rights to be exercised. The amount of the employee share program is adjusted as at every balance sheet date if the expectations of the Management Board concerning the number of rights to be exercised change. No efficiency/results data except those related to the price of shares ('market conditions') are taken into account in the assessment of transactions settled in equity instruments.

The expected effective term of the pre-emptive rights to take up the Bank's shares is determined basing on the assumption that the rights will be realized steadily and the Bank does not need to specifically define all possible exercise scenarios.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

The UniCredit Group incentive program

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

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

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

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

- adherence to the corporate system of values, broad perspectives, strong corporate identity and consequence;
- significance of the position: strategic importance to the business performance and corporate governance of the UCI Group;
- the need with respect of employee retention: retention within the Group of the best employees, particularly searched by the competition;
- evaluation of the performance and potential – realization of targets.

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

The fair value of the pre-emptive rights to embrace the shares of the Bank's parent entity granted until 31 December 2010 amounted to PLN 8 454 thousand as at 31 December 2010. It is amortized over the vesting period.

The year 2010 remuneration expense increased by the amount of PLN 3 326 thousand with respect to that (in 2009 – PLN 2 286 thousand).

Notes to financial statements (cont.)

(In PLN thousand)

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

2010	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	2 967 054	16.57/28.09	968 366	-
Granted during the year	-	-	-	-
Redeemed during the year	463 476	16.57/28.09	116 283	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 503 578	16.57/28.09	852 083	-
Executable at the period-end	-	-	-	-

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

2009	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE
Opening balance	3 288 312	17.19/29.14	954 000	-
Granted during the year	-	-	121 161	-
Redeemed during the year	321 258	17.19/29.14	106 795	-
Exercised during the year	-	-	-	-
Terminated during the year	-	-	-	-
Existing at the period-end	2 967 054	17.19/29.14	968 366	-
Executable at the period-end	-	-	-	-

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

Notes to financial statements (cont.)

(In PLN thousand)

44. Operating leases

Bank as a Lessor

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

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

	31.12.2010	31.12.2009
Up to one year	10 801	10 987
Between 1 and 5 years	11 570	17 035
Over 5 years	61	438
Total	22 432	28 460

The amount of the minimum operating lease payments classified as income in 2010 amounted to PLN 30 093 thousand (against PLN 30 487 thousand in 2009).

Bank as a lessee

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

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

	31.12.2010	31.12.2009
Up to one year	122 688	114 298
Between 1 and 5 years	266 648	232 991
Over 5 years	31 586	56 731
Total	420 922	404 020

The amount of the minimum operating lease payments recognized as an expense in 2010 amounted to PLN 204 918 thousand (expense in 2009 amounted to PLN 200 477 thousand).

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

Finance leases

In addition, the Bank as a lessee of cars concludes finance lease contracts with its subsidiary Peak Leasing Sp. z o.o..

This contract gives the Bank opportunity to buy an asset after termination of lease contract.

The carrying amount of net assets being subject of finance lease contracts as at 31 December 2010 amounted to PLN 58 879 thousand and as at 31 December 2009 amounted to PLN 33 008 thousand.

Notes to financial statements (cont.)

(In PLN thousand)

The amount of future minimum lease payments under finance lease can be summarized as follows:

	31.12.2010	31.12.2009
Up to one year	24 126	15 220
Between 1 and 5 years	34 753	17 788
Over 5 years	-	-
Total	58 879	33 008

45. Contingent liabilities

Litigation

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

In 2010 the value of legal proceedings against the Bank amounted to PLN 593 440 thousand (in 2009 PLN 782 042 thousand).

As at 31 December 2010, the most significant claim against the Bank was lodged by private individuals and relates to the damage arose as a result of shares purchase. The total amount in dispute is PLN 306 622 thousand. In the opinion of the Bank the suit is groundless.

As at 31 December 2010, the Bank created provisions for litigation, which according to legal opinion are associated with a risk of outflow of funds related to the fulfillment of court rulings. The value of provisions, created as at 31 December 2010 stood at PLN 40 809 thousand (as at 31 December 2009 PLN 15 289 thousand).

Financial commitments

Financial commitments by entities

	31.12.2010	31.12.2009
Financial commitments to:		
financial entities	2 663 526	3 857 442
non - financial entities	20 476 547	20 916 098
budget entities	1 419 580	1 068 025
Total	24 559 653	25 841 565

Notes to financial statements (cont.)

(In PLN thousand)

Guarantees

Guarantees by entities

	31.12.2010	31.12.2009
Liabilities to financial entities	1 590 172	935 910
guarantees	1 581 062	898 502
confirmed export letters of credit	9 110	37 408
Liabilities to non-financial entities	7 914 931	4 421 708
guarantees	5 236 911	4 271 708
securities' underwriting guarantees	2 678 020	150 000
Liabilities to budget entities	186 763	26 185
guarantees	6 763	24 185
guarantees of securities underwriting	180 000	2 000
Total	9 691 866	5 383 803

Securities underwriting

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

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

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

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

NAME OF ISSUER	TYPE OF SECURITIES	OUTSTANDING UNDERWRITING AMOUNT TO WHICH THE BANK HAS UNDERTAKEN TO COMMIT ITSELF	CONTRACT LIFE	TYPE OF UNDERWRITING
Starostwo Powiatowe Zduńska Wola	Community bonds	2 000	22.03.06 - 31.12.10	Unconditional
Zakład Utylizacyjny Sp. z o.o.	Bonds	150 000	05.08.09 - 31.10.10	Conditional

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

Notes to financial statements (cont.)

(In PLN thousand)

46. Share capital

Shareholding structure

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

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

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

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

	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 212 629	262 212 629
Issue of G- Class shares (realization of the Bank's program of management share option plan)	117 982	117 982
Closing balance	262 330 611	262 330 611

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2010	31.12.2009
Reserve capital	9 313 651	9 309 539
issue of shares above face value	9 124 344	9 120 232
other	189 307	189 307
Revaluation reserve	24 231	(43 541)
revaluation of financial assets portfolio available for sale	1 184	(14 841)
deferred tax	(225)	2 678
revaluation of financial hedging instruments portfolio	25 070	(42 499)
deferred tax	(4 763)	8 075
foreign currency translation differences	2 965	3 046
General Banking Risk Fund	1 437 850	1 337 850
Other reserve capital	6 191 904	4 590 736
Bonds convertible into shares- capital component	34 526	33 391
Provisions for liabilities from dominant entity shares buyout – capital element	2 191	-
Funds for brokerage activities	15 000	15 000
Total other capital	17 019 353	15 242 975
Profit (loss) from previous periods	-	-
Net profit for the period	2 552 022	2 462 263
Total	19 571 375	17 705 238

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

48. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2010	31.12.2009
Cash and amounts due from Central Bank	5 968 748	9 587 211
Loans and receivables from banks with maturity up to 3 months	5 553 930	4 990 706
Cash and Cash equivalents presented in the cash flow statement	11 522 678	14 577 917

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

Notes to financial statements (cont.)

(In PLN thousand)

49. Related party transactions

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2010

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity							
UniCredit S.p.A.	3 558 653	-	-	-	24 740	-	7 897
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	655 991	-	206 642	19 286	1 189 033	555 732	-
Pekao S.A. Group entities							
Subsidiaries							
Open Joint Stock Company UniCredit Bank	1 840 594	-	-	93	230	-	2 063
Pekao Leasing Sp. z o.o.	1 253 118	-	815	-	35 235	-	23
Pekao Faktoring Sp. z o.o.	410 195	-	-	21	1 929	-	-
Centralny Dom Maklerski Pekao S.A.	40	-	-	200	1 017 230	-	264
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	49 212	-	-
Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	-	-	-	317	11 850	-	-
Pekao Telecentrum Sp. z o.o.	-	-	-	-	9 439	-	1
Centrum Kart S.A.	-	-	-	246	29 088	-	8 354
Pekao Financial Services Sp. z o.o.	-	-	-	-	6 243	-	-
Pekao Bank Hipoteczny S.A.	389 861	165 205	56 341	-	29 082	442	122
Pekao Leasing Holding S.A.	-	-	-	-	58	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	3 227	-	-
Holding Sp. z o.o. (in liquidation)	-	-	-	-	359	-	-
Pekao Property S.A.	-	-	-	3	397	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	3 124	2 662	-	4 028
Jana Kazimierza Development Sp. z o.o.	56 512	-	-	-	5 217	-	-
Metropolis Sp. z o.o.	-	-	-	-	816	-	-
FPB-Media Sp. z o.o.	12 995	-	-	-	87	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	694	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	-	9 376	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	142 422	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	21 149	-	-
Total of Pekao S.A. Group entities	3 963 315	165 205	57 156	4 004	1 376 002	442	14 855
Key management Staff of the Bank or its parent entity	3 693	-	-	-	11 562	-	-
Total	8 181 652	165 205	263 798	23 290	2 601 337	556 174	22 752

On 10 December 2010, Bank Pekao S.A. entered into a credit facility agreement with UniCredit Luxembourg, allowing Bank Pekao S.A. to raise a loan from UniCredit Luxembourg up to EUR 500 million.

Notes to financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2009

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity							
UniCredit S.p.A.	2 709 391	-	-	-	826	-	4 571
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	381 396	-	270 987	15 869	1 045 354	286 901	101
Pekao S.A. Group entities							
Subsidiaries							
Open Joint Stock Company UniCredit Bank	2 013 942	-	-	-	7	-	-
Pekao Leasing Sp. z o.o.	1 198 858	-	1 213	-	170 694	30	25 098
Pekao Faktoring Sp. z o.o.	359 370	-	-	-	24 328	-	-
Centralny Dom Maklerski Pekao S.A.	24	-	-	738	812 934	-	175
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	71 211	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	298	18 836	-	-
Pekao Telecentrum Sp. z o.o.	-	-	-	-	9 103	-	-
Centrum Kart S.A.	-	-	-	257	29 932	-	8 116
Pekao Financial Services Sp. z o.o.	-	-	-	-	10 630	-	2
Pekao Bank Hipoteczny S.A.	256 290	201 073	22 823	-	3 824	3 176	-
Pekao Leasing Holding S.A.	-	-	-	-	128	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	3 294	-	-
Holding Sp. z o.o.	-	-	-	-	65 317	-	-
Pekao Property S.A.	-	-	-	-	659	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	-	7 482	-	-
Jana Kazimierza Development Sp. z o.o.	97 908	-	-	-	8 343	-	-
Metropolis Sp. z o.o.	-	-	-	-	1 354	-	-
FPB-Media Sp. z o.o.	14 348	-	-	-	103	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	14 055	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	43	6 463	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	33	169 154	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	9 474	-	-
Total of Pekao S.A. Group entities	3 940 740	201 073	24 036	1 369	1 437 325	3 206	33 391
Key management Staff of the Bank or its parent entity	3 658	-	-	-	13 905	-	-
Total	7 035 185	201 073	295 023	17 238	2 497 410	290 107	38 063

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

Notes to financial statements (cont.)

(In PLN thousand)

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

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	OTHER INCOME	OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	1 728	(120)	244	(3 785)	995	(7 163)
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	115 378	(42 085)	230 204	(5 502)	6 200	(91 607)
Pekao S.A. Group entities						
Subsidiaries						
Open Joint Stock Company UniCredit Bank	89 532	-	8 063	(36)	94	-
Centralny Dom Maklerski Pekao SA	-	(20 536)	2 503	(25)	4 291	(2 571)
Pekao Leasing Sp. z o.o.	38 935	(8 962)	632	-	6 945	-
Pekao Faktoring Sp. z o.o.	8 320	(2)	783	-	82	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(482)	2 582	-	16	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(2 105)	3	-	5	-
Centrum Kart S.A.	-	(615)	36	-	1 220	(60 792)
Pekao Telecentrum Sp. z o.o.	-	(373)	2	-	2	-
Pekao Financial Services Sp. z o.o.	-	(217)	55	(10)	-	-
Pekao Bank Hipoteczny S.A.	15 409	(210)	329	-	146	(9 612)
Pekao Leasing Holding S.A.	-	(2)	5	-	-	-
Holding Sp. z o.o. (in liquidation)	-	(484)	1	-	21	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(79)	5	(4 060)	3 718	(28 220)
Metropolis Sp. z o.o.	-	(38)	3	-	-	-
Property Sp. z o.o. (in liquidation)	-	(121)	2	-	-	-
Pekao Property S.A.	-	(19)	5	-	17	-
Jana Kazimierza Development Sp. z o.o.	5 218	(76)	52	-	-	-
FPB-Media Sp. z o.o.	591	(1)	4	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(5 485)	525	-	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	(289)	22	(42)	150	-
Krajowa Izba Rozliczeniowa S.A.	-	(615)	19	-	-	(10 361)
Pirelli Pekao Real Estate Sp. z o.o.	-	(152)	24	-	5	-
Total of Pekao S.A. Group entities	158 005	(40 863)	15 655	(4 173)	16 712	(111 556)
Key management Staff of the Bank or its parent entity	172	(453)	6	-	-	-
Total	275 283	(83 521)	246 109	(13 460)	23 907	(210 326)

Notes to financial statements (cont.)

(In PLN thousand)

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

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

(*) Data until 30 April 2009

Notes to financial statements (cont.)

(In PLN thousand)

The off-balance sheet exposure related to financing as at 31 December 2010 amounted to PLN 1 454 193 thousand (PLN 1 820 592 thousand as at 31 December 2009); guarantee-related exposure as at 31 December 2010 amounted to PLN 1 412 301 thousand (PLN 761 438 thousand as at 31 December 2009), and no credit card limits as at 31 December 2010 (PLN 30 thousand as at 31 December 2009).

As at December 31, 2010 the off-balance sheet exposure in Open Joint Stock Company UniCredit Bank related to financing did not occur (as at 31 December 2009 it also did not occur), the guarantee-related exposure amounted to PLN 547 848 thousand (PLN 610 075 thousand as at 31 December 2009).

Remuneration of Bank's Management Board and Supervisory Board Members

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

(*) Short-term employee benefits include: base salary, bonuses and other benefits, including in particular the cost of life insurance and health insurance policies and of medical treatment, child education costs. Provision for the expected amount of bonus to be paid in 2011 for the year 2010 in the amount of PLN 6 270 thousand is presented in 'short-term employee benefits'.

(**) The value of share-based payments is a part of Payroll/Employee Expenses, recognized according to IFRS 2 during the reporting period in the income statement, representing the settlement of initial fair value of options (the right of first refusal to take up the Bank stock), allotted to options granted to Members of Management Board of the Bank.

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

50. Repo and reverse repo transactions

The Bank increases its funds through the sale of financial instruments with the repurchase promise granted (repo and sell-buy back) at the same price increased by interest.

Securities treated as repo and sell-buy back transactions are not derecognized from the statement of financial position due to the fact that the Bank holds all benefits and risk deriving from these assets.

Notes to financial statements (cont.)

(In PLN thousand)

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

The Bank purchases securities with the resale in the future promise granted (reverse-repo and buy-sell back) at the same price increased by interest.

Securities treated as reverse repo and buy-sell back transactions are not disclosed at the statement of financial position due to the fact that the Bank do not holds all the advantages and risks deriving from these assets.

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

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

51. Company Social Benefits Fund (ZFŚS)

The Social Benefits Fund Act of 4 March 1994 with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank has created the ZFŚS Fund and is making periodic charges to the ZFŚS Fund in amounts required by the Act. The aim of the ZFŚS Fund is to finance social activities in benefit of the employees and subsidize the social premises.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2010	31.12.2009
Loans granted to employees	44 850	42 367
Cash at ZFŚS account	4 577	5 562
ZFŚS assets	49 427	47 929
ZFŚS value	49 427	47 929
	2010	2009
Deductions made to ZFŚS during fiscal period	26 018	25 787

52. Subsequent events

There have been no significant subsequent events.

Signatures of all Management Board Members

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

Annexes to the financial statements

Annex 1

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

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

EU approval date: 23 December 2009

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

Description:

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

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

EU approval date: 30 June 2010

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

Description:

The proposed amendment would provide relief to first-time adopters from the requirement to provide comparative period disclosures for the information required to be presented by the Amendments to IFRS 7 if the first IFRS reporting period starts earlier than 31 December 2009.

IAS 24 'Related Party Disclosures'

EU approval date: 19 July 2010

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

Description:

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

IFRIC 14 'Prepayments of a Minimum Funding'

EU approval date: 19 July 2010

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

Description:

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

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

EU approval date: 23 July 2010

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

Description:

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

Annex 2

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

IFRS 9 'Financial Instruments'

Date of application: the first financial year beginning after 31 December 2012

Description:

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

Annex 3

Glossary

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

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

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

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

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

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

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

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

IBNR – Incurred But Not Reported losses.

PD – Probability Default – parameter used in A-IRB method which determines the probability of debtor's insolvency. PD denotes with what probability is credit loss expected within time period of one year.

LGD – Loss Given Default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

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

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

EaR – Earnings at Risk – the maximum decrease of earnings, relative to specific goal, which might occur due to influence of market risk on specific risk factors for the given time period and confidence level.

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