



BANK PEKAO SA

Member of  **UniCredit Group**

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

Consolidated Financial Statements of Bank Pekao S.A. Group for the period ended on 31 December 2011

Warsaw, March 2012

Table of content

Consolidated income statement	3	40. Amounts due to other banks.....	106
Consolidated statement of comprehensive income	4	41. Amounts due to customers.....	107
Consolidated statement of financial position	5	42. Debt securities issued.....	108
Consolidated statement of changes in equity	6	43. Provisions.....	108
Consolidated cash flow statement	8	44. Other liabilities.....	109
Notes to financial statements	10	45. Share-based payment.....	109
1. General information.....	10	46. Operating and finance leases.....	112
2. Group structure.....	11	47. Contingent liabilities.....	113
3. Approval of the Financial Statements.....	12	48. Share capital.....	116
4. Significant accounting policies.....	12	49. Other capital and reserves, retained earnings and current year profit.....	117
5. Purposes and rules of financial risk management.....	29	50. Additional information to the consolidated cash flow statement ..	118
6. Custody activity.....	55	51. Related party transactions.....	118
7. Brokerage activity.....	56	52. Repo and reverse repo transactions.....	127
8. Operating segments.....	61	53. Company Social Benefits Fund ('ZFSS').....	128
9. Interest income and expense.....	64	54. Subsequent events.....	128
10. Fee and commission income and expense.....	65	Annexes to the financial statements	I
11. Dividend income.....	66	Annex 1	
12. Result on financial assets and liabilities held for trading.....	66	New standards, interpretations and amendments to published standards that have been approved a published by the European Union and effective from the date after the balance sheet date.....	I
13. Gains (losses) on financial assets and liabilities at fair value through profit or loss.....	66	Annex 2	
14. Gains (losses) on disposal.....	66	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.	II
15. Administrative expenses.....	67	Annex 3	
16. Net other operating income and expenses.....	68	Glossary.....	VI
17. Net impairment losses on financial assets and off-balance sheet commitments.....	69		
18. Gains (losses) on associates.....	71		
19. Income tax.....	71		
20. Earnings per share.....	75		
21. Dividend proposal.....	76		
22. Cash and due from Central Bank.....	76		
23. Loans and advances to banks.....	76		
24. Financial assets and liabilities held for trading.....	77		
25. Derivative financial instruments held for trading.....	78		
26. Other financial instruments at fair value through profit or loss.....	83		
27. Loans and advances to customers.....	83		
28. Receivables from finance leases.....	85		
29. Hedge accounting.....	86		
30. Investment (placement) securities.....	90		
31. Reclassification of securities.....	92		
32. Assets held for sale and discontinued operations.....	94		
33. Investments in associates and subsidiaries.....	98		
34. Intangible assets.....	99		
35. Property, plant and equipment.....	101		
36. Investment property.....	104		
37. Other assets.....	105		
38. Assets pledged as collateral.....	105		
39. Amounts due to Central Bank.....	106		

Consolidated income statement

(In PLN thousand)

	2011 FROM 01.01.2011 UNTIL 31.12.2011			2010 FROM 01.01.2010 UNTIL 31.12.2010			
	NOTE	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Interest income	9	7 179 154	225 066	7 404 220	6 280 436	270 779	6 551 215
Interest expense	9	(2 752 670)	(93 692)	(2 846 362)	(2 325 531)	(122 010)	(2 447 541)
Net interest income		4 426 484	131 374	4 557 858	3 954 905	148 769	4 103 674
Fee and commission income	10	2 895 407	38 648	2 934 055	2 758 056	38 237	2 796 293
Fee and commission expense	10	(467 852)	(17 309)	(485 161)	(411 205)	(17 060)	(428 265)
Net fee and commission income		2 427 555	21 339	2 448 894	2 346 851	21 177	2 368 028
Dividend income	11	10 352	-	10 352	7 889	-	7 889
Result on financial assets and liabilities held for trading	12	583 104	12 007	595 111	559 200	25 016	584 216
Result on fair value hedge accounting	29	(15 757)	-	(15 757)	6 801	-	6 801
Gains (losses) on other financial instruments at fair value through profit or loss	13	(501)	-	(501)	13 952	-	13 952
Gains (losses) on disposal of:	14	75 161	242	75 403	125 869	1 734	127 603
loans and other financial receivables		(320)	289	(31)	5 664	1 380	7 044
available for sale financial assets and held to maturity investments		76 762	(47)	76 715	121 273	354	121 627
financial liabilities		(1 281)	-	(1 281)	(1 068)	-	(1 068)
Operating income		7 506 398	164 962	7 671 360	7 015 467	196 696	7 212 163
Net impairment losses on financial assets and off-balance sheet commitments:	17	(533 407)	(4 532)	(537 939)	(485 887)	(52 041)	(537 928)
loans and other financial receivables		(551 856)	(4 532)	(556 388)	(492 619)	(52 041)	(544 660)
available for sale financial assets and held to maturity investments		-	-	-	-	-	-
off-balance sheet commitments		18 449	-	18 449	6 732	-	6 732
Net result on financial activity		6 972 991	160 430	7 133 421	6 529 580	144 655	6 674 235
Administrative expenses	15	(3 224 686)	(76 896)	(3 301 582)	(3 186 482)	(78 168)	(3 264 650)
personnel expenses		(1 908 495)	(37 659)	(1 946 154)	(1 911 156)	(39 145)	(1 950 301)
other administrative expenses		(1 316 191)	(39 237)	(1 355 428)	(1 275 326)	(39 023)	(1 314 349)
Depreciation and amortization		(368 467)	(9 026)	(377 493)	(379 209)	(12 502)	(391 711)
Net result on other provisions		(5 833)	-	(5 833)	(50 674)	-	(50 674)
Net other operating income and expenses	16	74 901	(836)	74 065	66 377	37	66 414
Operating costs		(3 524 085)	(86 758)	(3 610 843)	(3 549 988)	(90 633)	(3 640 621)
Gain on sale of discontinued operations		-	-	-	-	-	-
Gains (losses) on associates	18	69 968	-	69 968	68 269	-	68 269
Gains (losses) on disposal of property, plant and equipment, and intangible assets		400	-	400	(371)	-	(371)
Profit before income tax		3 519 274	73 672	3 592 946	3 047 490	54 022	3 101 512
Income tax expense	19	(667 884)	(15 966)	(683 850)	(554 116)	(17 057)	(571 173)
Income tax on gain on sale of discontinued operations		-	-	-	-	-	-
Net profit for the period		2 851 390	57 706	2 909 096	2 493 374	36 965	2 530 339
1. Attributable to equity holders of the Bank		2 841 708	57 706	2 899 414	2 488 269	36 965	2 525 234
2. Attributable to non-controlling interest		9 682	-	9 682	5 105	-	5 105
Earnings per share (in PLN per share)							
basic for the period	20	10.83	0.22	11.05	9.49	0.14	9.63
diluted for the period	20	10.83	0.22	11.05	9.48	0.14	9.62

Consolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2011	2010
Net profit		2 909 096	2 530 339
1. Attributable to equity holders of the Bank		2 899 414	2 525 234
2. Attributable to non-controlling interest		9 682	5 105
Other comprehensive income			
Foreign currency translation differences		58 647	11 964
Change in fair value of available-for-sale financial assets		(58 841)	17 320
Change in fair value of cash flow hedges		(49 270)	67 569
Income tax expenses on other comprehensive income	19	9 187	15 496
Other comprehensive income (net)		(40 277)	112 349
Total comprehensive income		2 868 819	2 642 688
1. Attributable to equity holders of the Bank		2 859 137	2 637 583
2. Attributable to non-controlling interest		9 682	5 105

Consolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2011	31.12.2010
ASSETS			
Cash and due from Central Bank	22	4 886 093	5 969 104
Debt securities eligible for rediscounting at Central Bank		100	224
Loans and advances to banks	23	5 586 057	6 258 811
Financial assets held for trading	24	849 711	965 641
Derivative financial instruments (held for trading)	25	2 156 274	1 557 033
Other financial instruments at fair value through profit or loss	26	-	16 735
Loans and advances to customers	27	92 816 389	77 803 730
Receivables from finance leases	28	2 862 760	3 038 975
Hedging instruments	29	408 906	258 688
Investments securities	30	29 119 637	30 398 445
1. Available for sale		25 324 803	25 856 387
2. Held to maturity		3 794 834	4 542 058
Assets held for sale	32	2 931 575	3 246 985
Investments in associates and subsidiaries	33	186 252	214 616
Intangible assets	34	703 355	697 235
Property, plant and equipment	35	1 772 940	1 821 723
Investment properties	36	63 928	64 493
Income tax assets	19	889 952	723 230
1. Current tax receivable		1 950	1 249
2. Deferred tax assets		888 002	721 981
Other assets	37	1 356 177	1 054 218
TOTAL ASSETS		146 590 106	134 089 886
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	39	356 386	727 979
Amounts due to other banks	40	5 544 210	6 913 123
Financial liabilities held for trading	24	-	114 228
Derivative financial instruments (held for trading)	25	2 507 199	1 592 445
Amounts due to customers	41	108 436 964	99 807 236
Hedging instruments	29	1 738 549	710 566
Fair value hedge adjustments of hedged items due to interest rate risk	29	(17 475)	(40 127)
Debt securities issued	42	3 043 919	1 177 158
Liabilities associated with assets held for sale	32	999 985	1 009 074
Income tax liabilities	19	198 997	26 806
1. Current income tax payable		194 560	26 070
2. Deferred tax liabilities		4 437	736
Provisions	43	313 880	305 923
Other liabilities	44	2 110 562	1 488 486
TOTAL LIABILITIES		125 233 176	113 832 897
Equity			
Equity attributable to equity holders of the Bank		21 271 463	20 174 112
Share capital	48	262 382	262 364
Other capital and reserves	49	18 035 191	17 342 617
Retained earnings and profit for the period	49	2 973 890	2 569 131
Non - controlling interest		85 467	82 877
TOTAL EQUITY		21 356 930	20 256 989
TOTAL EQUITY AND LIABILITIES		146 590 106	134 089 886

Consolidated statement of changes in equity

(In PLN thousand)

	EQUITY ATTRIBUTABLE TO BANK STOCKHOLDERS											
	SHARE CAPITAL	OTHER CAPITAL AND RESERVES						OTHER	RETAINED EARNINGS AND CURRENT YEAR PROFIT	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	NON-CONTROLLING INTEREST	TOTAL EQUITY
		TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES					
Equity as at 1.01.2011	262 364	17 342 617	9 124 344	1 437 850	6 525 419	22 099	(136 072)	368 977	2 569 131	20 174 112	82 877	20 256 989
Management options	18	11 849	2 157	-	-	-	-	9 692	-	11 867	18	11 885
Options exercised (share issue)	18	2 157	2 157	-	-	-	-	-	-	2 175	-	2 175
Revaluation of management share options	-	9 692	-	-	-	-	-	9 692	-	9 692	18	9 710
Valuation of financial instrument	-	(87 531)	-	-	-	(87 531)	-	-	-	(87 531)	-	(87 531)
Revaluation of available-for-sale investments net of tax	-	(47 622)	-	-	-	(47 622)	-	-	-	(47 622)	-	(47 622)
Revaluation of hedging financial instruments net of tax	-	(39 909)	-	-	-	(39 909)	-	-	-	(39 909)	-	(39 909)
Appropriation of retained earnings and current year profit	-	703 381	-	100 000	599 988	-	-	3 393	411 393	1 114 774	2 572	1 117 346
Dividend paid	-	-	-	-	-	-	-	-	(1 784 640)	(1 784 640)	(7 110)	(1 791 750)
Profit appropriation	-	703 381	-	100 000	599 988	-	-	3 393	(703 381)	-	-	-
Net profit for the period	-	-	-	-	-	-	-	-	2 899 414	2 899 414	9 682	2 909 096
Other	-	64 875	-	-	27 779	-	37 096	-	(6 634)	58 241	-	58 241
Foreign currency translation differences	-	37 096	-	-	-	-	37 096	-	10 158	47 254	-	47 254
Other connected with consolidation	-	27 779	-	-	27 779	-	-	-	(16 792)	10 987	-	10 987
Equity as at 31.12.2011	262 382	18 035 191	9 126 501	1 537 850	7 153 186	(65 432)	(98 976)	382 062	2 973 890	21 271 463	85 467	21 356 930

Consolidated statement of changes in equity (cont.)

(In PLN thousand)

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

Consolidated cash flow statement

(In PLN thousand)

	NOTE	2011	2010
Cash flow from operating activities – indirect method			
Net profit for the period		2 899 414	2 525 234
Adjustments:		(6 557 083)	3 811 853
Depreciation expense		375 602	391 474
Share of profit (losses) in associates		(69 968)	(68 269)
(Gains) losses on investing activities		(77 133)	(121 256)
Interest and dividend		(1 157 032)	(1 103 507)
Change in loans and advances to banks		780 826	1 072 363
Change in financial assets held for trading and other financial instruments at fair value through profit or loss		132 665	5 165 689
Change in derivative financial instruments (assets)		(599 241)	850 512
Change in loans and advances to customers and debt securities eligible for rediscounting at Central Bank		(15 012 535)	(1 423 735)
Change in receivables from finance leases		176 215	64 502
Change in investment securities available for sale		(364 964)	41 397
Change in tax assets		(146 142)	(56 530)
Change in other assets		(135 197)	(3 688 805)
Change in amounts due to banks		(1 740 506)	(838 079)
Change in liabilities held for trading		(114 228)	(867 126)
Change in derivative financial instruments (liabilities) and other financial instruments at fair value		914 754	372
Change in amounts due to customers		8 629 728	2 557 240
Change in debt securities issued		(11 156)	27 187
Change in provisions		7 957	50 914
Change in other liabilities		1 673 305	1 506 973
Income tax paid (negative sign)		(646 779)	(550 211)
Current tax expense		826 746	800 748
Net cash flows from operating activities		(3 657 669)	6 337 087
Cash flow from investing activities			
Investing activity inflows		315 784 256	382 104 193
Sale of investment securities		315 063 900	381 361 327
Sale of intangible assets and property, plant and equipment		9 454	10 381
Other investing inflows		710 902	732 485
Investing activity outflows		(313 181 226)	(390 326 554)
Acquisition of investment securities		(312 873 289)	(389 926 008)
Acquisition of intangible assets and property, plant and equipment		(307 937)	(400 546)
Net cash flows from investing activities		2 603 030	(8 222 361)

Consolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2011	2010
Cash flows from financing activities			
Financing activity inflows		2 477 336	82 546
Issue of debt securities		2 475 162	78 401
Issue of shares		2 174	4 145
Financing activity outflows		(2 397 636)	(1 719 998)
Redemption of debt securities		(612 996)	(958 902)
Dividends and other payments to shareholders		(1 784 640)	(761 096)
Net cash flows from financing activities		79 700	(1 637 452)
Total net cash flows		(974 939)	(3 522 726)
Net change in cash and cash equivalents		(974 939)	(3 522 726)
Cash and cash equivalents at the beginning of the period		11 130 476	14 653 202
Cash and cash equivalents at the end of the period	50	10 155 537	11 130 476

Notes to financial statements

(In PLN thousand)

1. General information

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

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

The Bank's statistical REGON number is 000010205.

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

Bank Pekao S.A. Capital Group ('Group' or 'Bank Pekao S.A. Group') is part of the UniCredit S.p.A. Group with its seat in Roma, Italy.

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

Bank Pekao S.A. is a universal commercial bank, offering a broad range of banking services on domestic and foreign financial markets, provided to retail and corporate clients, in compliance with the scope of services, set forth in the Bank's Articles of Association. The Bank runs both PLN and forex operations, and it actively participates in both domestic and foreign financial markets. Moreover, acting through its subsidiaries, the Group provides stockbroking, leasing, factoring operations and offering other financial services.

Notes to financial statements (cont.)

(In PLN thousand)

2. Group structure

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2011	31.12.2010
CONSOLIDATED SUBSIDIARIES				
Public Joint Stock Company UniCredit Bank, including:	Lutsk, Ukraine	Banking	100.00	100.00
<i>BDK Consulting Ltd.</i>	<i>Lutsk, Ukraine</i>	<i>Consulting, hotel and transport services</i>	99.99	99.99
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage	100.00	100.00
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	100.00	100.00
Pekao Leasing Sp. z o.o. (*)	Warsaw	Leasing services	36.49	36.49
Pekao Faktoring Sp. z o.o.	Lublin	Factoring services	100.00	100.00
Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	65.00	65.00
Pekao Telecentrum Sp. z o.o.	Cracow	Services	100.00	100.00
Centrum Kart S.A.	Warsaw	Financial support	100.00	100.00
Pekao Financial Services Sp. z o.o.	Warsaw	Financial services	100.00	100.00
Pekao Bank Hipoteczny S.A.	Warsaw	Banking	100.00	100.00
Pekao Leasing Holding S.A., including (*):	Warsaw	Leasing services	80.10	80.10
<i>Pekao Leasing Sp. z o.o.</i>	<i>Warsaw</i>	<i>Leasing services</i>	50.87	50.87
Holding Sp. z o.o. /in liquidation/	Warsaw	Non-financial holding	100.00	100.00
Centrum Bankowości Bezpośredniej Sp. z o. o.	Cracow	Call-center services	100.00	100.00
Pekao Property S.A., including:	Warsaw	Real estate development	100.00	100.00
<i>Metropolis Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	100.00	100.00
<i>Jana Kazimierza Development Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	100.00	100.00
Property Sp. z o.o./in liquidation/, including:	Warsaw	Real estate management	100.00	100.00
<i>FPB - Media Sp. z o.o.</i>	<i>Warsaw</i>	<i>Real estate development</i>	100.00	100.00

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

As at 31 December 2011, all of the subsidiaries have been consolidated.

Pekao Property S.A., Metropolis Sp. z o.o., Jana Kazimierza Development Sp. z o.o., Property Sp. z o.o. (in liquidation) and FPB - Media Sp. z o.o. have been consolidated for the first time.

Notes to financial statements (cont.)

(In PLN thousand)

Associates

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

NAME OF ENTITY	LOCATION	CORE ACTIVITY	PERCENTAGE OF THE GROUP'S OWNERSHIP RIGHTS IN SHARE CAPITAL/ VOTING	
			31.12.2011	31.12.2010
Central Poland Fund LLC (*)	Wilmington, Delaware USA	Mutual fund	53.19	53.19
Xelion. Doradcy Finansowi Sp. z o.o. (*)	Warsaw	Financial intermediation	50.00	50.00
Pioneer Pekao Investment Management S.A.	Warsaw	Asset management	49.00	49.00
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate development	25.00	25.00
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing house	34.44	34.44
CPF Management	Tortola, British Virgin Islands	Financial brokerage – not operating	40.00	40.00
Polish Banking System S.A. /in liquidation/	Warsaw	Pending liquidation	48.90	48.90
PPU Budpress Sp. z o.o. /in liquidation/	Żyrardów	Pending liquidation	36.20	36.20

(*) The Group has no control over the entities due to provisions in the Company's Articles of Association.

As at 31 December, 2011 the Group held no shares in entities under common control.

3. Approval of the Financial Statements

These Consolidated Financial Statements were approved for publication by the Bank's Management Board on 19 March 2012.

4. Significant accounting policies

4.1 Statement of compliance

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

4.2 Basis of preparation of Consolidated Financial Statements

General information

These Consolidated Financial Statements of the Group, which have been prepared for the period from January 1 to December 31, 2011, contain the financial results of the Bank and of its subsidiaries, comprising the 'Group', as well as the results of associated entities, measured using the equity method.

The financial statements have been prepared in Polish zloty, and all data in the financial statements are presented in PLN thousand (PLN '000), unless indicated otherwise.

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

The Consolidated Financial Statement does not take into consideration changes in standards and interpretations, which are awaiting approval or were enacted after the balance sheet date (Annex I and Annex II to the Consolidated Financial Statement).

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

IFRS 9 concerning financial assets 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.

In 2011, the International Accounting Standards Board (IASB) approved and published new standards, in this:

- IFRS 10 'Consolidated Financial Statements',
- IFRS 11 'Joint Arrangements',
- IFRS 12 'Disclosure of Interests in Other Entities',
- IFRS 13 'Fair Value Measurement'.

The Bank is currently conducting an analysis to assess the potential impacts of the new standards on the financial statements.

On 12 May 2011 the International Accounting Standard Board issued IFRS 10 'Consolidated Financial Statements' which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 'Consolidation—Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' and is binding for annual periods starting from or after 1 January 2013. It is permitted to be applied earlier, however. IFRS 10 is based on the existing rules which define the concept of control as the determining factor when deciding whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidelines useful in assessing the existence of the control, where it is difficult to determine.

On 12 May 2011 the International Accounting Standard Board published IFRS 11 'Joint Arrangements', which becomes effective for reporting periods starting from or after 1 January 2013 and provides for more realistic presentation of joint arrangements by focusing on rights and obligations resulting from them and not on their legal form as it is currently. The standard overcomes inconsistencies in reporting joint arrangements by implementing a single method of accounting shares in jointly controlled entities.

On 12 May 2011 the International Accounting Standard Board issued IFRS 12 'Disclosure of Interests in Other Entities'. It is a new and comprehensive standard defining the requirements of disclosure of all forms of interests in other entities, including subsidiaries, joint arrangements, associates and other unconsolidated entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Its earlier application is allowed.

Notes to financial statements (cont.)

(In PLN thousand)

On 12 May 2011 the International Accounting Standard Board published IFRS 13 'Fair Value Measurement'. The standard, which becomes effective for reporting periods starting from or after 1 January 2013, establishes a single framework for fair value measurements and sets the obligation for disclosure of data on fair value valuation. IFRS 13 does not set out when an asset, liability or entity's own equity instruments should be measured at fair value. On the contrary, it describes how to measure fair value or disclosure the data under IFRS when other standards require or allow this (with few exceptions).

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

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

The accounting principles as described below have been consistently applied for all the reporting periods.

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

4.3 Consolidation

Principles for consolidation

The consolidated financial statements of Bank Pekao S.A. Group include the financial data of Bank Pekao S.A. and its subsidiaries as at 31 December 2011. Financial statements of the subsidiaries are prepared for the same reporting date as those of the parent entity, using consistent accounting policy within the Group in all important aspects.

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

Investments in subsidiaries

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

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

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

Recognition of common control transactions at book value

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

The adopted accounting policy is as follows:

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

Investments in Associates

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

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

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

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

Investments in entities under common control

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

4.4 Accounting estimates

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

- **Measurement of derivatives and unquoted debt securities available for sale**
The fair value of derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Group also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments.
- **Measurement of management share options**
Assumptions made regarding measurement of management share options are described in Note 45 'Share-based payment'.
- **Calculation of provision for retirement and pension severance payments**
The provision for severance payments is determined case-by-case, for each employee separately, in accordance with the projected individual eligibility forecast method.

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

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

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

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

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

- **Goodwill**
The Bank performs an annual impairment test of goodwill, resulting from the merger of Bank Pekao S.A. with the organized part of Bank BPH S.A. under the occurrence of impairment prerequisites on a yearly basis.

4.5 Foreign currencies

- **Functional and presentation currency**
The financial statements of individual Group entities, including the Bank's Branch in Paris, are presented in their functional currencies, i.e. in the currency of the primary economic environment in which the entity operates. The Consolidated Financial Statements are presented in Polish zloty. Polish zloty is the functional currency and the presentation currency of the Bank. The Group applies as the closing rate the average the National Bank of Poland ('NBP') exchange rate, valid as at the balance sheet date.
- **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.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

- Companies of the Group

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

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

- to translate statement of financial position items as at 31 December 2011 and as at 31 December 2010, average exchange rates announced by the NBP on 31 December 2011 and on 31 December 2010, respectively, have been used:

	31.12.2011	31.12.2010
PLN for UAH 1	0.4255	0.3722
PLN for EUR 1	4.4168	3.9603

- for translation of income statement items for the period from 1 January 2011 until 31 December 2011 and for the period from 1 January 2010 until 31 December 2010, 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 2011 until 31 December 2011 and during the period from 1 January 2010 until 31 December 2010, respectively, as follows:

	2011	2010
PLN for UAH 1	0.3716	0.3830
PLN for EUR 1	4.1401	4.0044

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

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

Notes to financial statements (cont.)

(In PLN thousand)

4.6 Income statement

Interest income and expenses

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

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

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

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

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

Fee and commission income and expense

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

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

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

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

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

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

- 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.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

Other operating income/expense

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

4.7 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

- Available for sale

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

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

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

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

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

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

Derivative instruments are recognized and derecognized on transaction dates.

Reclassification of financial assets

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

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

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

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

Impairment of financial assets

Assets valued at amortized cost- loans and receivables

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

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

- substantial financial difficulties endured by the issuer or debtor,
- failure to meet the terms and conditions of contract, such as e.g. defaulting on a repayment or falling into arrears with interest, principal or commission fee payments by at least 90 days,
- debt restructuring caused by debtor's financial problems,

Notes to financial statements (cont.)

(In PLN thousand)

- filing for insolvency recovery proceedings,
- disappearance of active markets for given financial assets, caused by financial difficulties of the issuer,
- starting enforcement proceedings,
- observable data indicating a measurable decrease in estimated future cash flows, associated with a group of financial assets from initial recognition of such assets, even if a reduction for a single item of such group of financial assets may not be determined, including:
 - adverse changes in the payment status of borrowers in the group, or
 - national or local economic situation, associated with the default on payment of assets within the group.

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

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

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

When objective evidence of impairment of financial assets, classified as loans and receivables, receivables from finance lease or investments held to maturity, is identified, the amount of such impairment allowance 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 allowances, which is recorded in the profit or loss for the given period.

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

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

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

When the impairment amount is reduced subsequently to its initial measurement (e.g. debtor's improved credit rating), the impairment allowance 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 Group records a provision for losses incurred but not reported (IBNR). The IBNR impairment allowance reflects the loan impairment amount incurred as a result of impairment events that have already occurred, which the Group has not yet specifically identified at the balance-sheet date. This impairment allowance is determined using the historical pattern of losses on assets with similar risk features. The IBNR impairment allowance is calculated using statistical models for loan groups combined in homogeneous portfolios developed using historic observations data. The IBNR calculation takes into account the default emergence period concept for each type of homogeneous loan portfolio.

Financial assets available for sale

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Off-balance sheet liabilities

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

Repo and reverse-repo agreements

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

Fair value hedge accounting principles

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

Cash flow hedge accounting principles

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

Intangible assets

Goodwill

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

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

Other intangible assets

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

These mainly include:

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Depreciation and amortization

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

The statement of financial position depreciation and amortization 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.

Notes to financial statements (cont.)

(In PLN thousand)

Leases

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

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

Operating leases

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

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

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

Finance leases

The Group as lessor

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

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

The Group as lessee

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

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

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

Provisions

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Employee benefits provisions

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

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

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

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

Deferred income and accrued expenses (liabilities)

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

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

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

Equity of the Group

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

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

Group equity consists of the following:

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

Notes to financial statements (cont.)

(In PLN thousand)

- retained earnings from prior periods includes undistributed profit and uncovered losses generated/incurred in prior periods by subsidiaries consolidated full method,
- net profit/loss which constitutes profit/loss presented in the income statement for the relevant period. Net profit is after accounting for income tax.

Non - controlling interests

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

Share-based payments

Employee participation programs are established by the Group under which key management staff is granted pre-emptive rights to buy shares of the Bank and shares of UniCredit S.p.A. (see Note 45).

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

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

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

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

The diluting effect of options issued is taken into account in the calculation of earnings per share as additional dilution of shares (see Note 20).

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

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

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

The expenses related to the rights granted are recognized in 'Wages and salaries' costs and respective increase is recognized in Bank's equity presented in 'Other capital and reserves'.

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

Notes to financial statements (cont.)

(In PLN thousand)

4.9 Income tax

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

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

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

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

4.10 Other

Contingent liabilities and commitments

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

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

Cash and cash equivalents

Cash and cash equivalents in the consolidated cash flow statement include 'Cash' and 'Due from the Central Bank' and loans and receivables from banks with maturities of up to three months.

5. Purposes and rules of financial risk management

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

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

5.1 Organizational structure of risk management

Supervisory Board

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

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.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

Assets, Liabilities and Risk Management Committee (ALCO)

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

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

Risk Management Division

The Division is responsible for:

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

5.2 Credit risk

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

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

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 credit policy,
- product limits (mortgage loans given to private individuals, financing commercial real estate) - established in the Bank's credit policy,
- concentration limits for specific sectors of the economy - approved by the Credit Committee of the Bank.

Notes to financial statements (cont.)

(In PLN thousand)

Since key limits are determined by decision-making bodies which simultaneously receive and analyze reports on credit risk (presenting also 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 models are designed for calculation of the expected losses resulted from credit risk.

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

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

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

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

Rating models were built based on client segments and types of credit products.

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

- mortgage loans,
- consumer loans,
- non-installment loans (limits).

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 (except for financial institutions, municipalities and clients requiring specialist financing) into the following groups:

- clients with income not exceeding PLN 30 million,
- clients with income exceeding PLN 30 million.

Notes to financial statements (cont.)

(In PLN thousand)

For special-purpose loans, the Bank adopts slotting criteria approach within internal rating method which uses supervisory categories in the process of assigning risk weigh category.

Percentage distribution for special-purpose loans portfolio exposure as at 31 December 2011 (excluding impairment provisions)

SUPERVISORY CATEGORY	NOMINAL VALUE
High	25.6%
Good	67.2%
Satisfactory	6.9%
Low	0.3%
Total	100.0%

Rating scale

The rating scale is determined by the client segment and the exposure type.

The process of assigning a client or an exposure to a given rating class depends on its probability of default (PD parameter).

The tables below present the loan portfolio quality depending on percentage distribution of rating classes for exposures encompassed by internal rating models.

The distribution of rated portfolio for individual client segment as at 31 December 2011 (excluding impairment provisions)

RATING CLASS	MORTGAGE LOANS		CONSUMER LOANS		NON-INSTALLMENT LOANS	
	RANGE OF PD	NOMINAL VALUE	RANGE OF PD	NOMINAL VALUE	RANGE OF PD	NOMINAL VALUE
1	0.00% <= PD < 0.19%	5.9%	0.00% <= PD < 0.30%	6.7%	0.00% <= PD < 0.01%	0.5%
2	0.19% <= PD < 0.24%	12.8%	0.30% <= PD < 0.50%	8.2%	0.01% <= PD < 0.03%	14.9%
3	0.24% <= PD < 0.31%	29.0%	0.50% <= PD < 0.60%	5.4%	0.03% <= PD < 0.04%	9.9%
4	0.31% <= PD < 0.40%	34.8%	0.60% <= PD < 0.80%	13.9%	0.04% <= PD < 0.07%	3.1%
5	0.40% <= PD < 0.61%	5.8%	0.80% <= PD < 1.30%	17.2%	0.07% <= PD < 0.15%	7.6%
6	0.61% <= PD < 1.02%	1.8%	1.30% <= PD < 2.10%	17.7%	0.15% <= PD < 0.25%	16.3%
7	1.02% <= PD < 2.20%	2.7%	2.10% <= PD < 3.70%	13.9%	0.25% <= PD < 0.59%	18.9%
8	2.20% <= PD < 6.81%	2.9%	3.70% <= PD < 7.20%	7.0%	0.59% <= PD < 1.20%	10.4%
9	6.81% <= PD < 14.10%	1.6%	7.20% <= PD < 15.40%	3.1%	1.20% <= PD < 2.58%	14.2%
10	14.10% <= PD < 100.00%	2.7%	15.40% <= PD < 100.00%	6.9%	2.58% <= PD < 100.00%	4.2%
Total		100.0%		100.0%		100.0%

Notes to financial statements (cont.)

(In PLN thousand)

The distribution of rated portfolio for the SME clients as at 31 December 2011 (excluding impairment provisions)

RATING CLASS	RANGE OF PD	NOMINAL VALUE
1	0.00% <= PD < 0.11%	1.5%
2	0.11% <= PD < 0.22%	4.3%
3	0.22% <= PD < 0.45%	8.6%
4	0.45% <= PD < 1.00%	17.2%
5	1.00% <= PD < 2.10%	18.3%
6	2.10% <= PD < 4.00%	15.6%
7	4.00% <= PD < 7.00%	12.7%
8	7.00% <= PD < 12.00%	9.3%
9	12.00% <= PD < 22.00%	8.0%
10	22.00% <= PD < 100.00%	4.5%
Total		100.0%

The distribution of rated portfolio for the corporate clients as at 31 December 2011 (excluding impairment provisions)

RATING CLASS	RANGE OF PD	NOMINAL VALUE
1	0.00% <= PD < 0.04%	0.0%
2	0.04% <= PD < 0.08%	0.9%
3	0.08% <= PD < 0.12%	1.8%
4	0.12% <= PD < 0.19%	5.9%
5	0.19% <= PD < 0.28%	8.3%
6	0.28% <= PD < 0.42%	2.2%
7	0.42% <= PD < 0.63%	9.6%
8	0.63% <= PD < 0.94%	12.3%
9	0.94% <= PD < 1.57%	8.2%
10	1.57% <= PD < 2.50%	12.3%
11	2.50% <= PD < 3.40%	4.6%
12	3.40% <= PD < 4.37%	10.9%
13	4.37% <= PD < 5.80%	5.9%
14	5.80% <= PD < 7.80%	5.5%
15	7.80% <= PD < 11.00%	6.2%
16	11.00% <= PD < 20.00%	5.4%
17	20.00% <= PD < 100.00%	0.0%
Total		100.0%

Notes to financial statements (cont.)

(In PLN thousand)

Client/transaction rating and credit risk decision-making level

The rating received by an applicant of a given transaction directly impacts the decision-making criteria, which is associated with an approval of a transaction.

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

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

Validation of rating models

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

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

Exposure to credit risk

The maximum credit risk exposure

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

	31.12.2011	31.12.2010
Due from Central Bank	2 649 856	3 495 772
Loans and advances from banks and from customers	98 402 546	84 062 765
Net investments in finance leases	2 862 760	3 038 975
Financial assets held for trading	849 711	965 641
Derivative financial instruments (held for trading)	2 156 274	1 557 033
Other financial instruments at fair value through profit or loss	-	16 735
Hedging instruments	408 906	258 688
Investment securities	29 119 637	30 398 445
Other assets	1 377 833	1 207 365
Balance sheet exposure	137 827 523	125 001 419
Obligations to grant loans	26 443 978	24 581 149
Other contingent liabilities	8 967 573	9 038 392
Off-balance sheet exposure	35 411 551	33 619 541
Total	173 239 074	158 620 960

Credit risk mitigation methods

Bank Pekao S.A. Group has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Enclosure No. 17 to Resolution No. 76/2010 of Polish Financial Supervision Authority ('KNF').

Notes to financial statements (cont.)

(In PLN thousand)

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

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

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 920 127 thousand as at the 31st December 2011 (PLN 821 455 thousand as of the 31st December 2010). The level of required impairment allowances for the portfolio would increase by this amount, if the discounted cash flows from collateral were not taken into account during estimation.

Overall characteristics of monitoring process

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Overall characteristics of provisioning model

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

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

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

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

If an impairment trigger is not recognized, the Group establishes provisions for incurred but not reported losses (IBNR) applying a statistical model of expected loss.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

The quality analysis of the Group's financial assets

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
- not past due	1 181	1 024	916 009	691 018
- up to 1 month	-	-	303 755	45 310
- between 1 month and 3 months	-	-	23 523	80 918
- between 3 months and 1 year	-	-	472 734	320 632
- between 1 year and 5 years	62 964	62 964	1 009 748	1 361 483
- above 5 years	-	-	946 989	709 795
Total gross carrying amount	64 145	63 988	3 672 758	3 209 156
ALLOWANCE FOR IMPAIRMENT				
- not past due	(1 181)	(1 024)	(120 060)	(122 570)
- up to 1 month	-	-	(167 011)	(9 716)
- between 1 month and 3 months	-	-	(8 724)	(9 966)
- between 3 months and 1 year	-	-	(140 467)	(96 204)
- between 1 year and 5 years	(54 000)	(54 000)	(670 243)	(995 141)
- above 5 years	-	-	(787 883)	(574 159)
Total allowance for impairment	(55 181)	(55 024)	(1 894 388)	(1 807 756)
Net carrying amount of exposure individually impaired	8 964	8 964	1 778 370	1 401 400
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
- not past due	-	-	74 919	47 739
- up to 1 month	-	-	27 118	21 356
- between 1 month and 3 months	-	-	28 235	38 870
- between 3 months and 1 year	-	-	494 937	594 688
- between 1 year and 5 years	-	-	1 423 248	1 145 862
- above 5 years	16 632	19 371	626 405	656 585
Total gross carrying amount	16 632	19 371	2 674 862	2 505 100
ALLOWANCE FOR IMPAIRMENT				
- not past due	-	-	(43 533)	(32 229)
- up to 1 month	-	-	(16 776)	(12 192)
- between 1 month and 3 months	-	-	(17 293)	(21 186)
- between 3 months and 1 year	-	-	(307 941)	(362 505)
- between 1 year and 5 years	-	-	(1 185 341)	(943 559)
- above 5 years	(16 628)	(19 361)	(622 183)	(650 451)
Total allowance for impairment	(16 628)	(19 361)	(2 193 067)	(2 022 122)
Net carrying amount of exposure collectively impaired	4	10	481 795	482 978

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS (*)		LOANS AND ADVANCES TO CUSTOMERS (*)			
			CORPORATE		RETAIL	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT						
- not past due	5 578 140	6 255 682	57 843 701	48 457 358	33 123 595	28 331 724
- up to 30 days	-	-	864 221	853 489	1 439 555	1 168 971
- between 30 days and 60 days	-	-	252 639	182 719	219 130	184 717
- above 60 days	-	-	94 158	67 235	117 329	112 900
Total gross carrying amount	5 578 140	6 255 682	59 054 719	49 560 801	34 899 609	29 798 312
IBNR PROVISION:						
- not past due	(746)	(2 614)	(234 886)	(157 564)	(131 034)	(74 599)
- up to 30 days	-	-	(7 858)	(13 417)	(104 072)	(60 124)
- between 30 days and 60 days	-	-	(2 415)	(12 680)	(31 803)	(38 050)
- above 60 days	-	-	(1 442)	(2 672)	(22 039)	(44 687)
Total IBNR provision	(746)	(2 614)	(246 601)	(186 333)	(288 948)	(217 460)
Net carrying amount of exposure with no impairment	5 577 394	6 253 068	58 808 118	49 374 468	34 610 661	29 580 852

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

Classification of exposures to debt securities according to Standard & Poor's ratings as at 31 December 2011

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+	601 813	-	14 885 948	3 119 353	3 755 536	22 362 650
BBB+ to BBB-	-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-	-
B+ to B-	-	-	-	-	-	-
below B-	-	-	-	-	-	-
no rating	247 898	-	10 421 317 (*)	675 481 (**)	-	11 344 696
Total	849 711	-	25 307 265	3 794 834	3 755 536	33 707 346

(*) including NBP bills in an amount of PLN 9 718 216 thousand PLN

(**) including NBP bills in an amount of PLN 675 481 thousand PLN

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

Derivative financial instruments

	TRADING DERIVATIVES		DERIVATIVE HEDGING INSTRUMENTS	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Banks	1 764 980	1 350 453	95 595	87 573
Other financial institutions	22 342	5 794	-	-
Non-financial entities	368 952	200 786	313 311	171 115
Total	2 156 274	1 557 033	408 906	258 688

Credit risk concentration

According to the Banking Law the total exposure of a Bank to the risks associated with the single borrower or a group of borrowers in which entities are related by capital or management may not exceed 25% of a bank's equity. In 2011 the maximum exposure limits set forth in the Banking Law were not exceeded.

Notes to financial statements (cont.)

(In PLN thousand)

a) Breakdown by individual entities:

As at 31.12.2011

EXPOSURE TO 10 LARGEST CLIENTS OF THE BANK	% SHARE OF PORTFOLIO
Client 1	1.8%
Client 2	1.1%
Client 3	1.0%
Client 4	0.8%
Client 5	0.7%
Client 6	0.7%
Client 7	0.6%
Client 8	0.6%
Client 9	0.6%
Client 10	0.6%
Total	8.5%

12.2% of the exposure is accounted by the State Treasury, while 87.8% pertains to exposure to large corporate clients. None of the exposures mentioned above were classified as non-performing.

b) Concentration by capital groups:

As at 31.12.2011

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1	1.9%
Group 2	1.9%
Group 3	1.2%
Group 4	1.1%
Group 5	1.1%
Total	7.2%

c) Breakdown by industrial sectors:

In order to mitigate credit risk associated with excessive sector concentration the Bank employs a system for monitoring the sector structure of its credit exposure. The system involves setting concentration ratios for particular sectors, monitoring the loan portfolio and procedures for exchanging information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Działalności – PKD).

Concentration ratios are determined on the basis of the Bank's current lending exposure to the particular sector and risk assessment of each sector. Periodic comparison of the Bank's exposure to particular sectors with the current concentration ratio allows timely identification of the sectors in which the concentration of sector risk may become excessive. In such situation arises, an analysis of the economic situation of the 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 (sectors with share of minimum 2%):

SECTOR DESCRIPTION	31.12.2011	31.12.2010
Services	16.9%	16.5%
Public administration	13.4%	9.6%
Real estate	12.4%	12.6%
Energy	10.3%	11.8%
Construction and timber industry	8.4%	9.1%
Manufacture of basic metals and fabricated metal products	6.1%	6.1%
Financial intermediation	5.7%	6.2%
Manufacture of chemical and pharmaceutical products	5.4%	6.0%
Transport	4.1%	4.0%
Manufacture of food products and beverages	3.4%	3.9%
Manufacture of pulp, paper and paper products, publishing and printing	2.9%	2.6%
Manufacture of vehicles	2.8%	2.8%
Telecommunication and IT	2.8%	3.1%
Other sectors	5.4%	5.7%
Total	100.0%	100.0%

Credit risk management of Public Joint Stock Company UniCredit Bank

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

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

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

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

	31.12.2011		31.12.2010	
	CORPORATE	RETAIL	CORPORATE	RETAIL
GROSS CARRYING AMOUNT OF EXPOSURE WITH NO IMPAIRMENT				
– not past due	1 152 425	227 623	1 807 632	229 482
– up to 30 days	119 065	5 779	38 092	16 617
– between 30 days and 60 days	10 920	2 840	-	5 139
– over 60 days	-	2 392	2 837	1 884
Total gross carrying amount	1 282 410	238 634	1 848 561	253 122
IBNR	(26 171)	(997)	(37 757)	(2 808)
Net carrying amount of exposure with no impairment	1 256 239	237 637	1 810 804	250 314

Notes to financial statements (cont.)

(In PLN thousand)

	31.12.2011	31.12.2010
	CORPORATE AND RETAIL	CORPORATE AND RETAIL
GROSS CARRYING AMOUNT OF IMPAIRED EXPOSURE		
<i>Individually impaired exposure</i>		
Gross carrying amount	216 938	293 218
Allowance for impairment	(144 609)	(108 616)
Net carrying amount of exposure individually impaired	72 329	184 602
<i>Collectively impaired exposure</i>		
Gross carrying amount	163 383	138 782
Allowance for impairment	(93 917)	(78 691)
Net carrying amount of exposure collectively impaired	69 466	60 091

Most of credit portfolio of UCB consists of corporate loans, including receivables from the biggest companies from Ukraine. 25 largest debtors belonging to international groups constitute 77.7% of corporate loans portfolio and 42.6% of all credit exposures of the Bank. Credit activities connected with financing corporate clients concentrate on investment and working capital loans.

5.3. Market risk

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

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

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

The Group 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 is to optimize financial results and the influence on the worth of economic capital assuring the implementation of financial goals, while keeping the exposure to market risk within the limits of risk approved by the Management Board and the Supervisory Board.

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

Market risk of the trading book

The Group management of market risk of the trading book aims at optimizing the financial results and assuring the highest possible quality of customer service in reference to the market accessibility (market making) while staying within the limits of risk approved by the Management Board and the Supervisory Board.

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

Notes to financial statements (cont.)

(In PLN thousand)

The model is subject to continuous, statistical verification by comparing the VaR values to actual performance figures. Results of analyses carried out in 2011 and 2010 confirmed the adequacy of the applied model.

The table below presents the market risk exposure of the trading portfolio of the Group measured by Value at Risk in 2011:

IN PLN THS	31.12.2011	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
foreign exchange risk	38	10	325	2 641
interest rate risk	4 302	3 686	4 962	6 811
Trading portfolio	4 327	3 426	4 979	6 942

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

Interest rate risk of the banking book

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

The table below presents the sensitivity levels of the interest income (NII) to interest rate decline by -100 b.p. and sensitivity levels of economic value of the Group's equity (EVE) to interest rate growth by +200 b.p. assuming perfect elasticity of the Group's administrated rates to the markets rates changes (excluding current accounts priced in PLN, for which the Group implemented the model adjusting the profile of product's revaluation) as at the end of December 2011 and 2010.

SENSITIVITY IN %	31.12.2011	31.12.2010
NII	(7.56)	(7.51)
EVE	(2.67)	(2.89)

Currency risk

Currency risk management is performed simultaneously for the trading and the banking book. The objective of currency risk management is to maintain the currency profile of statement of financial position and off-balance items within the internal limits. For internal needs, the Group's exposure to currency risk is measured daily using the VaR model, as well as stress testing analysis, which serves as a supplement to the VaR method.

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

CURRENCY	31.12.2011	31.12.2010
USD	674	577
EUR	1 686	1 392
CHF	120	203
Other	54	79
Currencies total (*)	2 196	1 463

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

5.4. Liquidity risk

The objective of liquidity risk management is to:

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

The Group implemented emergency procedures 'Liquidity management policy in emergency situation', approved by the Management Board of the Bank, defining the action in case of a liquidity risk increase and any substantial deterioration of the Group's financial liquidity.

This policy, referring to the situation of the Group's deteriorating financial liquidity, includes daily monitoring of warning signals of systemic and specific nature for the Group, including four degrees of threats to liquidity, depending upon the level of warning signals, the Group situation and market conditions. The policy also identifies the sources of coverage of such foreseen outflow of cash and cash equivalents from the Group. Apart from the above, the document describes also liquidity monitoring procedures, contingency procedures and organizational structures of task teams responsible for restoring the Group's liquidity, as well as the scope of liability of Bank's management for taking the necessary decisions, associated with the restoration of the necessary financial liquidity levels of the Group. Both the mentioned policy and the capacity to raise cash from sources specified in this plan are subject to periodic verification.

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

Monitoring the liquidity, the Bank pays special attention to the liquidity in foreign currencies through monitoring, limiting and controlling the liquidity individually for each currency (according to the description above) as well as monitoring demand for the current and future currency liquidity. In case of identification of a such need the Bank hedges using FX-swaps and CIRS. The Bank monitors also the potential influence of placing required margin deposits on the liquidity in case of PLN depreciation.

The adjusted liquidity gaps described below present, inter alia, the adjustments concerning the stability of core deposits and their maturities, and adjustments of flows due to off-balance sheet commitments for financial liabilities granted and guarantees liabilities granted. The Group includes as well the adjusted flows stemming from Bank security portfolio and flows resulting from earlier repayment of mortgage loans 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 Group statement of financial position and off-balance items, as well as of non-equity related cash flows.

Adjusted liquidity gap

31.12.2011	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	45 526 280	5 614 045	23 308 493	38 030 544	34 110 744	146 590 106
Liabilities	30 663 738	9 405 829	14 643 212	23 503 301	68 374 026	146 590 106
Net off-balance sheet items	(7 156 418)	(565 340)	3 918 985	1 997 968	739 875	(1 064 930)
Periodic gap	7 706 124	(4 357 124)	12 584 266	16 525 211	(33 523 407)	(1 064 930)
Cumulated gap		3 349 000	15 933 266	32 458 477	(1 064 930)	

Notes to financial statements (cont.)

(In PLN thousand)

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

Structure of financial liabilities by contractual maturities

31.12.2011	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 (*)	2 346 613	53 846	585 092	1 176 093	1 738 952	5 900 596
Amounts due to customers	83 537 474	12 475 470	11 744 056	621 711	58 253	108 436 964
Debt securities issued	102 372	421 968	1 540 198	582 323	397 058	3 043 919
Financial liabilities held for trading	-	-	-	-	-	-
Total	85 986 459	12 951 284	13 869 346	2 380 127	2 194 263	117 381 479
OFF-BALANCE SHEET COMMITMENTS (**)						
Off-balance sheet commitments Financial liabilities granted	26 812 064	-	-	-	-	26 812 064
Off-balance sheet commitments Guarantees liabilities granted	8 478 540	-	-	-	-	8 478 540
Total	35 290 604	-	-	-	-	35 290 604

31.12.2010	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
BALANCE SHEET LIABILITIES						
Amounts due to banks (*)	4 145 015	89 224	436 147	1 529 940	1 440 776	7 641 102
Amounts due to customers	80 786 722	9 960 054	8 095 964	839 211	125 285	99 807 236
Debt securities issued	-	468 848	121 604	586 706	-	1 177 158
Financial liabilities held for trading	-	-	-	104 280	9 948	114 228
Total	84 931 737	10 518 126	8 653 715	3 060 137	1 576 009	108 739 724
OFF-BALANCE SHEET COMMITMENTS (**)						
Off-balance sheet commitments Financial liabilities granted	24 698 614	-	-	-	-	24 698 614
Off-balance sheet commitments Guarantees liabilities granted	8 586 138	-	-	-	-	8 586 138
Total	33 284 752	-	-	-	-	33 284 752

(*) 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 Group is possible based on contracts entered into by the Group. However, the expected by the Group 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 Group on continuous basis. The Group estimates also more probable flows that are presented in Tables 'Adjusted liquidity gap'.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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
31.12.2011	101 434	71 431	173 666	1 205 451	620 792	2 172 774
31.12.2010	22 887	143 996	151 781	1 017 284	292 865	1 628 813

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
31.12.2011						
inflows	18 727 936	6 060 237	7 314 767	8 905 958	2 305 670	43 314 568
outflows	18 762 803	6 175 994	7 511 198	9 217 329	3 055 606	44 722 930
31.12.2010						
inflows	12 514 108	3 795 325	9 359 938	5 613 787	2 744 660	34 027 818
outflows	12 281 818	3 723 635	9 198 525	5 650 211	3 167 064	34 021 253

5.5 Operational risk

Qualitative information

Operational risk is defined as the risk of losses resulting from errors, regulation infringements, interruptions and damages caused by internal processes, people, systems or external factors. Operational risk encompasses regulatory and legal risk. Strategic, business and reputational risks are separate risk categories.

Operational risk management builds on internal procedures which are in compliance with the Banking Law, Polish Financial Supervision Authority Resolution No. 76/2010 and 258/2011 (which replaces Resolution No. 383/2008), 'Recommendation M' and standards set by the UniCredit Group. Operational risk management embraces identification and estimation, monitoring, limiting and reporting system. The risk identification and evaluation is performed with the analysis of external and internal data, scenario analysis, key operational risk indicators and self assessment review. Monitoring activities are conducted as a three-level control comprising operating control (performed by all employees), risk management control (Operational Risk Management Department) and internal audit (Internal Audit Department). Operational risk limitation includes internal control system, protection activities, business continuity management plans as well as insurance policies.

Notes to financial statements (cont.)

(In PLN thousand)

Organizational structure

The Supervisory Board approves Bank's strategy of operational risk management, which defines the concept of operational risk, principles of operational risk management and internal control system referring to operational risk. Moreover, the Supervisory Board controls the operational risk management system and assesses its adequacy and efficiency e.g. on the basis of annual reports concerning the control of the operational risk.

The Management Board is responsible for designing, implementing and proper functioning of operational risk management process through introducing proper regulations. Also, it ensures the effectiveness of operational risk management system, internal control system and the process of capital adequacy calculation by implementing necessary adjustments and enhancements in case of any changes in Bank's operational risk level, economic environment and irregularities in functioning of the systems and processes.

The Operational Risk Committee supports the Management Board in designing the proper system of operational risk management by the use of rules set in the strategy of operational risk management. The Operational Risk Committee is responsible for, inter alia, monitoring of operational risk at the level of the Group, evaluation of the operational risk management strategy, guidelines, policies, procedures, instructions as well as the model evaluating operational risk management, assessment of system valuation reports, proposed limits of operational risk and approving the list of crucial risk indicators with risk limits.

The Operational Risk Management Department monitors exposures of the Bank and its subsidiaries to operational risk. Its main responsibilities are organizing the process of storing and registering of operating events in the operating event data base, monitoring of the key risk indicators, assessment of scenario analysis, cooperation in analysis of operational risk impact when launching new products, checking whether the business continuity management plans are updated and tested on a regular basis, monitoring of protection activities and control over outsourcing risk management.

Reporting

The reporting system has been created in order to inform high-level management and the relevant control divisions about the Bank's exposure to operational risk and protection activities. In particular, the annual and quarterly reports on operational risk control present information on operating losses, major risk indicators, significant operating events, capital adequacy ratio, main protection activities and the observed trend in frauds and similar events in reference to credit risk. Annual reports are presented to the Supervisory Board, the Management Board and the Operational Risk Committee while the quarterly reports are presented to the Management Board and the Operational Risk Committee. Reports with key risk indicators are prepared monthly and submitted to Operational Risk Coordinators, who are responsible for coordination of operational risk management in a given department while the results of scenario analysis are presented to the Management Board and the Operational Risk Committee. Moreover, the weekly information referring to significant internal and external operating events is sent to Operational Risk Coordinators.

Internal validation process

The internal validation process assesses the compliance of the management system and operational risk measurement with regulatory requirements and standards of UniCredit Group. The validation is performed annually based on the self review done by the Operational Risk Management Department, the results of which are incorporated into the Report on Internal Validation. That report is subject to the independent review of the Internal Validation Section in UniCredit Group. The results of both the self- and independent review are assessed by the internal audit and are pending approval from the Management Board.

Capital adequacy requirements and allocation mechanism

In the first half of 2011, Bank Pekao S.A. was granted permission by regulators of Poland and Italy to apply the AMA method for calculation purposes of operational risk capital requirement at the consolidated and solo level, in part related to Bank Pekao S.A.

The Advanced Measurement Approach (AMA) to gauge operational risk is based on the special treatment of data on internal and external losses, scenario analysis and key risk indicators. The total capital requirement calculated according to the advanced method, is allocated to particular entities of UniCredit Group. The capital requirement allocated reflects the profile of risk for each entity.

As at 31 December 2011, the Bank calculated the operational risk capital requirement in compliance with the above Decision. The operational risk capital requirement for the Bank's subsidiaries is calculated using the standard method.

Notes to financial statements (cont.)

(In PLN thousand)

Qualitative information

The table below depicts operating events grouped into categories regulated in the New Capital Accord of the Basel Committee and Resolution No. 76/2010 of the Polish Financial Supervision Authority:

- internal frauds – losses resulting from acts intended defraud, misappropriation of property, circumvention of regulations, the laws and internal policies of a company, excluding losses resulting from diversity or discrimination of employees, which concern at least one internal party,
- external frauds – losses being a consequence of acts of defraud, misappropriation of property or circumvention of regulations performed by a third party,
- employment practices and workplace safety – losses due to acts inconsistent with regulations or employment agreements, workplace health and safety agreements, payments from personal injuries claims or losses from discrimination and unequal employee treatment,
- clients, products and business practices – losses arising from failures of meeting professional obligations towards clients due to unintended or negligent acts (including custody requirements and appropriate behavior) or concerning specific features or a design of a product,
- damages to physical assets – losses due to damage or loss of tangible assets resulting from natural disasters or other events,
- business disruption and system failures – losses stemming from business or system failures,
- execution, delivery and process management – losses resulting from failed transaction settlements or process management and losses from relations with cooperating parties and vendors.

OPERATING EVENTS BY CATEGORIES	2011
Internal frauds	5.24%
External frauds	37.49%
Employment practices and workplace safety	27.45%
Clients, products and business practices	13.54%
Damages to physical assets	5.62%
Business disruption and system failures	1.19%
Execution, delivery and process management	9.47%
Total	100.00%

In 2011, operational risk for the Group resulted primarily from losses on external frauds, which accounted for 37.49% of total losses. The second category of high losses was employment practices and workplaces safety which comprised 27.45% of total losses and the third category – clients, products and business practices constituted 13.54% of share in total losses.

5.6 Business risk

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

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

Notes to financial statements (cont.)

(In PLN thousand)

5.7 Real estate risk

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

The risk of own real property is calculated for a one year time horizon, using the Value at Risk (VaR) method, at the assumed confidence level of 99.97% and the standard method of calculating capital adequacy according to Pillar I of the New Capital Accord of the Basel Committee.

5.8 Financial investments risk

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

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

5.9 Equity management

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

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

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

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

The capital adequacy of the Group is controlled by the Assets, Liabilities and Risk Management Committee and Management Board. Periodic reports on the scale and direction of changes of the capital adequacy ratio together with indication of potential threats are prepared for the Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Group. Analyses and evaluations of directions of business development activities are performed assessing the compliance with capital requirements. Forecasting and monitoring of risk weighted assets, Bank's equity and capital adequacy ratio constitute an integral part of the planning and budgeting process.

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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 2011, the Group's capital adequacy ratio stood at 16.98%, i.e. more than twice as much as the minimum value required by the law.

The decline in capital adequacy ratio in December 2011 compared with December 2010 (decrease by 0.63 p.p.) was a result of an increase in the total capital requirement by about 8%, in spite of the increase in equity by about 4%.

The strengthening of the Bank's Group's capital base in 2011 is a consequence of the decision passed by the Regular General Meeting of Shareholders on the allocation of PLN 767.4 million of net profit of Bank Pekao S.A. for 2010 to the Bank's equity.

The calculations of the regulatory capital requirement as at 31.12.2011 were based on the provisions under Resolution No. 76/2010 Polish Financial Supervision Authority ('KNF') dated 10.03.2010 and Resolution No. 369/2010 KNF dated 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 31.12.2011, calculations were made based on the provisions under Resolution No. 76/2010 KNF concerning the scope and rules of capital requirements calculation related to different risk, dated 10.03.2010 with subsequent amendments (Dz. Urz. KNF No 2, pos.11, from 2010, No 8, pos. 38 and from 2011, No 8, pos. 29, No 9, pos.32 i No 13, pos. 48). The calculations as at the end of December 2010 were based on methods described in Resolution No. 76/2010 KNF dated 10.03.2010. and Resolution No. 369/2010 KNF dated 12.10.2010.

The Bank is using the standard method to calculate the capital requirements related to credit risk (in compliance with an enclosure No. 4 to Resolution No. 76/2010 KNF and Resolution No. 369/2010 KNF with subsequent amendments), 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 with subsequent amendments).

The table below presents the basic data concerning Group's capital adequacy as at 31 December 2011 and 31 December 2010

	31.12.2011	31.12.2010
Capital (Tier 1)	17 570 913	16 819 902
Share capital	262 382	262 364
Supplementary capital	9 446 515	9 440 965
Reserve capital	7 215 233	6 577 774
General risk fund for unidentified risk of banking operations	1 537 850	1 437 850
Unrealized gains	74 477	43 897
Non-controlling interest	85 467	82 877
Deductions from the core capital:		
Foreign exchange differences	(98 976)	(136 072)
Intangible assets	(703 355)	(697 235)
Unrealized losses from debt instruments available for sale	(110 120)	(100 737)
Unrealized losses from equity instruments available for sale	-	-
Capital exposure to financial institutions	(138 560)	(91 781)
Supplementary funds (Tier 2)		
Unrealized gains from debt instruments available for sale	40 442	82 391
Unrealized gains from equity instruments available for sale	2 390	7
Deductions:		
Capital exposure to financial institutions	(42 832)	(82 398)
Total equity	17 570 913	16 819 902
Capital adequacy ratio	16.98%	17.61%

Notes to financial statements (cont.)

(In PLN thousand)

Internal capital adequacy assessment

To assess the internal capital adequacy of the Group, the Bank has been applying 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),
- interest rate risk of the banking book,
- liquidity risk (including liquidity maturity mismatch risk, liquidity contingency risk, market liquidity risk, operational liquidity risk, refinancing risk and liquidity risk associated with hedging deposits),
- operational risk,
- business risk (including strategic risk),
- real estate risk,
- financial investment risk,
- reputation risk,
- compliance risk,

In addition, within the scope of management of risks mentioned above elements of models' and macroeconomic risks are taken into consideration.

For each risk deemed material, the Bank develops and applies adequate risk assessment and measurement methods. The Group 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, reputation and liquidity risk),
- quantitative assessment – applied in case of risks which may be measured with the use of economic capital (other risk types).

Preferred methodologies of measuring quantified risks and determining the capital requirements are Value at Risk-based models, based on assumptions derived from Group'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 (regulatory models supplemented by stress tests and scenario analyses).

The procedure starts with the calculation of economic capital, separately for each material, quantifiable risk identified by the Group. 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 than the sum of economic capital amounts calculated for specific risk types.

5.10 Fair value of financial assets and liabilities

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

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

As at 31 December 2011 and 31 December 2010, the Group classified the financial assets and liabilities measured at fair value into the following three categories, broken down by valuation method:

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

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2011	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	15 487 762	12 260 509	991 423	28 739 694
Financial assets held for trading	601 814	-	247 897	849 711
Derivative financial instruments, including:	-	2 130 179	26 095	2 156 274
- Banks	-	1 741 561	23 419	1 764 980
- Customers	-	388 618	2 676	391 294
Other financial instruments at fair value through profit or loss	-	-	-	-
Hedging instruments, including:	-	408 906	-	408 906
- Banks	-	95 595	-	95 595
- Customers	-	313 311	-	313 311
Securities available for sale	14 885 948	9 721 424	717 431	25 324 803
Liabilities:	-	4 219 653	26 095	4 245 748
Financial liabilities held for trading	-	-	-	-
Derivative financial instruments, including:	-	2 481 104	26 095	2 507 199
- Banks	-	2 270 102	1 025	2 271 127
- Customers	-	211 002	25 070	236 072
Hedging instruments, including:	-	1 738 549	-	1 738 549
- Banks	-	1 725 328	-	1 725 328
- Customers	-	13 221	-	13 221

31.12.2010	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	13 904 351	14 309 066	441 067	28 654 484
Financial assets held for trading	768 237	-	197 404	965 641
Derivative financial instruments, including:	-	1 493 453	63 580	1 557 033
- Banks	-	1 287 233	63 220	1 350 453
- Customers	-	206 220	360	206 580
Other financial instruments at fair value through profit or loss	16 735	-	-	16 735
Hedging instruments, including:	-	258 688	-	258 688
- Banks	-	87 573	-	87 573
- Customers	-	171 115	-	171 115
Securities available for sale	13 119 379	12 556 925	180 083	25 856 387
Liabilities:	114 228	2 239 761	63 250	2 417 239
Financial liabilities held for trading	114 228	-	-	114 228
Derivative financial instruments, including:	-	1 529 195	63 250	1 592 445
- Banks	-	1 326 959	4 069	1 331 028
- Customers	-	202 236	59 181	261 417
Hedging instruments, including:	-	710 566	-	710 566
- Banks	-	710 566	-	710 566
- Customers	-	-	-	-

Notes to financial statements (cont.)

(In PLN thousand)

Change in fair value of financial instruments in 2011 measured by the Group at fair value according to Method 3

	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	197 404	63 580	180 083	63 250
Increases, including:	22 116 453	47 636	637 236	54 956
Acquisition	22 114 040	-	578 911	-
Derivatives transactions made in 2011	-	42 470	-	46 512
Revenues from financial instruments	2 413	5 166	58 325	8 444
recognized in the income statement	2 413	5 166	38 656	8 444
recognized in Revaluation reserves from financial instruments	-	-	19 669	-
Decreases, including:	(22 065 960)	(85 121)	(99 888)	(92 111)
Settlement/redemption	(272 127)	(32 836)	(70 494)	(29 910)
Sale	(21 793 833)	-	(29 394)	-
Loss on financial instruments	-	(52 285)	-	(62 201)
recognized in the income statement	-	(52 285)	-	(62 201)
Closing balance	247 897	26 095	717 431	26 095
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	2 488	(46 030)	58 002	47 931
recognized in 'Interest income'	2 347	-	37 660	-
recognized in 'Result on financial assets and liabilities held for trading'	141	(46 030)	-	47 931
recognized in 'Result on fair value hedge accounting'	-	-	27 103	-
recognized in 'Revaluation reserves from financial instruments'	-	-	(6 761)	-

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

	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	196 594	67 169	129 867	61 443
Increases, including:	20 704 985	35 202	120 220	47 522
Acquisition	20 680 746	-	100 000	-
Derivatives transactions made in 2010	-	11 612	-	29 328
Revenues from financial instruments	24 239	23 590	20 220	18 194
recognized in the income statement	24 239	23 590	19 268	18 194
recognized in Revaluation reserves from financial instruments	-	-	952	-
Decreases, including:	(20 704 175)	(38 791)	(70 004)	(45 715)
Settlement/redemption	(530 884)	(13 412)	(21 000)	(35 582)
Sale	(20 172 354)	-	(49 004)	-
Loss on financial instruments	(937)	(25 379)	-	(10 133)
recognized in the income statement	(937)	(25 379)	-	(10 133)
Closing balance	197 404	63 580	180 083	63 250
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	(62)	13 242	11 910	(16 596)
recognized in 'Interest income'	203	-	11 149	-
recognized in 'Result on financial assets and liabilities held for trading'	(265)	13 242	-	(16 596)
recognized in 'Revaluation reserves from financial instruments'	-	-	761	-

Notes to financial statements (cont.)

(In PLN thousand)

The impact of estimated parameters of measurement at fair value for which the Group applies valuation to fair value according to Method 3 as at 31 December 2011 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 6.1 thousand of impact on the income statement and PLN 487 thousand impact 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 Group also holds financial instruments which are not presented at fair value in the financial statements. Fair value is defined as the amount, for which an asset could be exchanged or a liability settled between interested and well informed but unrelated parties to the transaction at arm's length.

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

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

The fair value of central investment credits is presented on net basis, inclusive of the fair value of the NBP refinancing credit used for financing such investments. When gross value is used, the adjustment to fair value stands at PLN 25 million in case of credits for central investments, and PLN 23 million in case of refinancing credits (as at 31 December 2010, fair value stood at PLN 90 million for central investment credit and PLN 83 million for refinancing credit).

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

31.12.2011	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
ASSETS			
Cash and due from Central Bank	4 886 093	4 885 935	(158)
Receivables from banks	5 586 057	5 586 039	(18)
Financial assets held for trading	849 711	849 711	-
Assets from derivatives	2 156 274	2 156 274	-
Other financial instruments recognized at fair value through profit or loss	-	-	-
Loans and advances to customers (*)	82 816 489	82 160 868	(655 621)
Receivables from financial leasing	2 862 760	2 862 760	-
Hedging instruments	408 906	408 906	-
Securities available for sale	25 324 803	25 324 803	-
Securities held for maturity	3 794 834	3 812 229	17 395
Investments in subsidiaries	186 252	186 252	-
Total	128 872 179	128 233 777	(638 402)

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

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2010	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
ASSETS			
Cash and due from Central Bank	5 969 104	5 969 104	-
Receivables from banks	6 258 811	6 258 662	(149)
Financial assets held for trading	965 641	965 641	-
Assets from derivatives	1 557 033	1 557 033	-
Other financial instruments recognized at fair value through profit or loss	16 735	16 735	-
Loans and advances to customers (*)	77 803 954	76 641 713	(1 162 241)
Receivables from financial leasing	3 038 975	3 038 975	-
Hedging instruments	258 688	258 688	-
Securities available for sale	25 856 387	25 856 387	-
Securities held for maturity	4 542 058	4 555 968	13 910
Investments in subsidiaries	214 616	214 616	-
Total	126 482 002	125 333 522	(1 148 480)

(*) 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 Group, the adjustment to fair value as at 31 December 2011 was PLN minus 7 141 thousand (PLN plus 7 800 thousand as at 31 December 2010) for deposits from clients, and PLN minus 49 579 thousand (PLN 3 583 thousand as at 31 December 2010) 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 2011 was PLN minus 25 052 thousand (PLN minus 14 017 thousand as at 31 December 2010).

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

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

6. Custody activity

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

During the period in question, the Bank acquired a number of new clients from the segment of foreign custody banks and stockbroking companies, registered as remote members of the Warsaw Stock Exchange (GPW S.A.), 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.

Notes to financial statements (cont.)

(In PLN thousand)

As of 31 December 2011 the Bank maintained 4 852 securities accounts (in comparison to 4 242 securities accounts as at 31 December 2010).

7. Brokerage activity

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

Dom Maklerski Pekao is a specialized organizational unit of the Bank designed to sell capital market products. The objective of the entity is providing the highest quality brokerage services. The comprehensive offering enables investors, especially the individual clients of the Bank to invest in shares, derivatives (futures and options), bonds traded on exchanges and OTC markets. The entity intermediates also in sales of Structured Certificates of Deposit issued by Bank Pekao S.A. and invests in securities offered in IPOs and traded on foreign exchanges. Clients are served in 650 Accepting Orders Spots located in Bank branches throughout Poland and through remote channels of Pekao24Makler (via Internet, mobile service and by phone) fully integrated with the Bank's electronic banking platform Pekao24.

Centralny Dom Maklerski Pekao S.A. (CDM) is the largest and oldest brokerage firm on the Polish capital market. The aim of CDM is to service investment accounts as well as financial instruments accounts. The offering enables Clients to invest in inter alia shares, Treasury bonds, corporate bonds, certificates, funds' units, ETF and structured products. CDM grants to clients access to invest on derivatives markets, foreign markets and OTC markets. Clients are served in 79 Consumer Service Spots located mainly in Bank branches throughout Poland and through remote service channels of CDM24 (CDMInternet, TeleCDM, CDMMobile) fully integrated with the Bank's electronic banking platform Pekao24.

The tight cooperation of Dom Maklerski Pekao and CDM on the realization of the projects conducted on the primary market and in the other areas of market activities of both entities ensures professional and comprehensive brokerage services.

CDM as well as Dom Maklerski Pekao is a member of the Warsaw Stock Exchange (GPW S.A.) and a direct participant in the National Depository of Securities (KDPW).

Both entities conform to the Good Practices Code of Brokerage Firms guaranteeing comprehensive services in accordance with highest ethics standards.

Notes to financial statements (cont.)

(In PLN thousand)

The financial instruments of the clients held on securities accounts or stored in a form of document

31.12.2011	QUANTITY (pcs)	VALUE
Dom Maklerski Pekao		
Clients' financial instruments including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	1 030 780 951	3 582 447
- Debt instruments and rights to such financial assets	9 462 930	1 342 051
Stored in a form of document		
- Equity securities and rights to such financial assets	-	-
- Debt instruments and rights to such financial assets	-	-
Rights to commodities	-	-
Centralny Dom Maklerski Pekao S.A.		
Clients' financial instruments including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	4 136 091 433	14 227 175
- Debt instruments and rights to such financial assets	1 327 822	1 425 210
Stored in a form of document		
- Equity securities and rights to such financial assets	6 608 643 331	19 430 426
Rights to commodities	-	-

31.12.2010	QUANTITY (pcs)	VALUE
Dom Maklerski Pekao		
Clients' financial securities including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	925 837 495	4 157 466
- Debt instruments and rights to such financial assets	6 357 212	972 353
Stored in a form of document		
- Equity securities and rights to such financial assets	200 000	200
- Debt instruments and rights to such financial assets	-	-
Rights to commodities	-	-
Centralny Dom Maklerski Pekao S.A.		
Clients' financial securities including:		
Held on securities accounts		
- Equity securities and rights to such financial assets	4 184 413 142	21 045 444
- Debt instruments and rights to such financial assets	10 857 425	1 794 787
Stored in a form of document		
- Equity securities and rights to such financial assets	6 604 790 108	19 420 813
Rights to commodities	-	-

Notes to financial statements (cont.)

(In PLN thousand)

Customers' cash on brokerage accounts

31.12.2011	DOM MAKLESKI PEKAO	CENTRALNY DOM MAKLESKI PEKAO S.A.
Invested in debt securities issued by the State Treasury	-	-
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	214 932	579 631
Other customers' cash	17 737	95 891
Transferred from clearing fund	-	-
Total	232 669	675 522

31.12.2010	DOM MAKLESKI PEKAO	CENTRALNY DOM MAKLESKI PEKAO S.A.
Invested in debt securities issued by the State Treasury	-	-
Deposited on cash accounts in brokerage house and paid for securities bought in IPO or on the primary market	217 458	862 622
Other customers' cash	18 137	44 208
Transferred from clearing fund	-	-
Total	235 595	906 830

Settlements with banks conducting brokerage activities, brokerage houses and commodity brokerage houses

31.12.2011	DOM MAKLESKI PEKAO	CENTRALNY DOM MAKLESKI PEKAO S.A.
Receivables from exchange transactions, including:	12 074	38 095
Stock Exchanges	11 636	37 377
OTC market	-	-
NewConnect	438	718
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 National Depository of Securities	-	-
Total receivables	12 074	38 095
Liabilities from exchange transactions, including:	11 570	36 839
Warsaw Stock Exchange	11 296	35 647
OTC market	-	-
NewConnect	274	1 192
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 National Depository of Securities	-	-
Total liabilities	11 570	36 839

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2010	DOM MAKLEERSKI PEKAO	CENTRALNY DOM MAKLEERSKI PEKAO S.A.
Receivables from exchange transactions, including:	14 539	57 769
Stock Exchanges	14 539	55 530
OTC market	-	-
NewConnect	-	2 239
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 National Depository of Securities	-	-
Total receivables	14 539	57 769
Liabilities from exchange transactions, including:	17 684	56 856
Warsaw Stock Exchange	17 684	52 812
OTC market	-	1 497
NewConnect	-	2 547
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 National Depository of Securities	-	-
Total liabilities	17 684	56 856

Settlements with National Depository of Securities (KDPW), KDPW_CCP and other stock exchange clearing houses

31.12.2011	DOM MAKLEERSKI PEKAO	CENTRALNY DOM MAKLEERSKI PEKAO S.A.
Receivables from clearing fund	1 548	560
Receivables from margin deposits	11 577	6 438
Other receivables	318	156
Total receivables	13 443	7 154
Amounts due to clearing fund	-	-
Amounts due on margin deposits	-	-
Other liabilities	168	362
Total liabilities	168	362

Items concerning the participation in the compensation fund managed by National Depository of Securities (KDPW)

31.12.2011	DOM MAKLEERSKI PEKAO	CENTRALNY DOM MAKLEERSKI PEKAO S.A.
Receivables from compensation fund	83	6 147
Prepaid expenses - system maintenance fees	11	625
Deferred income – benefits from system	(94)	(6 772)
Amounts due to compensation fund	-	-
Net total	-	-

Notes to financial statements (cont.)

(In PLN thousand)

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

31.12.2010	DOM MAKLEERSKI PEKAO	CENTRALNY DOM MAKLEERSKI PEKAO S.A.
Receivables from clearing fund	2 093	9 036
Receivables from margin deposits	11 557	5 655
Other receivables	255	124
Total receivables	13 905	14 815
Amounts due to clearing fund	-	-
Amounts due on margin deposits	-	-
Other liabilities	139	497
Total liabilities	139	497

Items concerning the participation in the compensation fund managed by National Depository of Securities (KDPW)

31.12.2010	DOM MAKLEERSKI PEKAO	CENTRALNY DOM MAKLEERSKI PEKAO S.A.
Receivables from compensation fund	29	5 175
Prepaid expenses - system maintenance fees	5	531
Deferred income – benefits from system	(34)	(5 706)
Amounts due to compensation fund	-	-
Net total	-	-

Settlements with entities running regulated securities markets and commodity exchanges

31.12.2011	DOM MAKLEERSKI PEKAO	CENTRALNY DOM MAKLEERSKI PEKAO S.A.
Receivables from Warsaw Stock Exchange	-	-
Receivables from BondSpot	-	-
Total receivables	-	-
Amounts due to Warsaw Stock Exchange	176	650
Amounts due to BondSpot	-	1
Total liabilities	176	651

31.12.2010	DOM MAKLEERSKI PEKAO	CENTRALNY DOM MAKLEERSKI PEKAO S.A.
Receivables from Warsaw Stock Exchange	-	-
Receivables from BondSpot	-	-
Total receivables	-	-
Amounts due to Warsaw Stock Exchange	185	854
Amounts due to BondSpot	1	1
Total liabilities	186	855

Notes to financial statements (cont.)

(In PLN thousand)

8. Operating segments

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

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

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

Business segments

Reported segments of the Group include the following areas:

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

Notes to financial statements (cont.)

(In PLN thousand)

Information on revenues of the Group's operating segments for 2011.

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	GROUP TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
External interest income	3 287 054	27 918	3 887 770	225 066	(23 588)	7 404 220
External interest expenses	(1 201 045)	(211 040)	(1 479 460)	(93 692)	138 875	(2 846 362)
Net external interest income	2 086 009	(183 122)	2 408 310	131 374	115 287	4 557 858
Internal interest income	2 190 899	246 865	2 449 752	-	(4 887 516)	-
Internal interest expenses	(1 539 473)	(22 042)	(3 582 936)	-	5 144 451	-
Total net internal interest income	651 426	224 823	(1 133 184)	-	256 935	-
Dividends and other income from equity investments	62 979	-	-	-	17 341	80 320
Total net interest income	2 800 414	41 701	1 275 126	131 374	389 563	4 638 178
Non-interest income	2 057 946	34 820	924 566	32 799	43 022	3 093 153
Operating income	4 858 360	76 521	2 199 692	164 173	432 585	7 731 331
Personnel expenses	(1 163 933)	(19 772)	(240 651)	(37 659)	(484 139)	(1 946 154)
Other administrative expenses	(1 536 215)	(27 638)	(404 922)	(39 237)	659 931	(1 348 081)
Depreciation and amortization	(163 124)	(574)	(13 091)	(9 026)	(191 678)	(377 493)
Operating costs	(2 863 272)	(47 984)	(658 664)	(85 922)	(15 886)	(3 671 728)
Operating profit	1 995 088	28 537	1 541 028	78 251	416 699	4 059 603
Net result on other provisions	(727)	-	(960)	-	(4 146)	(5 833)
Net impairment losses on financial assets and off-balance sheet commitments	(387 539)	(453)	(148 072)	(4 532)	2 657	(537 939)
Net result on investment activities	(305)	-	76 722	(47)	745	77 115
Profit before tax	1 606 517	28 084	1 468 718	73 672	415 955	3 592 946
Income tax expense (continuing operations)						(667 884)
Income tax expense (discontinued operations)				(15 966)		(15 966)
Net profit (continuing operations)						2 851 390
Net profit (discontinued operations)				57 706		57 706
Net profit for the period attributable to equity holders of the Bank						2 899 414
Net profit for the period attributable to non-controlling interest						9 682
Allocated assets	45 678 422	536 417	91 392 451	2 894 904	(3 791 042)	136 711 152
Unallocated assets						9 878 954
Total assets						146 590 106
Allocated liabilities	59 846 910	6 050 068	56 938 572	2 416 420	(5 116 393)	120 135 577
Unallocated liabilities						26 454 529
Total liabilities						146 590 106

(*) including intercompany transactions within the Group of Bank Pekao S.A.

Notes to financial statements (cont.)

(In PLN thousand)

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

	RETAIL BANKING	PRIVATE BANKING	CORPORATE AND INVESTMENT BANKING		ASSETS AND LIABILITIES MANAGEMENT AND OTHER (*)	GROUP TOTAL
			CONTINUED OPERATIONS	DISCONTINUED OPERATIONS		
External interest income	2 847 955	30 322	3 464 879	270 779	(62 720)	6 551 215
External interest expenses	(1 081 628)	(195 863)	(1 177 885)	(122 010)	129 845	(2 447 541)
Net external interest income	1 766 327	(165 541)	2 286 994	148 769	67 125	4 103 674
Internal interest income	1 843 754	222 205	1 916 987	-	(3 982 946)	-
Internal interest expenses	(1 202 941)	(21 695)	(2 880 326)	-	4 104 962	-
Total net internal interest income	640 813	200 510	(963 339)	-	122 016	-
Dividends and other income from equity investments	59 068	-	-	-	17 090	76 158
Total net interest income	2 466 208	34 969	1 323 655	148 769	206 231	4 179 832
Non-interest income	2 015 856	34 351	907 868	47 610	32 497	3 038 182
Operating income	4 482 064	69 320	2 231 523	196 379	238 728	7 218 014
Personnel expenses	(1 185 843)	(19 450)	(242 849)	(39 145)	(463 014)	(1 950 301)
Other administrative expenses	(1 509 512)	(27 089)	(392 138)	(39 023)	660 618	(1 307 144)
Depreciation and amortization	(156 352)	(408)	(12 798)	(12 502)	(209 651)	(391 711)
Operating costs	(2 851 707)	(46 947)	(647 785)	(90 670)	(12 047)	(3 649 156)
Operating profit	1 630 357	22 373	1 583 738	105 709	226 681	3 568 858
Net result on other provisions	(23 040)	-	1 109	-	(28 743)	(50 674)
Net impairment losses on financial assets and off-balance sheet commitments	(454 440)	3 034	(33 247)	(52 041)	(1 234)	(537 928)
Net result on investment activities	57	-	115 453	354	5 392	121 256
Profit before tax	1 152 934	25 407	1 667 053	54 022	202 096	3 101 512
Income tax expense (continuing operations)						(554 116)
Income tax expense (discontinued operations)				(17 057)		(17 057)
Net profit (continuing operations)						2 493 374
Net profit (discontinued operations)				36 965		36 965
Attributable to equity holders of the Bank						2 525 234
Attributable to non-controlling interest						5 105
Allocated assets	40 146 221	579 498	86 014 590	3 209 276	(1 899 534)	128 050 051
Unallocated assets						6 039 835
Total assets						134 089 886
Allocated liabilities	57 627 207	5 997 669	48 970 475	2 847 921	(5 221 808)	110 221 464
Unallocated liabilities						23 868 422
Total liabilities						134 089 886

(*) including intercompany transactions within the Group of Bank Pekao S.A.

Notes to financial statements (cont.)

(In PLN thousand)

Geographical segment

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

The Group also conducts activities in the following countries:

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

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

Results generated by activities of the branch of Bank Pekao S.A. in Paris were not separated because of insignificance in comparison to the result of the Group.

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

	POLAND	UKRAINE (DISCONTINUED OPERATIONS)	TOTAL GROUP
2011			
Net profit	2 841 708	57 706	2 899 414
Segment assets	143 695 202	2 894 904	146 590 106
2010			
Net profit	2 488 269	36 965	2 525 234
Segment assets	130 880 610	3 209 276	134 089 886

9. Interest income and expense

Interest income

	2011	2010
Loans and other receivables from customers	5 898 070	5 181 603
Placements in other banks	219 086	162 294
Reverse repo transactions	111 645	51 337
Investment securities	1 126 094	1 050 612
Financial assets held for trading	48 498	71 256
Financial assets designated to fair value through profit or loss	827	34 113
Total	7 404 220	6 551 215

Interest income for 2011 includes income from impaired financial assets in the amount of PLN 250 340 thousand (in 2010 PLN 226 333 thousand).

Total amount of interest income for 2011 measured at amortized cost using the effective interest rate method, which applies to financial assets not measured at fair value through profit or loss, amounted to PLN 4 193 093 thousand (in 2010 PLN 3 718 330 thousand).

Notes to financial statements (cont.)

(In PLN thousand)

Interest expense

	2011	2010
Customers' deposits	(2 482 728)	(2 109 110)
Other banks' deposits	(49 624)	(59 741)
Repo transactions	(118 648)	(54 061)
Loans from other banks	(133 001)	(147 629)
Debt securities issued	(62 361)	(77 000)
Total	(2 846 362)	(2 447 541)

Total amount of interest expenses for 2011, 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 2 509 340 thousand (in 2010 PLN 2 203 336 thousand).

10. Fee and commission income and expense

Fee and commission income

	2011	2010
Customer accounts maintenance, payment orders and cash transactions	863 839	890 390
Payment cards	812 389	780 746
Loans and advances	593 382	449 570
Investment products sales intermediation	274 995	299 934
Securities operations	151 714	159 506
Custody activity	59 242	52 784
Pension and investment funds service fees	68 499	70 474
Guarantees, letters of credit and similar transactions	54 057	53 077
Other	55 938	39 812
Total	2 934 055	2 796 293

Fee and commission expense

	2011	2010
Payment cards	(394 221)	(341 659)
Bank drafts and transfers	(26 340)	(23 877)
Securities and derivatives operations	(22 896)	(22 590)
Accounts maintenance	(8 389)	(7 421)
Custody activity	(8 580)	(7 294)
Pension funds management charges	(3 150)	(3 924)
Acquisition services	(1 768)	(384)
Other	(19 817)	(21 116)
Total	(485 161)	(428 265)

Notes to financial statements (cont.)

(In PLN thousand)

11. Dividend income

	2011	2010
From issuers of securities available for sale	10 352	7 889
Total	10 352	7 889

12. Result on financial assets and liabilities held for trading

	2011	2010
Foreign currency exchange result	532 772	575 218
Gains (losses) on derivatives	51 757	(3 922)
Gains (losses) on securities	10 582	12 920
Total	595 111	584 216

In 2011, 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 61 971 thousand (in 2010 PLN 4 024 thousand).

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

	2011	2010
Debt securities	(501)	13 952
Total	(501)	13 952

14. Gains (losses) on disposal

Realized gains

	2011	2010
Loans and other financial receivables	130	7 044
Available for sale financial assets – debt instruments	72 899	114 693
Available for sale financial assets – equity instruments	99	6 934
Held to maturity investments	3 884	-
Debt securities issued	96	303
Total	77 108	128 974

Notes to financial statements (cont.)

(In PLN thousand)

Realized losses

	2011	2010
Loans and other financial receivables	(161)	-
Available for sale financial assets – debt instruments	(167)	-
Debt securities issued	(1 377)	(1 371)
Total	(1 705)	(1 371)

Net realized profit	75 403	127 603
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The change in fair value of financial assets available for sale transferred in 2011 directly to equity amounted to PLN 10 913 thousand (increase), in 2010 PLN 132 013 thousand (increase).

The change in fair value of financial assets, transferred in 2011 from equity to financial income amounted to PLN 72 731 thousand (profit), in 2010 PLN 114 693 thousand (profit).

15. Administrative expenses

Personnel expenses

	2011	2010
Wages and salaries	(1 651 197)	(1 661 867)
Insurance and other charges related to employees	(281 886)	(283 095)
Pension programs costs due define contributions	(1 491)	(1 725)
Share-based payments expense	(11 580)	(3 614)
Total	(1 946 154)	(1 950 301)

Other administrative expenses

	2011	2010
Other administrative expenses	(1 207 051)	(1 216 346)
Taxes and charges	(38 521)	(38 177)
Bank Guarantee Fund fee	(89 020)	(39 156)
Financial supervision authority fee (KNF)	(20 836)	(20 670)
Total	(1 355 428)	(1 314 349)

Total administrative expenses	(3 301 582)	(3 264 650)
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Notes to financial statements (cont.)

(In PLN thousand)

16. Net other operating income and expenses

Other operating income

	2011	2010
Rental income and other (miscellaneous income)	44 202	36 531
Credit insurance charges	27 467	28 453
Recovery of debt collection costs	22 285	14 691
Compensation, penalty fees and fines received	9 811	6 306
Refund of administrative costs	7 347	7 205
Income from written off liabilities	1 472	2 964
Releases of impairment of litigation and other assets	2 138	6 939
Releases of provisions for liabilities	2 757	508
Gains on sale of other assets	5 528	2 807
Other	52 763	58 020
Total	175 770	164 424

Other operating expenses

	2011	2010
Credit insurance costs	(29 152)	(19 236)
Customers complaints expense	(3 611)	(6 462)
Impairment of litigations receivables and other assets	(8 029)	(2 543)
Costs of litigation and claims	(3 859)	(4 778)
Compensation, penalty fees and fines paid	(1 715)	(18 210)
Losses on disposal of other assets	(414)	(182)
Other	(54 925)	(46 599)
Total	(101 705)	(98 010)

Net other operating income and expenses	74 065	66 414
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Notes to financial statements (cont.)

(In PLN thousand)

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

2011	OPENING BALANCE	INCREASES		DECREASES			CLOSING BALANCE	IMPACT ON NET RESULT(**)
		IMPAIRMENT CHARGES	OTHER (*)	WRITE-OFFS OF ASSETS FROM THE STATEMENT OF FINANCIAL POSITION	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off-balance sheet commitments								
Loans and advances to banks valued at amortized cost	76 999	628	3 039	(3 428)	(3 652)	(1 070)	72 516	3 024
Derivative financial instruments	480	-	-	-	-	(480)	-	-
Loans and advances to customers valued at amortized cost	4 051 877	1 198 468	222 286	(255 643)	(667 093)	(127 143)	4 422 752	(531 375)
Receivables from financial leasing	181 794	94 939	-	(11 138)	(65 168)	(137)	200 290	(29 771)
Financial assets available for sale	481	-	-	-	-	(358)	123	-
Impairment of off-balance sheet commitments	96 500	50 744	1 089	-	(69 193)	-	79 140	18 449
Total financial assets and off-balance sheet commitments	4 408 131	1 344 779	226 414	(270 209)	(805 106)	(129 188)	4 774 821	(539 673)
Impairment of other assets:								
Investments in subsidiaries and associates	3 787	-	110	-	-	(3 006)	891	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Goodwill	-	-	-	-	-	-	-	-
Other intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	9 315	1 498	-	-	(333)	(830)	9 650	(1 165)
Investment properties	550	-	-	-	-	-	550	-
Other	95 047	8 010	5 249	(30 396)	(2 138)	(73)	75 699	(5 872)
Total impairment of other assets	119 660	9 508	5 359	(30 396)	(2 471)	(3 909)	97 751	(7 037)
Total	4 527 791	1 354 287	231 773	(300 605)	(807 577)	(133 097)	4 872 572	(546 710)

(*) 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 539 673 thousand, net impairment from discontinued activities in the amount of PLN minus 4 532 and proceeds from recovered bad debt in the amount of PLN 6 266 thousand, the total is PLN minus 537 939 thousand.

Notes to financial statements (cont.)

(In PLN thousand)

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

(*) Including foreign exchange differences and transfers between positions

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

Notes to financial statements (cont.)

(In PLN thousand)

18. Gains (losses) on associates

Share of profit (loss) in associates

	2011	2010
Xelion. Doradcy Finansowi Sp. z o.o.	702	837
Pioneer Pekao Investment Management S.A.	62 254	58 216
Krajowa Izba Rozliczeniowa S.A.	10 946	8 392
Pirelli Pekao Real Estate Sp. z o.o.	(3 902)	304
Central Poland Fund LLC	(32)	520
Total share of gains on associates	69 968	68 269

Total gain (loss) on associates	69 968	68 269
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19. Income tax

The Capital Group's tax charge for the year 2011 amounting to PLN 683 850 thousand contains:

- tax charge relating to continuing operations in the amount of PLN 667 884 thousand,
- tax charge relating to discontinued operations in the amount of PLN 15 966 thousand.

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

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

	2011	2010
Profit before income tax	3 592 946	3 101 512
Tax charge according to applicable tax rate at 19%	682 660	589 287
Permanent differences:	1 190	(18 114)
Non taxable income	(23 142)	(47 137)
Non tax deductible costs	15 019	29 041
Impact of other tax rates applied under a different tax jurisdiction	1 801	268
Impact of utilized tax losses	(109)	(580)
Tax relieves not included in the income statement	292	319
Other	7 329	(25)
Effective income tax charge on gross profit	683 850	571 173

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	2011	2010
CONSOLIDATED INCOME STATEMENT		
Current income tax	(826 747)	(800 748)
Current tax charge disclosed in the income statement	(819 151)	(790 722)
Adjustments related to the current tax from previous years	156	(741)
Other taxes (for example withholding tax, income tax relating to foreign branches)	(7 752)	(9 285)
Deferred income tax	142 897	229 575
Occurrence and reversal of temporary differences	142 897	229 575
Tax charge disclosed in the consolidated income statement	(683 850)	(571 173)
EQUITY		
Deferred income tax	9 187	15 496
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	9 361	(12 838)
revaluation of financial assets available for sale – debt securities	11 785	(3 186)
revaluation of financial assets available for sale – with equity rights	(566)	(4)
Foreign currency translation differences	(11 393)	31 524
Tax charge presented in other comprehensive income	9 187	15 496
TOTAL CHARGE	(674 663)	(555 677)

The Capital Group's deferred tax provision as at 31 December 2011 amounting to PLN 31 757 thousand contains:

- deferred tax provision relating to continuing operations in the amount of PLN 4 437 thousand
- deferred tax provision relating to discontinued operations in the amount of PLN 27 320 thousand

The Capital Group's deferred tax asset as at 31 December 2011 amounting to PLN 888 002 thousand relates only to the continuing operations.

Notes to financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2011										
	OPENING BALANCE			CHANGES RECOGNIZED			CHANGES RESULTING FROM CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER		CLOSING BALANCE		
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	IN THE INCOME STATEMENT	IN EQUITY	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENTS	IN EQUITY	
DEFERRED TAX LIABILITY											
Accrued income – securities	25 209	25 209	-	6 197	-	1 048	-	32 454	32 454	-	
Accrued income – loans	131 793	131 793	-	(30 127)	-	-	-	101 666	101 666	-	
Change in revaluation of financial assets	183 114	177 221	5 893	(61 724)	(5 631)	-	-	115 759	115 497	262	
Accelerated depreciation	119 559	119 559	-	2 730	-	(316)	-	121 973	121 973	-	
Investment relief	8 193	8 193	-	(500)	-	-	-	7 693	7 693	-	
Other	28 279	28 279	-	13 909	-	1 834	-	44 022	44 022	-	
Gross deferred tax liability	496 147	490 254	5 893	(69 515)	(5 631)	2 566	-	423 567	423 305	262	
DEFERRED TAX ASSET											
Accrued expenses – securities	-	-	-	-	-	-	-	-	-	-	
Accrued expenses – loans and deposits	127 519	127 519	-	(33 334)	-	-	-	94 185	94 185	-	
Downward revaluation of financial assets	328 263	296 078	32 185	68 431	3 556	-	-	400 250	364 509	35 741	
Income received to be settled from loans and current accounts	106 435	106 435	-	(19 567)	-	(8)	-	86 860	86 860	-	
Loan provision expenses	356 922	356 922	-	35 629	-	(2 960)	-	389 591	389 591	-	
Personnel related provisions	92 527	92 527	-	(3 227)	-	199	-	89 499	89 499	-	
Accruals	15 837	15 837	-	(6 486)	-	133	-	9 484	9 484	-	
Previous year loss	2 265	2 265	-	4 255	-	(2)	-	6 518	6 518	-	
Other	172 423	172 423	-	27 681	-	3 321	-	203 425	203 425	-	
Gross deferred tax asset	1 202 191	1 170 006	32 185	73 382	3 556	683	-	1 279 812	1 244 071	35 741	
Deferred tax expenses	X	X	X	142 897	9 187	(1 883)	-	X	X	X	
Net deferred tax assets	721 981	694 785	27 196	X	X	X	X	888 002	852 261	35 741	
Net deferred tax	15 937	15 033	904	X	X	X	X	31 757	31 495	262	

Notes to financial statements (cont.)

(In PLN thousand)

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

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2011 and 31 December 2010, there were temporary differences related to investments in subsidiaries and associates, for which deferred tax liability was not created as a result of meeting the conditions of controlling the terms of temporary differences' reversing and being probable that these differences will not reverse in foreseeable future.

The table below presents the amount of negative temporary differences, unrecognized tax losses, unutilized tax reliefs, in relation to which deferred tax asset was not recognized in the statement of financial position as well as the expiration date of temporary differences.

EXPIRATION YEAR OF TEMPORARY DIFFERENCES	AMOUNT OF DIFFERENCES AS AT 31.12. 2011	AMOUNT OF DIFFERENCES AS AT 31.12.2010
2011		1 736
2012	2 520	2 520
2013	405	-
2014	782	-
2015	670	-
2016	-	-
No time limits	33 111	33 111
Total	37 488	37 367

20. Earnings per share

Basic earnings per share

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

Earnings per share

	2011	2010
Net profit	2 899 414	2 525 234
Weighted average number of ordinary shares in the period	262 367 442	262 352 988
Earnings per share (in PLN per share)	11.05	9.63

Diluted earnings per share

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

There are diluting instruments in the Group in the form of convertible bonds based on the G-class shares issue described in Note 45. For calculation purposes it is assumed that these instruments will be converted into shares.

	2011	2010
Net profit	2 899 414	2 525 234
Weighted average number of ordinary shares in the period	262 367 442	262 352 988
Adjustments to the number of shares for the purpose of calculation of diluted earnings per share	87 905	85 877
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	262 455 347	262 438 865
Diluted earnings per share (in PLN per share)	11.05	9.62

Notes to financial statements (cont.)

(In PLN thousand)

21. Dividend proposal

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

Till the date of approval of the Financial Statements, Management Board has not made any proposal regarding dividend from 2011 year profit.

22. Cash and due from Central Bank

	31.12.2011	31.12.2010
Cash	2 236 224	2 471 939
Current account at Central Bank	2 005 750	3 495 458
Deposit	631 000	-
Interest	13 106	314
Other funds	13	1 393
Total	4 886 093	5 969 104

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 2011 4.75 %. (As at 31 December 2010 this interest rate amounted to 3.75 %).

23. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2011	31.12.2010
Current accounts and overnight placements	1 170 846	2 992 440
Interbank placements	151 685	1 378 647
Loans and advances	83 716	619 816
Cash collateral	2 065 677	754 513
Repo transactions	1 971 558	250 133
Debt securities	1 181	291 622
Receivables in transit	184 514	28 331
Interest accrued	29 396	20 308
Total gross amount	5 658 573	6 335 810
Impairment provision	(72 516)	(76 999)
Total net amount	5 586 057	6 258 811

Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to banks by quality

	31.12.2011	31.12.2010
Loans and advances to banks, including:		
gross value of non impaired receivables	5 577 796	6 252 451
gross value of impaired receivables	80 777	83 359
individual impairment charges	(55 181)	(55 024)
collective impairment charges (*)	(17 335)	(21 975)
Total	5 586 057	6 258 811

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

Loans and advances to banks by contractual maturities

	31.12.2011	31.12.2010
Loans and advances to banks, including:		
up to 1 month	4 892 755	5 286 714
between 1 and 3 months	561 176	1 347
between 3 months and 1 year	6 436	838 225
between 1 and 5 years	46 718	65 962
over 5 years	42 495	40 758
expired	79 597	82 496
Interest accrued	29 396	20 308
Total gross amount	5 658 573	6 335 810
Impairment provision	(72 516)	(76 999)
Total net amount	5 586 057	6 258 811

Loans and advances to banks by currencies

	31.12.2011	31.12.2010
PLN	2 311 393	1 417 026
CHF	24 549	117 204
EUR	2 927 817	4 366 380
USD	194 926	174 382
Other currencies	127 372	183 819
Total	5 586 057	6 258 811

Changes in the level of impairments charges in 2011 and 2010 are presented in the Note 17.

24. Financial assets and liabilities held for trading

Financial assets / liabilities held for trading by product structure

31.12.2011	ASSETS	LIABILITIES
Securities issued by State Treasury	601 813	-
T- bills	106 729	-
T- bonds	495 084	-
Securities issued by banks	247 898	-
Total	849 711	-

Notes to financial statements (cont.)

(In PLN thousand)

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

Financial assets / liabilities held for trading by maturities

31.12.2011	ASSETS	LIABILITIES
Debt securities, including:		
up to 1 month	130 632	-
between 1 and 3 months	67 993	-
between 3 months and 1 year	368 520	-
between 1 and 5 years	209 065	-
over 5 years	73 501	-
Total	849 711	-

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

25. Derivative financial instruments held for trading

Derivative financial instruments at the Group

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

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

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

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

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

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

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

Interest rate options (cap/floor) are contracts where one of the parties, the option buyer, purchases from the other party, the option writer, at a so-called premium price, the right without the obligation to borrow (cap) or lend (floor) at specified points of time in the future (independently) amounts specified in the contract at the interest rate set during the conclusion of the option. Transactions of this type are valued using the Black-Scholes model. The model is parameterized based upon market quotations of at-the-money options as at standard quoted maturities.

Interest rate futures transactions refer to standardized forward contracts purchased on the stock market. Futures contracts are measured based upon quotations available directly from stock exchanges.

Notes to financial statements (cont.)

(In PLN thousand)

Derivative financial instruments embedded in other instruments

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

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

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

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

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

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

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

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

Risk involved in financial derivatives

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

Fair value of trading derivatives

31.12.2011	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 701 579	1 754 943
Forward Rate Agreements (FRA)	2 818	2 743
Options	7 096	6 578
Other	208	155
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	9 283	54 257
Currency Forward Agreements	166 612	90 590
Currency Swaps (FX-swap)	132 111	507 621
Options for currency and for gold	111 806	65 551
Transactions based on equity securities		
Options	24 761	24 761
Total	2 156 274	2 507 199

31.12.2010	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 177 331	1 388 521
Forward Rate Agreements (FRA)	2 092	1 551
Options	7 729	7 729
Other	727	376
Foreign currency and gold transactions		
Cross-Currency Interest Rate Swaps (CIRS)	7 851	10 792
Currency Forward Agreements	41 156	51 446
Currency Swaps (FX-swap)	234 921	49 193
Options for currency and for gold	22 567	20 993
Transactions based on equity securities		
Options	62 659	61 844
Total	1 557 033	1 592 445

Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2011	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	5 259 334	4 580 513	17 064 676	54 773 046	14 464 308	96 141 877
Forward Rate Agreements (FRA)	3 700 000	3 450 000	9 950 000	600 000	-	17 700 000
Options	-	15 900	83 388	749 812	323 118	1 172 218
Other	511 345	-	-	-	-	511 345
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	-	-	2 862 652	-	2 862 652
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	-	-	2 915 265	-	2 915 265
Currency Forward Agreements - currency bought	8 266 466	1 532 819	1 708 405	657 096	-	12 164 786
Currency Forward Agreements - currency sold	8 255 538	1 532 984	1 684 314	651 403	-	12 124 239
Currency Swaps (FX swap) – currency bought	10 153 653	3 986 364	4 521 798	224 375	-	18 886 190
Currency Swaps (FX swap) – currency sold	10 303 737	4 027 878	4 615 344	220 840	-	19 167 799
Options bought	717 227	1 322 625	1 142 822	144 215	-	3 326 889
Options sold	713 315	1 289 280	1 074 224	144 215	-	3 221 034
Transactions based on equity securities						
Options	-	32 064	590 184	846 974	-	1 469 222
Total	47 880 615	21 770 427	42 435 155	64 789 893	14 787 426	191 663 516

31.12.2010	CONTRACTUAL MATURITY					TOTAL
	UP TO 1MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 474 583	4 645 730	10 690 652	44 083 456	12 909 012	74 803 433
Forward Rate Agreements (FRA)	-	-	11 100 000	130 000	-	11 230 000
Options	-	-	14 258	1 088 830	223 231	1 326 319
Other	1 112 937	-	-	-	-	1 112 937
Foreign currency and gold transactions						
Cross-Currency Interest Rate Swaps (CIRS) - currency bought	-	158 412	157 966	104 042	-	420 420
Cross-Currency Interest Rate Swaps (CIRS) - currency sold	-	163 160	157 966	99 199	-	420 325
Currency Forward Agreements - currency bought	6 466 051	963 051	1 308 239	353 693	-	9 091 034
Currency Forward Agreements - currency sold	6 479 632	958 846	1 317 738	364 066	-	9 120 282
Currency Swaps (FX swap) – currency bought	4 715 410	2 673 862	5 212 523	4 869	-	12 606 664
Currency Swaps (FX swap) – currency sold	4 715 727	2 601 629	5 023 720	4 196	-	12 345 272
Options bought	464 955	949 474	741 744	2 316	-	2 158 489
Options sold	445 810	940 596	727 428	2 316	-	2 116 150
Transactions based on equity securities						
Options	-	646 408	147 096	644 624	-	1 438 128
Total	26 875 105	14 701 168	36 599 330	46 881 607	13 132 243	138 189 453

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2011	31.12.2010
Debt securities issued by State Treasury	-	16 735
T-bonds	-	16 735
Total	-	16 735

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

	31.12.2011	31.12.2010
Debt securities, including:		
between 3 months and 1 year	-	505
between 1 and 5 years	-	16 230
Total	-	16 735

27. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2011	31.12.2010
Mortgage	28 977 373	24 826 939
Current accounts	11 055 328	9 935 550
Operating loans	16 310 840	15 177 404
Investment loans	19 772 867	16 590 854
Payment cards receivables	706 358	648 657
Purchased debt receivables	3 134 511	1 783 356
Other loans and advances	9 466 792	8 682 153
Debt securities	5 681 677	2 579 089
Repo transactions	1 782 916	1 411 577
Receivables in transit	9 287	5 225
Interest accrued	341 192	214 803
Total gross amount	97 239 141	81 855 607
Impairment provision	(4 422 752)	(4 051 877)
Total net amount	92 816 389	77 803 730

Loans and advances to customers by customer type

	31.12.2011	31.12.2010
Receivables from corporate	49 373 710	43 386 092
Receivables from individuals	36 759 208	31 432 488
Receivables from budget entities	10 765 031	6 822 224
Interest accrued	341 192	214 803
Total gross amount	97 239 141	81 855 607
Impairment provision	(4 422 752)	(4 051 877)
Total net amount	92 816 389	77 803 730

Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by quality

	31.12.2011	31.12.2010
Loans and advances to customers, including:		
gross value of non impaired receivables	91 193 753	76 538 484
gross value of impaired receivables	6 045 388	5 317 123
individual impairment charges	(1 834 506)	(1 751 227)
collective impairment charges (*)	(2 588 246)	(2 300 650)
Total	92 816 389	77 803 730

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

Loans and advances to customers by contractual maturities

	31.12.2011	31.12.2010
Loans and advances to customers, including:		
up to 1 month	15 671 206	14 087 637
between 1 and 3 months	3 371 176	3 135 421
between 3 months and 1 year	9 025 817	11 542 859
between 1 and 5 years	30 654 771	24 273 289
over 5 years	33 892 650	24 759 878
Expired	4 282 329	3 841 720
Interest accrued	341 192	214 803
Total gross amount	97 239 141	81 855 607
Impairment provision	(4 422 752)	(4 051 877)
Total net amount	92 816 389	77 803 730

Loans and advances to customers by currencies

	31.12.2011	31.12.2010
PLN	71 711 606	60 212 560
CHF	6 893 039	6 655 950
EUR	11 388 223	9 147 050
USD	2 755 554	1 719 464
Other currencies	67 967	68 706
Total	92 816 389	77 803 730

Changes in the level of impairment charges in 2011 and 2010 are presented in the Note 17.

Notes to financial statements (cont.)

(In PLN thousand)

28. Receivables from finance leases

The Group conducts leasing operations through its subsidiary Pekao Leasing Sp. z o.o. The value of gross lease investments and minimum lease payments were respectively:

31.12.2011	GROSS LEASING INVESTMENT	PRESENT VALUE OF MINIMUM LEASING PAYMENTS
Up to one year	1 455 137	1 276 515
Between 1 and 5 years	1 826 675	1 653 950
Over 5 years	152 590	132 585
Total	3 434 402	3 063 050
Unrealized financial revenues	(371 352)	
Net leasing investment	3 063 050	
Non-guarantee residual values attributed to lessor	-	
Present value of minimum lease payments	3 063 050	
Value of provision	(200 290)	
Statement of financial position value	2 862 760	

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

29. Hedge accounting

As at 31 December 2011 the Group applies fair value hedge accounting and cash flow hedge accounting.

In 2011 The Group continues to apply following hedging relationships:

- fair value hedge accounting for fixed-rate debt securities classified as available-for-sale hedged with interest rate swap (IRS) transactions- described in 29.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions- described in 29.2,
- cash flow hedge accounting for floating-rate financial assets with interest rate swap (IRS) transactions – described in 29.3,
- fair value hedge accounting for interest rate risk for deposits portfolio denominated in EUR hedged with cross-currency interest rate swap (CIRS) transactions – described in 29.4.

In 2011 the Group designated to hedge accounting the following new hedging relationships:

- cash flow hedge accounting for floating coupon deposits portfolio denominated in EUR hedged with interest rate swap (IRS) transactions – described in 29.5,
- fair value hedge accounting for fixed-rate bonds hedged with interest rate swap (IRS) transactions- described in 29.1,
- cash flow hedge accounting for highly probable cash flow in USD (long position in USD for the Bank) hedged with FX-forward transactions (a series of FX-spot and FX-swap transactions) – described in 29.6.

Fair values of hedging derivatives

31.12.2011	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	-	216 267
Cross-currency interest rate swaps (CIRS)	313 312	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	55 438	101 931
Cross-currency interest rate swaps (CIRS)	40 156	1 343 026
FX-swaps	-	77 325
Total	408 906	1 738 549

31.12.2010	ASSETS	LIABILITIES
Fair value hedge accounting		
Interest rate swaps (IRS)	-	147 768
Cross-currency interest rate swaps (CIRS)	171 115	-
Cash flow hedge accounting		
Interest rate swaps (IRS)	56 039	407
Cross-currency interest rate swaps (CIRS)	31 534	562 391
Total	258 688	710 566

Notes to financial statements (cont.)

(In PLN thousand)

Nominal values of hedging derivatives

31.12.2011	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	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	-	462 716	1 151 631	879 176	2 493 523
Cross-currency interest rate swaps (CIRS)	-	-	173 534	2 367 013	-	2 540 547
Cash flow hedge accounting						
Interest rate swaps (IRS)	50 000	-	500 334	2 390 460	175 000	3 115 794
Cross-currency interest rate swaps (CIRS)	-	-	2 122 570	8 224 643	5 361 276	15 708 489
Fx-swaps	-	1 156 186	-	-	-	1 156 186
Total	50 000	1 156 186	3 259 154	14 133 747	6 415 452	25 014 539

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	
Fair value hedge accounting						
Interest rate swaps (IRS)	-	-	-	1 405 516	277 221	1 682 737
Cross-currency interest rate swaps (CIRS)	-	-	-	2 396 827	-	2 396 827
Cash flow hedge accounting						
Interest rate swaps (IRS)	-	100 000	367 000	1 255 000	390 000	2 112 000
Cross-currency interest rate swaps (CIRS)	1 306 169	-	5 380 311	7 937 106	5 911 724	20 535 310
Total	1 306 169	100 000	5 747 311	12 994 449	6 578 945	26 726 874

Amounts recognized in profit or loss and revaluation reserves related to cash flow hedge accounting:

	2011	2010
Revaluation reserves (deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge - gross value)	(24 199)	25 070
Interest income on hedging derivatives	172 047	193 600
Ineffective portion in changes in fair value of hedging transactions recognized in income statement	(4 975)	(1 994)

Changes in revaluation reserves in respect of hedging derivatives related to cash flow hedge accounting:

	2011	2010
Opening balance	25 070	(42 499)
Deferral of fair value changes of hedging instruments related to the portion recognized as effective hedge	(49 321)	67 220
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	52	349
Closing balance	(24 199)	25 070

Notes to financial statements (cont.)

(In PLN thousand)

Amounts recognized in profit or loss related to fair value hedge accounting:

TYPE OF GAINS/LOSSES	2011	2010
Gains/losses from revaluation of hedging instruments to fair value	(52 580)	(74 185)
Gains/losses from revaluation of hedged item associated with hedged risk to fair value	36 823	80 986
Result on fair value hedge accounting	(15 757)	6 801
Net interest income of hedging instruments	(51 273)	(56 841)

29.1 Fair value hedge of fixed-coupon debt securities

Description of hedging relationship

The Group hedges a portion of the interest rate risk resulting from 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 PLN, EUR and USD.

Hedging derivatives

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

Financial Statement presentation

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

29.2 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

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

Financial Statement presentation

The effective portion of the change in fair value of hedging derivatives' is recognized in revaluation reserve in equity. The ineffective portion of the change in fair value of hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest on CIRS transactions and hedged items is presented in the net interest income.

Notes to financial statements (cont.)

(In PLN thousand)

Period when the cash flow is expected

It is expected that the cash flows related to the hedged items will occur until 9 September 2019.

29.3 Cash flow hedge of floating-rate loans

Description of hedging relationship

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

Hedged items

The hedged items consist of the cash flows from floating-rate assets.

Hedging derivatives

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

Financial Statement presentation

The effective portion of the change in fair value of hedging derivatives is recognized in revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the result on financial assets and liabilities held for trading. The interest from IRS transactions and hedged items is presented in the net interest income.

Period when the cash flow is expected

It is expected that the cash flows related to the hedged items will occur until 20 November 2017.

29.4 Fair value hedge of interest rate risk for deposit portfolio

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 interest rates with the designated CIRS transactions.

Hedged items

The hedged item is a portfolio of deposits denominated in EUR with interests insensitive to interest rate changes.

Hedging derivatives

The hedging items consist of CIRS transactions in which the Bank receives fixed-rate payments in EUR, and pays floating-rate payments in Polish Zloty.

Financial Statement presentation

The result of the change in the hedged items' fair value that relates to the hedged risk is presented in the income statement line item 'Result on fair value hedge accounting'. The remaining portion of change in the hedged items' fair value is recognized as a separate line in the liabilities. Interests from deposits are presented in net interest income.

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

29.5 Cash flow hedge of floating-rate deposits

Description of hedging relationship

The Bank hedges a portion of the interest rate risk related to the volatility of cash flows on floating-rate deposits with the designated IRS transactions.

Notes to financial statements (cont.)

(In PLN thousand)

Hedged items

Cash flows from floating-rate deposits denominated in EUR are the hedged items.

Hedging derivatives

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

Financial Statement presentation

The effective portion of the change in fair value of hedging derivatives is recognized in revaluation reserve in equity. The ineffective portion of change in fair value hedging derivatives is recognized in the net result on financial assets and liabilities held for trading. The interest from IRS transactions and hedged items is presented in net interest income.

Period when the cash flow is expected

It is expected that the cash flows related to the hedged items will occur until 5 December 2014.

29.6 Cash flow hedge of projected inflow denominated in foreign currency

Description of hedging relationship

The Bank hedges the volatility of cash flows denominated in USD constituting the projected revenues from expected sales with the designated FX-forward transactions. The currency risk is being hedged.

Hedged items

Projected sales revenues dependent on US-Dollar and Polish zloty exchange rates are the hedged items.

Hedging derivatives

The hedging derivatives consist of a portfolio of fx-forward transactions (fx-swap and fx-spot closing the short legs of fx-swap), in which the Bank sells USD currency in exchange for PLN currency on 31.03.2012 at an agreed exchange rate.

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 recognized in the 'Result on financial assets and liabilities held for trading'.

Period when the cash flow is expected

It is expected that the cash flows related to the hedged items will occur until 31 March 2012.

30. Investment (placement) securities

	31.12.2011	31.12.2010
Debt securities available for sale (AFS)	25 307 265	25 841 525
Equity securities available for sale (AFS)	17 538	14 862
Debt securities held to maturity (HTM)	3 794 834	4 542 058
Total	29 119 637	30 398 445

Notes to financial statements (cont.)

(In PLN thousand)

Debt securities available for sale (AFS)

	31.12.2011	31.12.2010
Securities issued by State Treasury	14 885 948	13 119 015
T-bills	40 736	30 747
T-bonds	14 845 212	13 088 268
Securities issued by Central Banks	9 718 216	12 556 926
Securities issued by business entities	38 632	81 097
Securities issued by local governments	664 469	84 487
Total	25 307 265	25 841 525
including impairment of assets	-	-

Equity securities available for sale (AFS)

	31.12.2011	31.12.2010
Shares	17 538	14 862
Total	17 538	14 862
including impairment of assets	(123)	(481)

Debt securities held to maturity (HTM)

	31.12.2011	31.12.2010
Securities issued by State Treasury	3 119 353	4 107 554
T- bills	154 765	363 828
T- bonds	2 964 588	3 743 726
Securities issued by Central Banks	675 481	434 504
Securities issued by business entities	-	-
Total	3 794 834	4 542 058
including impairment of assets	-	-

Investment debt securities according to contractual maturities

	31.12.2011	31.12.2010
Debt securities, including:		
up to 1 month	10 393 698	13 016 367
between 1 and 3 months	183 673	393 079
between 3 months and 1 year	3 008 959	978 778
between 1 and 5 years	8 404 007	11 168 462
over 5 years	7 111 762	4 826 897
Total	29 102 099	30 383 583

Notes to financial statements (cont.)

(In PLN thousand)

Changes in investment (placement) securities

	31.12.2011	31.12.2010
DEBT SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	25 856 387	17 466 202
Increases (purchase)	281 276 903	369 777 564
Decreases (sale and redemption)	(283 155 093)	(362 409 711)
Financial assets transferred into the receivables	-	(175 240)
Changes in fair value	3 539	67 621
Exchange rate differences	295 050	89 731
Accrued interest	648 185	587 801
Other changes	399 832	452 419
Closing balance	25 324 803	25 856 387
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	4 542 058	3 807 823
Increases (purchase)	31 596 384	20 148 442
Decreases (sale and redemption)	(32 567 323)	(19 606 757)
Impairment charges	-	-
Exchange rate differences	7 537	(6 190)
Accrued interest	24 368	58 172
Other changes	191 810	140 568
Closing balance	3 794 834	4 542 058
Net total investment (placement) securities	29 119 637	30 398 445

31. Reclassification of securities

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

In 2011 and 2010, the Group did not take advantage of this possibility.

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

The tables below present the information on the reclassified financial assets

	31.12.2011		
	NOMINAL VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets reclassified from Available for Sale assets to Loans and advances to customers	409 495	415 467	403 022
Financial assets reclassified from Available for Sale assets to Loans and advances to banks	-	-	-
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	563 669	645 958	656 906
Total	973 164	1 061 425	1 059 928

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

31.12.2011	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	-	4 746
Financial assets reclassified from Available for Sale assets to loans and advances to banks	-	-
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	10 376	-
Total	10 376	4 746

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)

Net interest income on reclassified financial assets

	2011	2010
Financial assets reclassified from Available for Sale assets to loans and advances to customers	29 449	51 536
Financial assets reclassified from Available for Sale assets to loans and advances to banks	8 753	37 260
Financial assets reclassified from Held for Trading assets to Held to Maturity assets	23 959	36 231
Total	62 161	125 027

Notes to financial statements (cont.)

(In PLN thousand)

32. Assets held for sale and discontinued operations

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

As at 31 December 2011, non-current assets classified as held for sale included following items classified as held for sale:

- exposure in the subsidiary - PJSC UniCredit Bank,
- real estate, and
- other property, plant and equipment owned by the Group.

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

	31.12.2011	31.12.2010
ASSETS HELD FOR SALE		
Assets of PJSC UniCredit Bank	2 900 717	3 200 087
Property, plant and equipment	30 858	23 440
Other assets	-	23 458
Total assets	2 931 575	3 246 985
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Liabilities of PJSC UniCredit Bank	999 985	1 009 074
Total liabilities	999 985	1 009 074

The Bank Pekao S.A. Group plans to concentrate its activities on the local market and in connection with this a process for disposal of the whole exposure of Bank Pekao S.A. in PJSC UniCredit has been started. The exposure consists of:

- shares in PJSC UniCredit Bank PLN 577 349 thousand,
- loans and deposit totalling PLN 1 422 603 thousand, and
- off-balance sheet commitments, including guarantees and letters of credit PLN 6 835 thousand and PLN 102 430 thousand respectively.

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2011 BEFORE ELIMINATION	ELIMINATION OF INTERCOMPANY TRANSACTIONS/ CONSOLIDATION ADJUSTMENTS	31.12.2011 AFTER ELIMINATION
ASSETS HELD FOR SALE			
Cash and due from Central Bank	42 623	-	42 623
Loans and advances to banks	830 883	6 036	836 919
Financial assets held for trading	350 887	-	350 887
Loans and advances to customers	1 635 670	-	1 635 670
Investments securities	11	-	11
Intangible assets	3 570	-	3 570
Property, plant and equipment	20 755	-	20 755
Other assets	10 505	(223)	10 282
TOTAL ASSETS	2 894 904	5 813	2 900 717
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE			
Amounts due to other banks	1 529 478	(1 416 435)	113 043
Amounts due to customers	840 112	-	840 112
Income tax liabilities	32 087	-	32 087
Other liabilities	14 743	-	14 743
TOTAL LIABILITIES	2 416 420	(1 416 435)	999 985

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	2011	2010
Interest income	225 066	270 779
Interest expense	(93 692)	(122 010)
Net interest income	131 374	148 769
Fee and commission income	38 648	38 237
Fee and commission expense	(17 309)	(17 060)
Net fee and commission income	21 339	21 177
Result on financial assets and liabilities held for trading	12 007	25 016
Gains (losses) on disposal of:	242	1 734
loans and other financial receivables	289	1 380
available for sale financial assets and held to maturity investments	(47)	354
Operating income	164 962	196 696
Net impairment losses on financial assets and off-balance sheet commitments:	(4 532)	(52 041)
loans and other financial receivables	(4 532)	(52 041)
Net result on financial activity	160 430	144 655
Administrative expenses	(76 896)	(78 168)
personnel expenses	(37 659)	(39 145)
other administrative expenses	(39 237)	(39 023)
Depreciation and amortization	(9 026)	(12 502)
Net other operating income and expenses	(836)	37
Operating costs	(86 758)	(90 633)
Profit before income tax	73 672	54 022
Income tax expense	(15 966)	(17 057)
Net profit for the period	57 706	36 965

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

	31.12.2011	31.12.2010
Net cash flows from operating activities	229 305	299 973
Net cash flows from investing activities	185 806	(113 828)
Net cash flows from financing activities	-	(30 869)
Total	415 111	155 276

Notes to financial statements (cont.)

(In PLN thousand)

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

ASSETS HELD FOR SALE	2011	2010
Opening balance	3 246 985	39 908
Increases including:	17 192	3 213 277
assets of PJSC UniCredit Bank	-	3 200 087
transfer from investment properties	1 441	9 221
transfer from property, plant and equipment	602	-
other changes	15 149	3 969
Decreases including:	(332 602)	(6 200)
PJSC UniCredit Bank's assets	(299 370)	-
transfer to property, plant and equipment	(8 685)	(83)
disposal	(94)	(1 833)
other changes	(24 453)	(4 284)
Closing balance	2 931 575	3 246 985
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE		
Opening balance	1 009 074	-
Increases including:	-	1 009 074
liabilities of PJSC UniCredit Bank	-	1 009 074
Decreases including:	(9 089)	-
liabilities of PJSC UniCredit Bank	(9 089)	-
Closing balance	999 985	1 009 074

The assets disposals have been settled as follows:

	2011	2010
Sales revenues	780	1 846
Net carrying amount of disposed assets (including sales cost)	94	1 854
Profit/loss on sale before income tax	686	(8)

Notes to financial statements (cont.)

(In PLN thousand)

33. Investments in associates and subsidiaries

Information on associated entities valued using equity method:

NAME OF ENTITY	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
31.12.2011 (*)						
Pirelli Pekao Real Estate Sp. z o.o.	30 902	11 064	5 787	(15 609)	25.00	4 960
Krajowa Izba Rozliczeniowa S.A.	123 068	24 606	109 220	31 515	34.44	33 911
Pioneer Pekao Investment Management S.A.	347 619	59 670	452 040	127 250	49.00	141 095
Xelion. Doradcy Finansowi Sp. z o.o.	18 748	8 058	42 801	1 404	50.00	5 345
Central Poland Fund LLC (**)	1 021	46	-	(28)	53.19	941
Total						186 252
31.12.2010 (*)						
Pirelli Pekao Real Estate Sp. z o.o.	48 596	11 949	9 446	1 217	25.00	9 162
Krajowa Izba Rozliczeniowa S.A.	111 339	20 160	110 871	24 573	34.44	31 402
Pioneer Pekao Investment Management S.A.	344 194	64 223	543 926	116 553	49.00	137 186
Xelion. Doradcy Finansowi Sp. z o.o.	16 672	7 386	40 589	1 674	50.00	4 643
Central Poland Fund LLC (**)	1 054	58	-	(35)	53.19	849
Total						183 242

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

(**) The data given in USD as at 19.12.2011, carrying amount in PLN

All of the subsidiaries were consolidated full method as of 31 December 2011.

The change in value of investments in subsidiaries:

	2011	2010
Opening balance	31 374	32 046
Reclassification into 'Subsidiary investments subject to full method consolidation'	(31 374)	(672)
Closing balance	-	31 374

The change in value of investments in associates:

	2011	2010
Opening balance	183 242	207 903
Share in profits/losses	69 968	68 269
Dividends	(67 083)	(92 930)
Other	125	-
Closing balance	186 252	183 242

Notes to financial statements (cont.)

(In PLN thousand)

34. Intangible assets

	31.12.2011	31.12.2010
Intangible assets, including:	648 795	642 675
research and development expenditures	19 543	23 855
licenses and patents	476 474	415 496
other	3 811	4 471
expenditures on intangible assets and advances to expenditures on intangible assets	148 967	198 853
Goodwill	54 560	54 560
Total	703 355	697 235

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

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

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

At 31 December 2011 the Group carried out a test for PKBL and Pekao Leasing i Finanse goodwill impairment and as a result which was not recognized impairment of this item.

Notes to financial statements (cont.)

(In PLN thousand)

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

2011	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER(*)	TOTAL
GROSS VALUE				
Opening balance	88 550	1 635 413	235 006	1 958 969
Increases including:	1 230	192 230	(34 576)	158 884
acquisitions	-	2 563	151 759	154 322
other	-	2 489	2 073	4 562
transfer from investments outlays	1 230	187 178	(188 408)	-
Decreases, including:	-	(1 440)	(13 353)	(14 793)
liquidation	-	(1 435)	-	(1 435)
other	-	(5)	(13 353)	(13 358)
Closing balance	89 780	1 826 203	187 077	2 103 060
ACCUMULATED AMORTIZATION				
Opening balance	64 695	1 219 917	20 721	1 305 333
Amortization for the period	5 542	132 729	2 617	140 888
Liquidation	-	(1 371)	-	(1 371)
Other	-	(1 546)	-	(1 546)
Closing balance	70 237	1 349 729	23 338	1 443 304
IMPAIRMENT DEDUCTIONS				
Opening balance	-	-	10 961	10 961
Value changes	-	-	-	-
Closing balance	-	-	10 961	10 961
NET VALUE				
Opening balance	23 855	415 496	203 324	642 675
Closing balance	19 543	476 474	152 778	648 795

(*) Item covering mainly investment outlays

Notes to financial statements (cont.)

(In PLN thousand)

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

(*) Item covering mainly investment outlays

In 2011 and in 2010 there have been no restrictions to legal titles to intangible assets, not pledged in place as security for liabilities.

35. Property, plant and equipment

	31.12.2011	31.12.2010
Non-current assets, including:	1 685 308	1 657 613
land and buildings	1 213 536	1 239 235
machinery and equipment	378 324	331 956
transport vehicles	56 603	57 276
other	36 845	29 146
Non-current assets in progress and prepayments for non-current assets in progress	87 632	164 110
Total	1 772 940	1 821 723

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:

2011	LANDS AND BUILDINGS	MACHINERY AND EQUIPMENT	MEANS OF TRANSPORTATION	OTHER	TOTAL
GROSS VALUE					
Opening balance	2 255 282	1 505 427	105 485	369 064	4 235 258
Increases including:	57 244	169 544	22 811	17 371	266 970
acquisitions	131	1 829	6 548	584	9 092
transfer from non-current assets under construction	44 413	167 295	399	16 297	228 404
other	12 700	420	15 864	490	29 474
Decreases, including:	(28 348)	(96 661)	(32 401)	(20 766)	(178 176)
liquidation and sale	(27 446)	(96 435)	(31 661)	(20 441)	(175 983)
transfer to non-current assets held for sale	(643)	-	-	(109)	(752)
other	(259)	(226)	(740)	(216)	(1 441)
Closing balance	2 284 178	1 578 310	95 895	365 669	4 324 052
ACCUMULATED DEPRECIATION					
Opening balance	1 015 966	1 166 814	46 141	339 409	2 568 330
Increases including:	82 227	123 932	17 354	10 850	234 363
depreciation for the period	80 383	123 080	17 111	10 318	230 892
other	1 844	852	243	532	3 471
Decreases including:	(27 632)	(98 141)	(25 860)	(21 883)	(173 516)
liquidation and sale	(24 441)	(95 344)	(25 081)	(20 172)	(165 038)
transfer to non-current assets held for sale	(283)	-	-	(109)	(392)
other	(2 908)	(2 797)	(779)	(1 602)	(8 086)
Closing balance	1 070 561	1 192 605	37 635	328 376	2 629 177
IMPAIRMENT DEDUCTIONS					
Opening balance	81	6 657	2 068	509	9 315
Increases	-	1 307	108	-	1 415
Decreases	-	(583)	(519)	(61)	(1 163)
Closing balance	81	7 381	1 657	448	9 567
NET VALUE					
Opening balance	1 239 235	331 956	57 276	29 146	1 657 613
Closing balance	1 213 536	378 324	56 603	36 845	1 685 308

Notes to financial statements (cont.)

(In PLN thousand)

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

As at 31 December 2011, the amount of expenditures in the item 'property, plant and equipment under construction' stood at PLN 87 372 thousand (PLN 163 599 thousand as at 31 December 2010).

The amount of compensations received from third parties for impairment of loss of property, plant and equipment items recognized in the income statement for 2011 stood at PLN 1 207 thousand (PLN 2 979 thousand in 2010).

In 2011 and 2010 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 2011 the Group signed agreements with counterparties for the future purchase of intangible assets totaling PLN 47 551 thousand, including PLN 46 849 thousand in 2012 and property, plant and equipment totaling PLN 16 658 thousand, including PLN 14 984 thousand in 2012. (As at 31 December 2010, the Group signed agreements with counterparties for the future purchase of intangible assets totaling PLN 53 827 thousand including PLN 53 827 thousand in 2011 and property, plant and equipment totaling PLN 20 165 thousand including PLN 15 408 thousand in 2011).

Notes to financial statements (cont.)

(In PLN thousand)

36. Investment property

The Group values investment property using the historical cost model.

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

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

	2011	2010
GROSS VALUE		
Opening balance	103 151	114 082
Increases including:	5 422	17 335
acquisitions	-	331
transfer from property plant and equipment	95	16 929
other	5 327	75
Decreases, including:	(2 572)	(28 266)
transfer to non-current assets held for sale	(2 572)	(16 135)
other	-	(12 131)
Closing balance	106 001	103 151
ACCUMULATED DEPRECIATION		
Opening balance	38 108	44 491
Increases including:	4 859	7 898
depreciation for the period	2 657	2 766
transfer from property plant and equipment	-	5 109
other	2 202	23
Decreases, including:	(1 444)	(14 281)
transfer to non-current assets held for sale	(1 131)	(6 187)
other	(313)	(8 094)
Closing balance	41 523	38 108
IMPAIRMENT DEDUCTIONS		
Opening balance	550	4 352
Decreases, including:	-	(3 802)
transfer to non-current assets held for sale	-	-
foreign currency exchange differences	-	(96)
other	-	(3 706)
Closing balance	550	550
NET VALUE		
Opening balance	64 493	65 239
Closing balance	63 928	64 493

The fair value of investment property as at 31 December 2011 stood at PLN 114 590 thousand (PLN 109 458 thousand as at 31 December 2010). 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:

	2011	2010
Rental revenues from investment properties	4 451	4 214
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(1 238)	(1 168)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	(108)	(317)

37. Other assets

	31.12.2011	31.12.2010
Prepaid expenses	125 783	44 948
Perpetual usufruct rights	38 807	16 465
Accrued income	47 218	35 684
Interbank and interbranch settlements	176	54
Other debtors	1 144 187	957 011
Other	6	56
Total	1 356 177	1 054 218

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

Assets for sale represent assets taken over for debts. They are presented in a debt value reduced by impairment charge, calculated as a difference between the amount of debt and fair value of taken over assets (if lower than the amount of debt). In case of surplus between the fair value of taken over asset and the amount of debt, the difference is recognized as a liability to debtor.

The Group disposes of the assets for sale taken over for debts. The period in which the assets should be disposed is 5 years for real estate and 3 years for other assets for sale (the period starts from the date of assets' taken over). When the period expires, the Group reclassifies the carrying value of unsold assets for sales into appropriate category of property, plant and equipment used by the Group.

38. Assets pledged as collateral

As at 31 December 2011 the Group held the following financial assets pledged as collateral:

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Sell-buy-back	bonds	4 064 582	4 125 831	4 064 362
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds, bills	588 340	560 100	-
Lombard and technical loan	bonds, bills	7 000 503	6 944 847	-
Other loans	bonds, leases encumbrances	802 591	816 480	625 476
Issue of mortgage bonds	receivables backed by mortgage, bonds and hedging instruments	1 258 233	1 274 793	641 305
Derivatives	bonds	-	-	-

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2010 the Group held 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
Sell-buy-back	bonds	1 566 924	1 556 653	1 570 824
Coverage of Fund for protection of guaranteed assets to the benefit of the Bank Guarantee Fund	bonds, bills	398 042	380 060	-
Lombard and technical loan	bonds, bills	6 656 255	6 737 060	-
Other loans	bonds, leases encumbrances	630 869	668 427	470 572
Issue of mortgage bonds	receivables backed by mortgage, bonds and hedging instruments	1 089 955	1 101 285	439 359
Derivatives	bonds	220 356	239 609	96 605

The freeze on securities is a consequence of:

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

39. Amounts due to Central Bank

	31.12.2011	31.12.2010
Loans received	356 386	727 979
Repo transactions	-	-
Total	356 386	727 979

The position covers also a refinancing credit from the National Bank of Poland granted for financing of the credit investment.

40. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2011	31.12.2010
Current accounts and overnight deposits	618 446	1 796 339
Deposits from other banks and other liabilities	312 669	1 051 612
Loans and advances received	2 696 512	2 708 758
Repo transactions	1 882 259	1 316 102
Funds in transit	24 777	31 281
Interest accrued	9 547	9 031
Total	5 544 210	6 913 123

Notes to financial statements (cont.)

(In PLN thousand)

Amounts due to other banks by currencies

	31.12.2011	31.12.2010
PLN	2 359 627	3 804 164
CHF	1 084 176	941 414
EUR	1 479 521	1 815 314
USD	571 919	79 885
Other currencies	48 967	272 346
Total	5 544 210	6 913 123

41. Amounts due to customers

Amounts due to customers by product type

	31.12.2011	31.12.2010
Amounts due to corporate, including:	50 245 631	48 070 898
current accounts and overnight deposits	17 974 361	18 909 508
term deposits and other liabilities	32 157 675	29 077 615
interest accrued	113 595	83 775
Amounts due to budget entities, including:	5 384 931	5 103 614
current accounts and overnight deposits	3 712 176	3 327 666
term deposits and other liabilities	1 665 303	1 763 336
interest accrued	7 452	12 612
Amounts due to individuals, including:	47 833 077	45 735 642
current accounts and overnight deposits	27 017 211	29 469 302
term deposits and other liabilities	20 626 480	16 131 495
interest accrued	189 386	134 845
Repo transactions, including:	4 615 494	650 086
forward transactions	4 609 733	649 905
interest accrued	5 861	181
Funds in transit	357 831	246 996
Total	108 436 964	99 807 236

Amounts due to customers by currencies

	31.12.2011	31.12.2010
PLN	89 559 995	84 794 848
CHF	167 308	122 703
EUR	9 075 030	9 050 655
USD	8 220 227	5 323 683
Other currencies	1 414 404	515 347
Total	108 436 964	99 807 236

Notes to financial statements (cont.)

(In PLN thousand)

42. Debt securities issued

Debt securities issued by type

	31.12.2011	31.12.2010
Bonds	2	3
Certificates of deposit	2 390 059	737 268
Mortgage bonds	631 513	434 633
Interest accrued	22 345	5 254
Total	3 043 919	1 177 158

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

Changes in debt securities issued

	2011	2010
Opening balance	1 177 158	2 032 234
Increase (issuance)	2 475 162	78 401
Decrease (repurchase)	(589 442)	(928 639)
Decrease (partial payment)	(23 554)	(30 263)
Foreign currency exchange differences	6 598	4 195
Other changes	(2 003)	21 230
Closing balance	3 043 919	1 177 158

43. Provisions

Roll-forward of provisions in the reporting period

2011	PROVISIONS FOR LITIGATION AND CLAIMS	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	42 152	127 852	96 500	39 419	305 923
Provision charges/revaluation	7 516	29 434	50 744	19 813	107 507
Provision utilization	(28)	(6)	-	(22 599)	(22 633)
Provision releases	(1 646)	(142)	(69 193)	(104)	(71 085)
Foreign currency exchange differences	79	-	1 089	401	1 569
Other changes	(758)	(7 157)	-	514	(7 401)
Closing balance	47 315	149 981	79 140	37 444	313 880

Notes to financial statements (cont.)

(In PLN thousand)

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

Litigation provision

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

Other provisions

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

44. Other liabilities

	31.12.2011	31.12.2010
Deferred income	148 662	178 060
Provisions for holiday leave	55 271	55 626
Provisions for other employee-related liabilities	204 323	256 542
Provisions for administrative costs	43 390	76 393
Other costs to be paid	24 959	28 370
Other creditors	532 851	540 285
Interbank and interbranch settlements	1 101 106	353 210
Total	2 110 562	1 488 486

45. Share-based payment

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

On the 31st of December 2010 expired the program of F-class shares.

The incentive program is implemented within the subprogram based on G-class shares issue (divided into two parts each) with following parameters:

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

Dividend rate (%)	5.12
Volatility index (%)	31.75
Risk free interest rate (%)	6.66
Expected option validity period (in years)	6.18
Weighted average of stock price (in PLN)	125.00

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

	2011		2010	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (*)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (*)
Opening balance	105 708	123.06	139 423	123.06
Granted during the year	-	-	-	-
Redeemed during the year	-	-	-	-
Exercised during the year	17 803	144.29	33 715	168.99
Terminated during the year	-	-	-	-
Existing at the period-end	87 905	123.06	105 708	123.06
Executable at the period-end	-	-	-	-

(*) Weighted average price of option execution on exercise dates in 2011 stood at PLN 144.29 against PLN 168.99 in 2010.

The UniCredit Group incentive program

The Long Term Incentive Program of the UniCredit Group constitutes an element of the payroll policy, which helps retain and motivate key employees - essential participants for realization of mission and creates a direct bind between employee, his commitment into long term growth of the Group and shareholders.

Under the Group's LTIP equity options and shares are granted to a selected group of employees in order to:

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

The final 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 perspective, strong corporate identity and consequence,
- significance of the position: strategic importance to the business performance and corporate governance of the Group,
- the need with respect of employee retention: retention within the Group of the best employees, particularly sought-after by the competition,
- evaluation of the performance and potential – realization of targets as well as achieved and expected results.

The fair value of share options and performance shares of UniCredit S.p.A. was estimated on basis of 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 2011 amounted to PLN 17 878 thousand as at 31 December 2011. It is amortized over the vesting period.

The year 2011 remuneration expense increased by the amount of PLN 11 580 thousand with respect to that (in 2010 – PLN 3 614 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:

2011	STOCK OPTIONS		PERFORMANCE SHARES	
	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)	NUMBER	WEIGHTED AVERAGE EXECUTION PRICE (*)
Opening balance	2 736 822	7.98/18.48/31.33	932 922	-
Granted during the year	3 987 327	-	2 102 794	-
Redeemed during the year	275 515	7.98/18.48/31.33	223 055	-
Exercised during the year	-	-	111 190	-
Terminated during the year	-	-	-	-
Existing at the period-end	6 448 634	7.98/18.48/31.33	2 701 471	-
Existing at the period-end – after reverse stock split (**)	-	-	270 094	-
Executable at the period-end	-	-	-	-

(*)The value of PLN 7.98 applies to the stock options program of UniCredit S.P.A. in 2011, values PLN 18.48 and PLN 31.33 apply to programs in 2008 and 2007 respectively.

(**) In December 2011 Bank UniCredit S.p.A. conducted a reverse stock split, which resulted in the recalculation of the number of shares with ratio 10:1, rounded down to integer.

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

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

46. Operating and finance leases

The Group as a Lessor

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

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

	31.12.2011	31.12.2010
Up to one year	14 820	18 501
Between 1 and 5 years	18 645	16 653
Over 5 years	6 769	10 719
Total	40 234	45 873

The amount of the minimum operating lease payments classified as income in 2011 amounted to PLN 30 940 thousand (PLN 28 833 thousand in 2010).

Notes to financial statements (cont.)

(In PLN thousand)

The Group as Lessee

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

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

	31.12.2011	31.12.2010
Up to one year	150 833	130 287
Between 1 and 5 years	313 981	297 288
Over 5 years	290 692	32 170
Total	755 506	459 745

The amount of the minimum operating lease payments recognized as an expense in 2011 amounted to PLN 234 592 thousand (expense in 2010 amounted to PLN 232 633 thousand).

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

47. Contingent liabilities

Litigation

As at 31 December 2011, there were no legal claims against the Bank and its subsidiaries, whose value accounted for at least 10% of the Group's own funds.

In 2011 the total value of legal proceedings against the Group amounted to PLN 18 753 334 thousand (as at 31 December 2010 PLN 630 933 thousand). In 2011, the significant change in total value of litigations against the Group is a result of the suit filed by a minority shareholder of the Bank concerning the repeal of Annual Shareholders Meeting's Resolutions No 8 and No 24 dated 19 April 2011 approving the Consolidated Financial Statement of The Group for year 2010 and acknowledging the fulfillment of the duties in 2010 by Member of the Management Board. The Plaintiff – a minority shareholder of the Bank seeks approximately PLN 18 000 000 thousand in compensation. In the opinion of the Bank the suit and amount in dispute are groundless.

As at 31 December 2011, the most significant claim against the Bank and Centralny Dom Maklerski Pekao S.A. was lodged by private individuals and relates to the alleged damage arising as a result of shares purchased and execution process. The total amount in dispute is PLN 306 622 thousand. In the opinion of the Group the suit and amount in dispute is groundless.

As at 31 December 2011, the Group created provisions for litigation against the Group, which according to legal opinion are associated with a risk of outflow of funds related to the fulfillment of court rulings. The value of provisions, created as at 31 December 2011 amounted to PLN 47 315 thousand (as at 31 December 2010 PLN 42 152 thousand).

Notes to financial statements (cont.)

(In PLN thousand)

Financial commitments

Financial commitments by entities

	31.12.2011	31.12.2010
Financial commitments to:		
financial entities	2 749 139	1 920 620
non - financial entities	23 215 499	21 358 414
budget entities	847 426	1 419 580
Total	26 812 064	24 698 614

Guarantees

Guarantees by entities

	31.12.2011	31.12.2010
Liabilities to financial entities	747 530	411 993
guarantees	689 511	387 502
sureties	45 683	15 381
confirmed export letters of credit	12 336	9 110
Liabilities to non-financial entities	7 642 158	7 987 382
guarantees	6 285 928	5 309 362
securities' underwriting guarantees	1 356 230	2 678 020
Liabilities to budget entities	88 852	186 763
guarantees	10 252	6 763
securities' underwriting guarantees	78 600	180 000
Total	8 478 540	8 586 138

Securities underwriting

As at 31 December 2011, 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	CONTRACT LIFE	TYPE OF UNDERWRITING
Client 1	bonds	61 540	26.03.10 - 30.04.12	Conditional
Client 2	bonds	14 550	27.10.10 - 30.04.12	Conditional
Client 3	bonds	6 640	31.05.10 - 28.02.12	Conditional
Client 4	bonds	608 000	23.07.10 - 30.06.15	Conditional
Client 5	bonds	410 900	15.11.10 - 31.10.13	Conditional
Client 6	bonds	25 200	16.12.10 - 30.12.17	Conditional
Client 7	bonds	43 180	04.04.11 - 31.12.12	Conditional
Client 8	bonds	101 970	25.08.11 - 30.06.13	Conditional
Client 9	bonds	48 000	22.08.11 - 31.12.13	Conditional
Client 10	bonds	14 500	19.08.11 - 30.12.13	Conditional
Client 11	bonds	30 600	27.09.11 - 31.12.12	Conditional
Client 12	bonds	63 750	20.12.11 - 30.03.13	Conditional
Client 13	bonds	6 000	20.12.11 - 31.03.13	Conditional

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and are not a subject to regulated off-the-floor trading.

Notes to financial statements (cont.)

(In PLN thousand)

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
Client 1	bonds	107 870	26.03.10 - 30.04.12	Conditional
Client 2	bonds	37 950	31.05.10 - 30.06.11	Conditional
Client 3	bonds	437 000	23.07.10 - 30.06.13	Conditional
Client 4	community bonds	180 000	29.07.10 - 31.12.11	Conditional
Client 5	bonds	2 000 000	15.11.10 - 31.10.13	Conditional
Client 6	bonds	75 200	16.12.10 - 30.12.15	Conditional
Client 7	bonds	20 000	16.12.10 - 29.02.12	Conditional

Securities covered by the Bank underwriting are classified as securities with unlimited marketability, unquoted on stock exchanges and are not a subject to regulated off-the-floor trading.

Off- Balance Sheet financial commitments received

Financial commitments by entities:

	31.12.2011	31.12.2010
Financial commitments from:	3 367 501	3 075 878
financial entities	3 367 501	3 075 878
non - financial entities	-	-
budget entities	-	-
Guarantees from:	12 632 187	12 632 481
financial entities	671 580	505 460
non - financial entities	9 181 483	9 390 073
budget entities	2 779 124	2 736 948
Total	15 999 688	15 708 359

Notes to financial statements (cont.)

(In PLN thousand)

48. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	EQUITY COVERAGE	REGISTRATION DATE	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	515 472	515	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)		262 382 129				
Total share capital in PLN thousand			262 382			
Nominal value per share = PLN 1.00						

Change in the number of shares in 2011 (pcs):

	ISSUED AND FULLY PAID-UP SHARES	TOTAL
Opening balance	262 364 326	262 364 326
Issue of G- Class shares (realization of the Bank's program of management share option plan)	17 803	17 803
Closing balance	262 382 129	262 382 129

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2011	31.12.2010
Reserve capital, including:	9 446 516	9 440 966
issue of shares above face value	9 126 501	9 124 344
other	320 015	316 622
Revaluation reserve, including:	(65 432)	22 099
revaluation of financial assets portfolio available for sale	(56 580)	2 034
deferred tax	10 750	(242)
revaluation of financial hedging instruments portfolio	(24 200)	25 070
deferred tax	4 598	(4 763)
General Banking Risk Fund	1 537 850	1 437 850
Other reserve capital	7 168 185	6 540 418
Foreign currency translation differences	(98 976)	(136 072)
Bonds convertible into shares- equity component	39 517	35 165
Provision for the parent entity's shares repurchase liabilities - equity component	7 531	2 191
Total other capital	18 035 191	17 342 617
Profit (loss) from previous periods, allocated to Bank's shareholders	74 476	43 897
Net profit for the period, allocated to Bank's shareholders	2 899 414	2 525 234
Total	21 009 081	19 911 748

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

Notes to financial statements (cont.)

(In PLN thousand)

50. Additional information to the consolidated cash flow statement

Cash and cash equivalents

	31.12.2011	31.12.2010
Cash and amounts due from Central Bank	4 886 093	5 969 104
Loans and receivables from banks with maturity up to 3 months	5 269 444	5 161 372
Cash and Cash equivalents presented in the cash flow statement	10 155 537	11 130 476

Restricted availability cash and cash equivalents as at 31 December 2011 amounted to PLN 3 469 124 thousand (PLN 3 395 080 as at 31 December 2010).

51. Related party transactions

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Related party transactions

Related party transactions as at 31 December 2011

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity						
UniCredit S.p.A.	115 267		7	58 584		22 277
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	1 215 321	261 211	2 664	3 457 751	1 025 915	606
Bank Pekao S.A. Group entities						
Subsidiaries						
Associates						
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	4 109	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	60	9 512	-	-
Pioneer Pekao Investment Management S.A.	-	-	80	3 719	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	-	15 236	14 896	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	2	26 231	-	3
Total Bank Pekao S.A. Group entities	-	-	15 378	58 467	-	3
Key management Staff of the Bank or its parent entity	3 489	-	-	12 873	-	-
Total	1 334 077	261 211	18 049	3 587 675	1 025 915	22 886

Notes to financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by maturity dates

31.12.2011	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A.	115 267	-	-	-	-	-	-	115 267
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	1 159 725	974	1 040	8 928	44 168	-	486	1 215 321
Bank Pekao S.A. Group entities								
Subsidiaries	-	-	-	-	-	-	-	-
Associates	-	-	-	-	-	-	-	-
Key management Staff of the Bank or its parent entity	-	3 064	-	1	38	385	1	3 489
Total	1 274 992	4 038	1 040	8 929	44 206	385	487	1 334 077

(*) Current receivables including Nostro and cash flow hedge accounts

Liabilities due to loans and deposits by maturity dates

31.12.2011	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A.	58 584	-	-	-	-	-	-	58 584
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	998 834	485 465	21 791	633 199	705 791	609 387	3 284	3 457 751
Bank Pekao S.A. Group entities								
Subsidiaries	-	-	-	-	-	-	-	-
Associates	6 959	42 769	8 030	500	-	-	209	58 467
Key management Staff of the Bank or its parent entity	897	8 162	3 500	200	32	-	82	12 873
Total	1 065 274	536 396	33 321	633 899	705 823	609 387	3 575	3 587 675

(*) Current liabilities include Loro and current accounts of other entities

Notes to financial statements (cont.)

(In PLN thousand)

Related party transactions as at 31 December 2010

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity						
UniCredit S.p.A.	3 558 996	-	1	25 428	-	7 897
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	772 535	206 642	5 433	2 876 692	555 732	344
Bank Pekao S.A. Group entities						
Subsidiaries						
Property Sp. z o.o. (In liquidation)	-	-	-	3 227	-	-
Pekao Property S.A.	-	-	3	397	-	-
Jana Kazimierza Development Sp. z o.o.	56 512	-	-	5 217	-	-
Metropolis Sp. z o.o.	-	-	-	816	-	-
FPB - Media Sp. z o.o.	12 995	-	-	87	-	-
Associates						
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	694	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	9 376	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	142 422	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	-	18 200	127 644	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	21 149	-	-
Total Bank Pekao S.A. Group entities	69 507	-	18 203	311 029	-	-
Key management Staff of the Bank or its parent entity	3 693	-	-	11 562	-	-
Total	4 404 731	206 642	23 637	3 224 711	555 732	8 241

Notes to financial statements (cont.)

(In PLN thousand)

Receivables from loans and deposits by maturity dates

31.12.2010	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A.	16 707	3 542 207	-	-	-	-	82	3 558 996
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	514 267	39 971	340	159 276	58 183	-	498	772 535
Bank Pekao S.A. Group entities								
Subsidiaries	-	28 050	-	41 187	-	-	270	69 507
Associates	-	-	-	-	-	-	-	-
Key management Staff of the Bank or its parent entity	-	3 240	-	-	51	401	1	3 693
Total	530 974	3 613 468	340	200 463	58 234	401	851	4 404 731

(*) Current receivables including Nostro and cash flow hedge accounts

Liabilities due to loans and deposits by maturity dates

31.12.2010	CURRENT (*)	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	INTEREST	TOTAL
UniCredit S.p.A.	25 428	-	-	-	-	-	-	25 428
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	308 580	460 066	147 187	372 292	940 216	645 361	2 990	2 876 692
Bank Pekao S.A. Group entities								
Subsidiaries	5 426	3 400	900	-	-	-	18	9 744
Associates	1 669	170 598	124 166	3 900	-	-	952	301 285
Key management Staff of the Bank or its parent entity	11 455	-	106	-	-	-	1	11 562
Total	352 558	634 064	272 359	376 192	940 216	645 361	3 961	3 224 711

(*) Current liabilities include Loro and current accounts of other entities

Notes to financial statements (cont.)

(In PLN thousand)

Income and expenses from transactions with related parties for the period from 1 January 2011 to 31 December 2011

NAME OF ENTITY	INTEREST INCOME	INTERES EXPENSE	FEE AND COMMISSION INCOME	FEE AND COMMISSION EXPENSE	DERIVATIVES VALUATION AND OTHER INCOME	DERIVATIVES VALUATION AND OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	5 202	(259)	204	(4 231)	2 748	(11 794)
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	118 950	(87 308)	5 661	(6 184)	7 126	(124 904)
Bank Pekao S.A. Group entities						
Associates						
Pioneer Pekao Investment Management S.A.	-	(5 372)	633	-	119	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	(4 270)	249 951	-	1 058	(19)
Xelion. Doradcy Finansowi Sp. z o.o.	-	(474)	26	(63)	202	-
Krajowa Izba Rozliczeniowa S.A.	-	(620)	15	-	-	(11 485)
Pirelli Pekao Real Estate Sp. z o.o.	-	(77)	16	-	3	-
Total Bank Pekao S.A. Group entities	-	(10 813)	250 641	(63)	1 382	(11 504)
Key management Staff of the Bank or its parent entity	195	(533)	3	-	-	(12)
Total	124 347	(98 913)	256 509	(10 478)	11 256	(148 214)

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	DERIVATIVES VALUATION AND OTHER INCOME	DERIVATIVES VALUATION AND OTHER EXPENSES
Bank's parent entity						
UniCredit S.p.A.	1 728	(120)	244	(3 857)	995	(12 318)
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	115 380	(89 871)	10 649	(5 554)	7 113	(94 239)
Bank Pekao S.A. Group entities						
Subsidiaries						
Metropolis Sp. z o.o.	-	(38)	3	-	-	-
Property Sp. z o.o. (In liquidation)	-	(121)	2	-	-	-
Pekao Property S.A.	1	(19)	5	-	17	-
Jana Kazimierza Development Sp. z o.o.	5 218	(76)	52	-	-	-
FPB - Media Sp. z o.o.	591	(1)	4	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(5 485)	551	-	84	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	(3 710)	269 570	-	132	(11)
Xelion. Doradcy Finansowi Sp. z o.o.	-	(289)	22	(42)	150	-
Krajowa Izba Rozliczeniowa S.A.	-	(615)	19	-	-	(10 361)
Pirelli Pekao Real Estate Sp. z o.o.	1	(152)	24	-	5	-
Total Bank Pekao S.A. Group entities	5 811	(10 506)	270 252	(42)	388	(10 372)
Key management Staff of the Bank or its parent entity	172	(453)	6	-	-	-
Total	123 091	(100 950)	281 151	(9 453)	8 496	(116 929)

Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance sheet financial liabilities and guarantees as at 31.12.2011

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
Bank's parent entity				
UniCredit S.p.A.	64 701	188 638	-	-
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	710 554	304 095	2 208 613	-
Bank Pekao S.A. Group entities				
Associates				
Pirelli Pekao Real Estate Sp. z o.o.	180	-	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	29	-	-	-
Pioneer Pekao Investment Management S.A.	32	-	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	135	-	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-	-
Total Bank Pekao S.A. Group entities	376	500	-	-
Key management Staff of the Bank or its parent entity	286	-	-	-
Total	775 917	493 233	2 208 613	-

Off- Balance sheet financial liabilities and guarantees as at 31.12.2010

NAME OF ENTITY	GRANTED		RECEIVED	
	FINANCIAL	GUARANTEES	FINANCIAL	GUARANTEES
Bank's parent entity				
UniCredit S.p.A.	61 707	42 192	-	-
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	634 984	175 177	1 980 150	-
Bank Pekao S.A. Group entities				
Subsidiaries				
Pekao Property S.A.	-	53	-	-
Jana Kazimierza Development Sp. z o.o.	14 593	-	-	-
FPB - Media Sp. z o.o.	2	-	-	-
Associates				
Pioneer Pekao Investment Management S.A.	-	410	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	410	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-	-
Total Bank Pekao S.A. Group entities	14 595	1 373	-	-
Key management Staff of the Bank or its parent entity	185	-	-	-
Total	711 471	218 742	1 980 150	-

Notes to financial statements (cont.)

(In PLN thousand)

Remuneration of Bank's Management Board and Supervisory Board Members

	VALUE OF BENEFITS	
	2011	2010
Management Board of the Bank		
Short-term employee benefits (*)	14 268	16 919
Other long-term benefits (**)	4 770	1 550
Benefits resulting from the termination of employment relationship	5 568	-
Share-based payments (***)	3 290	789
Total	27 896	19 258
Supervisory Board of the Bank		
Short-term employee benefits (*)	997	702
Share-based payments (***)	51	-
Total	1 048	702

(*) Short-term employee benefits include: base salary, bonuses and other benefits due in next 12 months from the date of the balance sheet.

(**) The item 'Other long-term benefit' includes: provisions for a long-term motivation program and deferred bonus payments.

(***) 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.

Bank's Management Board and Supervisory Board Members have not received any remuneration from subsidiaries and associated entities in 2011 and 2010.

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

	VALUE OF BENEFITS	
	2011	2010
Companies' Management Boards		
Short-term employee benefits	18 898	15 195
Other long-term benefits	638	236
Benefits resulting from the termination of employment relationship	-	635
Share-based payments	413	283
Total	19 949	16 349
Companies' Supervisory Boards		
Short-term employee benefits	38	29
Total	38	29

Notes to financial statements (cont.)

(In PLN thousand)

52. Repo and reverse repo transactions

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

Securities composing the balance sheet portfolio of the Group as well as securities with obligation of resale (reverse repo and buy-sell back transactions) may be a subject to repo and sell-buy back transactions.

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

	31.12.2011		31.12.2010	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RESPECTIVE LIABILITIES
Financial assets held for trading				
up to 1 month	162 677	162 790	213 037	213 466
Total financial assets held for trading	162 677	162 790	213 037	213 466
Financial assets available for sale				
up to 1 month	3 253 715	3 245 195	1 353 887	1 357 358
from 3 to 6 months	297 041	303 916	-	-
Total financial assets available for sale	3 550 756	3 549 111	1 353 887	1 357 358
Financial assets held to maturity				
from 1 to 3 months	351 149	352 461	-	-
Total financial assets held to maturity	351 149	352 461	-	-
Financial assets purchased under reverse repo and buy-sell back				
up to 1 month	2 421 332	2 423 963	393 144	395 916
from 1 to 3 months	9 454	9 428	-	-
Total financial assets purchased under reverse repo and buy-sell back	2 430 786	2 433 391	393 144	395 916
Total	6 495 368	6 497 753	1 960 068	1 966 188

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

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

	31.12.2011		31.12.2010	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGE ASSETS
Loans and advances from banks				
up to 1 month	1 465 411	1 465 483	250 149	249 987
from 1 to 3 months	508 684	507 625	-	-
Total loans and advances from bank	1 974 095	1 973 108	250 149	249 987
Loans and advances from customers				
up to 1 month	1 783 637	1 782 428	1 411 882	1 409 902
Total loans and advances from customers	1 783 637	1 782 428	1 411 882	1 409 902
Total	3 757 732	3 755 536	1 662 031	1 659 889

Notes to financial statements (cont.)

(In PLN thousand)

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

53. Company Social Benefits Fund ('ZFSS')

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

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

In the consolidated statement of financial position, the Group netted the ZFSS Funds assets against the ZFSS Funds value, due to the fact that the assets of the ZFSS Funds do not represent the assets of the Group. For this reason the amount pertaining to the ZFSS Funds in the consolidated statement of financial position as at 31 December 2011 and 31 December 2010 was zero.

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

	31.12.2011	31.12.2010
Loans granted to employees	44 750	46 276
Cash at ZFSS account	10 494	5 347
ZFSS assets	55 244	51 623
ZFSS value	55 244	51 623
	2011	2010
Deductions made to ZFSS during fiscal period	28 171	27 903

54. Subsequent events

There have been no significant subsequent events.

Signatures of all Management Board Members

19.03.2012	Luigi Lovaglio	President of the Management Board, CEO	
Date	Name/Surname	Position/Function	Signature
19.03.2012	Diego Biondo	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
19.03.2012	Marco Iannaccone	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
19.03.2012	Andrzej Kopyrski	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
19.03.2012	Grzegorz Piwowar	Vice-President of the Management Board	
Date	Name/Surname	Position/Function	Signature
19.03.2012	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 a published by the European Union and effective from the date after the balance sheet date

IFRS 7 (amendment) 'Financial Instruments: Disclosures'

Date of application: the first financial year beginning after 30 June 2011

Description:

The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Annexes to the financial statements

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

Date of application: the first financial year beginning after 30 June 2011.

Description:

The proposed amendment would replace the fixed date: "1st January 2004 " as the date of adopting IFRSs for the first time with a "date of adopting IFRSs for the first time" in order to provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs. Moreover, the amendment would provide guidance on resumption of presentation of IFRS financial statements for entities emerging from severe hyperinflation.

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.

IAS 12 (amendment) 'Income Taxes'

Date of application: the first financial year beginning after 31 December 2011

Description:

The amendment would specify how the assets and provisions for deferred tax should be measured in case of investment properties measured using the fair value model in IAS 40 'Investment Property'.

Annexes to the financial statements

IFRS 10 'Consolidated Financial Statements'

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

Description:

The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS supersedes IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'. The IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The IFRS also sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 11 'Joint Arrangements'

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

Description:

The standard establishes more realistic principles for financial reporting by parties to a joint arrangement, and is concentrating mainly on rights and obligations resulting from those arrangements, and not on its legal form. The standard addresses inconsistencies in financial reporting of joint arrangements by introduction of homogenous method of accounting of interest in jointly controlled entities

IFRS 12 'Disclosure of Interests with Other Entities'

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

Description:

The standard establishes new and complex principles for disclosure of entity's interests in other entities, including subsidiaries, joint ventures, associates and other entities that are not consolidated.

IAS 27 'Separate Financial Statements'

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

Description:

The IAS 27 'Separate Financial Statements' establishes principles for the presentation and disclosures to be applied in accounting for investments in subsidiaries, associates and jointly ventures when an entity prepares separate (non-consolidated) financial statements. IAS 27 'Separate Financial Statements' supersedes the previous version of IAS 27 'Consolidated and Separate Financial Statements'.

Annexes to the financial statements

IAS 28 'Investments in Associates and Joint Ventures'

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

Description:

The new standard refers to accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 'Investments in Associates and Joint Ventures' will replace the previous version of IAS 28 'Investments in Associates'.

IFRS 13 'Fair value measurement'

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

Description:

The standard establishes framework for fair value measurement and requires disclosure of information on fair value measurement. The standard does not set out when an asset, liability or entity's own equity instruments should be measured at fair value. On opposite, measurement and disclosure required by the standard is to be applied when other standards permit fair value measurement (with few exceptions)

IAS 19 (amendment) 'Employee Benefits'

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

Description:

The amended standard helps recipients of financial statements to understand how the employee benefits influence the financial position of the entity, its financial results and cash flows.

IAS 1 (amendment) 'Investments in Associates and Joint Ventures'

Date of application: the first financial year beginning after 30 June 2012

Description:

The amendments to IAS 1 'Presentation of Financial Statements' specify the requirements for items of other comprehensive income (OCI) to be grouped in financial statements prepared in accordance with IFRSs.

Annexes to the financial statements

IFRIC Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine'

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

Description:

The Interpretation clarifies accounting for costs associated with the process of removing waste from a surface mine in order to gain access to mineral ore deposits.

IAS 32 (amendment) 'Financial Instruments: Presentation'

Date of application: the first financial year beginning after 31 December 2013.

Description:

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities.

IFRS 7 (amendment) 'Financial Instruments: Disclosures'

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

Description:

The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to better estimate the influence or potential influence of offsetting financial assets and liabilities on financial standing of the entity.

Annexes to the financial statements

Annex 3

Glossary

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

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

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

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

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

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

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

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

IBNR – Incurred But Not Reported losses.

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

LGD – Loss Given Default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

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

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

Annexes to the financial statements

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.