



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.

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

Warsaw, March 2012

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Unconsolidated income statement

(In PLN thousand)

	NOTE	2011	2010
Interest income	7	7 002 384	6 118 093
Interest expense	7	(2 734 165)	(2 340 399)
Net interest income		4 268 219	3 777 694
Fee and commission income	8	2 656 786	2 516 677
Fee and commission expense	8	(463 701)	(403 928)
Net fee and commission income		2 193 085	2 112 749
Dividend income	9	195 673	255 419
Result on financial assets and liabilities held for trading	10	561 289	537 410
Result on fair value hedge accounting	26	(15 757)	6 801
Gains (losses) on other financial instruments at fair value through profit or loss	11	(501)	13 952
Gains (losses) on disposal of:	12	75 450	125 868
loans and other financial receivables		(31)	5 664
available for sale financial assets and held to maturity investments		76 762	121 272
financial liabilities		(1 281)	(1 068)
Operating income		7 277 458	6 829 893
Net impairment losses on financial assets and off-balance sheet commitments	15	(497 872)	(449 878)
loans and other financial receivables		(515 677)	(457 235)
available for sale financial assets and held to maturity investments		-	-
off-balance sheet commitments		17 805	7 357
Net result on financial activity		6 779 586	6 380 015
Administrative expenses	13	(3 027 834)	(2 987 044)
personnel expenses		(1 728 929)	(1 731 073)
other administrative expenses		(1 298 905)	(1 255 971)
Depreciation and amortization		(347 908)	(358 448)
Net result on other provisions		(5 106)	(27 689)
Net other operating income and expenses	14	50 054	64 376
Operating costs		(3 330 794)	(3 308 805)
Gains (losses) on associates and subsidiaries	16	-	7 629
Gains (losses) on disposal of property, plant and equipment, and intangible assets		660	(492)
Profit before income tax		3 449 452	3 078 347
Income tax expense	17	(623 079)	(526 325)
Net profit for the period		2 826 373	2 552 022
Earnings per share (in PLN per share)	18		
basic for the period		10.77	9.73
diluted for the period		10.77	9.72

Unconsolidated statement of comprehensive income

(In PLN thousand)

	NOTE	2011	2010
Net profit		2 826 373	2 552 022
Other comprehensive income			
Foreign currency translation differences		(1 442)	(81)
Change in fair value of available-for-sale financial assets		(57 782)	16 026
Change in fair value of cash flow hedges		(49 270)	67 569
Income tax expenses on other comprehensive income	17	20 340	(15 741)
Other comprehensive income (net)		(88 154)	67 773
Total comprehensive income		2 738 219	2 619 795

Unconsolidated statement of financial position

(In PLN thousand)

	NOTE	31.12.2011	31.12.2010
ASSETS			
Cash and due from Central Bank	20	4 886 074	5 968 748
Debt securities eligible for rediscounting at Central Bank		100	224
Loans and advances to banks	21	5 648 899	6 609 869
Financial assets held for trading	22	849 711	965 641
Derivative financial instruments (held for trading)	23	2 252 962	1 614 154
Other financial instruments at fair value through profit or loss	24	-	16 735
Loans and advances to customers	25	92 143 106	77 059 221
Hedging instruments	26	408 906	258 688
Investment securities	27	29 018 866	30 429 860
1. Available for sale		25 345 366	25 920 038
2. Held to maturity		3 673 500	4 509 822
Assets held for sale	29	2 015 733	2 456 104
Investments in subsidiaries	30	793 268	793 268
Investments in associates	31	39 345	39 345
Intangible assets	32	675 747	671 352
Property, plant and equipment	33	1 736 128	1 778 425
Investment properties	34	58 778	57 874
Income tax assets	17	655 966	505 429
1. Current tax receivable		-	-
2. Deferred tax assets		655 966	505 429
Other assets	35	1 206 366	900 192
TOTAL ASSETS		142 389 955	130 125 129
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to Central Bank	37	356 386	727 979
Amounts due to other banks	38	4 072 409	5 392 159
Financial liabilities held for trading	22	-	114 228
Derivative financial instruments (held for trading)	23	2 506 700	1 592 859
Amounts due to customers	39	108 004 745	99 328 808
Hedging instruments	26	1 738 549	710 566
Fair value hedge adjustments of hedged items due to interest rate risk	26	(17 475)	(40 127)
Debt securities issued	40	2 402 614	737 800
Income tax liabilities	17	192 681	23 305
1. Current income tax payable		192 681	23 305
2. Deferred tax liabilities		-	-
Provisions	41	345 368	331 864
Other liabilities	42	1 989 316	1 371 949
TOTAL LIABILITIES		121 591 293	110 291 390
Equity			
Share capital	46	262 382	262 364
Other capital and reserves	47	17 709 907	17 019 353
Retained earnings and profit for the period	47	2 826 373	2 552 022
TOTAL EQUITY		20 798 662	19 833 739
TOTAL EQUITY AND LIABILITIES		142 389 955	130 125 129

Unconsolidated statement of changes in equity

(In PLN thousand)

	OTHER CAPITAL AND RESERVES								RETAINED EARNINGS AND CURRENT YEAR PROFIT	TOTAL EQUITY
	SHARE CAPITAL	TOTAL OTHER CAPITAL AND RESERVES	SHARE PREMIUM	GENERAL BANKING RISK FUND	OTHER RESERVE CAPITAL	REVALUATION RESERVES FROM FINANCIAL INSTRUMENTS	FOREIGN CURRENCY EXCHANGE RATES TRANSLATION DIFFERENCES	OTHER		
Equity as at 1.01.2011	262 364	17 019 353	9 124 344	1 437 850	6 191 904	21 266	2 965	241 024	2 552 022	19 833 739
Management options	18	11 326	2 157	-	-	-	-	9 169	-	11 344
Options exercised (share issue)	18	2 157	2 157	-	-	-	-	-	-	2 175
Revaluation of management share options	-	9 169	-	-	-	-	-	9 169	-	9 169
Valuation of financial instrument	-	(86 712)	-	-	-	(86 712)	-	-	-	(86 712)
Revaluation of available-for-sale investments net of tax	-	(46 803)	-	-	-	(46 803)	-	-	-	(46 803)
Revaluation of hedging financial instruments net of tax	-	(39 909)	-	-	-	(39 909)	-	-	-	(39 909)
Appropriation of retained earnings and current year profit	-	767 382	-	100 000	667 382	-	-	-	274 351	1 041 733
Dividend paid	-	-	-	-	-	-	-	-	(1 784 640)	(1 784 640)
Profit appropriation	-	767 382	-	100 000	667 382	-	-	-	(767 382)	-
Net profit for the period	-	-	-	-	-	-	-	-	2 826 373	2 826 373
Other	-	(1 442)	-	-	-	-	(1 442)	-	-	(1 442)
Foreign currency translation differences	-	(1 442)	-	-	-	-	(1 442)	-	-	(1 442)
Equity as at 31.12.2011	262 382	17 709 907	9 126 501	1 537 850	6 859 286	(65 446)	1 523	250 193	2 826 373	20 798 662

Unconsolidated statement of changes in equity (cont.)

(In PLN thousand)

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

Unconsolidated cash flow statement

(In PLN thousand)

	NOTE	2011	2010
Cash flow from operating activities – indirect method			
Net profit for the period		2 826 373	2 552 022
Adjustments:		(6 835 858)	3 630 933
Depreciation expense		347 907	358 448
(Gains) losses on investing activities		(77 440)	(120 781)
Interest and dividend		(1 345 677)	(1 338 016)
Change in loans and advances to banks		782 110	3 091 917
Change in financial assets held for trading and other financial instruments at fair value through profit or loss		132 665	5 097 215
Change in derivative financial instruments (assets)		(638 808)	817 318
Change in loans and advances to customers and debt securities eligible for rediscounting at Central Bank		(15 083 761)	(4 016 565)
Change in investment securities		(364 664)	(136 490)
Change in tax assets		(130 197)	36 598
Change in other assets		(84 362)	(2 305 261)
Change in amounts due to banks		(1 691 343)	(442 093)
Change in liabilities held for trading		(114 228)	(867 126)
Change in derivative financial instruments (liabilities) and other financial instruments at fair value		913 841	(1 178)
Change in amounts due to customers		8 675 937	2 627 510
Change in debt securities issued		(8 876)	26 596
Change in provisions		13 504	50 495
Change in other liabilities		1 660 410	499 989
Income tax paid (negative sign)		(576 153)	(457 168)
Current tax expense		753 277	709 525
Net cash flows from operating activities		(4 009 485)	6 182 955
Cash flow from investing activities			
Investing activity inflows		315 800 204	380 389 908
Sale of investment securities		314 962 436	379 499 982
Sale of intangible assets and property, plant and equipment		3 659	1 430
Other investing inflows		834 109	888 496
Investing activity outflows		(312 931 454)	(388 284 570)
Acquisition of investments in subsidiaries and associates		-	(133)
Acquisition of investment securities		(312 644 204)	(387 913 028)
Acquisition of intangible assets and property, plant and equipment		(287 250)	(371 409)
Net cash flows from investing activities		2 868 750	(7 894 662)

Unconsolidated cash flow statement (cont.)

(In PLN thousand)

	NOTE	2011	2010
Cash flows from financing activities			
Financing activity inflows		2 077 337	82 546
Issue of debt securities		2 075 162	78 401
Issue of shares		2 175	4 145
Financing activity outflows		(2 198 136)	(1 426 078)
Redemption of debt securities		(413 496)	(664 982)
Dividends and other payments to shareholders		(1 784 640)	(761 096)
Net cash flows from financing activities		(120 799)	(1 343 532)
Total net cash flows		(1 261 534)	(3 055 239)
Net change in cash and cash equivalents		(1 261 534)	(3 055 239)
Cash and cash equivalents at the beginning of the period		11 522 678	14 577 917
Cash and cash equivalents at the end of the period	48	10 261 144	11 522 678

Notes to financial statements

(In PLN thousand)

1. General information

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

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

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

The Bank's statistical REGON number is 000010205.

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

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

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

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

2. Approval of the Financial Statements

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

3. Significant accounting policies

3.1 Statement of compliance

The annual unconsolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223, 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.

Notes to financial statements (cont.)

(In PLN thousand)

3.2 Basis of preparation of Unconsolidated Financial Statements

General information

The financial statements of Bank Pekao S.A. which have been prepared for the period from 1 January 2011 to 31 December 2011. Comparable data have been presented for the period of 1 January 2010 to 31 December 2010. The financial statements of the Bank have been prepared in Polish zloty, and all amounts are presented in PLN thousand, unless indicated otherwise.

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

The unconsolidated financial statements include the requirements of all the International Financial Reporting Standards and International Accounting Standards approved by 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 statement does not take into consideration the amendments to standards and interpretations which are pending European Union approval (Annex 1 and Annex 2 to the Financial Statements).

In the opinion of the Bank, no amendments to the standards and interpretations will have a material influence on the Unconsolidated Financial Statements, save for the 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.

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

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 effect 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'. The standard, which becomes effective for reporting periods starting from 1 January 2013, provides for more realistic presentation of joint arrangements

Notes to financial statements (cont.)

(In PLN thousand)

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.

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 of 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 13, when other standards require or allow this (with few exceptions).

Unconsolidated financial statements of the Bank have been prepared based on the following valuation methods:

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

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

3.3 Accounting estimates

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

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

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

- Impairment of financial assets
The assumptions regarding the measurement of impairment of loans and advances are described in Note 3.6 in the section titled 'Impairment of financial assets'.
- Impairment of non-current assets
At each balance sheet date the Bank reviews its assets for indications of impairment. Where such indications exist, the Bank makes a formal estimation of the recoverable value. If the carrying amount of a given asset is in excess of its recoverable value, impairment is identified and a write-down is recorded to adjust the carrying amount to the level of its recoverable value. 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 Bank establishes the recoverable value at the level of a cash generating unit to which the given asset belongs.

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

Notes to financial statements (cont.)

(In PLN thousand)

- **Measurement of derivatives and unquoted debt securities available for sale**
The fair value of derivatives and debt securities available for sale that do not have a quoted market price on an active market is measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for valuation purposes include, where possible, the data from observable markets. However, the Bank also adopts assumptions concerning counterparty's credit risks which affect the valuation of instruments. The adoption of other measurement assumptions may affect the valuation of these financial instruments.
- **Measurement of management share options**
Assumptions made regarding measurement of management share options are described in Note 43 '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.

3.4 Foreign currencies

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

The financial statements are presented in Polish zlotys. Polish zloty is the functional currency and the presentation currency of the Bank.

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

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

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.

- Bank's Branch in Paris

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

- to translate statement of financial position items as at 31 December 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 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:

	31.12.2011	31.12.2010
PLN for EUR 1	4.1401	4.0044

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

3.5 Income statement

Interest income and expenses

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Fee and commission income and expense

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

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

Result on financial assets and liabilities held for trading

Result on financial assets and liabilities held for trading include:

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

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

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

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

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

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

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

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

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.

Notes to financial statements (cont.)

(In PLN thousand)

3.6 Valuation of financial assets and liabilities, derivative financial instruments

Financial assets

Financial assets are classified into the following categories:

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

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

Derivative instruments are recognized and derecognized on transaction dates.

Reclassification of financial assets

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

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

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

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

Impairment of financial assets

Assets valued at amortized cost-loans and receivables

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

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

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

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

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.

Notes to financial statements (cont.)

(In PLN thousand)

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 allowance, which is recorded in the profit or loss for the given period.

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

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

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

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

Financial assets available for sale

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

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

Off-balance sheet liabilities

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

Notes to financial statements (cont.)

(In PLN thousand)

Repo and reverse-repo agreements

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

Fair value hedge accounting principles

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

Cash flow hedge accounting principles

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

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

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

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

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

Financial liabilities

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

Investments in subsidiaries, entities under common control and associates

Subsidiaries

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

Associates

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

Entities under common control

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

Recognition and measurement

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

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

Recognition of common control transactions at book value

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

The adopted accounting principles are as follows:

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

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

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

Intangible assets

Goodwill

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

Notes to financial statements (cont.)

(In PLN thousand)

Other intangible assets

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

These mainly include:

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Depreciation and amortization

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

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

a) depreciation rates applied for non-current assets:

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

Notes to financial statements (cont.)

(In PLN thousand)

b) amortization rates for intangible assets:

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

c) depreciation rates for investment properties:

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

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

Investment properties

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

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

Non-current assets held for sale

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

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

Leases

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

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

Operating leases

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Finance leases

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

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

Provisions

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

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

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

Employee benefits provisions

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

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

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

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

Deferred income and accrued expenses (liabilities)

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

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

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

Bank's equity

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

Bank's equity comprises of the following:

- a) share capital – can be increased through the issue of new shares or through an increase of the nominal value of already issued shares. At the General Shareholder's Meeting the share capital can be increased by means of reserve capital or other capital, if it is in accordance with the Bank's Articles of Association and Corporate Code,
- b) reserve capital – created out of the annual net profit write-offs to be called in the event of loss, which may occur due to Bank's operations. Annual write-off should amount to at least 8% of net profit and should be made until the reserve capital reaches 1/3 of share capital value. Share premium formed from agio obtained from the issue of share, reduced by the attributable direct costs incurred with that issue is also a part of reserve capital,

Notes to financial statements (cont.)

(In PLN thousand)

- c) revaluation reserve arises from the revaluation of financial instruments classified as available for sale, cash flow hedge derivatives, exchange rate differences resulting from foreign branch net profit recalculation at average weighted exchange rate as at the balance sheet date in relation to average NBP exchange rate and the value of deferred tax for items classified as temporary differences recognized as revaluation reserve. In the statement of financial position revaluation reserve is recognized in net value,
- d) other reserve capital utilized for the purposes defined in the Articles of Association is created from appropriations of profits,
- e) capital 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.
- f) general banking risk fund in Bank Pekao S.A. is created in accordance with the Banking Act dated 29 August 1997 with subsequent amendments, from profit after tax,
- g) retained earnings from prior periods is created from undistributed result from previous years,
- h) net profit/loss, which constitutes of profit/loss for the period. Net profit is after taxation.

Share-based payment

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

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

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

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

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

3.8 Income tax

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

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

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

3.9 Other

Contingent liabilities and commitments

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

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

Cash and cash equivalents

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

Segment reporting

Information concerning segment reporting of the Group are presented in Consolidated Financial Statement of the Bank Pekao S.A. Group for the year ended on 31 December 2011.

Notes to financial statements (cont.)

(In PLN thousand)

4. Purposes and rules of financial risk management

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

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

4.1 Organizational structure of risk management

Supervisory Board

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

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 Bank'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 Bank is exposed to, as well as on methods used in the management of such risks.

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

Assets, Liabilities and Risk Management Committee (ALCO)

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

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

Risk Management Division

The Division is responsible for:

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

Notes to financial statements (cont.)

(In PLN thousand)

4.2 Credit risk

Credit risk is one of the basic risks associated with activities of the Bank. The percentage share of credits and loans in the Bank's statement of financial position makes the maintenance of this risk at safe level essential to the Bank's performance. The process of credit risk management is centralized and managed mainly by Risk Management Division units, situated at the Bank Head Office or in local units. The integration of various risks in the Risk Management Division, where apart from credit risk, market and operational risk are dealt with, facilitates effective management of all credit-related risks. This process covers all credit functions – credit analysis, 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 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.

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.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

Rating models 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.

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.

Notes to financial statements (cont.)

(In PLN thousand)

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%

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%

Notes to financial statements (cont.)

(In PLN thousand)

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%

Client/transaction rating and credit risk decision-making level

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

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

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

Validation of rating models

The internal 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.

Notes to financial statements (cont.)

(In PLN thousand)

Exposure to credit risk

The maximum credit risk exposure

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

	31.12.2011	31.12.2010
Due from Central Bank	2 649 847	3 495 420
Loans and advances from banks and from customers	97 792 105	83 669 314
Financial assets held for trading	849 711	965 641
Derivative financial instruments (held for trading)	2 252 962	1 614 154
Other financial instruments at fair value through profit or loss	-	16 735
Hedging instruments	408 906	258 688
Investment securities	29 018 866	30 429 860
Other assets	1 956 287	1 682 570
Balance sheet exposure	134 928 684	122 132 382
Obligations to grant loans	26 591 221	24 440 333
Other contingent liabilities	9 730 547	10 113 984
Off-balance sheet exposure	36 321 768	34 554 317
Total	171 250 452	156 686 699

Credit risk mitigation methods

Bank Pekao S.A. has established specific policies with regard to collateral accepted to secure loans and guarantees. This policy is reflected under internal rules and regulations, which are based on supervision rules, specified in Enclosure No. 17 to Resolution No. 76/2010 of the 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 Bank, are as follows:

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

The financial effect of pledged collaterals for exposure portfolio with recognized impairment defined individually amounts to PLN 701 455 thousand as at 31 December 2011 (PLN 607 155 thousand as at 31 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 Bank establishes loan loss provisions ('LLP') in line with International Financial Reporting Standards ('IFRS'). LLP reflects the loan impairment and whether the Bank recognizes objective impairment triggers. Impairment of loans is recognized under an individual and collective approach.

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

The quality analysis of the Bank's financial assets

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
GROSS CARRYING AMOUNT OF EXPOSURE INDIVIDUALLY IMPAIRED				
– not past due	1 181	1 024	888 747	642 696
– up to 1 month	-	-	297 548	24 460
– between 1 month and 3 months	-	-	16 030	15 903
– between 3 months and 1 year	-	-	404 568	264 903
– between 1 year and 5 years	62 964	62 964	843 849	1 227 338
– above 5 years	-	-	914 258	687 879
Total gross carrying amount	64 145	63 988	3 365 000	2 863 179
ALLOWANCE FOR IMPAIRMENT				
– not past due	(1 181)	(1 024)	(118 035)	(109 257)
– up to 1 month	-	-	(165 886)	(7 265)
– between 1 month and 3 months	-	-	(6 829)	(5 272)
– between 3 months and 1 year	-	-	(129 548)	(84 792)
– between 1 year and 5 years	(54 000)	(54 000)	(599 269)	(927 490)
– above 5 years	-	-	(769 271)	(560 364)
Total allowance for impairment	(55 181)	(55 024)	(1 788 838)	(1 694 440)
Net carrying amount of exposure individually impaired	8 964	8 964	1 576 162	1 168 739
GROSS CARRYING AMOUNT OF EXPOSURE COLLECTIVELY IMPAIRED				
– not past due	-	-	54 993	43 727
– up to 1 month	-	-	26 223	18 565
– between 1 month and 3 months	-	-	26 925	31 783
– between 3 months and 1 year	-	-	436 513	504 179
– between 1 year and 5 years	-	-	1 275 233	1 020 559
– above 5 years	16 632	19 371	626 405	656 585
Total gross carrying amount	16 632	19 371	2 446 292	2 275 398
ALLOWANCE FOR IMPAIRMENT				
– not past due	-	-	(32 226)	(24 725)
– up to 1 month	-	-	(16 663)	(11 643)
– between 1 month and 3 months	-	-	(17 198)	(20 067)
– between 3 months and 1 year	-	-	(295 742)	(343 062)
– between 1 year and 5 years	-	-	(1 064 826)	(852 744)
– above 5 years	(16 628)	(19 361)	(622 183)	(650 451)
Total allowance for impairment	(16 628)	(19 361)	(2 048 838)	(1 902 692)
Net carrying amount of exposure collectively impaired	4	10	397 454	372 706

Notes to financial statements (cont.)

(In PLN thousand)

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

	LOANS AND ADVANCES TO BANKS		LOANS AND ADVANCES TO CUSTOMERS			
			CORPORATE		RETAIL	
	31.12.2011	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	5 641 000	6 604 987	56 214 981	46 666 151	32 298 764	27 474 386
– up to 30 days	-	-	332 815	324 170	1 383 133	1 115 372
– between 30 days and 60 days	-	-	146 791	49 319	196 710	168 671
– above 60 days	-	-	15 353	8 354	111 347	104 584
Total gross carrying amount	5 641 000	6 604 987	56 709 940	47 047 994	33 989 954	28 863 013
IBNR PROVISION:						
– not past due	(1 069)	(4 092)	(238 302)	(158 037)	(129 998)	(71 694)
– up to 30 days	-	-	(4 379)	(8 793)	(102 949)	(59 500)
– between 30 days and 60 days	-	-	(1 467)	(11 329)	(30 719)	(37 410)
– above 60 days	-	-	(913)	(2 084)	(21 577)	(44 160)
Total IBNR provision	(1 069)	(4 092)	(245 061)	(180 243)	(285 243)	(212 764)
Net carrying amount of exposure with no impairment	5 639 931	6 600 895	56 464 879	46 867 751	33 704 711	28 650 249

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	-	14 749 285	2 998 019	3 755 536	22 104 653
BBB+ to BBB-	-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-	-
B+ to B-	-	-	-	-	-	-
below B-	-	-	-	-	-	-
no rating	247 898	-	10 587 824 (*)	675 481 (**)	-	11 511 203
Total	849 711	-	25 337 109	3 673 500	3 755 536	33 615 856

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

Derivative financial instruments

	TRADING DERIVATIVES		DERIVATIVE HEDGING INSTRUMENTS	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Banks	1 860 915	1 406 759	95 595	87 573
Other financial institutions	23 106	6 609	-	-
Non-financial entities	368 941	200 786	313 311	171 115
Total	2 252 962	1 614 154	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 year 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	1.9%
Client 2	1.2%
Client 3	1.1%
Client 4	1.0%
Client 5	1.0%
Client 6	1.0%
Client 7	0.8%
Client 8	0.8%
Client 9	0.7%
Client 10	0.7%
Total	10.2%

10.4% of the exposure is accounted for by the State Treasury, while 89.6% pertain to exposure to large corporate clients. None of the exposures mentioned above were classified as non-performing.

b) Concentration by capital groups:

As at 31.12.2011

EXPOSURE TO 5 LARGEST CAPITAL GROUPS SERVICED BY THE BANK	% SHARE OF PORTFOLIO
Group 1(*)	3.8%
Group 2	2.0%
Group 3	1.9%
Group 4	1.2%
Group 5	1.1%
Total	10.0%

(*) exposure to the Pekao Group

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	16.4%	16.1%
Public administration	14.0%	10.3%
Real estate	12.3%	12.4%
Energy	10.8%	12.3%
Financial intermediation	8.8%	9.5%
Construction and timber industry	8.0%	8.8%
Manufacture of basic metals and fabricated metal products	5.5%	5.5%
Manufacture of chemical and pharmaceutical products	5.2%	5.7%
Transport	3.6%	3.5%
Manufacture of food products and beverages	3.1%	3.6%
Manufacture of pulp, paper and paper products, publishing and printing	2.9%	2.7%
Telecommunication and IT	2.9%	3.2%
Manufacture of vehicles	2.2%	2.1%
Other sectors	4.3%	4.3%
Total	100.0%	100.0%

4.3 Market risk

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

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

The main factors of market risk are as follows:

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

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

The main objective of market risk management 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 and procedures regulating it have been developed taking into consideration the split into trading and banking books.

Market risk of the trading book

The Bank's 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.

Notes to financial statements (cont.)

(In PLN thousand)

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

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

The table below presents the market risk exposure of the trading portfolio of the Bank measured by Value at Risk in 2011 and 2010:

IN PLN THS	31.12.2011	MINIMUM VALUE	AVERAGE VALUE	MAXIMUM VALUE
Foreign exchange risk	38	10	325	2 641
Interest rate risk	1 858	1 159	2 046	3 287
Trading portfolio	1 856	1 166	2 119	3 398

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

Interest rate risk of the banking book

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

The table below presents the sensitivity levels of the interest income (NII) to the drop of interest rates by -100 b.p. and of economic value of the Bank's equity (EVE) to interest rate growth by +200 b.p. assuming perfect elasticity of the Bank's administrated rates to the markets rates changes (excluding current accounts priced in PLN, for which the Bank 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	(7.89)	(8.05)
EVE	(2.72)	(2.72)

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. The Bank's exposure to currency risk is measured daily using the VaR model, as well as stress testing analysis, which serves as a supplement to the VaR method.

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

CURRENCY	31.12.2011	31.12.2010
USD	406	305
EUR	42	800
CHF	99	171
Other	33	71
Currencies total (*)	432	783

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

Notes to financial statements (cont.)

(In PLN thousand)

4.4 Liquidity risk

The objective of liquidity risk management is to:

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

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

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

Financial liquidity management also includes the monitoring, limiting, controlling and reporting to the Bank's 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 Bank introduced internal liquidity indicators, defined as relation of adjusted maturing assets to adjusted maturing liabilities due in 1 month and 1 year, as well as covering ratios showing relation of adjusted maturing liabilities to adjusted maturing assets due in more than 1, 2, 3, 4 or 5 years.

The Bank 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 Bank's financial liquidity.

This policy, referring to the deteriorating financial liquidity of the Bank, includes daily monitoring of warning signals of systemic and specific nature for the Bank, including four degrees of threats to liquidity, depending upon the level of warning signals, the Bank situation and market conditions. The policy also identifies the sources of coverage of such foreseen outflow of cash and cash equivalents from the Bank. Apart from the above, the document describes also liquidity monitoring procedures, contingency procedures and organizational structures of task teams responsible for restoring the Bank's liquidity, as well as the scope of liability of Bank management for taking the necessary decisions, associated with the restoration of the necessary financial liquidity levels of the Bank. Both the 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 Bank's liquidity monitoring process, launched under the conditions of crisis affected by financial markets or caused by internal factors, specific to the Bank.

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

Notes to financial statements (cont.)

(In PLN thousand)

Adjusted liquidity gap as at 31 December 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	42 893 742	5 036 046	24 479 142	35 888 940	34 092 085	142 389 955
Liabilities	29 694 832	9 392 169	13 950 226	22 546 226	66 806 502	142 389 955
Net off-balance sheet items	(7 140 800)	(555 245)	3 543 669	2 001 311	739 875	(1 411 190)
Periodic gap	6 058 110	(4 911 368)	14 072 585	15 344 025	(31 974 542)	(1 411 190)
Cumulated gap		1 146 742	15 219 327	30 563 352	(1 411 190)	

Adjusted liquidity gap as at 31 December 2010

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

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 (*)	2 322 435	28 141	306 225	605 179	1 166 815	4 428 795
Amounts due to customers	83 540 937	12 517 138	11 478 399	452 966	15 305	108 004 745
Debt securities issued	2	417 465	1 402 824	582 323	-	2 402 614
Financial liabilities held for trading	-	-	-	-	-	-
Total	85 863 374	12 962 744	13 187 448	1 640 468	1 182 120	85 863 374
OFF-BALANCE SHEET COMMITMENTS (**)						
Off-balance sheet commitments Financial liabilities granted	26 964 427	-	-	-	-	26 964 427
Off-balance sheet commitments Guarantees liabilities granted	9 271 650	-	-	-	-	9 271 650
Total	36 236 077	-	-	-	-	36 236 077

(*) Including Central Bank

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

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

(*) Including Central Bank

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

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

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

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

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

- Cross-Currency Interest Rate Swaps (CIRS),
- Foreign currency forward contracts,
- Foreign currency swaps,
- 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	101 479	71 431	173 665	1 205 407	620 792	2 172 774
31.12.2010	22 887	143 996	151 781	1 017 284	292 865	1 628 813

Notes to financial statements (cont.)

(In PLN thousand)

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

	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
31.12.2011						
inflows	18 768 914	6 060 237	7 736 017	9 000 133	2 305 670	43 870 971
outflows	18 803 671	6 175 994	7 834 439	9 308 161	3 055 606	45 177 871
31.12.2010						
inflows	12 673 579	3 795 325	9 359 938	5 876 319	2 744 660	34 449 821
outflows	12 441 768	3 723 635	9 198 525	5 850 211	3 167 064	34 381 203

4.5 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.

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 evaluation of control 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.

Notes to financial statements (cont.)

(In PLN thousand)

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 are 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 basing 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.

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 to 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 intended to 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.

Notes to financial statements (cont.)

(In PLN thousand)

OPERATING EVENTS BY CATEGORIES	2011
Internal frauds	4.88%
External frauds	38.40%
Employment practices and workplace safety	28.18%
Clients, products and business practices	13.91%
Damages to physical assets	5.26%
Business disruption and system failures	0.52%
Execution, delivery and process management	8.85%
Total	100.00%

In 2011, operational risk for Bank Pekao S.A. resulted primarily from external fraud, which accounted for 38.40% of total losses. The second category of high losses was employment practices and workplace safety which comprised 28.18% of total losses and the third category – clients, products and business practices constituted 13.91% of share in total losses.

4.6 Business risk

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

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

4.7 Real estate risk

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

The risk of own real property is calculated for 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.

4.8 Financial investments risk

Financial investment risk stems from the Bank'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%.

Notes to financial statements (cont.)

(In PLN thousand)

4.9 Equity management

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

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

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

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

The capital adequacy of the Bank is controlled by the Assets, Liabilities and Risk Management Committee and the Management Board of the Bank. Periodic reports on the scale and direction of changes of the capital adequacy ratio together with indication of potential threats are prepared for the Management Board and for the Assets, Liabilities and Risk Management Committee. The level of basic types of risks is monitored according to the external limits of the banking supervision and the internal limits of the Bank. 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 has a capital allocation process in place, which should, inter alia, guarantee the shareholders a safe and effective return on invested capital. On one hand, the process requires capital allocations to products/clients/business lines, which guarantee profits adequate to the risks taken, while on the other hand taking into consideration the cost of capital associated with the business decisions taken. Risk-related efficiency ratios used in the analyses of income generated compared against the risk taken and in the optimization of capital utilization for the needs of different types of operations.

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

Regulatory capital requirements

The basic measure applied in the measurement of capital adequacy is the capital adequacy ratio. The minimum capital adequacy ratio required by law equals to 8%, both for the Bank and the Group. As at the end of December 2011, the Bank's capital adequacy ratio stood at 16.64%, i.e. more than twice as much as the minimum value required by the law.

The decrease of capital adequacy ratio in December 2011 compared with December 2010 (decrease by 0.53 p.p.) was a result of increase of total capital requirement in the period by ca. 8%, irrespective of Bank's equity increase by 5%.

The strengthening of Bank's capital base in 2011 is a consequence of the decision, adopted by the Regular General Meeting of Shareholders on the allocation of the PLN 767.4 million of net profit 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 of 10.03.2010 on the scope and detailed procedures for determining capital requirements for particular risks with amendments (Official Journal of Polish Financial Supervision Authority from 2010, No 2, item 11, No. 8, item 38 and from 2011, No. 8, item 29, No. 9, item 32 and No. 13, item 48). As at 31.12.2010, calculations were made based on the provisions under Resolution No. 76/2010 Polish Financial Supervision Authority (KNF) of 10.03.2010 and the Resolution No. 369/2010 Polish Financial Supervision Authority (KNF) of 12.10.2010.

Notes to financial statements (cont.)

(In PLN thousand)

The Bank is using the standard method to calculate the capital requirements related to credit risk (in compliance with Enclosure No. 4 to Resolution No. 76/2010 KNF as amended), 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 as amended).

The capital requirement related to operational risk is calculated by advanced method (according to the provisions under Enclosure No. 14 to Resolution No. 76/2010 KNF as amended).

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

	31.12.2011	31.12.2010
Capital (Tier 1)	15 985 247	15 258 199
Share capital	262 382	262 364
Supplementary capital	9 315 808	9 313 651
Reserve capital	6 920 171	6 243 619
General risk fund for unidentified risk of banking operations	1 537 850	1 437 850
Net profit for present reporting period minus forecasted liabilities and dividends	-	-
Deductions from the core capital:		
Intangible assets	(675 747)	(671 352)
Unrealized losses from debt instruments available for sale	(109 908)	(100 737)
Unrealized losses from equity instruments available for sale	-	-
Capital exposure to financial institutions	(1 265 309)	(1 227 196)
Supplementary funds (Tier 2)		
Unrealized gains from debt instruments available for sale	40 436	81 530
Unrealized gains from equity instruments available for sale	2 213	7
Positive foreign currency translation differences	1 523	2 965
Deductions:		
Capital exposure to financial institutions	(44 172)	(84 502)
Total equity	15 985 247	15 258 199
Capital adequacy ratio	16.64%	17.17%

Internal capital adequacy assessment

The Bank applies capital adequacy assessment methods designed internally. In internal capital adequacy assessment, the Bank takes the following risk types into consideration:

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

Additionally, within the confines of risk management, elements of macroeconomic and model risks are taken into account.

Notes to financial statements (cont.)

(In PLN thousand)

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

The Bank applies the following risk assessment methods:

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

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

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

4.10 Fair value of financial assets and liabilities

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

The measurement of fair value of Over-the-counter ('OTC') derivatives and of instruments with limited liquidity (i.e. 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 Bank classified the financial assets and liabilities measured at fair value into the following three categories, broken down by valuation method:

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

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2011	METHOD 1	METHOD 2	METHOD 3	TOTAL
Assets:	15 351 100	12 356 950	1 148 895	28 856 945
Financial assets held for trading	601 814	-	247 897	849 711
Derivative financial instruments, including:	-	2 226 867	26 095	2 252 962
- Banks	-	1 837 496	23 419	1 860 915
- Customers	-	389 371	2 676	392 047
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	14 749 286	9 721 177	874 903	25 345 366
Liabilities:	-	4 219 154	26 095	4 245 249
Financial liabilities held for trading	-	-	-	-
Derivative financial instruments, including:	-	2 480 605	26 095	2 506 700
- Banks	-	2 269 602	1 025	2 270 627
- Customers	-	211 003	25 070	236 073
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:	13 811 858	14 366 187	597 211	28 775 256
Financial assets held for trading	768 237	-	197 404	965 641
Derivative financial instruments, including:	-	1 550 574	63 580	1 614 154
- Banks	-	1 343 539	63 220	1 406 759
- Customers	-	207 035	360	207 395
Other financial instruments at fair value through profit or loss	16 735	-	-	16 735
Hedging instruments, including:	-	258 688	-	258 688
- Banks	-	87 573	-	87 573
- Customers	-	171 115	-	171 115
Securities available for sale	13 026 886	12 556 925	336 227	25 920 038
Liabilities:	114 228	2 240 175	63 250	2 417 653
Financial liabilities held for trading	114 228	-	-	114 228
Derivative financial instruments, including:	-	1 529 609	63 250	1 592 859
- Banks	-	1 326 558	4 069	1 330 627
- Customers	-	203 051	59 181	262 232
Hedging instruments, 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 Bank at fair value according to Method 3

	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	197 404	63 580	336 227	63 250
Increases, including:	22 116 453	47 636	646 548	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	67 637	8 444
recognized in the income statement	2 413	5 166	47 294	8 444
recognized in Revaluation reserves from financial instruments	-	-	20 343	-
Decreases, including:	(22 065 960)	(85 121)	(107 872)	(92 111)
Settlement/redemption	(272 127)	(32 836)	(78 015)	(29 910)
Sale	(21 793 833)	-	(29 857)	-
Loss on financial instruments	-	(52 285)	-	(62 201)
recognized in the income statement	-	(52 285)	-	(62 201)
Closing balance	247 897	26 095	874 903	26 095
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	2 488	(46 030)	65 053	47 931
recognized in 'Interest income'	2 347	-	44 711	-
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 Bank at fair value according to Method 3

	FINANCIAL ASSETS HELD FOR TRADING	ASSETS FROM DERIVATIVES	SECURITIES AVAILABLE FOR SALE	LIABILITIES FROM DERIVATIVES
Opening balance	196 594	67 169	321 871	61 444
Increases, including:	20 704 985	35 202	229 704	47 522
Acquisition	20 680 746	-	200 000	-
Derivatives transactions made in 2010	-	11 612	-	29 328
Revenues from financial instruments	24 239	23 590	29 704	18 194
recognized in the income statement	24 239	23 590	27 347	18 194
recognized in Revaluation reserves from financial instruments	-	-	2 357	-
Decreases, including:	(20 704 175)	(38 791)	(215 348)	(45 716)
Settlement/redemption	(530 884)	(13 412)	(21 000)	(35 582)
Sale	(20 172 354)	-	(194 348)	-
Loss on financial instruments	(937)	(25 379)	-	(10 134)
recognized in the income statement	(937)	(25 379)	-	(10 134)
Closing balance	197 404	63 580	336 227	63 250
Unrealized income from financial instruments held in portfolio until end of period, recognized in comprehensive income statement	(62)	13 242	15 538	(16 596)
recognized in 'Interest income'	203	-	14 217	-
recognized in 'Result on financial assets and liabilities held for trading'	(265)	13 242	-	(16 596)
recognized in 'Revaluation reserves from financial instruments'	-	-	1 321	-

Notes to financial statements (cont.)

(In PLN thousand)

The impact of estimated parameters of measurement at fair value for which the Bank applies valuation to fair value according to Method 3 as at 31 December 2011 is insignificant.

In case of debt instruments exposed to credit spread risk, the sensitivity of exposure to spread changes by 1 b.p. amounts to PLN 6.1 thousand of impact on the income statement and PLN 487 thousand of 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 Bank also holds financial instruments which are not presented at fair value in the financial statements. Fair value is defined as the amount, for which an asset could be exchanged or a liability settled between interested and well informed but unrelated parties to the transaction at arm's length.

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

Notes to financial statements (cont.)

(In PLN thousand)

31.12.2011	CARRYING AMOUNT	FAIR VALUE	INCREASE/DECREASE OF FAIR VALUE OVER CARRYING AMOUNT
Assets			
Cash and due from Central Bank	4 886 074	4 885 916	(158)
Receivables from banks	5 648 899	5 649 003	104
Financial assets held for trading	849 711	849 711	-
Assets from derivatives	2 252 962	2 252 962	-
Other financial instruments recognized at fair value through profit or loss	-	-	-
Loans and advances to customers (*)	92 143 206	91 513 860	(629 346)
Hedging instruments	408 906	408 906	-
Securities available for sale	25 345 366	25 345 366	-
Securities held to maturity	3 673 500	3 690 601	17 101
Investments in subsidiaries	793 268	793 268	-
Investments in associates	39 345	39 345	-
Total	136 041 237	135 428 938	(612 299)

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

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

(*) Including bills of exchange eligible for rediscounting 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.

Notes to financial statements (cont.)

(In PLN thousand)

In case of deposits received by the Bank, the adjustment to fair value as at 31 December 2011 was at PLN minus 3 142 thousand (against plus PLN 7 765 thousand as at 31 December 2010) for deposits from clients, and PLN minus 2 402 thousand (against PLN plus 3 524 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 at PLN minus 24 745 thousand (against PLN minus 10 392 thousand as at 31 December 2010).

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

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

5. 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 clients' assets, running of securities and cash accounts, valuation of assets and services related to dividend and interest payments. The Bank also performs the activities of investment and pension funds depository.

In 2011, the Bank acquired a number of new clients from the segment of foreign custody banks and stockbroking companies, registered as remote members of the Warsaw Stock Exchange GPW, for the benefit of which the Bank serves as a clearing agent. The Bank also maintained its leading position in terms of depositary notes, by handling more than 50% of all programmes.

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

6. Brokerage activity

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

Dom Maklerski Pekao is a specialized organizational unit of the Bank designed to sell capital market products. The objective of the entity is providing the highest quality brokerage services. The comprehensive offering enables clients, 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 Points 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.

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

Dom Maklerski Pekao conforms 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
Financial instruments of clients 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	-	-
Commodities and rights to such assets	-	-

31.12.2010	QUANTITY (PCS)	VALUE
Financial instruments of clients 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	-	-
Commodities and rights to such assets	-	-

Customers' cash on brokerage accounts – Dom Maklerski Pekao

	31.12.2011	31.12.2010
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	217 458
Other customers' cash	17 737	18 137
Transferred from clearing fund	-	-
Total	232 669	235 595

Notes to financial statements (cont.)

(In PLN thousand)

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

	31.12.2011	31.12.2010
Receivables from executed transactions, including:	12 074	14 539
Warsaw Stock Exchange	11 636	14 539
OTC market	-	-
NewConnect	438	-
Receivables from representing other banks conducting brokerage activities and brokerage houses on regulated	-	-
Receivables from affiliation	-	-
Receivables from automatic loans realized through the National Depository of Securities	-	-
Total receivables	12 074	14 539
Liabilities from executed transactions, including:	11 570	17 684
Stock Exchange market	11 296	17 684
OTC market	-	-
NewConnect	274	-
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	17 684

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

	31.12.2011(*)	31.12.2010
Receivables from clearing fund	1 548	2 093
Receivables from margin deposits	11 577	11 557
Other receivables	318	255
Total receivables	13 443	13 905
Amounts due to clearing fund	-	-
Amounts due on margin deposits	-	-
Other liabilities	168	139
Total liabilities	168	139

(*) Clearing fund was established in 2011 (KDPW_CCP)

Items concerning the participation in compensation system of the National Depository of Securities (KDPW)

	31.12.2011	31.12.2010
Receivables from compensation fund	83	29
Prepaid expenses- system maintenance payments	11	5
Deferred income- benefits from system	(94)	(34)
Amounts due to compensation fund	-	-
Net Total	-	-

Notes to financial statements (cont.)

(In PLN thousand)

Settlements with entities running regulated securities markets and commodity exchanges

	31.12.2011	31.12.2010
Receivables from Warsaw Stock Exchange	-	-
Receivables from BondSpot	-	-
Total receivables	-	-
Amounts due to Warsaw Stock Exchange	176	185
Amounts due to BondSpot	-	1
Total liabilities	176	186

7. Interest income and expense

Interest income

	2011	2010
Loans, advances and other receivables from customers	5 464 303	4 676 058
Placements in other banks	279 759	247 897
Reverse repo transactions	111 645	51 337
Investment securities	1 115 742	1 039 572
Financial assets held for trading	30 108	69 116
Financial assets designated to fair value through profit or loss	827	34 113
Total	7 002 384	6 118 093

Interest income for 2011 includes income from impaired financial assets in the amount of PLN 234 886 thousand (in 2010 PLN 210 893 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 3 794 265 thousand (in 2010 PLN 3 297 841 thousand).

Interest expense

	2011	2010
Customers' deposits	(2 472 683)	(2 104 178)
Other banks' deposits	(48 504)	(59 874)
Repo transactions	(118 648)	(54 061)
Received Loans	(61 771)	(75 434)
Debt securities issued	(32 559)	(46 852)
Total	(2 734 165)	(2 340 399)

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 2 400 166 thousand (in 2010 PLN 2 098 646 thousand).

Notes to financial statements (cont.)

(In PLN thousand)

8. Fee and commission income and expense

Fee and commission income

	2011	2010
Customer accounts maintenance, payment orders and cash transactions	848 016	877 283
Payment cards	812 408	780 760
Loans and advances	568 319	428 061
Investment products sales intermediation	218 542	239 942
Securities operations	49 417	55 331
Custody activity	59 242	52 784
Guarantees, letters of credit and similar transactions	58 151	56 257
Other	42 691	26 259
Total	2 656 786	2 516 677

Fee and commission expense

	2011	2010
Payment cards	(394 221)	(341 659)
Bank drafts and transfers	(25 841)	(23 370)
Securities and derivative financial instruments operations	(9 742)	(8 921)
Accounts maintenance	(535)	(781)
Custody activity	(8 580)	(7 294)
Intermediation services	(9 267)	(4 277)
Other	(15 515)	(17 626)
Total	(463 701)	(403 928)

9. Dividend income

	2011	2010
From subsidiaries	118 260	154 615
From associates	67 083	92 930
From other entities	10 330	7 874
Total	195 673	255 419

10. Result on financial assets and liabilities held for trading

	2011	2010
Foreign currency exchange result	508 230	558 739
Gains (losses) on derivatives	45 951	(11 783)
Gains (losses) on securities	7 108	(9 546)
Total	561 289	537 410

Notes to financial statements (cont.)

(In PLN thousand)

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 56 165 thousand (in 2010 PLN minus 3 762 thousand).

11. 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

12. Gains (losses) on disposal

Realized gains

	2011	2010
Loans and other financial receivables	130	5 664
Available for sale financial assets – debt instruments	72 853	114 338
Available for sale financial assets – equity instruments	99	6 934
Held to maturity investments	3 884	-
Debt securities issued	96	303
Total	77 062	127 239

Realized losses

	2011	2010
Loans and other financial receivables	(161)	-
Available for sale financial assets – debt instruments	(74)	-
Debt securities issued	(1 377)	(1 371)
Total	(1 612)	(1 371)

Net realized profit	75 450	125 868
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The change in fair value of financial assets available for sale referred in 2011 directly to equity amounted to PLN 12 242 thousand (increase), in 2010 PLN 130 363 thousand (increase).

The change in fair value of financial assets, related in 2011 from equity to financial income amounted to PLN 72 779 thousand (profit), in 2010 PLN 114 338 thousand (profit).

Notes to financial statements (cont.)

(In PLN thousand)

13. Administrative expenses

Personnel expenses

	2011	2010
Wages and salaries	(1 467 960)	(1 476 243)
Insurance and other charges related to employees	(249 863)	(251 504)
Share-based payments expense	(11 106)	(3 326)
Total	(1 728 929)	(1 731 073)

Other administrative expenses

	2011	2010
Other administrative expenses	(1 156 015)	(1 163 566)
Taxes and charges	(34 592)	(33 371)
Bank Guarantee Fund fee	(87 931)	(38 811)
Polish Financial Supervision Authority fee	(20 367)	(20 223)
Total	(1 298 905)	(1 255 971)

Total administrative expenses	(3 027 834)	(2 987 044)
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Notes to financial statements (cont.)

(In PLN thousand)

14. Net other operating income and expenses

Other operating income

	2011	2010
Rental income and other (miscellaneous income)	45 991	39 198
Credit insurance charges	27 467	28 422
Recovery of debt collection costs	17 987	10 549
Compensation, penalty fees and fines received	53	5 282
Refund of administrative costs	9 439	9 128
Income from written-off liabilities	1 259	2 964
Releases of impairment of litigation and other assets	1 609	6 284
Gains on sale of other assets	-	6
Other	23 308	30 100
Total	127 113	131 933

Other operating expenses

	2011	2010
Credit insurance costs	(29 152)	(19 236)
Customers complaints expense	(3 429)	(6 342)
Impairment of litigations receivables and other assets	(7 454)	(1 806)
Costs of litigation and claims	(3 859)	(4 778)
Compensation, penalty fees and fines paid	(1 366)	(1 071)
Losses on disposal of other assets	(38)	(136)
Other	(31 761)	(34 188)
Total	(77 059)	(67 557)

Net other operating income and expenses	50 054	64 376
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Notes to financial statements (cont.)

(In PLN thousand)

15. 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 BALANCE SHEET	RELEASE OF IMPAIRMENT CHARGES	OTHER (*)		
Impairment of financial assets and off- balance sheet commitments								
Loans and advances to banks valued at amortized cost	78 477	628	11 226	(3 428)	(11 839)	(2 186)	72 878	11 211
Derivative financial instruments	480	-	-	-	-	(480)	-	-
Loans and advances to customers valued at amortized cost	3 990 139	1 180 150	212 069	(250 783)	(645 777)	(117 818)	4 367 980	(534 373)
Financial assets available for sale	459	-	-	-	-	(358)	101	-
Impairment of off-balance sheet commitments	128 492	51 967	7 152	-	(69 772)	-	117 839	17 805
Total financial assets and off-balance sheet commitments	4 198 047	1 232 745	230 447	(254 211)	(727 388)	(120 842)	4 558 798	(505 357)
Impairment of other assets:								
Investments in subsidiaries and associates	68 056	-	-	-	-	-	68 056	-
Intangible assets	10 961	-	-	-	-	-	10 961	-
Goodwill	-	-	-	-	-	-	-	-
Other intangible assets	10 961	-	-	-	-	-	10 961	-
Property, plant and equipment	7 405	1 391	-	-	-	(831)	7 965	(1 391)
Investment properties	550	-	-	-	-	-	550	-
Other	92 562	7 454	-	(30 251)	(1 609)	(1 077)	67 079	(5 845)
Total impairment of other assets	179 534	8 845	-	(30 251)	(1 609)	(1 908)	154 611	(7 236)
Total	4 377 581	1 241 590	230 447	(284 462)	(728 997)	(122 750)	4 713 409	(512 593)

(*) 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 505 357 thousand and proceeds from recovered bad debt in the amount of PLN 7 485 thousand, the total is PLN minus 497 872 thousand.

Notes to financial statements (cont.)

(In PLN thousand)

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

(*) Including foreign exchange differences and transfers between positions

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

Notes to financial statements (cont.)

(In PLN thousand)

16. Gains (losses) on associates and subsidiaries

	2011	2010
Profit from liquidation of shares in associates and subsidiaries	-	1 627
Profit from decreases of associates and subsidiaries capital	-	6 002
Impairment of shares in associates and subsidiaries	-	-
Total gains (losses) from associates and subsidiaries	-	7 629

17. Income tax

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

	2011	2010
Profit before income tax	3 449 452	3 078 347
Tax charge according to applicable tax rate at 19%	655 396	584 886
Permanent differences:	(32 317)	(58 561)
Non taxable income	(41 656)	(71 587)
Non tax deductible costs	10 513	16 784
Impact of other tax rates applied under a different tax jurisdiction	(1 146)	(2 973)
Tax relieves not included in the income statement	292	319
Other	(320)	(1 104)
Effective income tax charge on gross profit	623 079	526 325

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

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

	2011	2010
INCOME STATEMENT		
Current income tax	(753 276)	(709 525)
Current tax charge disclosed in the income statement	(745 684)	(699 504)
Adjustments related to the current tax from previous years	156	(741)
Other taxes (for example withholding tax, income tax relating to foreign branch)	(7 748)	(9 280)
Deferred income tax	130 197	183 200
Occurrence and reversal of temporary differences	130 197	183 200
Tax charge disclosed in the Bank's income statement	(623 079)	(526 325)
EQUITY		
Deferred income tax	20 340	(15 741)
Income and costs disclosed in other comprehensive income:		
revaluation of financial instruments, used as cash flows hedges	9 361	(12 838)
revaluation of available for sale financial assets – debt securities	11 502	(2 899)
revaluation of available for sale financial assets – with equity rights	(523)	(4)
Tax charge presented in other comprehensive income	20 340	(15 741)
Total charge	(602 739)	(542 066)

Notes to financial statements (cont.)

(In PLN thousand)

	CHANGES IN TEMPORARY DIFFERENCES IN 2011					
	OPENING BALANCE			CHANGES RECOGNIZED IN		CLOSING BALANCE
	TOTAL DEFERRED TAX	RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY	THE INCOME STATEMENT	EQUITY	TOTAL DEFERRED TAX
		RECOGNIZED IN THE INCOME STATEMENT	IN EQUITY			
DEFERRED TAX LIABILITY						
Accrued income – securities	14 963	14 963	-	7 655	-	22 618
Accrued income – loans	129 875	129 875	-	(30 451)	-	99 424
Change in revaluation of financial assets	181 104	176 115	4 989	(63 498)	(4 989)	112 617
Accelerated depreciation	117 995	117 995	-	3 765	-	121 760
Investment relief	6 910	6 910	-	(426)	-	6 484
Other	25 707	25 707	-	14 646	-	40 353
Gross deferred tax liability	476 554	471 565	4 989	(68 309)	(4 989)	403 256
DEFERRED TAX ASSET						
Accrued expenses - securities	-	-	-	-	-	-
Accrued expenses - deposits and loans	127 339	127 339	-	(33 324)	-	94 015
Downward revaluation of financial assets	285 457	285 457	-	78 499	15 351	379 307
Income received to be amortized over time from loans and current accounts	103 003	103 003	-	(18 179)	-	84 824
Loan provisions charges	333 680	333 680	-	41 860	-	375 540
Personnel related provisions	85 203	85 203	-	(1 923)	-	83 280
Accruals	9 851	9 851	-	(7 415)	-	2 436
Previous year losses	894	894	-	5 624	-	6 518
Other	36 556	36 556	-	(3 254)	-	33 302
Gross deferred tax asset	981 983	981 983	-	61 888	15 351	1 059 222
Deferred tax charge	X	X	X	130 197	20 340	X
Net deferred tax assets	505 429	510 418	-	X	X	655 966
Net deferred tax provision	-	-	4 989	X	X	-

Notes to financial statements (cont.)

(In PLN thousand)

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

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2011 and 31 December 2010, there were no temporary differences related to investments in subsidiaries, branches 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.

As at 31 December 2011 and 31 December 2010, there were no temporary differences, unused tax losses and unused tax relieves which were not included in the deferred tax assets.

18. Earnings per share

Basic earnings per share

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

Earnings per share

	2011	2010
Net profit	2 826 373	2 552 022
Weighted average number of ordinary shares in the period	262 367 442	262 352 988
Earnings per share (in PLN per share)	10.77	9.73

Diluted earnings per share

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

There are diluting instruments in the Bank in the form of convertible bonds based on the G-class shares issue described in Note 43. For calculation purposes it is assumed that these instruments will be converted into shares.

	2011	2010
Net profit	2 826 373	2 552 022
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)	10.77	9.72

Notes to financial statements (cont.)

(In PLN thousand)

19. 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.

20. Cash and due from Central Bank

	31.12.2011	31.12.2010
Cash	2 236 214	2 471 935
Current account at Central Bank	2 005 741	3 495 106
Placements	631 000	-
Interest	13 106	314
Other	13	1 393
Total	4 886 074	5 968 748

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 %).

21. Loans and advances to banks

Loans and advances to banks by product type

	31.12.2011	31.12.2010
Current accounts and overnights	1 161 682	2 991 846
Interbank placements	118 279	1 337 889
Loans and advances	189 445	1 013 483
Cash collateral	2 065 677	754 513
Repo transactions	1 971 558	250 133
Debt securities	1 180	291 622
Receivables in transit	184 514	28 331
Interest accrued	29 442	20 529
Total gross amount	5 721 777	6 688 346
Impairment allowances	(72 878)	(78 477)
Total net amount	5 648 899	6 609 869

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	5 641 000	6 604 987
gross value of impaired receivables	80 777	83 359
individual impairment charges	(55 181)	(55 024)
collective impairment charges (*)	(17 697)	(23 453)
Total	5 648 899	6 609 869

(*) 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	4 998 038	5 679 787
between 1 and 3 months	561 546	1 347
between 3 months and 1 year	6 436	838 225
between 1 and 5 years	46 718	65 962
over 5 years	-	-
expired	79 597	82 496
Interest accrued	29 442	20 529
Total gross amount	5 721 777	6 688 346
Impairment allowances	(72 878)	(78 477)
Total net amount	5 648 899	6 609 869

Loans and advances to banks by currencies

	31.12.2011	31.12.2010
PLN	2 346 842	1 745 196
CHF	23 151	137 699
EUR	2 956 619	4 368 775
USD	194 914	174 382
Other currencies	127 373	183 817
Total	5 648 899	6 609 869

Changes in the level of impairment charges in 2011 and 2010 are presented in the Note 15.

Notes to financial statements (cont.)

(In PLN thousand)

22. Financial assets and liabilities held for trading

Financial assets / liabilities held for trading by issuer and 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	-

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

Notes to financial statements (cont.)

(In PLN thousand)

23. Derivative financial instruments held for trading

Derivative financial instruments at the Bank

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

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

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

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

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

Barrier option with one barrier is a type of option where exercise of the option depends on the underlying crossing or reaching a given barrier level. A barrier may be reached starting from lower ('UP') or from higher ('DOWN') level of the underlying instrument. 'IN' options start their lives worthless and only become active 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 Bank and its customers to transfer, modify or limit interest rate risk.

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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.

Derivative financial instruments embedded in other instruments

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

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

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

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

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

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

Risk involved in financial derivatives

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

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

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

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

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

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

Fair value of trading derivatives

31.12.2011	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 702 291	1 754 943
Forward Rate Agreements (FRA)	2 818	2 743
Options	7 096	6 578
Other	208	155
Transactions in foreign currencies and in gold		
Cross-Currency Interest Rate Swaps (CIRS)	105 130	53 742
Currency Forward Agreements	166 657	90 595
Currency Swaps (fx-swap)	132 195	507 632
Options for currency and for gold	111 806	65 551
Transactions based on equity securities		
Options	24 761	24 761
Total	2 252 962	2 506 700

Notes to financial statements (cont.)

(In PLN thousand)

Fair value of trading derivatives

31.12.2010	ASSETS	LIABILITIES
Interest rate transactions		
Interest Rate Swaps (IRS)	1 178 599	1 388 521
Forward Rate Agreements (FRA)	2 092	1 551
Options	7 729	7 729
Other	727	376
Transactions in foreign currencies and in gold		
Cross-Currency Interest Rate Swaps (CIRS)	63 715	10 773
Currency Forward Agreements	41 145	51 446
Currency Swaps (fx-swap)	234 921	49 626
Options for currency and for gold	22 567	20 993
Transactions based on equity securities		
Options	62 659	61 844
Total	1 614 154	1 592 859

Nominal value of trading derivatives

31.12.2011	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	5 259 401	4 580 580	17 067 383	54 781 509	14 470 825	96 159 698
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
Transactions in foreign currencies and in gold						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	-	421 250	2 956 827	-	3 378 077
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	-	323 241	3 006 097	-	3 329 338
Currency Forward Agreements – currency bought	8 271 999	1 532 819	1 708 405	657 096	-	12 170 319
Currency Forward Agreements – currency sold	8 261 024	1 532 984	1 684 314	651 403	-	12 129 725
Currency Swaps (fx-swap) – currency bought	10 189 098	3 986 364	4 521 798	224 375	-	18 921 635
Currency Swaps (fx-swap) – currency sold	10 339 119	4 027 878	4 615 344	220 840	-	19 203 181
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	47 962 528	21 770 494	43 182 353	64 983 363	14 793 943	192 692 681

Notes to financial statements (cont.)

(In PLN thousand)

Nominal value of trading derivatives

31.12.2010	CONTRACTUAL MATURITY					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
Interest rate transactions						
Interest Rate Swaps (IRS)	2 474 583	4 645 765	10 708 880	44 101 427	12 915 759	74 846 414
Forward Rate Agreements (FRA)	-	-	11 100 000	130 000	-	11 230 000
Options	-	-	14 258	1 088 830	223 231	1 326 319
Other	1 112 937	-	-	-	-	1 112 937
Transactions in foreign currencies and in gold						
Cross-Currency Interest Rate Swaps (CIRS) – currency bought	-	158 412	157 966	366 574	-	682 952
Cross-Currency Interest Rate Swaps (CIRS) – currency sold	-	163 160	157 966	299 199	-	620 325
Currency Forward Agreements – currency bought	6 470 339	963 051	1 308 239	353 693	-	9 095 322
Currency Forward Agreements – currency sold	6 483 934	958 846	1 317 738	364 066	-	9 124 584
Currency Swaps (fx-swap) – currency bought	4 870 592	2 673 862	5 212 523	4 869	-	12 761 846
Currency Swaps (fx-swap) – currency sold	4 871 376	2 601 629	5 023 720	4 196	-	12 500 921
Options bought	464 955	949 474	741 744	2 316	-	2 158 489
Options sold	445 810	940 596	727 428	2 316	-	2 116 150
Transactions based on equity securities						
Options	-	646 408	147 096	644 624	-	1 438 128
Total	27 194 526	14 701 203	36 617 558	47 362 110	13 138 990	139 014 387

24. 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

Notes to financial statements (cont.)

(In PLN thousand)

25. Loans and advances to customers

Loans and advances to customers by product type

	31.12.2011	31.12.2010
Mortgage	27 957 006	23 807 327
Overdrafts	11 327 485	10 243 912
Operating loans	17 864 672	16 388 083
Investment loans	19 993 485	16 734 864
Payment cards receivables	706 358	648 657
Purchased receivables	2 275 859	1 273 440
Other loans and advances	8 592 326	7 751 669
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	320 015	205 517
Total gross amount	96 511 086	81 049 360
Impairment allowances	(4 367 980)	(3 990 139)
Total net amount	92 143 106	77 059 221

Loans and advances to customers by customer type

	31.12.2011	31.12.2010
Receivables from corporate	49 679 439	43 597 165
Receivables from individuals	35 757 195	30 436 733
Receivables from budget entities	10 754 437	6 809 945
Interest accrued	320 015	205 517
Total gross amount	96 511 086	81 049 360
Impairment allowances	(4 367 980)	(3 990 139)
Total net amount	92 143 106	77 059 221

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	90 699 794	75 910 783
gross value of impaired receivables	5 811 292	5 138 577
individual impairment charges	(1 781 499)	(1 694 440)
collective impairment charges (*)	(2 586 481)	(2 295 699)
Total	92 143 106	77 059 221

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

Notes to financial statements (cont.)

(In PLN thousand)

Loans and advances to customers by contractual maturities

	31.12.2011	31.12.2010
Loans and advances to customers, including:		
up to 1 month	15 401 356	14 267 503
between 1 and 3 months	3 301 224	2 921 097
between 3 months and 1 year	9 296 692	11 429 572
between 1 and 5 years	31 438 642	25 067 129
over 5 years	32 644 764	23 472 579
expired	4 108 393	3 685 963
Interest accrued	320 015	205 517
Total gross amount	96 511 086	81 049 360
Impairment allowances	(4 367 980)	(3 990 139)
Total net amount	92 143 106	77 059 221

Loans and advances to customers by currencies

	31.12.2011	31.12.2010
PLN	71 544 487	60 185 752
CHF	6 052 047	5 898 358
EUR	11 729 906	9 193 001
USD	2 749 115	1 713 411
Other currencies	67 551	68 699
Total	92 143 106	77 059 221

Changes in impairment balances in 2011 and 2010 are presented in the Note 15.

26. Hedge accounting

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

In 2011 The Bank 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 26.1,
- cash flow hedge accounting for floating-rate financial assets and liabilities hedged with cross-currency interest rate swap (CIRS) transactions – described in 26.2,
- cash flow hedge accounting for floating-rate financial assets with interest rate swap (IRS) transactions – described in 26.3,
- 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 26.4.

In 2011 the Bank designated at 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 26.5,
- fair value hedge accounting for fixed-rate bonds hedged with interest rate swap (IRS) transactions – described in 26.1,
- cash flow hedge accounting for highly probable cash flow in USD (long position in USD for the Bank) hedged with fx-forward transactions (a number of fx-spot and fx-swap transactions concluded) – described in 26.6.

Notes to financial statements (cont.)

(In PLN thousand)

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

Fair values of hedging derivatives

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

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

Nominal values of hedging derivatives

31.12.2010	CONTRACTS ACCORDING TO MATURITIES					TOTAL
	UP TO 1 MONTH	BETWEEN 1 AND 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	
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

Notes to financial statements (cont.)

(In PLN thousand)

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

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)

26.1 Fair value hedge of fixed-coupon debt securities

Description of hedging relationship

The Bank hedges a portion 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 Bank 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.

Notes to financial statements (cont.)

(In PLN thousand)

26.2 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.

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.

26.3 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.

26.4 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.

Notes to financial statements (cont.)

(In PLN thousand)

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.

26.5 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.

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.

26.6 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'.

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 31 March 2012.

27. Investment securities

	31.12.2011	31.12.2010
Debt securities available for sale (AFS)	25 337 109	25 914 236
Equity securities available for sale (AFS)	8 257	5 802
Debt securities held to maturity (HTM)	3 673 500	4 509 822
Total	29 018 866	30 429 860

Debt securities available for sale (AFS)

	31.12.2011	31.12.2010
Securities issued by State Treasury	14 749 285	13 026 522
T-bills	-	-
T-bonds	14 749 285	13 026 522
Securities issued by Central Banks	9 718 216	12 556 925
Securities issued by banks	166 507	165 205
Securities issued by business entities	38 632	81 097
Securities issued by local governments	664 469	84 487
Total	25 337 109	25 914 236
including impairment of assets	-	-

Equity securities available for sale (AFS)

	31.12.2011	31.12.2010
Shares	8 257	5 802
Total	8 257	5 802
including impairment of assets	(101)	(459)

Debt securities held to maturity (HTM)

	31.12.2011	31.12.2010
Securities issued by State Treasury	2 998 019	4 075 318
T- bills	154 765	363 828
T- bonds	2 843 254	3 711 490
Securities issued by Central Banks	675 481	434 504
Securities issued by business entities	-	-
Total	3 673 500	4 509 822
including impairment of assets	-	-

Notes to financial statements (cont.)

(In PLN thousand)

Investment debt securities according to contractual maturities

	31.12.2011	31.12.2010
Debt securities, including:		
up to 1 month	10 393 698	13 016 366
between 1 and 3 months	142 937	362 836
between 3 months and 1 year	2 981 729	917 032
between 1 and 5 years	8 347 088	11 200 877
over 5 years	7 145 157	4 926 947
Total	29 010 609	30 424 058

Changes in investment (placement) securities

	2011	2010
DEBT SECURITIES AVAILABLE FOR SALE (AFS)		
Opening balance	25 920 038	17 526 224
Increases (purchase)	281 142 722	367 796 141
Decreases (sale and redemption)	(283 068 539)	(360 593 363)
Changes in fair value	4 297	67 700
Exchange rate differences	295 051	91 010
Accrued interest	653 925	588 514
Other changes	397 872	443 812
Closing balance	25 345 366	25 920 038
DEBT SECURITIES HELD UNTIL MATURITY (HTM)		
Opening balance	4 509 822	3 767 283
Increases (purchase)	31 501 481	20 116 886
Decreases (sale and redemption)	(32 557 323)	(19 564 357)
Impairment charges	-	-
Exchange rate differences	7 538	(6 190)
Accrued interest	23 878	56 009
Other changes	188 104	140 191
Closing balance	3 673 500	4 509 822
Total investment (placement) securities	29 018 866	30 429 860

28. Reclassification of securities

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

In 2011 and 2010, the Bank did not reclassify any financial instruments into other categories.

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

Notes to financial statements (cont.)

(In PLN thousand)

The tables below present the information on the reclassified financial assets

VALUE AT 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

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

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

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

31.12.2011	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

Notes to financial statements (cont.)

(In PLN thousand)

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

29. Assets held for sale and discontinued operations

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

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

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

	31.12.2011	31.12.2010
PJSC UniCredit Bank exposure (formerly Open Joint Stock Company UniCredit Bank)	1 999 952	2 409 206
Property, plant and equipment	15 781	23 440
Other assets	-	23 458
Total	2 015 733	2 456 104

As at 31 December 2011, the exposure in PJSC UniCredit Bank in Ukraine constitutes:

- shares in PJSC UniCredit Bank amounting to PLN 577 349 thousand,
- granted loans and advances and interbank placements totaling to PLN 1 422 603 thousand,
- off-balance sheet commitments, in this guarantees amounting to PLN 6 835 thousand and letter of credits amounting to PLN 102 430 thousand.

The Bank Pekao. S.A. Group plans to concentrate its activities on local market and in connection with this the whole exposure in Ukraine will be disposed. The Bank intends to dispose its exposure in Ukraine upon receiving all the necessary approvals.

Notes to financial statements (cont.)

(In PLN thousand)

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

ASSETS HELD FOR SALE	2011	2010
Opening balance	2 456 104	38 580
Increases, including:	2 116	2 418 552
transfer from investments in subsidiaries	-	577 349
transfer from investment properties	-	9 221
transfer from loans and advances banks	-	1 831 857
exchange rate differences	1 723	62
other changes	393	63
Decreases, including:	(442 487)	(1 028)
transfer to property, plant and equipment	(8 685)	(83)
disposal	(94)	(693)
exchange rate differences	(667)	(163)
other changes	(23 786)	(89)
PJSC UniCredit Bank assets /Open Joint Stock Company UniCredit Bank/	(409 255)	-
Closing balance	2 015 733	2 456 104

The disposals have been settled as follows:

	2011	2010
Sales revenues	700	991
Net carrying amount of disposed assets (including costs of sale)	94	714
Profit/loss on sale before income tax	606	277

Notes to financial statements (cont.)

(In PLN thousand)

30. Investments in subsidiaries

Condensed information about subsidiaries as at 31 December 2011 (*)

NAME OF ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Centralny Dom Maklerski Pekao S.A.	Warsaw	Brokerage services	940 453	772 602	164 644	46 027	100.00	56 332
Pekao Faktoring Sp. z o.o.	Lublin	Factoring	866 500	804 488	46 384	10 664	100.00	50 268
Pekao Fundusz Kapitałowy Sp. z o.o.	Warsaw	Business consulting	52 864	191	2 008	1 292	100.00	51 380
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension funds management	57 113	3 552	30 317	12 049	65.00	88 126
Pekao Financial Services Sp. z o.o.	Warsaw	Transferable agent	35 012	5 461	43 571	7 414	100.00	4 500
Pekao Leasing Sp. z o.o. (**)	Warsaw	Lease services	3 162 618	2 667 161	225 509	42 001	36.49	84 658
Centrum Kart S.A.	Warsaw	Additional financial services	47 846	13 613	835	3 690	100.00	17 592
PekaoTelecentrum Sp. z o.o.	Cracow	Services	9 818	2	388	350	100.00	8 193
Pekao Bank Hipoteczny S.A.	Warsaw	Banking services	1 986 672	1 706 841	103 768	17 274	100.00	233 823
Pekao Leasing Holding S.A.	Warsaw	Lease services	214 794	38	1 225	3 844	80.10	166 345
Holding Sp. z o.o. (in liquidation)	Warsaw	Non-financial holding	304	83	3	(84)	100.00	5
Pekao Property S.A.	Warsaw	Real estate development services	37 518	2 106	2 532	1 228	100.00	24 376
Property Sp. z o.o. (in liquidation)	Warsaw	Real estate management	15 803	494	631	388	100.00	6 998
Centrum Bankowości Bezpośredniej Sp. z o.o.	Cracow	Call-center services	13 851	6 253	7 571	3 680	100.00	672
Total								793 268

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

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

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

Changes in investment into subsidiaries

	2011	2010
Opening balance	793 268	1 426 442
Increases including:	-	133
acquisitions or increase of equity	-	133
Decreases including:	-	(633 307)
sale and decrease of equity	-	(55 958)
transfer to non-current assets classified as held for sale	-	(577 349)
Closing balance	793 268	793 268

The structure of investments in subsidiaries

	31.12.2011	31.12.2010
Investment in subsidiaries, including:		
banks	233 823	233 823
other financial institutions	519 201	519 201
non-financial institutions	40 244	40 244
Total	793 268	793 268

Notes to financial statements (cont.)

(In PLN thousand)

31. Investments in associates

Information about associates as at 31 December 2011 (*)

NAME OF THE ENTITY	LOCATION	ACTIVITIES	ASSETS	LIABILITIES	REVENUES	NET PROFIT/LOSS	% OF SHARES	CARRYING AMOUNT OF SHARES
Krajowa Izba Rozliczeniowa S.A.	Warsaw	Clearing services	123 068	24 606	109 220	31 515	34.44	1 875
Pioneer Pekao Investment Management S.A.	Warsaw	Assets Management	347 619	59 670	452 040	127 250	49.00	14 995
Xelion. Doradcy Finansowi Sp. z o.o.	Warsaw	Financial intermediation	18 748	8 058	42 801	1 404	50.00	12 557
Pirelli Pekao Real Estate Sp. z o.o.	Warsaw	Real estate development	30 902	11 064	5 787	(15 609)	25.00	8 858
CPF Management	Tortola, British Virgin Islands	Advisory services—currently does not provide its services	-	-	-	-	40.00	-
Cental Poland Fund LLC (**)	Wilmington, Delaware, USA	Investment Fund	1 021	46	-	(28)	53.19	1 060
Polish Banking System S.A. (in liquidation)	Warsaw	Company in liquidation	n.a.	n.a.	n.a.	n.a.	48.90	-
PPU Budpress Sp. z o.o. (in liquidation)	Żyrardów	Company in liquidation	n.a.	n.a.	n.a.	n.a.	36.20	-
Total								39 345

(*) Data available as at the reporting date

(**) Amounts in USD as at 19.12.2011, the carrying amount in PLN

Information about associates as at 31 December 2010 (*)

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

(*) Data available as at the reporting date

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

Notes to financial statements (cont.)

(In PLN thousand)

Changes in investment in associates

	2011	2010
Opening balance	39 345	39 345
Increases	-	-
Decreases	-	-
Closing balance	39 345	39 345

The structure of investments in associates

	31.12.2011	31.12.2010
Investment in associates, including:		
banks	-	-
other financial institutions	30 487	30 487
non-financial institutions	8 858	8 858
Total	39 345	39 345

As at 31 December 2011 and 31 December 2010, the Bank did not have the investment in entities under common control.

32. Intangible assets

	31.12.2011	31.12.2010
Intangible assets, including:	624 072	619 677
research and development expenditures	19 543	23 855
licenses and patents	454 212	396 169
other	3 811	4 472
expenditures on intangible assets and advances to expenditures on intangible assets	146 506	195 181
Goodwill	51 675	51 675
Total	675 747	671 352

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.

At 31 December 2011 the Bank carried out a test for impairment of PKBL. The impairment was not recognized.

Notes to financial statements (cont.)

(In PLN thousand)

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

2011	RESEARCH AND DEVELOPMENT COSTS	LICENSES AND PATENTS	OTHER (*)	TOTAL
GROSS VALUE				
Opening balance	87 874	1 560 794	231 314	1 879 982
Increases, including:	1 230	184 528	(35 592)	150 166
acquisitions	-	67	147 740	147 807
other	-	287	2 072	2 359
transfer from investments outlays	1 230	184 174	(185 404)	-
Decreases, including:	-	(841)	(11 127)	(11 968)
liquidation	-	(841)	-	(841)
other	-	-	(11 127)	(11 127)
Closing balance	89 104	1 744 481	184 595	2 018 180
ACCUMULATED AMORTIZATION				
Opening balance	64 019	1 164 625	20 700	1 249 344
Amortization for the period	5 542	126 154	2 617	134 313
Liquidation	-	(789)	-	(789)
Other	-	279	-	279
Closing balance	69 561	1 290 269	23 317	1 383 147
IMPAIRMENT DEDUCTIONS				
Opening balance	-	-	10 961	10 961
Closing balance	-	-	10 961	10 961
NET VALUE				
Opening balance	23 855	396 169	199 653	619 677
Closing balance	19 543	454 212	150 317	624 072

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

(*) The item covers mainly investment outlays.

In 2011 and in 2010 there have been no restrictions to legal titles to intangible assets pledged as collateral.

33. Property, plant and equipment

	31.12.2011	31.12.2010
Non-current assets, including:	1 649 895	1 618 017
land and buildings	1 211 810	1 235 761
machinery and equipment	358 435	312 303
transport vehicles	44 810	43 068
other	34 840	26 885
Non-current assets in progress and prepayments for non-current assets under construction	86 233	160 408
Total	1 736 128	1 778 425

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	2 216 815	1 420 854	76 328	353 911	4 067 908
Increases including:	56 108	161 767	15 397	16 714	249 986
acquisitions	-	-	-	-	-
transfer from non-current assets under construction	43 407	161 360	-	16 258	221 025
other	12 701	407	15 397	456	28 961
Decreases, including:	(26 613)	(91 271)	(18 725)	(20 289)	(156 898)
liquidation and sale	(26 354)	(91 046)	(18 725)	(19 963)	(156 088)
transfer to non-current assets held for sale	-	-	-	(109)	(109)
other	(259)	(225)	-	(217)	(701)
Closing balance	2 246 310	1 491 350	73 000	350 336	4 160 996
ACCUMULATED DEPRECIATION					
Opening balance	981 019	1 101 925	33 025	326 517	2 442 486
Increases including:	77 391	113 937	13 090	8 551	212 969
depreciation for the period	75 547	113 094	12 898	8 044	209 583
other	1 844	843	192	507	3 386
Decreases including:	(23 945)	(90 297)	(17 974)	(20 020)	(152 236)
liquidation and sale	(23 881)	(90 136)	(17 974)	(19 699)	(151 690)
transfer to non-current assets held for sale	-	-	-	(109)	(109)
other	(64)	(161)	-	(212)	(437)
Closing balance	1 034 465	1 125 565	28 141	315 048	2 503 219
IMPAIRMENT DEDUCTIONS					
Opening balance	35	6 626	235	509	7 405
Increases	-	1 307	-	-	1 307
Decreases	-	(583)	(186)	(61)	(830)
Closing balance	35	7 350	49	448	7 882
NET VALUE					
Opening balance	1 235 761	312 303	43 068	26 885	1 618 017
Closing balance	1 211 810	358 435	44 810	34 840	1 649 895

Notes to financial statements (cont.)

(In PLN thousand)

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

As at 31 December 2011, the amount of expenditures in the item 'property, plant and equipment under construction' stood at PLN 86 233 thousand (PLN 160 196 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 1 148 thousand (PLN 2 955 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 Bank signed agreements with counterparties for the future purchase of intangible assets totaling PLN 46 147 thousand, including PLN 46 147 thousand in 2012 and property, plant and equipment totaling PLN 16 556 thousand, including PLN 14 882 thousand in 2012 (as at 31 December 2010, the Bank signed agreements with counterparties for the future purchase of intangible assets totaling PLN 53 340 thousand, including PLN 53 340 thousand in 2011 and property, plant and equipment totaling PLN 20 031 thousand, including PLN 15 274 thousand in 2011).

Notes to financial statements (cont.)

(In PLN thousand)

34. Investment property

The Bank values investment property using the historical cost model.

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

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

	2011	2010
GROSS VALUE		
Opening balance	95 430	95 123
Increases including:	5 421	17 260
acquisitions	-	331
transfer from property plant and equipment	95	16 929
other	5 326	-
Decreases, including:	-	(16 953)
transfer to non-current assets held for sale	-	(14 841)
other	-	(2 112)
Closing balance	100 851	95 430
ACCUMULATED DEPRECIATION		
Opening balance	37 006	35 804
Increases including:	4 824	7 620
depreciation for the period	2 622	2 511
transfer from property plant and equipment	-	5 109
other	2 202	-
Decreases, including:	(307)	(6 418)
transfer to non-current assets held for sale	-	(5 619)
other	(307)	(799)
Closing balance	41 523	37 006
IMPAIRMENT DEDUCTIONS		
Opening balance	550	4 352
Decreases, including:	-	(3 802)
transfer to non-current assets held for sale	-	(96)
other	-	(3 706)
Closing balance	550	550
NET VALUE		
Opening balance	57 874	54 967
Closing balance	58 778	57 874

The fair value of investment property as at 31 December 2011 stood at PLN 109 440 thousand (PLN 102 852 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	4 318	3 847
Direct operating expenses associated with investment properties (including repair and maintenance costs) which generated rental revenues during the reporting period	(1 109)	(938)
Direct operating expenses associated with investment properties (including repair and maintenance costs) which did not generate rental revenues during the reporting period	-	-

35. Other assets

	31.12.2011	31.12.2010
Prepaid expenses	43 879	33 713
Perpetual usufruct rights	38 807	16 465
Accrued income	47 202	35 684
Interbank and interbranch settlements	176	54
Other debtors	1 076 296	814 220
Assets for sale	6	56
Total	1 206 366	900 192

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 Bank 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 Bank reclassifies the carrying value of unsold assets for sales into appropriate category of property, plant and equipment used by the Bank.

36. Assets pledged as collateral

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

TYPE OF TRANSACTION	PLEDGE INSTRUMENT	CARRYING AMOUNT OF ASSETS USED TO PLEDGE LIABILITIES	NOMINAL VALUE OF ASSETS USED TO PLEDGE LIABILITIES	VALUE OF LIABILITIES SUBJECT TO PLEDGE
Repo transactions	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	588 241	560 000	-
Lombard and technical loan	bonds	6 959 866	6 903 947	-
Other loans	bonds	486 111	500 000	334 328

Notes to financial statements (cont.)

(In PLN thousand)

As at 31 December 2010 the Bank 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
Repo and sell-buy-back transactions	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	397 982	380 000	-
Lombard and technical loan	bonds	6 625 567	6 706 120	-
Other loans	bonds	462 442	500 000	331 893
Derivatives	bonds	220 356	239 609	96 605

The freeze on securities is a consequence of:

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

37. Amounts due to Central Bank

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

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

38. Amounts due to other banks

Amounts due to other banks by product type

	31.12.2011	31.12.2010
Current accounts and overnight deposits	619 609	1 822 474
Deposits from other banks and other liabilities	339 983	1 052 946
Loans and advances received	1 203 098	1 163 389
Repo transactions	1 882 259	1 316 102
Funds in transit	24 777	31 281
Interest accrued	2 683	5 967
Total	4 072 409	5 392 159

Notes to financial statements (cont.)

(In PLN thousand)

Amounts due to other banks by currencies

	31.12.2011	31.12.2010
PLN	1 673 660	3 060 573
CHF	459 105	379 537
EUR	1 320 504	1 601 651
USD	570 172	78 052
Other currencies	48 968	272 346
Total	4 072 409	5 392 159

39. Amounts due to customers

Amounts due to customers by product type

	31.12.2011	31.12.2010
Amounts due to corporate, including:	50 506 551	48 486 220
current accounts and overnight deposits	18 690 659	19 782 795
term deposits and other liabilities	31 711 630	28 618 613
interest accrued	104 262	84 812
Amounts due to budget entities, including:	5 384 833	5 103 516
current accounts and overnight deposits	3 712 079	3 327 568
term deposits and other liabilities	1 665 302	1 763 336
interest accrued	7 452	12 612
Amounts due to individuals, including:	47 140 036	44 841 990
current accounts and overnight deposits	26 362 287	28 632 620
term deposits and other liabilities	20 588 364	16 074 525
interest accrued	189 385	134 845
Repo transactions, including:	4 615 494	650 086
forward transactions	4 609 733	649 905
interest accrued	5 761	181
Funds in transit	357 831	246 996
Total	108 004 745	99 328 808

Amounts due to customers by currencies

	31.12.2011	31.12.2010
PLN	89 248 171	84 555 830
CHF	167 282	122 680
EUR	8 968 840	8 825 168
USD	8 206 572	5 309 783
Other currencies	1 413 880	515 347
Total	108 004 745	99 328 808

Notes to financial statements (cont.)

(In PLN thousand)

40. 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
Interest accrued	12 553	528
Total	2 402 614	737 800

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

Changes in debt securities issued

	2011	2010
Opening balance	737 800	1 297 785
Increase (issuance)	2 075 162	78 401
Decrease (repurchase)	(389 942)	(634 719)
Decrease (partial payment)	(23 554)	(30 263)
Foreign currency exchange differences	6 598	1 737
Other changes	(3 450)	24 859
Closing balance	2 402 614	737 800

41. Provisions

Roll-forward of provisions in the reporting period

2011	PROVISIONS FOR LITIGATION AND CLAIM	PROVISIONS FOR RETIREMENT BENEFITS	PROVISIONS FOR UNDRAWN CREDIT FACILITIES AND GUARANTEES ISSUED	OTHER PROVISIONS	TOTAL
Opening balance	40 809	125 618	128 492	36 945	331 864
Provision charges/revaluation	6 226	29 177	51 967	19 341	106 711
Provision utilization	-	-	-	(22 087)	(22 087)
Provision releases	(1 120)	-	(69 772)	-	(70 892)
Foreign currency exchange differences	79	-	7 152	401	7 632
Other changes	(1 198)	(7 157)	-	495	(7 860)
Closing balance	44 796	147 638	117 839	35 095	345 368

Notes to financial statements (cont.)

(In PLN thousand)

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

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 IAS 19 and provisions for employment restructuring concerning planned liquidation of the Branch in Paris. Cash flows connected with the branch's liquidation are expected to be received until the end of 2012.

42. Other liabilities

	31.12.2011	31.12.2010
Deferred income	142 999	167 841
Provisions for holiday leave	50 187	50 518
Provisions for other employee-related liabilities	179 976	228 584
Provisions for administrative costs	34 554	66 492
Other costs to be paid	19 528	23 507
Other creditors	460 966	481 797
Interbank and interbranch settlements	1 101 106	353 210
Total	1 989 316	1 371 949

43. Share-based payment

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

Options to purchase the Bank's shares are granted as a part of the incentive program for senior management essential to the success of the Bank's strategy. These were established by resolution of Extraordinary General Shareholders Meeting of Bank Polska Kasa Opieki S.A held on 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 31 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		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		7 734

Dividend rate (%)	5.12		
Volatility index (%)	31.75		
Risk free interest rate (%)	6.66		6.70
Expected option validity period (in years)	6.18		6.68
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 the expectations of the Management Board concerning the number of rights to be exercised change. No efficiency/results data except those related to the price of shares ('market conditions') are taken into account in the assessment of transactions settled in equity instruments.

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

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

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

Notes to financial statements (cont.)

(In PLN thousand)

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

	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	-	-	-	-

(*) Average weighted 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 UCI 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 UCI Group,
- the need with respect of employee retention: retention 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. were established following the Hull and White model.

The fair value of the pre-emptive rights to embrace the shares of the Bank's parent entity granted until 31 December 2011 amounted to PLN 17 309 thousand as at 31 December 2011. It is amortized over the vesting period.

The year 2011 remuneration expense increased by the amount of PLN 11 106 thousand with respect to that (in 2010 - PLN 3 326 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	2 503 578	7.98/18.48/31.33	852 083	-
Granted during the year	3 797 929	-	2 002 911	-
Redeemed during the year	222 759	7.98/18.48/31.33	195 168	-
Exercised during the year	-	-	95 534	-
Terminated during the year	-	-	-	-
Existing at the period-end	6 078 748	7.98/18.48/31.33	2 564 292	-
Existing at the period-end – after reverse stock split (**)	-	-	256 381	-
Executable at the period-end	-	-	-	-

(*) The value of PLN 7.98 applies to the stock options program of UniCredit S.p.A. in 2011, for stock options program in 2008 it amounts to PLN 18.48, and for 2007 – PLN 31.33.

(**) In December 2011 UniCredit S.p.A. finished the process of reverse stock split, in a result of which the number of shares was recalculated in ratio of 10 for 1, rounded down to an integer.

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

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

44. Operating and finance leases

Bank as a lessor

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

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

	31.12.2011	31.12.2010
Up to one year	12 465	10 801
Between 1 and 5 years	10 888	11 570
Over 5 years	204	61
Total	23 557	22 432

The amount of the minimum operating lease payments classified as income in 2011 amounted to PLN 31 053 thousand (PLN 30 093 thousand in 2010).

Notes to financial statements (cont.)

(In PLN thousand)

Bank as a lessee

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

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

	31.12.2011	31.12.2010
Up to one year	136 503	122 688
Between 1 and 5 years	269 881	266 648
Over 5 years	257 250	31 586
Total	663 634	420 922

The amount of the minimum operating lease payments recognized as an expense in 2011 amounted to PLN 206 671 thousand (expense in 2010 amounted to PLN 204 918 thousand).

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

Finance leases

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

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

The carrying amount of net assets being subject of finance lease contracts as at 31 December 2011 amounted to PLN 44 809 thousand and as at 31 December 2010 amounted to PLN 43 038 thousand.

	31.12.2011	31.12.2010
Gross liabilities on finance leases	61 492	71 832
Unrealized financial costs	(15 191)	(12 953)
Present value of minimum lease payments	46 301	58 879

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

	31.12.2011	31.12.2010
Up to one year	27 618	29 433
Between 1 and 5 years	33 874	42 399
Over 5 years	-	-
Total	61 492	71 832

Notes to financial statements (cont.)

(In PLN thousand)

45. 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 Bank's own funds.

In 2011 the total value of legal proceedings against the Bank amounted to PLN 18 717 976 thousand (as at 31 December 2010 PLN 593 440 thousand). In 2011, the significant change in total value of litigations against the Bank 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 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 Bank the suit and amount in dispute is groundless.

As at 31 December 2011, the Bank created provisions for litigation against the Bank, 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 44 796 thousand (as at 31 December 2010 PLN 40 809 thousand).

Financial commitments

Financial commitments by entities

	31.12.2011	31.12.2010
Financial commitments to:		
financial entities	3 696 942	2 663 526
non - financial entities	22 420 059	20 476 547
budget entities	847 426	1 419 580
Total	26 964 427	24 559 653

Guarantees

Guarantees by entities

	31.12.2011	31.12.2010
Liabilities to financial entities	1 551 792	1 590 172
guarantees	1 539 456	1 581 062
confirmed export letters of credit	12 336	9 110
Liabilities to non-financial entities	7 631 006	7 914 931
guarantees	6 274 776	5 236 911
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	9 271 650	9 691 866

Notes to financial statements (cont.)

(In PLN thousand)

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 ITSELF	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 not subject to regulated over-the-counter trading.

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	municipal 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.

Notes to financial statements (cont.)

(In PLN thousand)

Off- Balance Sheet financial commitments received

Financial commitments by entities

	31.12.2011	31.12.2010
Financial commitments from:		
financial entities	2 768 300	2 760 202
non - financial entities	-	-
budget entities	-	-
Guarantees from:		
financial entities	570 947	408 529
non - financial entities	5 669 220	4 982 490
budget entities	2 779 124	2 736 948
Total	11 787 591	10 888 169

46. Share capital

Shareholding structure

CLASS/ISSUE	TYPE OF SHARES	NUMBER OF SHARES	NOMINAL VALUE OF CLASS/ISSUE	NET PROFIT/LOSS	DATE OF REGISTRATION	DIVIDEND RIGHTS (FROM DATE)
A	Common bearer stock	137 650 000	137 650	Fully paid-up	21.12.1997	01.01.1998
B	Common bearer stock	7 690 000	7 690	Fully paid-up	06.10.1998	01.01.1998
C	Common bearer stock	10 630 632	10 631	Fully paid-up	12.12.2000	01.01.2000
D	Common bearer stock	9 777 571	9 777	Fully paid-up	12.12.2000	01.01.2000
E	Common bearer stock	373 644	374	Fully paid-up	29.08.2003	01.01.2003
F	Common bearer stock	621 411	621	Fully paid-up	29.08.2003	19.05.2006 16.05.2007
G	Common bearer stock	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

Notes to financial statements (cont.)

(In PLN thousand)

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

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

	31.12.2011	31.12.2010
Reserve capital, including:	9 315 808	9 313 651
issue of shares above face value	9 126 501	9 124 344
other	189 307	189 307
Revaluation reserve, including:	(63 923)	24 231
revaluation of financial assets portfolio available for sale	(56 597)	1 184
deferred tax	10 753	(225)
revaluation of financial hedging instruments portfolio	(24 200)	25 070
deferred tax	4 598	(4 763)
foreign currency translation differences	1 523	2 965
General Banking Risk Fund	1 537 850	1 437 850
Other reserve capital	6 859 286	6 191 904
Bonds convertible into shares- capital component	38 355	34 526
Provisions for liabilities from dominant entity shares buyout – capital element	7 531	2 191
Funds for brokerage activities	15 000	15 000
Total other capital	17 709 907	17 019 353
Profit (loss) from previous periods	-	-
Net profit for the period	2 826 373	2 552 022
Total	20 536 280	19 571 375

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

Notes to financial statements (cont.)

(In PLN thousand)

48. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2011	31.12.2010
Cash and amounts due from Central Bank	4 886 074	5 968 748
Loans and receivables from banks with maturity up to 3 months	5 375 070	5 553 930
Cash and Cash equivalents presented in the cash flow statement	10 261 144	11 522 678

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

49. Related party transactions

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

According to the Banking Law and UniCredit Group internal regulations, credit transactions with Members of the Bank Management Board and Supervisory Board, persons holding managerial positions at the Bank, with the entities related financially or organizationally therewith, as well as with persons being 'corporate officers' of UniCredit Group 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

The table below presents related party transactions as at 31 December 2011

NAME OF ENTITY	RECEIVABLES FROM LOANS, ADVANCES AND PLACEMENTS	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity							
UniCredit S.p.A.	113 892	-	-	-	58 584	-	17 065
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	851 220	-	261 211	2 598	1 999 647	1 025 915	112
Bank Pekao S.A. Group entities							
Subsidiaries							
Public Joint Stock Company UniCredit Bank (formerly Open Joint Stock Company UniCredit Bank)	1 422 603	-	-	-	133	-	1 342
Pekao Leasing Sp. z o.o.	1 290 318	-	765	100	37 928	2	438
Pekao Faktoring Sp. z o.o.	742 828	-	-	26	2 587	-	-
Centralny Dom Maklerski Pekao S.A.	-	-	-	760	690 461	-	310
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	47 606	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	102	9 949	-	-
Pekao Telecentrum Sp. z o.o.	-	-	-	-	9 790	-	-
Centrum Kart S.A.	-	-	-	28	30 955	-	8 927
Pekao Financial Services Sp. z o. o.	-	-	-	4	4 449	-	-
Pekao Bank Hipoteczny S.A.	101 060	166 507	95 937	-	29 318	50	70
Pekao Leasing Holding S.A.	-	-	-	-	100	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	6 230	3 229	-	-
Holding Sp. z o. o. (in liquidation)	-	-	-	-	296	-	-
Pekao Property S.A.	-	-	-	-	534	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	1 385	5 329	-	4 722
Jana Kazimierza Development Sp. z o.o.	28 207	-	-	-	2 701	-	-
Metropolis Sp. z o.o.	-	-	-	-	447	-	-
FPB - Media Sp. z o.o.	13 964	-	-	-	137	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	4 109	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	45	9 512	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	49	3 719	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	-	-	12 048	14 896	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	2	26 231	-	3
Total of Bank Pekao S.A. Group entities	3 598 980	166 507	96 702	20 779	934 416	52	15 812
Key management Staff of the Bank or its parent entity	3 489	-	-	-	12 873	-	-
Total	4 567 581	166 507	357 913	23 377	3 005 520	1 025 967	32 989

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. – parent entity	113 892	-	-	-	-	-	-	113 892
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	795 624	974	1 040	8 928	44 168	-	486	851 220
Bank Pekao S.A. Group entities								
Subsidiaries	272 467	101 005	774 978	326 380	2 080 760	41 149	2 241	3 598 980
Associates	-	-	-	-	-	-	-	-
Key management Staff of the Bank or its parent entity	-	3 064	-	1	38	385	1	3 489
Total	1 181 983	105 043	776 018	335 309	2 124 966	41 534	2 728	4 567 581

(*) Current receivables include 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. – parent entity	58 584	-	-	-	-	-	-	58 584
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	992 472	472 522	1 406	327 681	204 272	-	1 294	1 999 647
Bank Pekao S.A. Group entities								
Subsidiaries	739 406	20 170	78 311	7 584	30 071	-	407	875 949
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	1 798 318	543 623	91 247	335 965	234 375	-	1 992	3 005 520

(*) Current liabilities include Loro and current account 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	SECURITIES	RECEIVABLES FROM REVALUATION OF DERIVATIVES	OTHER RECEIVABLES	LIABILITIES FROM LOANS AND DEPOSITS	LIABILITIES FROM REVALUATION OF DERIVATIVES	OTHER LIABILITIES
Bank's parent entity							
UniCredit S.p.A.	3 558 653	-	-	-	24 740	-	7 897
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	655 991	-	206 642	1 086	1 061 389	555 732	-
Bank Pekao S.A. Group entities							
Subsidiaries							
Open Joint Stock Company UniCredit Bank	1 840 594	-	-	93	230	-	2 063
Pekao Leasing Sp. z o.o.	1 253 118	-	815	-	35 235	-	23
Pekao Faktoring Sp. z o.o.	410 195	-	-	21	1 929	-	-
Centralny Dom Maklerski Pekao S.A.	40	-	-	200	1 017 230	-	264
Pekao Fundusz Kapitałowy Sp. z o.o.	-	-	-	-	49 212	-	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	-	-	317	11 850	-	-
Pekao Telecentrum Sp. z o.o.	-	-	-	-	9 439	-	1
Centrum Kart S.A.	-	-	-	246	29 088	-	8 354
Pekao Financial Services Sp. z o. o.	-	-	-	-	6 243	-	-
Pekao Bank Hipoteczny S.A.	389 861	165 205	56 341	-	29 082	442	122
Pekao Leasing Holding S.A.	-	-	-	-	58	-	-
Property Sp. z o.o. (in liquidation)	-	-	-	-	3 227	-	-
Holding Sp. z o. o. (in liquidation)	-	-	-	-	359	-	-
Pekao Property S.A.	-	-	-	3	397	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	-	-	3 124	2 662	-	4 028
Jana Kazimierza Development Sp. z o.o.	56 512	-	-	-	5 217	-	-
Metropolis Sp. z o.o.	-	-	-	-	816	-	-
FPB - Media Sp. z o.o.	12 995	-	-	-	87	-	-
Associates							
Pirelli Pekao Real Estate Sp. z o.o.	-	-	-	-	694	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	-	-	-	9 376	-	-
Pioneer Pekao Investment Management S.A.	-	-	-	-	142 422	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	-	-	18 200	127 644	-	-
Krajowa Izba Rozliczeniowa S.A.	-	-	-	-	21 149	-	-
Total of Bank Pekao S.A. Group entities	3 963 315	165 205	57 156	4 004	1 376 002	442	14 855
Key management Staff of the Bank or its parent entity	3 693	-	-	-	11 562	-	-
Total	8 181 652	165 205	263 798	23 290	2 601 337	556 174	22 752

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. – parent entity	16 364	3 542 207	-	-	-	-	82	3 558 653
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	397 723	39 971	340	159 276	58 183	-	498	655 991
Bank Pekao S.A. Group entities								
Subsidiaries	308 536	389 641	205 780	1 210 800	1 532 063	312 602	3 893	3 963 315
Associates	-	-	-	-	-	-	-	-
Key management Staff of the Bank or its parent entity	-	3 240	-	-	51	401	1	3 693
Total	722 623	3 975 059	206 120	1 370 076	1 590 297	313 003	4 474	8 181 652

(*) Current receivables include 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. – parent entity	24 740	-	-	-	-	-	-	24 740
Entities of UniCredit Group exclusive of Bank Pekao S.A. Group entities	283 972	435 021	99 644	50 440	191 392	-	920	1 061 389
Bank Pekao S.A. Group entities								
Subsidiaries	951 215	153 510	2 898	70 421	23 113	-	1 204	1 202 361
Associates	1 668	170 598	124 166	3 900	-	-	953	301 285
Key management Staff of the Bank or its parent entity	11 455	-	106	-	-	-	1	11 562
Total	1 273 050	759 129	226 814	124 761	214 505	-	3 078	2 601 337

(*) Current liabilities include Loro and current account 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 EXPENSE
Bank's parent entity						
UniCredit S.p.A.	5 202	(259)	204	(4 167)	2 748	(8 184)
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	114 437	(36 031)	4 408	(4 206)	7 072	(122 190)
Pekao S.A. Group entities						
Subsidiaries						
Public Joint Stock Company UniCredit Bank (formerly Open Joint Stock Company UniCredit Bank)	68 421	-	5 560	(44)	-	-
Centralny Dom Maklerski Pekao S.A.	-	(10 929)	1 899	(29)	4 492	(2 629)
Pekao Leasing Sp. z o.o.	50 323	(9 359)	1 058	-	37 640	-
Pekao Faktoring Sp. z o.o.	18 932	(6)	605	-	85	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(396)	1 353	-	11	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(2 008)	4	-	11	-
Centrum Kart S.A.	-	(835)	41	-	1 196	(61 298)
Pekao Telecentrum Sp. z o.o.	-	(389)	2	-	2	-
Pekao Financial Services Sp. z o.o.	-	(188)	39	-	39	-
Pekao Bank Hipoteczny S.A.	18 544	(808)	1 594	-	153	(8 410)
Pekao Leasing Holding S.A.	-	(5)	5	-	-	-
Holding Sp. z o.o. (in liquidation)	-	(3)	1	-	21	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(116)	5	(8 258)	4 083	(34 270)
Metropolis Sp. z o.o.	-	(20)	53	-	-	-
Property Sp. z o.o. (in liquidation)	-	(131)	2	-	-	-
Pekao Property S.A.	-	(6)	4	-	66	-
Jana Kazimierza Development Sp. z o.o.	2 832	(60)	399	-	-	-
FPB - Media Sp.z o.o.	551	-	5	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(5 372)	617	-	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	(4 270)	205 435	-	1 058	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	(474)	26	(63)	149	-
Krajowa Izba Rozliczeniowa S.A.	-	(620)	15	-	-	(11 485)
Pirelli Pekao Real Estate Sp. z o.o.	-	(77)	17	-	3	-
Total of Pekao S.A. Group entities	159 603	(36 072)	218 739	(8 394)	49 009	(118 092)
Key management Staff of the Bank or its parent entity	195	(533)	3	-	-	(12)
Total	279 437	(72 895)	223 354	(16 767)	58 829	(248 478)

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 EXPENSE
Bank's parent entity						
UniCredit S.p.A.	1 728	(120)	244	(3 785)	995	(7 163)
Entities of UniCredit Group exclusive of Pekao S.A. Group entities	115 378	(38 375)	9 348	(5 502)	6 068	(91 607)
Pekao S.A. Group entities						
Subsidiaries						
Open Joint Stock Company UniCredit Bank	89 532	-	8 063	(36)	94	-
Centralny Dom Maklerski Pekao S.A.	-	(20 536)	2 503	(25)	4 291	(2 571)
Pekao Leasing Sp. z o.o.	38 935	(8 962)	632	-	6 945	-
Pekao Faktoring Sp. z o.o.	8 320	(2)	783	-	82	-
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	-	(482)	2 582	-	16	-
Pekao Fundusz Kapitałowy Sp. z o.o.	-	(2 105)	3	-	5	-
Centrum Kart S.A.	-	(615)	36	-	1 220	(60 792)
Pekao Telecentrum Sp. z o.o.	-	(373)	2	-	2	-
Pekao Financial Services Sp. z o.o.	-	(217)	55	(10)	-	-
Pekao Bank Hipoteczny S.A.	15 409	(210)	329	-	146	(9 612)
Pekao Leasing Holding S.A.	-	(2)	5	-	-	-
Holding Sp. z o.o. (in liquidation)	-	(484)	1	-	21	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	-	(79)	5	(4 060)	3 718	(28 220)
Metropolis Sp. z o.o.	-	(38)	3	-	-	-
Property Sp. z o.o. (in liquidation)	-	(121)	2	-	-	-
Pekao Property S.A.	-	(19)	5	-	17	-
Jana Kazimierza Development Sp. z o.o.	5 218	(76)	52	-	-	-
FPB - Media Sp. z o.o.	591	(1)	4	-	-	-
Associates						
Pioneer Pekao Investment Management S.A.	-	(5 485)	525	-	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	-	(370)	220 856	-	132	-
Xelion. Doradcy Finansowi Sp. z o.o.	-	(289)	22	(42)	150	-
Krajowa Izba Rozliczeniowa S.A.	-	(615)	19	-	-	(10 361)
Pirelli Pekao Real Estate Sp. z o.o.	-	(152)	24	-	5	-
Total of Pekao S.A. Group entities	158 005	(44 573)	236 511	(4 173)	16 844	(111 556)
Key management Staff of the Bank or its parent entity	172	(453)	6	-	-	-
Total	275 283	(83 521)	246 109	(13 460)	23 907	(210 326)

Notes to financial statements (cont.)

(In PLN thousand)

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	710 554	304 095	2 208 613	-
Bank Pekao S.A. Group entities				
Subsidiaries				
Public Joint Stock Company UniCredit Bank (formerly Open Joint Stock Company UniCredit Bank)	-	109 265	-	-
Pekao Leasing Sp. z o.o.	190 535	892	-	-
Pekao Faktoring Sp. z o.o.	357 271	-	-	-
Centralny Dom Maklerski Pekao S.A.	642	135	-	-
Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	60	-	-	-
Centrum Kart S.A.	100	-	-	-
Pekao Financial Services Sp. z o.o.	40	997	-	-
Pekao Bank Hipoteczny S.A.	399 119	738 657	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	35	-	-	-
Associates				
Pirelli Pekao Real Estate Sp. z o.o.	180	-	-	-
Pioneer Pekao Investment Management S.A.	32	-	-	-
Xelion. Doradcy Finansowi Sp. z o.o.	29	-	-	-
Pioneer Pekao TFI S.A. (subsidiary of PPIM S.A.)	135	-	-	-
Krajowa Izba Rozliczeniowa S.A.	-	500	-	-
Total of Pekao S.A. Group entities	948 178	850 446	-	-
Key management Staff of the Bank or its parent entity	286	-	-	-
Total	1 723 719	1 343 179	2 208 613	-

Notes to financial statements (cont.)

(In PLN thousand)

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	634 984	175 177	1 980 150	-
Bank Pekao S.A. Group entities				
Subsidiaries				
Open Joint Stock Company UniCredit Bank	-	547 848	-	-
Pekao Leasing Sp. z o.o.	243 970	867	-	-
Pekao Faktoring Sp. z o.o.	384 753	-	-	-
Centralny Dom Maklerski Pekao S.A.	577	-	-	-
Centrum Kart S.A.	79	-	-	-
Pekao Financial Services Sp. z o.o.	-	823	-	-
Pekao Bank Hipoteczny S.A.	113 492	644 021	-	-
Pekao Property S.A.	-	53	-	-
Centrum Bankowości Bezpośredniej Sp. z o.o.	36	-	-	-
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 of Pekao S.A. Group entities	757 502	1 194 932	-	-
Key management Staff of the Bank or its parent entity	185	-	-	-
Total	1 454 378	1 412 301	1 980 150	-

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, which will be cleared within 12 months from the date of the balance sheet.

(**) The item 'Other long term benefits' includes: provisions for long term motivation schemes 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.

Notes to financial statements (cont.)

(In PLN thousand)

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

50. Repo and reverse repo transactions

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

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

	31.12.2011		31.12.2010	
	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES	FAIR VALUE OF ASSETS	CARRYING AMOUNT OF RELATED LIABILITIES
Financial assets held for trading				
up to 1 month	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
between 3 and 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				
between 1 and 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	395 364
between 1 and 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	395 364
Total	6 495 368	6 497 753	1 960 068	1 966 188

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

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

Notes to financial statements (cont.)

(In PLN thousand)

	31.12.2011		31.12.2010	
	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS	CARRYING AMOUNT OF ASSETS	FAIR VALUE OF HEDGING ASSETS
Loans and advances from banks				
up to 1 month	1 465 411	1 465 483	250 149	249 987
between 1 and 3 months	508 684	507 625	-	-
Total loans and advances from banks	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

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

51. Company Social Benefits Fund ('ZFŚS')

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

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

In the statement of financial position, the Bank netted the ZFŚS Fund assets against the ZFŚS Fund value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Bank. For this reason the amount pertaining to the ZFŚS Fund in the unconsolidated statement of financial position as at 31 December 2011 and 31 December 2010 was nil.

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

	31.12.2011	31.12.2010
Loans granted to employees	43 589	44 850
Cash at ZFŚS account	9 519	4 577
ZFŚS assets	53 108	49 427
ZFŚS value	53 108	49 427
	2011	2010
Deductions made to ZFŚS during fiscal period	26 451	26 018

52. 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 and published by the European Union, but are 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: '1 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 – exchange transaction of principal amounts and interest payments in different currencies between two partners.

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

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

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

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

IBNR – Incurred But Not Reported losses.

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

LGD – Loss Given Default.

EAD – Exposure At Default.

EL – Expected Loss.

CCF – Credit Conversion Factor.

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

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

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

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