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PKO BANK POLSKI
SPÓŁKA AKCYJNA

Consolidated Financial Statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2010

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	for the period from 1 January to 31 December 2010	for the period from 1 January to 31 December 2009	for the period from 1 January to 31 December 2010	for the period from 1 January to 31 December 2009
Net interest income	6 516 166	5 051 182	1 627 252	1 163 706
Net fee and commission income	3 142 829	2 583 003	784 844	595 080
Operating profit	4 080 051	2 942 928	1 018 892	678 000
Profit before income tax	4 079 236	2 943 270	1 018 688	678 079
Net profit (including non-controlling shareholders)	3 212 806	2 311 784	802 319	532 595
Net profit attributable to the parent company	3 216 883	2 305 538	803 337	531 157
Earnings per share for the period – basic (in PLN/EUR)	2.57	2.06	0.64	0.47
Earnings per share for the period – diluted (in PLN/EUR)	2.57	2.06	0.64	0.47
Net comprehensive income	3 297 105	2 401 214	823 371	553 199
Net cash flow from / used in operating activities	340 637	(4 860 163)	85 066	(1 119 698)
Net cash flow from / used in investing activities	(1 967 767)	1 022 670	(491 401)	235 606
Net cash flow from / used in financing activities	1 073 418	4 559 643	268 060	1 050 464
Total net cash flows	(553 712)	722 150	(138 276)	166 371

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
Total assets	169 660 501	156 478 685	42 840 315	38 089 354
Total equity	21 359 568	20 435 870	5 393 422	4 974 410
Share capital attributable to equity holders of the parent company	21 357 578	20 428 541	5 392 919	4 972 626
Share capital	1 250 000	1 250 000	315 633	304 270
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	17.09	16.35	4.31	3.98
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	17.09	16.35	4.31	3.98
Capital adequacy ratio	12.47%	14.81%	12.47%	14.81%
Tier 1 capital	15 960 255	16 253 084	4 030 062	3 956 254
Tier 2 capital	1 512 546	1 489 959	381 927	362 679
Tier 3 capital	145 928	129 876	36 848	31 614

Selected items of the consolidated financial statements were translated into EUR using the following rates:

– income statement and cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2010 and 2009: 1 EUR = 4.0044 PLN and 1 EUR = 4.3406 PLN respectively;

– statement of financial position items – average NBP rate as at 31 December 2010: 1 EUR = 3.9603 PLN and as at 31 December 2009: 1 EUR = 4.1082 PLN

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CONSOLIDATED INCOME STATEMENT
for the years ended 31 December 2010 and 31 December 2009 respectively

	Note	2010	2009
Continuing operations:			
Interest and similar income	4	10 415 315	9 031 330
Interest expense and similar charges	4	(3 899 149)	(3 980 148)
Net interest income		**6 516 166**	**5 051 182**
Fee and commission income	5	3 880 863	3 335 347
Fee and commission expense	5	(738 034)	(752 344)
Net fee and commission income		**3 142 829**	**2 583 003**
Dividend income	6	5 663	5 381
Net income from financial instruments designated at fair value through profit and loss	7	(62 577)	60 872
Gains less losses from investment securities	8	73 056	(2 622)
Net foreign exchange gains	9	346 762	909 139
Other operating income	10	469 388	584 949
Other operating expense	10	(293 736)	(324 066)
Net other operating income and expense		**175 652**	**260 883**
Net impairment allowance	11	(1 868 364)	(1 681 075)
Administrative expenses	12	(4 249 136)	(4 243 835)
Operating profit		**4 080 051**	**2 942 928**
Share of profit (loss) of associates and jointly controlled entities	13	(815)	342
Profit before income tax		**4 079 236**	**2 943 270**
Income tax expense	14	(866 430)	(631 486)
Net profit (including non-controlling interest)		**3 212 806**	**2 311 784**
Net profit/(loss) attributable to non-controlling shareholders		(4 077)	6 246
Net profit attributable to equity holders of the parent company		**3 216 883**	**2 305 538**
Earnings per share:			
– basic earnings per share for the period (in PLN)	15	2.57	2.06
– diluted earnings per share for the period (in PLN)	15	2.57	2.06
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 121 562
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 121 562

Discontinued operations:

In years 2010 and 2009 the PKO Bank Polski SA Group did not carry out discontinued operations

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the years ended 31 December 2010 and 31 December 2009 respectively

	Note	2010	2009
Profit for the year		**3 212 806**	**2 311 784**
Other comprehensive income net of tax		**84 299**	**89 430**
Currency translation differences from foreign operations	40	(1 211)	(51 321)
Share in other comprehensive income of an associate	26	271	-
Unrealised net gains on financial assets available for sale (gross)	24	(16 159)	26 582
Deferred tax on unrealised net gains on financial assets available for sale		2 750	(5 107)
Cash flow hedges (gross)	21	121 788	147 254
Deferred tax on cash flow hedges		(23 140)	(27 978)
Total net comprehensive income		**3 297 105**	**2 401 214**
Total net comprehensive income, of which attributable to:		**3 297 105**	**2 401 214**
equity holders of PKO Bank Polski SA		3 301 437	2 394 911
non-controlling shareholders		(4 332)	6 303

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010 and 31 December 2009

	Note	31.12.2010	31.12.2009
ASSETS			
Cash and balances with the central bank	17	6 182 412	7 094 350
Amounts due from banks	18	2 307 032	2 023 055
Trading assets	19	1 503 649	2 212 955
Derivative financial instruments	20	1 719 085	2 029 122
Financial assets designated at fair value through profit and loss	22	10 758 331	12 360 690
Loans and advances to customers	23	130 668 119	116 572 585
Investment securities available for sale	24	10 219 400	7 944 317
Securities held to maturity	25	-	9 894
Investments in associates and jointly controlled entities	26	172 931	228 692
Non-current assets held for sale		19 784	13 851
Inventories	27	530 275	653 075
Intangible assets	28	1 802 037	1 572 577
Tangible fixed assets	29	2 576 445	2 777 694
including investment properties		259	322
Current income tax receivables	14	4 318	7 184
Deferred income tax asset	14	582 802	403 218
Other assets	30	613 881	575 426
TOTAL ASSETS		**169 660 501**	**156 478 685**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	31	3 370	6 581
Amounts due to banks	32	5 233 875	5 146 048
Derivative financial instruments	20	2 404 795	1 544 370
Amounts due to customers	34	132 981 215	125 072 934
Debt securities in issue	35	3 298 867	289 360
Subordinated liabilities	36	1 611 779	1 612 178
Other liabilities	37	2 092 834	1 566 623
Current income tax liabilities	14	67 744	181 893
Deferred income tax liability	14	22 764	20 534
Provisions	38	583 690	602 294
TOTAL LIABILITIES		**148 300 933**	**136 042 815**
Equity			
Share capital	39	1 250 000	1 250 000
Other capital	40	16 888 145	16 732 988
Currency translation differences from foreign operations		(109 747)	(108 791)
Unappropriated profits		112 297	248 806
Net profit for the year		3 216 883	2 305 538
Capital and reserves attributable to equity holders of the parent company		**21 357 578**	**20 428 541**
Non-controlling interest		1 990	7 329
TOTAL EQUITY		**21 359 568**	**20 435 870**
TOTAL LIABILITIES AND EQUITY		**169 660 501**	**156 478 685**

Capital adequacy ratio	54	12.47%	14.81%
Book value (in PLN thousand)		21 359 568	20 435 870
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		17.09	16.35
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		17.09	16.35

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2010 and 31 December 2009 respectively

for the year ended 31 December 2010	Share capital	Other capital							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
Note	**39**	**40**	**40**	**40**	**40**	**40**	**40**	**40**						
As at 1 January 2010	**1 250 000**	**12 149 682**	**3 405 087**	**1 070 000**	**705**	**(11 762)**	**119 276**	**16 732 988**	**(108 791)**	**248 806**	**2 305 538**	**20 428 541**	**7 329**	**20 435 870**
Transfer of net profit from previous years	-	-	-	-	-	-	-	**-**	-	2 305 538	(2 305 538)	**-**	-	**-**
Total comprehensive income	-	-	-	-	271	(13 409)	98 648	**85 510**	(956)	-	3 216 883	**3 301 437**	(4 332)	**3 297 105**
Transfer from unappropriated profits	-	62 495	7 152	-	-	-	-	**69 647**	-	(69 647)		**-**	-	**-**
Dividends paid	-	-	-	-	-	-	-	**-**	-	(2 375 000)	-	**(2 375 000)**	-	**(2 375 000)**
Acquisition of shares of a subsidiary by non-controlling shareholders	-	-	-	-	-	-	-	**-**	-	-	-	**-**	204	**204**
Increase in interest by acquisition of shares of a subsidiary	-	-	-	-	-	-	-	**-**	-	1 493	-	**1 493**	(1 493)	**-**
Additional payment to equity for non-controlling shareholders	-	-	-	-	-	-	-	**-**	-	-	**-**	**-**	352	**352**
Loss of control of a subsidiary	-	-	-	-	-	-	-	**-**	-	1 107	-	**1 107**	(70)	**1 037**
As at 31 December 2010	**1 250 000**	**12 212 177**	**3 412 239**	**1 070 000**	**976**	**(25 171)**	**217 924**	**16 888 145**	**(109 747)**	**112 297**	**3 216 883**	**21 357 578**	**1 990**	**21 359 568**

for the year ended 31 December 2009	Share capital	Other capital							Currency translation differences from foreign operations	Unappropriated profits	Net profit for the period	Total equity attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of an associate	Financial assets available for sale	Cash flow hedges	Total other capital						
Note	**39**	**40**	**40**	**40**	**40**	**40**	**40**	**40**						
As at 1 January 2009	**1 000 000**	**7 274 717**	**1 523 827**	**1 070 000**	**-**	**(33 237)**	**-**	**9 835 307**	**(57 413)**	**53 232**	**3 120 674**	**13 951 800**	**46 216**	**13 998 016**
Transfer of net profit from previous years	-	-	-	-	**-**	-	-	**-**	-	3 120 674	(3 120 674)	**-**	-	**-**
Total comprehensive income	-	-	-	-	-	21 475	119 276	**140 751**	(51 378)	-	2 305 538	**2 394 911**	6 303	**2 401 214**
Own shares issue	250 000	4 831 125	-	-	-	-	-	**4 831 125**	-	-	-	**5 081 125**	-	**5 081 125**
Transfer from unappropriated profits	-	43 840	1 881 260	-	**-**	-	-	**1 925 100**	-	(1 925 100)	-	**-**	-	**-**
Dividends paid	-	-	-	-	**-**	-	-	**-**	-	(1 000 000)	-	**(1 000 000)**	(32 620)	**(1 032 620)**
Increase in investment in subsidiaries	-	-	-	-	**-**	-	-	**-**	-	-	-	**-**	(13 840)	**(13 840)**
Other	-	-	-	-	**705**	-	-	**705**	-	-	-	**705**	1 270	**1 975**
As at 31 December 2009	**1 250 000**	**12 149 682**	**3 405 087**	**1 070 000**	**705**	**(11 762)**	**119 276**	**16 732 988**	**(108 791)**	**248 806**	**2 305 538**	**20 428 541**	**7 329**	**20 435 870**

(in PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT
for the years ended 31 December 2010 and 31 December 2009 respectively

	Note	2010	2009
Net cash flow from operating activities			
Net profit		3 216 883	2 305 538
Adjustments:		(2 876 246)	(7 165 701)
Profit/loss of non-controlling shareholders		(4 077)	6 246
Amortisation and depreciation		512 319	469 152
(Gains) losses on investing activities	45	(3 947)	(9 513)
Interest and dividends	45	(413 827)	(425 087)
Change in amounts due from banks	45	72 433	804 234
Change in trading assets and financial assets at fair value through profit and loss		2 311 665	(8 521 954)
Change in derivative financial instruments (asset)		310 037	1 568 548
Change in loans and advances to customers	45	(15 015 080)	(14 445 446)
Change in deferred income tax asset and income tax receivables		(176 718)	(164 516)
Change in other assets		78 412	10 510
Change in amounts due to banks	45	67 853	(1 499 134)
Change in derivative financial instruments (liability)		860 425	(4 605 967)
Change in amounts due to customers	45	7 499 314	21 092 519
Change in debt securities in issue		(158 733)	77 787
Change in impairment allowances and provisions	45	884 786	(1 014 123)
Change in other liabilities	45	648 133	48 021
Income tax paid		(1 178 323)	(1 107 813)
Current income tax expense	14	1 064 174	817 478
Other adjustments	45	(235 092)	(266 643)
Net cash from / used in operating activities		**340 637**	**(4 860 163)**
Net cash flow from investing activities			
Inflows from investing activities		**8 669 411**	**11 326 509**
Disposal of shares in a subsidiary, net of cash disposed		32	-
Proceeds from sale of investment securities		8 643 928	11 298 566
Repurchase of securities held to maturity		10 050	-
Proceeds from sale of intangible assets and tangible fixed assets		9 990	22 751
Other investing inflows		5 411	5 192
Outflows from investing activities		**(10 637 178)**	**(10 303 839)**
Purchase of a subsidiary, net of cash acquired		-	(117 934)
Purchase of investment securities available for sale		(10 017 463)	(9 720 036)
Purchase of securities held to maturity		-	(9 642)
Purchase of intangible assets and tangible fixed assets		(619 715)	(456 227)
Net cash from / used in investing activities		**(1 967 767)**	**1 022 670**
Net cash flow from financing activities			
Proceeds from shares issue		-	5 081 125
Proceeds from bonds issue		3 168 240	-
Redemption of debt securities in issue		(82 590)	(106 152)
Dividends paid to the equity holders of the parent company		(2 375 000)	(1 000 000)
Dividends paid to non-controlling shareholders		-	(32 620)
Long-term borrowings		1 084 130	1 329 527
Repayment of long-term borrowings		(721 362)	(712 237)
Net cash generated from financing activities		**1 073 418**	**4 559 643**
Net cash inflow/(outflow)		**(553 712)**	**722 150**
of which currency translation differences		*19 005*	*(39 169)*
Cash and cash equivalents at the beginning of the period		8 992 393	8 270 243
Cash and cash equivalents at the end of the period	45	**8 438 681**	**8 992 393**
of which restricted	42	6 950	8 421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Group') have been prepared for the year ended 31 December 2010 and include comparative data for the year ended 31 December 2009. Data has been presented in PLN thousand unless indicated otherwise.

The parent company of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA'; 'the parent company'; 'the Bank').

The parent company was established in 1919 as the Pocztowa Kasa Oszczędnościowa. Since 1950 the parent company operated as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws No. 5, item 55 with subsequent amendments) Powszechna Kasa Oszczędności (a state-owned bank) was transformed into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its head office in Warsaw, Puławska 15, 02-515 Warsaw, Poland.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was entered into the Register of Companies by the District Court for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate Court of Registration is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted a statistical REGON No. 016298263. The Bank's paid share capital amounts to PLN 1 250 000 thousand.

The Bank's shareholding structure is as follows:

Shareholder	Number of shares	Number of votes %	Nominal value of 1 share	% Shareholding
As at 31 December 2010				
The State Treasury	512 406 277	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 992	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	**---**	**100.00**
As at 31 December 2009				
The State Treasury	512 406 927	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 342	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	**---**	**100.00**

The Bank is a public company quoted on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin (Ceduła Giełdowa), the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

Business activities of the Group

PKO Bank Polski SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as perform a full range of foreign exchange services; open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

(in PLN thousand)

In addition, the Group conducts activities related to leasing, real estate development, factoring, electronic settlements via payment cards, as well as renders other financial services, including services offered by an investment fund company. The scope of activities of each of the Group entities is set out in this note, in the table 'Structure of the PKO Bank Polski SA Group'.

The Group operates in the Republic of Poland and through its subsidiaries, KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o. – in Ukraine and through its subsidiary PKO Finance AB in Sweden.

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group consists of the following entities:

No.	Entity name	Registered office	Activity	Share capital (%) 31.12.2010	Share capital (%) 31.12.2009
The PKO Bank Polski SA Group					
		Parent company			
1	**Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna**				
		Direct subsidiaries			
2	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services, including financial services	100.00	100.00
3	Bankowy Fundusz Leasingowy SA	Łódź	Leasing services	100.00	100.00
4	Centrum Elektronicznych Usług Płatniczych 'eService' SA	Warsaw	Servicing and settlement of card transactions	100.00	100.00
5	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Management and use of Centrum Finansowe Puławska	100.00	100.00
6	Inteligo Financial Services SA	Warsaw	Technical servicing of Internet banking	100.00	100.00
7	KREDOBANK SA	Lviv, Ukraine	Financial services	99.5655	99.4948
8	PKO BP Bankowy Powszechne Towarzystwo Emerytalne SA	Warsaw	Pension fund management	100.00	100.00
9	PKO BP Inwestycje Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
10	PKO Finance AB	Stockholm, Sweden	Financial services	100.00	100.00
11	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	100.00	100.00
12	Fort Mokotów Inwestycje Sp. z o.o.[1]	Warsaw	Real estate development	99.9885	99.9885
		Indirect subsidiaries			
	Subsidiaries of PKO BP Inwestycje Sp. z o.o.				
13	PKO BP Inwestycje - Neptun Park Sp. z o.o. [2 and 3]	Warsaw	Real estate development	99.9975	99.9975
14	PKO BP Inwestycje - Nowy Wilanów Sp. z o.o. [2 and 4]	Warsaw	Real estate development	99.9750	99.9750
15	PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o. [5]	Warsaw	Real estate development	100.00	100.00
16	PKO BP Inwestycje - Sarnia Dolina Sp. z o. o. [6]	Warsaw	Real estate development	56.00	56.00
17	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Real estate development	55.00	55.00
18	Fort Mokotów Sp. z o.o.	Warsaw	Real estate development	51.00	51.00
19	WISŁOK Inwestycje Sp. z o. o. [7]	Rzeszów	Real estate development	-	80.00
	Subsidiaries of Bankowy Fundusz Leasingowy SA				
20	Bankowy Leasing Sp. z o.o. [2]	Łódź	Leasing services	99.9978	99.9969
21	BFL Nieruchomości Sp. z o.o. [2]	Łódź	Leasing services	99.9952	99.9930
	Subsidiary of Inteligo Financial Services SA				
22	PKO BP Finat Sp. z o.o. [8]	Warsaw	Intermediary financial services	80.3287	80.3287
	Subsidiary of Bankowe Towarzystwo Kapitałowe SA				
23	PKO BP Faktoring SA [2]	Warsaw	Factoring	99.9867	99.9846

1) The second shareholder of the entity Fort Mokotów Inwestycje Sp. z o.o. is PKO BP Inwestycje Sp. z o.o.
2) PKO Bank Polski SA holds 1 share in the entity
3) The previous name of the entity was POMERANKA Sp. z o.o.
4) The previous name of the entity was Wilanów Investments Sp. z o.o.
5) The previous name of the entity was PKO Inwestycje - Międzyzdroje Sp. z o.o.
6) The previous name of the entity was Baltic Dom 2 Sp. z o.o.
7) All shares were sold on 26 February 2010.
8) Other shares of the entity PKO BP Finat Sp. z o.o. are in hold of PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA (19.6702%) and PKO Bank Polski SA (0.0011%)

(in PLN thousand)

Jointly controlled entities and associates included in the consolidated financial statements:

Jointly controlled entities

No.	Name of Entity	Registered Office	Activity	Share capital %	
				31.12.2010	31.12.2009
	Direct jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	Sopot	Real estate development	49.43	49.43
2	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Construction and maintenance of a hotel	41.44	41.44
	Indirect jointly controlled entities				
	Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (indirect jointly controlled by PKO Bank Polski SA)				
3	Centrum Majkowskiego Sp. z o.o.	Sopot	Real estate development	100.00	100.00
4	Kamienica Morska Sp. z o.o.	Sopot	Real estate development	100.00	100.00
5	Sopot Zdrój Sp. z o.o.	Sopot	Real estate development	100.00	100.00
6	Promenada Sopocka Sp. z o.o.	Sopot	Real estate development	100.00	100.00

Associates

No.	Name of Entity	Registered Office	Activity	Share capital %	
				31.12.2010	31.12.2009
	Direct associates				
1	Bank Pocztowy SA	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka SA[1]	Krynica Górska	Construction and operation of cable railway	37.53	37.53
3	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Provision of sureties and guarantees	33.33	33.33
4	Agencja Inwestycyjna CORP SA	Warsaw	Office real estate management	22.31	22.31
	Indirect associates				
	Subsidiaries of Bank Pocztowy SA (indirect associates of PKO Bank Polski SA)				
5	Centrum Operacyjne Sp. z o. o.	Bydgoszcz	Activities supporting financial services	100.00	-
6	Spółka Dystrybucyjna Banku Pocztowego Sp. z o. o.	Warsaw	Financial intermediary services	100.00	-

[1] In 2010 and 2009 the Company's shares were included in non-current assets held for sale.

Information on changes in the parent's participation in the share capital of the subsidiaries is set out in Note 49 'Changes to the entities of the Group'.

Information on members of the Management and Supervisory Board of PKO Bank Polski SA

As at 31 December 2010, the Bank's Management Board consisted of:

- Zbigniew Jagiełło — President of the Management Board
- Piotr Alicki — Vice-President of the Management Board
- Bartosz Drabikowski — Vice-President of the Management Board
- Krzysztof Dresler — Vice-President of the Management Board
- Jarosław Myjak — Vice-President of the Management Board
- Wojciech Papierak — Vice-President of the Management Board
- Jakub Papierski — Vice-President of the Management Board

During the year ended 31 December 2010, the following changes took place in the composition of the Management Board:

- on 27 January 2010, the Supervisory Board of PKO Bank Polski SA passed a resolution appointing Jakub Papierski as the Vice-President of the Bank's Management Board as of 1 April 2010;
- on 10 March 2010, the Bank's Supervisory Board appointed Jakub Papierski as the Vice-President of the Management Board of the Bank, effective from 22 March 2010, for the joint term of the Board beginning on 20 May 2008. Simultaneously, in accordance with the above resolution, the Bank's Supervisory Board has repealed its resolution of 27 January 2010, pursuant to which Jakub Papierski was to begin acting as a Vice-President of the Bank on 1 April 2010;

(in PLN thousand)

- on 13 April 2010, the Polish Financial Supervision Authority approved unanimously the appointment of Zbigniew Jagiełło as the President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna;
- on 21 July 2010 Mariusz Zarzycki resigned from the post of the Vice-President of the Management Board of PKO Bank Polski SA effective from 31 July 2010;
- on 1 September 2010, the Bank's Supervisory Board appointed Piotr Alicki as the Vice-President of the Bank's Management Board as of 2 November 2010.

As at 31 December 2010, the Bank's Supervisory Board consisted of:

• Cezary Banasiński	Chairman of the Supervisory Board
• Tomasz Zganiacz	Vice-Chairman of the Supervisory Board
• Mirosław Czekaj	Secretary of the Supervisory Board
• Jan Bossak	Member of the Supervisory Board
• Błażej Lepczyński	Member of the Supervisory Board
• Piotr Marczak	Member of the Supervisory Board
• Alojzy Zbigniew Nowak	Member of the Supervisory Board

During the year ended 31 December 2010, the following changes took place in the composition of the Bank's Supervisory Board:

- on 25 June 2010 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA appointed Piotr Marczak to the Supervisory Board of PKO Bank Polski SA. In accordance with the appropriate resolution, Piotr Marczak's appointment was effective from 25 June 2010.
- on 30 September 2010 Ireneusz Fąfara resigned from the post of member of the Supervisory Board of PKO Bank Polski SA.

Approval of financial statements

These consolidated financial statements, reviewed by the Supervisory Board's Audit Committee on 2 March 2011, have been approved for issue by the Management Board on 1 March 2011 and accepted by the Supervisory Board on 2 March 2011.

2. Summary of significant accounting policies including estimates and judgements

2.1. Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) as at 31 December 2010, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, no. 152, item 1223 with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

The European Commission has adopted IAS 39 'Financial Instruments: Recognition and Measurement' except some decisions concerning hedge accounting. Due to the fact that the Bank applies IFRS as adopted by the EU, the Bank has applied the IAS 39.AG99C in the form adopted by the EU, which allows to designate as a hedged item a portion of cash flows from variable rate deposits for which the effective interest rate is lower than the reference interest rate (not including margins). The IAS 39 as issued by the IASB introduces limitations in that respect.

2.2. Going concern

The consolidated financial statements of the PKO Bank Polski SA Group have been prepared on the basis that the Group will continue as a going concern during a period of 12 months from the issue date, i.e. since 7 March 2011.

As at the date of signing these consolidated financial statements, the Management Board is not aware of any facts or circumstances that would indicate a threat to the continuing activity of the Bank or the entities of the PKO Bank Polski SA Group for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the PKO Bank Polski SA Group.

2.3. Basis for preparation of the financial statements

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities at fair value through profit and loss, including derivatives and financial assets available for sale, with the exception of those for which the fair value cannot be reliably estimated. Other financial assets and liabilities (including loans and advances) are measured at amortized cost with an allowance for impairment losses or at cost with an allowance for impairment losses.

Non-current assets are stated at acquisition cost less accumulated depreciation and impairment allowances. The Group measures non-current assets (or groups of the said assets) classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

2.4. Basis of consolidation

2.4.1. Subsidiaries

Subsidiaries are entities (including entities which are not incorporated, such as general partnerships) controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations.

Control is exercised when the parent company holds directly or indirectly more than one-half of the voting rights in a given entity unless in special circumstances it may be proven that such holdings do not lead to exercising control. Control is also exercised when the Bank has one-half or less voting rights in a given entity and when:

1) it has more than one-half of votes on the basis of agreements with other investors,
2) it is capable of managing the entity's financial and operational policy on the basis of the Memorandum of Association or an agreement,
3) it is capable of appointing and removing most of the Management Board or any equivalent management body where the Management Board or equivalent body exercises control over the entity, or
4) it has the majority of votes at the Management Board's or any equivalent management body's meetings where the Management Board or equivalent body exercises control over the entity.

Subsidiaries are fully consolidated from the date on which control was acquired until the day until it ceased.

The 'full' method of consolidation requires the adding up of all full amounts of the individual items of statement of financial position, income statement of the subsidiaries and of the Bank, and making appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated at consolidation. The following items are eliminated in full at consolidation:

1) inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
2) revenue and costs arising from business transactions conducted between the consolidated entities,
3) gains or losses from business transactions conducted between consolidated entities, included in the carrying amount of the assets of the consolidated entities, except for losses indicating impairment,

4) dividends accrued or paid by the subsidiaries to the parent company and to other consolidated entities,
5) inter-company cash flows in the cash flow statement.

The consolidated cash flow statement have been prepared on the basis of the consolidated statement of financial position, consolidated income statement and the additional notes and explanations.

The parent company and consolidated subsidiary reporting periods for the financial statements are co-terminous. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

2.4.2. Acquisition method

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

As at the date of the acquisition, identifiable assets taken over, liabilities taken over and all non-controlling shares in the acquired entity are recognized separately from goodwill.

Identifiable assets and liabilities acquired are initially measured at fair value as at the acquisition date. In each and every business combination, all non-controlling shares in the acquired entity are measured at fair value or on a pro rata basis in respect of the share of the non-controlling shares in the identifiable net assets of the target entity.

Goodwill is recognized as at the acquisition date and measured as the excess of the total of:

1) the consideration provided, measured at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules, and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank over the net amount of the value of identifiable assets and liabilities acquired, measured at fair value as at the acquisition date, determined as at the acquisition date.

If the net value, determined as at the acquisition date, of identifiable assets and liabilities acquired, measured at fair value as at the acquisition date is higher than the total of:

1) the consideration provided, measured at fair value as at the date of the acquisition,
2) value of all non-controlling shares in the acquired entity, measured in accordance with the above rules, and
3) in the event of a business combination performed in stages, at fair value as at the date of acquiring interest in the capital of the acquired entity, which had been previously owned by the Bank,

the difference is recognized directly in the income statement.

2.4.3. Associates and jointly controlled entities

Associates are entities (including entities which are not incorporated, such as general partnerships) on which the Group exerts significant influence but whose financial and operating policies it does not control, which usually accompanies having 20% to 50% of the total number of votes in the decision-making bodies of the entities.

Jointly controlled entities are trade companies or other entities, which are jointly controlled by parent company or a significant investor and other shareholders or partners on the basis of the Articles of Association, company's agreement concluded for a period longer than one year.

Investments in associates and jointly controlled entities are accounted in accordance with the equity method and are initially stated at cost. The Group's investment in associates and jointly controlled entities includes goodwill (net of any potential accumulated impairment write-downs), determined as at the acquisition date.

The Group's share in the results of the associates and jointly controlled entities from the date of purchase has been recorded in the income statement and its share in changes of other comprehensive income from the date of purchase has been recorded in other comprehensive income. The carrying amount of investments is adjusted by the total movements in particular equity items from the date of their purchase. When the Group's share in the losses of an associate or jointly controlled entity becomes equal or higher than the Group's share in the associate or jointly controlled entity, which covers potential unsecured receivables, the Group discontinues recognizing further losses unless it has assumed the obligation or has made payments on behalf of the given associate or jointly controlled entity.

Unrealized gains on transactions between the Group and its associates and jointly controlled entities are eliminated in proportion to the Group's share in the said entities. Unrealized losses are also eliminated unless the transaction proves that the given asset transferred has been impaired.

At each balance date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and jointly controlled entities. If any such indicators exist, the Group estimates the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher. If carrying amount of the asset exceeds its recovery value, the Group recognizes an impairment allowance in the income statement. The projection for the value in use requires making assumptions, i.al. about future cash flows that the Group may receive from dividends or the cash inflows from a potential disposal of the investment, less costs of the disposal. The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain investments.

2.5. Foreign currencies

2.5.1. Functional and presentation currency

Items presented in the financial statements of the individual Group entities, including KREDOBANK SA, UKRPOLINWESTYCJE Sp. z o.o and PKO Finance AB are measured in functional currency i.e. in the currency of the basic economic environment in which the given entity operates. The functional currency of the parent company and other entities included in these financial statements, except for KREDOBANK SA, UKRPOLINWESTYCJE Sp. z o.o., and PKO Finance AB is the Polish zloty. The functional currency of KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o is the Ukrainian hrivna and the functional currency of PKO Finance AB is the Swedish krona.

Consolidated financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Group.

2.5.2. Transactions and balances denominated in foreign currency

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At each balance date items are translated by the Group using the following principles:

1) monetary assets denominated in foreign currency are translated into Polish zloty using a closing rate - the average rate communicated by the National Bank of Poland for a given currency prevailing at the balance date;
2) non-monetary assets valued at historical cost in a foreign currency are translated into Polish zloty using exchange rates prevailing on a day of a particular transaction;
3) non-monetary assets designated at fair value through profit and loss in foreign currency are translated into Polish zloty using exchange rates as at the date of the determination of fair value.

Gains and losses on settlements of these transactions and the carrying amount of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(in PLN thousand)

UAH	2010	2009
Rate prevailing on the last day of the period	0.3722	0.3558
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.3830	0.3897
The highest rate in the period	0.4406	0.4801
The lowest rate in the period	0.3423	0.3222

SEK	2010	2009
Rate prevailing on the last day of the period	0.4415	0.4000
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.4222	0.4095
The highest rate in the period	0.4459	0.4403
The lowest rate in the period	0.3934	0.3675

2.6. Financial assets and liabilities

2.6.1. Classification

Financial assets are classified by the Group into the following categories: financial assets designated at fair value through profit and loss; financial assets available for sale; loans and other receivables; financial assets held to maturity. Financial liabilities are classified as follows: financial liabilities designated at fair value through profit and loss and other financial liabilities. The classification of financial assets and liabilities is determined by the Group on initial recognition.

2.6.1.1. Financial assets and liabilities designated at fair value through profit and loss

A financial asset or financial liability designated at fair value through profit and loss is a financial asset or financial liability that meets either of the following conditions:

1) it is classified as held for trading. Financial assets or financial liabilities are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative is also classified as held for trading except for a derivative that is a designated and effective hedging instrument.
2) upon initial recognition it is classified as designated at fair value through profit and loss. The Group may use this designation only when:
   a) the designated financial asset or liability is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden;
   b) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
   c) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Group.

The Group has a policy of financial assets and liabilities management according to which financial assets and liabilities classified as held for trading and financial assets and liabilities portfolio designated upon initial recognition at fair value through profit and loss are managed separately.

2.6.1.2. Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or which are not:

a) financial assets designated by the Group at fair value through profit and loss upon initial recognition;
b) financial assets held-to-maturity;
c) those that meet the definition of loans and advances.

2.6.1.3. Loans/advances and other receivables

Loans and advances and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

1) those that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group upon initial recognition classifies as designated at fair value through financial result;
2) those that the Group upon initial recognition designates as available for sale;
3) 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.

2.6.1.4. Financial assets held to maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than:

1) those that the Group upon initial recognition designates as valued at fair value through profit and loss;
2) those that the Group designates as available for sale;
3) those that meet the definition of loans and advances.

2.6.1.5. Other financial liabilities

Other financial liabilities are financial are the financial liabilities other than measured at fair value through profit and loss which have the nature of a deposit, or a loan or an advance received.

2.6.2. Accounting for transactions

Financial assets and financial liabilities, including forward transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognized in the books of account under trade date, irrespective of the settlement date provided in the contract.

2.6.3. Derecognition of financial instruments from a statement of financial position

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred by the Group to another entity. The financial asset is transferred when:

1) the contractual rights to receive the cash flows from the financial asset is transferred, or
2) the Group retains the contractual rights to receive cash flows from the financial asset, but assumes a contractual obligation to pay cash flows to an entity outside the Group.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In such cases:

1) if all the risks and rewards of ownership of the financial asset are substantially transferred, then the Group derecognises the financial asset from the statement of financial position,

2) if all the risks and rewards of ownership of the financial asset are substantially retained, then the financial asset continues to be recognised in the statement of financial position,

3) if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained, then a determination is made as to whether control of the financial asset has been retained. If the Group has retained control, it continues to recognise the financial asset in the statement of financial position to the extent of its continuing involvement in the financial asset; if control has not been retained, then the financial asset is derecognized from the statement of financial position.

The Group does not reclassify financial instruments to or from the category of designated at fair value through profit and loss since they are held or issued.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

The Group derecognizes loans when they have been extinguished, when they are expired, or when they are not recoverable. Loans, advances and other amounts due are written off against impairment allowances that were recognized for these accounts. In the case where no allowances were recognized against the account or the amount of the allowance is less than the amount of the loan or other receivable, the loan or receivable is written off after, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognized to date.

2.6.4. Valuation

When a financial asset or liability is initially recognised, it is measured at its fair value plus, in the case of a financial asset or liability not designated at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or the issue of the financial asset or liability.

Subsequent to the initial recognition financial instruments are valued as follows:

2.6.4.1. Assets and liabilities designated at fair value through profit and loss

Assets and liabilities designated at fair value through profit and loss are measured at fair value with the result transferred to the income statement to the item ‘net income from financial instruments at fair value through profit and loss’.

2.6.4.2. Financial assets available for sale

Financial assets available for sale (except for impairment allowances and currency translation differences) are measured at fair value, and gains and losses arising from changes in fair value are recognised in the other comprehensive income until the amount included in the other comprehensive income is reclassified to the income statement when a financial asset is derecognised from a statement of financial position. Interest determined using effective interest rate from financial assets available for sale are presented in the net interest income.

2.6.4.3. Loans, advances and investments held to maturity

They are measured at amortized cost with the use of effective interest rate and an allowance for impairment losses. In the case of loans and advances for which it is not possible to reliably estimate the future cash flows and the effective interest rate, loans advances and investments held to maturity are measured at costs to pay.

2.6.4.4. Other financial liabilities

They are measured at amortized cost. If the time schedule of cash flows from a financial instrument cannot be determined, and thus the effective interest rate cannot be determined fairly, the liability is measured at the amount of consideration due.

Debt instruments issued by the Group are recognized as other financial liabilities and measured at amortized cost.

2.6.4.5. Method of establishing fair value and amortized cost

Fair value of debt and equity financial instruments (at fair value through profit and loss and available for sale), for which there is an active market, is determined with reference to market value (bid price).

Fair value of debt and equity financial instruments (designated at fair value through profit and loss and available for sale), for which there is no active market is determined as follows:

1. equity instruments designated at fair value through profit and loss and available for sale:
   a) price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance date there were significant changes in market conditions which might affect the price,
   b) at valuation performed by a specialized external entity providing services of this kind,
2. debt instruments designated at fair value through profit and loss:
   a) the method based on market prices of securities (the market value method),
   b) the method based on market interest rate quotation (the yield curve method),
   c) the method based on market prices of securities with similar financial characteristics (the reference asset value method),
3. debt instruments available for sale:
   a) the method based on market prices of securities (the market value method),
   b) the method based on market interest rate quotation (the yield curve method), adjusted for a risk margin equal to the margin specified in the issue terms. Material changes in the market interest rates are reflected in the changes in the fair value of such instruments,
   c) the method based on market prices of securities with similar financial characteristics (the reference asset value method),
   d) in the case of securities whose fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model.

If it is not possible to determine fair value, equity instruments are stated at acquisition cost less impairment losses.

Amortized cost is the amount at which the financial instrument was measured at the date of initial recognition, decreased by principal repayments, and increased or decreased by the cumulative amortization of any differences between that initial amount and the amount at maturity, and decreased by any impairment allowances. Amortized cost is determined using the effective interest rate - the rate that discounts the expected future cash flows to the net present value over the period to maturity or the date of next re-pricing, and which is the internal rate of return of the asset/liability for the given period. The calculation of this rate includes payments received/made by the Group which affect financial characteristics of the instrument, with exception of potential future losses related to non-performing loans.

Commissions, fees and transaction costs which constitute an integral part of the effective return on a financial instrument, adjust their carrying amounts and are included in the calculation of the effective interest rate.

2.6.5. Derivative instruments

2.6.5.1. Recognition and measurement

Derivative financial instruments are recognized at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative. The fair value of instruments that are actively traded on the market is their market price. In other cases, fair value is derived with the use of valuation models which use data from an active market. Valuation techniques are based on discounted cash flow models, option models and yield curves.

When the estimated fair value is lower or higher than the fair value as of the preceding balance date (for transactions concluded in the reporting period – initial fair value), the Group includes the difference, respectively, in the net income from financial instruments designated at fair value through profit and loss or in the net foreign exchange gains, in correspondence with 'Derivative financial instruments'.

The result of the ultimate settlement of derivative instrument transactions is reflected in the result from financial instruments designated at fair value through profit and loss or in the foreign exchange gains.

The notional amount of the underlying instruments is presented in off-balance sheet items from the date of the transaction until maturity.

2.6.5.2. Embedded derivative instruments

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract (both of a financial or non-financial nature), with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

An assessment of whether a given contract contains an embedded derivative instrument is made at the date of entering into a contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

Embedded derivative instruments separated from host contracts and recognized separately and accounting records are valued at fair value. Valuation is presented in the statement of financial position under 'Derivative Financial Instruments'. Changes in the valuation at fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments designated at fair value through profit and loss' or 'Net foreign exchange gains'.

Derivative instruments are recognized separately from the host contract, if all of the following conditions are met:

1) the hybrid (combined) instrument is not measured at fair value; changes of fair value are not recognized in the income statement,
2) the economic characteristics and risks of the embedded derivative instrument are not closely related to the economic characteristics and risks of the host contract,
3) a separate instrument with the same characteristics as the embedded derivative would meet the definition of a derivative.

In case of contracts which are not financial instruments and which include an instrument that fulfils the above conditions, profits and losses from embedded derivatives are recorded in the income statement under the 'Net income from financial instruments designated at fair value through profit and loss' or 'Net foreign exchange gains'.

2.6.5.3. Hedge accounting

2.6.5.3.1. Hedge accounting criteria

The Group applies hedge accounting when all the terms and conditions below, specified in IAS 39, have been met:

1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity, and the hedging strategy was officially established. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes in fair value of the hedged item or the cash flows related to the hedged risk,
2) a hedge was expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the specific hedge relationship,
3) in respect of cash flow hedges, the planned hedged transaction must be highly probable and must be exposed to changes in cash flows which may, as a result, have an impact on the income statement,
4) the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

2.6.5.3.2. Discontinuing hedge accounting

The Group discontinues hedge accounting when:

1) a hedge instrument expires, is sold, released or exercised (replacing one hedge instrument with another or extending the validity of a given hedge instrument is not considered to be expiration or release if the replacement or extension of period to maturity is part of the documented hedging strategy adopted by the entity). In such an instance accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is effected,
2) the hedge ceases to meet the hedge accounting criteria. In such an instance accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is effected,
3) the planned transaction is no longer considered probable; therefore, all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the income statement,
4) the Group invalidates a hedge relationship.

2.6.5.3.3. Fair value hedge

As at 31 December 2010 and 2009, the Group did not apply fair value hedge accounting.

2.6.5.3.4. Cash flows hedges

A cash flow hedge is a hedge against the threat of cash flow volatility which can be attributed to a specific type of risk related to a recorded asset or a liability (such as the whole or a portion of future interest payments on variable interest rate debt) or a highly probable planned transaction, and which could affect the income statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognized in the income statement in ‘Net income from financial instruments designated at fair value through profit and loss’.

Amounts transferred directly to other comprehensive income are recognized in the income statement in the same period or periods in which the hedged planned transaction affects the income statement.

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and currency translation differences on the nominal value of the hedging transactions. These are shown in the income statement, in 'Net interest income' and 'Net foreign exchange gains' respectively.

2.6.6. Offsetting of financial instruments

A financial asset or liability may only be offset when the Group has a valid legal title to offset it and the settlement needs to be performed on a net basis, or the asset and liability are realized at the same time.

2.7. Transactions with a commitment to sell or buy back

Sell-buy back, buy-sell back transactions are transactions for the sale or purchase of a security with a commitment to buy or sell back the security at an agreed date and price.

Sell-buy back transactions are recognized at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the contractor.

Buy-sell back securities are recognized under amounts due from banks or loans and advances to customers, depending on the counterparty.

Sell-buy back, buy-sell back are measured at amortised cost, whereas securities which are an element of a sell-buy back transaction are not derecognized in the statement of financial position and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognized as interest expense/income, as appropriate, and it is amortized over the term of the contract using the effective interest rate.

2.8. Impairment of financial assets

2.8.1. Assets measured at amortized cost

At each balance date for credit, loan or finance lease, an assessment is made of whether there is objective evidence that a given financial asset or a group of financial assets is impaired. If such evidence exists, the Group determines the amounts of impairment losses. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

1) significant financial difficulties of the issuer or the debtor,
2) breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
3) granting of a concession by the lender to the issuer or the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider,
4) high probability of bankruptcy or other financial reorganization of the issuer or the debtor,
5) disappearance of an active market for a given financial asset on the active market due to financial difficulties of the issuer or the debtor,
6) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

The Group firstly assesses impairment on an individual basis for significant receivables. If, for a given financial asset assessed individually, there are no objective indications of impairment, the asset is included in a group of financial assets with similar characteristics, which are subsequently assessed for impairment on a collective basis.

Loan and lease receivables are classified by the Group on the basis of the amount of exposure into the individual and group portfolios.

In the individual portfolio, each individual loan or lease exposure is tested for impairment. If the asset is found to be impaired, an allowance is recognized against the amount of the receivable. If there is no objective evidence of impairment for a given exposure, this exposure is included in the portfolio of loans or lease receivables that are assessed on a collective basis.

Within the group portfolio, groups with similar credit risk characteristics are identified, which are then assessed for impairment on a collective basis.

If there is objective evidence for impairment of financial assets classified as loans and receivables, finance lease receivables or investments held to maturity, the amount of the impairment allowance is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted using the original effective interest rate from the date on which the financial asset was found to be impaired.

The calculation of the present value of estimated cash flows relating to financial assets for which there is held collateral takes into account cash flows arising from the realisation of the collateral, less costs to possess and sell.

Future cash flows from a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical data generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude currently non-relevant factors.

In subsequent periods, if the amount of impairment loss is reduced because of an event subsequent to the impairment being recognized (e.g. improvement in debtor's credit rating), the impairment loss that was previously recognized is reversed by making an appropriate adjustment to impairment allowances. The amount of the reversal is recorded in the income statement.

The Group plans that the adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of historic impairment data from the existing information systems and applications. As a consequence, new data obtained by the Group could influence the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts.

2.8.2. Assets available for sale

At each balance date, the Group makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If such evidence exists, the Group determines the amounts of impairment losses.

Objective evidence that a financial asset or group of assets available for sale is impaired includes the following events:

1) significant financial difficulties of the issuer,

2) breach of a contract by the issuer, such as lack of contracted payments of interest or principal or late payments,

3) granting of a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider,

4) deterioration of the borrower's financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganization of the issuer,
6) increase in risk of a certain industry in the period of maintaining a significant exposure, in which the borrower operates, reflected in the industry being qualified as 'elevated risk industry'.

The Group firstly assesses impairment on an individual basis for significant receivables.

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset's carrying amount and the present fair value estimated as value of future cash flows discounted by the market interest rates set on the based on yield curves for Treasury bonds moved by risk margins.

An impairment loss of a financial asset classified as available for sale is recognised in the income statement, which results in the necessity to transfer the effects of accumulated losses from other comprehensive income to the income statement.

In subsequent periods, if the fair value of debt securities increases, and the increase may be objectively related to an event subsequent to the impairment being recognized, the impairment loss is reversed and the amount of the reversal is recorded in the income statement.

Impairment losses recognized against equity instruments are not reversed through profit and loss.

2.9. Leasing

The Group is a party to lease agreements, based on which it conveys in return for payment to use and take profits (the lessor) from tangible and intangible assets during a fixed period (the rights).

The Group is also a party to lease agreements, based on which it receives tangible fixed assets for an agreed period of time (the lessee).

The classification of leases is based on the extent to which risks and rewards incidental to ownership of an asset lie with the lessor or the lessee.

2.9.1. The Group as a lessor

As regards finance lease agreements, the Group, as a lessor, has receivables of the present value of contractual lease payments, increased by a possible unguaranteed residual value assigned to the lessor, fixed at the date of the lease agreement. These receivables are disclosed under 'Loans and advances to customers'. Finance lease payments are apportioned between the finance income and the reduction of balance of receivables in a way that provide fixed interest rate from an outstanding debt.

As regards operating lease agreements, initial direct costs that are incremental and directly attributable to negotiating and arranging a lease, are added to the carrying value of the leased asset during the period fixed in the lease agreement, on the same basis as in the case of contracts for hire. Conditional lease payments constitute income when they are due. Lease payments due from agreements, which do not meet the finance lease criteria (operating lease agreements) constitute income and are recognised on a straight-line basis during the lease term.

2.9.2. The Group as a lessee

Lease payments under an operating lease and subsequent instalments are recognised as an expense in the income statement and are recognized on a straight-line basis over the lease term.

2.10. Tangible fixed assets and intangible assets

2.10.1. Intangible assets

Intangible assets are identifiable non-monetary assets which do not have a physical form.

2.10.1.1. Goodwill

Goodwill arising on acquisition of a business entity is initially recognized at acquisition cost, being the excess of the costs of acquiring control over the share of the acquirer in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is stated at the acquisition cost less any cumulative impairment losses.

Goodwill arising on acquisition of subsidiaries is recognized under 'Intangible assets' and goodwill arising on acquisition of associates and jointly controlled entities is recognized under 'Investments in associates and jointly controlled entities'.

The test for goodwill impairment is carried out at least at the end of each year. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment allowance is recognized.

2.10.1.2. Software

Acquired computer software licenses are capitalized in the amount of costs incurred on the purchase and preparing the software for use, taking into consideration accumulated amortisation and impairment losses.

Further expenditure related to the maintenance of the computer software is recognized in costs when incurred.

2.10.1.3. Other intangible assets

Other intangible assets acquired by the Group are recognized at acquisition or production cost, less accumulated amortization and impairment losses.

2.10.1.4. Development costs

Costs of completed development work are included in intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. there is intends, possibility to complete and use the internally generated intangible asset, has proper technical and financial resources to finish the development and to use the asset and it is able to measure reliably the expenditure attributable to the intangible asset during its development which can be directly associated to the creation of the intangible asset.

2.10.2. Tangible fixed assets

Tangible fixed assets are stated at acquisition cost or cost of production, less accumulated depreciation and impairment losses.

Properties accounted for investment properties are valued according to accounting principles applied to tangible fixed assets.

2.10.3. Capital expenditure accrued

Carrying amount of tangible fixed assets and intangible assets is increased by additional expenditures incurred during their maintenance, when:

1) probability exists that the Group will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible asset (higher than initially assessed, measured at e.g. by useful life, improvement of service quality, maintenance costs),
2) acquisition price or production cost of tangible fixed assets and intangible assets can be reliably estimated.

2.10.4. Amortisation

Depreciation is charged on all non-current assets, whose value decreases due to usage or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation/amortisation method and useful life are reviewed on an annual basis.

Depreciation of tangible fixed assets, investment properties and amortization of intangible assets begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

1) the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
2) the asset is designated for liquidation, or
3) the asset is sold, or
4) the asset is found to be missing, or
5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount.

For non-financial fixed assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and when it is possible to determine the value of the asset on this market.

Amortization periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by the PKO Bank Polski SA Group:

Tangible assets	Periods
Buildings, premises, cooperative rights to premises (including investment properties)	2-60 years
Leaseholds improvements (buildings, premises)	2-60 years (or term of the lease if shorter)
Machinery and equipment	2-15 years
Computer hardware	2-10 years
Means of transport	3-5 years
Intangible assets	**Periods**
Software	2-15 years
Other intangible assets	1-5 years

Costs relating to acquisition or construction of buildings are allocated to significant parts of the building (components), when such components have different useful lives or when each of the components generates benefits for the Group in a different manner. Each component of the building is depreciated separately.

2.10.5. Impairment allowances of non-financial non-current assets

At each balance date, the Group makes an assessment of whether there are any indicators of impairment of any of its non-financial non-current assets (or cash-generating units). If any such indicators exist, the Group makes an assessment of whether there are any indicators of impairment of any of its no estimates the recoverable amount being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash generating unit); if the carrying amount of an asset exceeds its recoverable amount, the Group recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future expected cash flows that the Group makes an assessment of whether there are any indicators of impairment of any of its no may receive from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

If there are indications for impairment for group of assets, which do not generate cash flows irrespective of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the Group determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

Impairment allowances are recognized if the book value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Impairment allowances in respect of cash generating units first and foremost reduce the goodwill relating to those cash generating units (groups of units), and then they reduce proportionally the book value of other assets in the unit (group of units).

Impairment write-downs in respect of goodwill cannot be reversed. In respect of other assets, the write-down may be reversed if there was a change in the estimates used to determine the recoverable amounts. An impairment loss may be reversed only to the level at which the book value of an asset does not exceed the book value – less depreciation – which would be determined should the impairment write-down not have been recorded.

2.11. Other items in the statement of financial position

2.11.1. Non-current assets held for sale and discontinued operations

Fixed assets held for sale include assets whose carrying amount is to be recovered as a result of sale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, when such sale is highly probable, i.e. the entity has determined to sell the asset started to seek actively for a buyer and finish the sale process. In addition, such assets are offered for sale at a price which is reasonable with respect to their current fair value and it is expected that the sale will be recognized as completed within one year from the date of classification of the asset into this category.

Non-current assets held for sale are stated at the lower of their carrying amount or fair value less costs to sell. Impairment allowances for non-current assets held for sale are recognized in the income statement for the period, in which these allowances are made. These assets are not depreciated.

Discontinued operations are an element of the Group's business which has been sold or which is qualified as held for sale, and which also constitutes an important separate area of the operations or its geographical area, or is a subsidiary acquired solely with the intention of resale. Operations may be classified as discontinued only when the operations are sold or when they meet the criteria of operations held for sale, whichever occurs earlier. A group for sale which is to be retired may also qualify as discontinued operations.

In case of fixed assets, for whose qualification criteria for the group of fixed assets held for sale are no longer fulfilled, the Group makes reclassification from fixed assets held for sale to the proper category of assets. Fixed assets withdrawn from assets held for sale are valued at lower of two values:

1) carrying amount before the moment of qualification to assets held for sale, less depreciation, which would have been included if the asset (or group of assets to be sold) would not have been qualified as held for sale,
2) recovery amount for the day of decision of sales abandonment.

2.11.2. Inventories

Inventories related mainly to real estate development activities of the Group are valued at the lower of two values: the purchase price/cost of production and net realizable value.

Expenses incurred in bringing the inventories to their present location and condition are treated as follows: finished goods (housing and service premises) and work in progress (housing and service premises in progress and land held for development) – as direct expenses and part of indirect costs of production. In the case of long-term preparatory or production periods, cost or purchase price is increased by finance charges specifically incurred for such purchases.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The value of inventories disbursement is determined by specific identification of individual purchase prices or production cost of components, which relate to realization of specific projects.

2.11.3. Accruals and deferred income

Accruals and deferred income mainly comprise commission income recognized using the straight-line method and other income received in advance, which will be recognized in the income statement in future reporting periods.

Prepayments and deferred costs include particular kinds of expenses which will be recognized in the income statement in future reporting periods. Prepayments and deferred costs are shown in the statement of financial position under ‘Other assets’.

2.12. Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate before tax which reflects the current market assessments of the time value of money and the potential risk related to a given obligation.

2.13. Restructuring provision

A restructuring provision is set up when general criteria for recognizing provisions are met as well as there are met detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37. Precisely, the constructive obligation of restructurisation and recognising provisions arises only when the Group has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the said parties. A detailed restructuring plan specifies at least activities or part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented. Legal obligation to recognize a restructuring provision results from the Act dated 13 March 2003 on detailed principles of employment termination from reasons independent from employees (Journal of Laws 2003, No 90, item 844 with subsequent amendments). According to the Act, an employer is obliged to discuss an intention of mass redundancies with the company’s trade unions, in particular with regard to the possibilities of avoidance or reduction of the scale of mass redundancies. An employer is also obliged to discuss employees’ issues related to redundancies including, in particular, possibilities of retraining or professional trainings, as well as new job opportunities for dismissed employees.

The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time

1) necessarily result from the restructuring;
2) are not related to the Group's on-going business operations.

The restructuring provision does not cover future operating expenses.

2.14. Employee benefits

According to the Collective Labour Agreement (Zakładowy Układ Zbiorowy), all employees of PKO Bank Polski SA are entitled to anniversary bonuses after completing a specified number of years in service and to retirement bonuses upon retirement. The Group periodically performs an actuarial valuation of provisions for future liabilities to employees.

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed periodically by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement ('Zakładowy Układ Zbiorowy Pracy') being in force at the Group. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all bonuses and retirement benefits expected to be paid in the future. The provision was created on the basis of a list including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated amount to discounted future payments, taking into account staff turnover, and relate to the service period ending on the balance date. Gains or losses resulting from actuarial calculations are recognized in the income statement.

The Group creates provisions for future liabilities arising from unused annual leave (taking into account all outstanding unused holiday days), from damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee, and for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses.

2.15. Borrowing costs

Borrowing costs that may be directly attributable to the acquisition, construction or production of a qualifying asset are capitalized by the Group as part of acquisition or production cost of that asset when it is probable that they will result in future economic benefits and the acquisition or production cost can be measured reliably.

Other borrowing costs are recognized by the Group as an expense in the period in which they are incurred.

2.16. Contingent liabilities and commitments

The Group enters into transactions, which, at the time of their recognition, are not recognized in the statement of financial position as assets or liabilities; however they give rise to contingent liabilities and commitments. A contingent liability or commitment is:

1) a possible obligation that arises from past events and whose existence will be confirmed only at the time of occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group,
2) a present obligation resulting from past events, but not recognized in the statement of financial position, because it is not probable that an outflow of cash or other assets will be required to fulfil the obligation, or the amount of the obligation cannot be estimated reliably.

For contingent liabilities and commitment granted which carry the risk of default by the commissioning party, provisions are recognized in accordance with IAS 37.

Credit lines and guarantees are the most significant items of contingent liabilities and commitment granted.

Upon initial recognition, a financial guarantee is stated at fair value. Following the initial recognition, the financial guarantee is measured at the higher of:

1) the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and
2) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 'Revenue'.

2.17. Shareholders' equity

Equity constitutes capital and reserves created in accordance with the legal regulations applicable in Poland and the Articles of Association. The classification to particular equity components, discussed in items 2.17.1 to 2.17.4 below, results from the Polish Commercial Companies' Code, the Banking Law and the requirements of IAS 1.7, IAS 1.78.e, IAS 1.54.q-r and IAS 1. In accordance with IAS 1, equity also includes unappropriated profits and accumulated losses, currency translation differences on translating foreign operations, the effective portions of cash flow hedges and net gains or losses on the valuation of financial instruments classified as available-for-sale (discussed in items 2.17.5-2.18 below). Equity components of the subsidiaries, other than share capital, in a proportion equal to the interest in the subsidiary held by the parent company, are added to respective equity components of the parent company. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent company.

2.17.1. Share capital

Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with Articles of Association and entry to the Register of Entrepreneurs.

2.17.2. Reserve capital

Reserve capital is created according to the Articles of Association of the Group entities, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses of Group entities.

2.17.3. General banking risk fund

General banking risk fund in PKO Bank Polski SA is created from profit after tax according to 'The Banking Act' dated 29 of August 1997 (Journal of Laws 2002, No. 72, item 665 with subsequent amendments) and it is to cover unidentified risks of the Bank.

2.17.4. Other reserves

Other reserves are created from the appropriation of net profits. It is uniquely to cover the potential losses in the statement of financial position.

2.17.5. Share in other comprehensive income of an associate

The position comprises the share of the parent company in other reserves of associates.

2.17.6. Trading assets

This position comprises the effects of valuation of trading assets less deferred tax resulting from this valuation.

2.17.7. Cash flow hedges

Cash flow hedges comprise an effective part of a cash flow hedging position within hedge accounting including a deferred tax.

2.17.8. Currency translation differences from foreign operations

Capital component – currency translation differences resulting from the translation of the net result of a foreign entity using the rate calculated arithmetic mean of average NBP rates prevailed as at the last day of each month of the statement of financial position period as well as currency translation differences resulting from valuation of net assets in a foreign entity.

2.17.9. Shareholders' equity also includes

1. net result prior to the approval less declared dividends,
2. dividends declared after the reporting period but not paid.

The net profit or loss for the year is the profit before tax reported in the income statement for the current year, adjusted for the corporate income tax expense and profits (losses) attributable to non-controlling interest.

In accordance with the Polish legislation, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of stand-alone financial statements, are distributable. In the case of joint stock companies - the amount to be distributed between shareholders may not exceed the net profit for the prior year plus retained earnings and amounts reclassified from the supplementary capital and other reserves accumulated from profit appropriation which may be distributed as dividend. The resulting amount must be decreased by the amount of accumulated losses, Treasury shares and amounts which should be transferred from the net profit for the last year to supplementary capital or other reserves based on the law or the Memorandum of Association. In the case of limited liability companies - the amount to be distributed between shareholders may not exceed the net profit for the prior year plus retained earnings and amounts reclassified from the distributable portion of supplementary capital and other reserves accumulated from profit appropriation. The resulting amount must be decreased by the amount of accumulated losses, Treasury shares and amounts which should be transferred from the net profit for the last year to supplementary capital or other reserves based on the law or the Memorandum of Association.

2.17.10. Non-controlling interest

Non-controlling interest represent the part of capital in a subsidiary company, which cannot be directly or indirectly assigned to the parent company.

2.18. Determination of a financial result

The Group recognizes all significant expenses and income in accordance with the following policies: accrual basis, matching principle, policies for recognition and valuation of assets and liabilities; policies for recognition of impairment losses.

2.18.1. Interest income and expense

Interest income and expense comprise interest, including premiums and discounts in respect of financial instruments measured at amortized cost and instruments at fair value, with the exception of derivative financial instruments classified as held for trading.

Interest income and interest expenses are recognized on an accrual basis using the effective interest rate method.

Interest income in case of financial assets or group of similar financial assets for which an impairment loss values are calculated from present values of receivables (that is net of impairment loss) by using current interest rate used for discounting future cash flows for the purposes of estimating losses due to impairment.

Interest income/expense in respect of derivative financial instruments classified as held for trading are recognized in 'Net income from financial instruments at fair value through profit and loss' or 'Net foreign exchange gains' (applied to CIRS), with the exception of derivative instruments classified as hedging instruments into hedge accounting, have been presented in interest income.

Interest income also includes fee and commission received and paid, which are part of the effective interest rate of the financial instrument.

2.18.2. Fee and commission income and expense

Fee and commission income is generally recognized on an accrual basis at the time when the related service is performed. Fee and commission income includes one-off amounts charged by the Group for services not related to the internal rate of return on loans, advances and other receivables, as well as amounts charged by the Group for services performed over a period exceeding 3 months, which are recognized on a straight-line basis. Fee and commission income also includes fee and commission recognized on a straight-line basis, received on loans granted with unspecified schedule of cash flows for which cannot determine the effective interest rate.

2.18.3. Dividend income

Dividend income is recognized in the income statement of the Group at the date on which shareholders' rights to receive the dividend have been established.

2.18.4. Net income from financial instruments at fair value through profit and loss

The result on financial instruments at fair value through profit and loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities at fair value through profit and loss as well as the effect of their fair value measurement.

2.18.5. Gains less losses from investment securities

Gains less losses from investment securities include gains and losses arising from disposal of financial instruments classified as available for sale and held to maturity.

2.18.6. Foreign exchange gains

Foreign exchange gains comprise foreign exchange gains and losses, both realized and unrealized, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the NBP average exchange rates at the balance date, and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS and currency options).

The Group recognizes in net foreign exchange gains both realized and unrealized foreign exchange gains and losses on fair value measurement of unrealized currency options. From an economic point of view, the method of presentation of net gains/losses on currency options applied allows the symmetrical recognition of net gains/losses on currency options and on spot and forward transactions concluded to hedge such options (transactions hedging the currency position generated as a result of changes in the market parameters affecting the currency option position).

Monetary assets and liabilities presented by the Group in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into PLN using the average NBP rate prevailing for a given currency as at the balance date. Impairment allowances for loan exposures and other receivables denominated in foreign currencies, which are created in Polish zloty, are updated in line with a change in the valuation of the foreign currency assets for which these impairment allowances are created. Realized and unrealized currency translation differences are recorded in the income statement.

2.18.7. Other operating income and expense

Other operating income and expense includes income and expense not related directly to banking activity. Other operating income mainly includes gains from sale or liquidation of non-current assets and assets possessed in exchange for debts, recovered bad debts, legal damages, fines and penalties, income from lease/rental of properties. Other operating expense mainly includes losses from sale or liquidation of non-current assets, including assets possessed in exchange for debts, costs of debt collection and donations.

Other operating income and expense in relation to the Group's entities include also income from sale of finished goods, goods for resale and raw materials, and the corresponding costs of their production.

Income from construction services (real estate development activities) is recognized on a completed contract basis, which involves recognition of all construction costs that incurred during the period of construction as work-in-progress. Payments received on account of a purchase of apartments are shown within deferred income.

2.19. Income tax

The income tax expense is classified into current and deferred income tax. The current income tax is recognized in the income statement. Deferred income tax, depending on the source of the temporary differences, is recorded in the income statement or in the item 'Other comprehensive income' in the statement of comprehensive income.

2.19.1. Current income tax

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income; taxable income that does not constitute accounting income; non-tax deductible expenses and tax costs which are not accounting costs, in accordance with tax regulations. These items mainly include income and expenses relating to accrued interest receivable and payable, allowances on receivables and provisions for contingent liabilities and commitments.

While calculating corporate income tax, regulations being in force within particular tax jurisdiction with regard to corporate income tax of capital groups are taken into consideration. Simultaneously, the regulations of Decree of the Minister of Finance dated 7 May 2001 on extending the deadlines for paying corporate income tax prepayments for banks granting housing loans (Journal of Laws No. 43, item 482) are taken into consideration. According to the above-mentioned Decree moment of taxation of capitalized interest not paid by the borrower and not subject to temporary redemption by the State budget is deferred to the date of actual repayment or redemption of such interest. Therefore, the Group recognizes the deferred income tax liability on income due to capitalized interest on housing loans, as described in the Decree.

2.19.2. Deferred income tax

The amount of deferred income tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Group recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the statement of financial position method – as a change in deferred income tax assets and liabilities. Deferred tax assets and deferred tax liabilities are presented in the statement of financial position respectively as assets or liabilities. The change in the balance of a deferred tax liability or a deferred tax asset is included in income tax expense, except for the effects of valuation of financial assets recognized in other comprehensive income, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with other comprehensive income. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured using tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

The Group uses the 19% tax rate for entities operating on the territory of Poland, a 21% tax rate for entities operating in Ukraine (corporate tax rate being in force in Ukraine since 1 January 2011) and 26.3% tax rate for entities operating in Sweden.

Deferred tax assets are offset by the Group with deferred tax liabilities only when there exists enforceable legal entitlement to offset current tax receivables with current tax liabilities and deferred tax is related to the same taxpayer and the same tax authority.

2.20. Critical estimates and judgements

While preparing financial statements, the Group makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements.

The estimates and assumptions that are used by the Group in determining the value of its assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances. Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined interchangeably using other sources. In making assessments the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance date. Actual results may differ from estimates.

Estimates and assumptions made by the Group are subject to periodic reviews. Adjustments to estimates are recognized in the periods in which the estimates were adjusted, provided that these adjustments affect only the given period. If the adjustments affect both the period in which the adjustment was made as well as future periods, they are recognized in the period in which the adjustments were made and in the future periods.

The most significant areas in which the Group performs critical estimates are presented below:

2.20.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters.

The adopted methodology used for estimating impairment allowances will be developed in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts. In the case of a +/- 10% change in the present value of estimated cash flows for the Bank's loan portfolio individually determined to be impaired, the estimated impairment allowance would decrease by PLN 181 million or increase by PLN 378 million respectively. This estimate was made for the loan portfolio assessed for impairment on an individual basis, i.e. on the basis of individual analysis of future cash flows arising both from own payments and realisation of the collateral, i.e. the positions for which an individual method is applied.

2.20.2. Valuation of derivatives and non-quoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale not listed on an active market is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in a valuation include any available data derived from observable markets. In the valuation of non-quoted debentures available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change in these assumptions could affect the valuation of the above-mentioned instruments.

The valuation techniques used by the Group for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS quotations). The Group conducted a simulation to assess the potential influence of change of the yield curve on the transaction valuation. Upwards movement of yield curve by 50 bp. would result in decrease of non-option derivative instruments valuation by PLN 34 957 thousand. A similar downwards movement in opposite direction would result in valuation increase by PLN 36 496 thousand (including the instruments covered by hedge accounting: a drop of PLN 42 389 thousand for upward movement of yield curve and increase of PLN 50 490 thousand for downward movement of the curve).

2.20.3. Calculation of provision for retirement and pension benefits and anniversary bonuses

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2010, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted financial discount rate. An increase/decrease in the financial discount rate of 0.5 pp. will contribute to an increase/decrease in the amount of the provision for retirement and pension benefits and jubilee bonuses of approx. PLN 19 million.

2.20.4. Useful economic lives of tangible fixed assets, intangible assets and investment properties

In estimating useful lives of particular types of tangible fixed assets, intangible assets and investment properties, the Group considers following factors:

1) expected physical wear and tear, estimated based on the average period of use recorded to date, reflecting the normal physical wear and tear rate, intensity of use etc.,

2) technical or market obsolescence,
3) legal and other limitations on the use of the asset,
4) expected use of the asset assessed based on the expected production capacity or volume,
5) other factors affecting useful lives of such assets.

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in the contract; if, however, the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied.

If the useful life of assets being subject to depreciation and classified as land and buildings was changed by +/- 10 years, it would influence the financial result as follows: a decrease in depreciation costs in the Bank by PLN 25 million or an increase in depreciation costs by PLN 149 million respectively.

(in PLN thousand)

2.21. Changes in accounting policies

Set out below are the new or revised IFRS and the new interpretation of the International Financial Reporting Interpretations Committee (IFRIC). As at 31 December 2010, the Bank did not opt for early adoption of any of these standards and interpretations.

Amendments to standards and interpretations which have come into force and have been applied by the Bank since 1 January 2010

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of changes
Amendments to IFRS 3 - Business Combinations	January 2008	Effective for business combinations for which the acquisition date is on or after 1 July 2009	Yes	Implemented amendments enable to choose the method of presenting non-controlling shares either at fair value or their share in fair value of the identified net assets, a reassessment of shares to fair value in the acquired entity already possessed, while the difference should be presented through profit and loss. The amendments provide guidelines on how to use the acquisition method including the presentation of transaction costs as the cost of the period when they were incurred.
Amendments to IAS 27 - Consolidated and Separate Financial Statements	January 2008	Financial year starting on or after 1 July 2009	Yes	According to the standard, the entities are obliged to present the net transactions with non-controlling shareholders directly in equity as long as the up-to-now parent company remains dominant towards a given entity. The standard provides detail on the disclosure if the parent company lost control over a subsidiary entity. Precisely, it requires to measure the remaining shares at fair value and to present the difference through profit and loss.
Amendments to IAS 39 - Financial Instruments: Recognition and Measurement - Criteria for Hedge Accounting	July 2008	Financial year starting on or after 1 July 2009	Yes	The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item for a financial instrument should be applied in particular situations. The amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge. Amendments do not permit also to include the time value of a one-sided risk when options are designated as a hedging instrument.

(in PLN thousand)

Amendments to IFRS 2 Share-based Payment	June 2009	Financial year starting on or after 1 January 2010	Yes	Amendments precise the recognition of share-based cash-settled payment within the Group. Amendments precise the scope of IFRS 2 and regulate the joint usage of IFRS 2 and other standards. The amendments incorporate into IFRS 2 the subjects regulated earlier in IFRIC 8 and IFRIC 11.
Amendments to IFRS 1 - First-time Adoption of IFRS	July 2009	Financial year starting on or after 1 January 2010	Yes	Amendments introduce additional exemptions for first-time adopters related to assets valuation for petrol and gas entities.
IFRIC 12 - Service Concession Arrangements	November 2006	Financial year starting on or after 1 January 2010	Yes	This interpretation includes guidance on implementation of existing standards by operators for public-to-private service concession arrangements. IFRIC 12 applies to the arrangements, where the grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price.
IFRIC 15 - Agreements for the Construction of Real Estate	July 2008	Financial year starting on or after 1 January 2010	Yes	This interpretation contains general guidelines on how to assess agreements for the construction of real estate in order to decide whether its results should be presented in the financial statements in accordance with IAS 11 'Construction contracts' or with IAS 18 'Revenue'. In addition, IFRIC 15 indicates at what time revenue associated with construction services should be recognized.
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	July 2008	Financial year starting on or after 1 July 2009	Yes	The interpretation provides general guidance on whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent company, and the presentation currency of the parent company's consolidated financial statements. Moreover, IFRIC 16 explains which entity in the Group is allowed to disclose a hedging instrument within hedges of a net investment in a foreign operation. In particular, it explains if the parent company holding a net investment in a foreign operation is obliged to hold also a hedging instrument. The interpretation also clarifies how the gain or loss reclassified from equity to profit and loss, both for a hedged and a hedging instrument is calculated on disposal of the hedged foreign operation.
IFRIC 17 - Distributions of Non-cash Assets to Owners	November 2008	Financial year starting on or after 1 November 2009	Yes	The interpretation provides guidance on when a dividend payable should be recognized, how an entity should measure the dividend payable and how it should recognize the difference between the dividend paid and the carrying amount of the net assets distributed.

(in PLN thousand)

IFRIC 18 Transfers of Assets from Customers	January 2009	Financial year starting on or after 1 November 2009	Yes	The interpretation provides guidance on transfers of assets from customers, namely the circumstances in which the definition of an asset is met, the identification of the separately identifiable services (services in exchange for the transferred asset), the recognition of revenue and the accounting for transfers of cash from customers.
Amendments to IFRS 2009 (amendments to 12 standards)	April 2009	Financial year starting on or after 1 January 2010	Yes	The amendments comprise changes related to the presentation, disclosure and valuation. They also include terminology and editing changes.

New standards and interpretations and amendments to existing standards and interpretations, which have been published, but are not yet effective nor applied by the Bank

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and amendments to existing standards, which are not yet effective:

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IAS 32 - Classification of rights issues	October 2009	Financial year starting on or after 1 February 2010	Yes	Amendments relate to rights issue accounting (rights issue, options, warrants) denominated in the currency different from the functional currency of the issuer. According to the amendments, if some conditions are met, it is required to disclose rights issue as equity regardless of the currency that the settlement price is set at.
Amendments to IFRS 1 - First-time Adoption of IFRS	January 2010	Financial year starting on or after 1 July 2010	Yes	Amendments introduce additional exemptions for first-time adopters regarding disclosures required by amendments to IFRS 7 issued in March 2009 regarding fair value valuation and liquidity risk.
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	November 2009	Financial year starting on or after 1 July 2010	Yes	This IFRIC clarifies the accounting principles when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. This IFRIC requires the equity instrument to be measured at fair value and a gain or loss to be recognized in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

(in PLN thousand)

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IFRS 2010 (amendments to 7 standards)	May 2010	Majority of changes will be in force in financial year starting on or after 1 January 2011	No	The amendments comprise changes related to the presentation, disclosure and valuation. They also include terminology and editing changes.
Amendments to IFRIC 14 - Prepayments of a Minimum Funding Requirement	November 2009	Financial year starting on or after 1 January 2011	Yes	This interpretation provides guidelines on how to disclose earlier prepayments of a minimum funding requirement as an asset of a paying entity.
Amendments to IAS 24 - Related Party Disclosure	November 2009	Financial year starting on or after 1 January 2011	Yes	Amendments introduce simplifications within requirements that refer to the disclosure of information by the entities related to state institutions and precise the definition of the related party.
Amendments to IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	December 2010	Financial year starting on or after 1 July 2011	No	The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities.
Amendments to IFRS 7 - Transfers of Financial Assets	October 2010	Financial year starting on or after 1 July 2011	No	Amendments require additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, an additional disclosure is required to enable the effects of those risks to be understood.

(in PLN thousand)

Standard/ interpretation	**Introduction date**	**Application date**	**Approved by the European Union**	**Description of potential changes**
Amendments to IAS 12 - Recovery of Underlying Assets	December 2010	Financial year starting on or after 1 January 2012	No	The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model in IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets which addresses similar issues involving non-depreciable assets was incorporated into IAS 12 after excluding guidance regarding investment property measured at fair value.
IFRS 9, Financial Instruments Part 1: Classification and Measurement	November 2009; amended in October 2010 to address the classification and measurement of financial liabilities	Financial year starting on or after 1 January 2013	No	Key features of the standard are as follows: financial assets are required to be classified into two measurement categories: those to be measured at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant effect on the accounting policies applied by the Bank with the exception of IFRS 7 and IFRS 9 (an influence of IFRS 7 and IFRS 9 on accounting principles applied by the Bank have not been assessed yet). The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

3. Information on the segments of activities

The PKO Bank Polski SA Group's reporting scheme is primarily based on the criteria of groups of clients – recipients of products and services offered by the parent company and other entities of the PKO Bank Polski SA Group. Each operating business segment comprises activities of providing products and services that are characterized by similar risk and income – different from other business segments. The segment report below is recognized in an internal reporting system, i.e. the way of presenting data to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources.

The segment report below presents an internal structure of the PKO Bank Polski SA Group. At present, the PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment segment:

1. The retail segment comprises transactions of the parent company with retail clients, small and medium-sized enterprises and mortgage market clients, as well as activities of the following subsidiaries: KREDOBANK SA, PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA Group, Centrum Elektronicznych Usług Płatniczych eService SA, PKO BP Inwestycje Sp. z o.o. Group and Fort Mokotów Inwestycje Sp. z o.o.
   This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium-sized enterprises and housing market customers.

2. The corporate segment includes transactions of the parent company with large corporate clients, as well as activities of the Bankowy Fundusz Leasingowy SA Group and the Bankowe Towarzystwo Kapitałowe SA Group.
   This segment comprises, among others, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy back and buy sell back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects.

3. The investment segment comprises the Bank's portfolio activity on its own account, i.a. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions and activities of PKO Finance AB and Centrum Finansowe Puławska Sp. z .o.o. (own activities). In the net result of the segment, the net result of internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting is presented. Internal funds transfer is based on transfer pricing dependant on interest rates. The transactions between business segments are conducted on arm's length. Long-term external financing includes the issuance of bonds, subordinated liabilities and funds under the EMTN programme issuance as well as amounts due to financial institutions.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted on arm's length.

Accounting policies applied in the segmentation report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by operating activities segment. Values of assets, liabilities, income and expenses of a particular segment are based on internal management information. To particular segments there are assigned assets and liabilities as well as income and costs related to the assets and liabilities.

The current income tax expense was presented only on the Group level.

The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the 12-month period ending 31 December 2010 and 31 December 2009 and of selected assets and liabilities as at 31 December 2010 and as at 31 December 2009.

(in PLN thousand)

For the period from 1 January to 31 December 2010	Continuing activity				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	**5 170 877**	**637 047**	**280 911**	**427 331**	**6 516 166**
Net fee and commission income	**2 738 897**	**287 478**	**116 454**	**-**	**3 142 829**
Other net income	**241 202**	**76 058**	**219 850**	**1 446**	**538 556**
Net result from financial operations	(3 713)	(293)	75 266	(60 781)	**10 479**
Net foreign exchange gains	93 444	58 328	132 763	62 227	**346 762**
Dividend income	-	-	5 663	-	**5 663**
Net other operating income and expense	125 447	44 047	6 158	-	**175 652**
Income/expenses relating to internal customers	26 024	(26 024)	-	-	**-**
Net impairment allowance	**(1 496 373)**	**(328 488)**	**(43 503)**	**-**	**(1 868 364)**
Administrative expenses, of which:	**(3 851 749)**	**(285 920)**	**(111 467)**	**-**	**(4 249 136)**
Amortisation and depreciation	(459 838)	(33 444)	(19 037)	-	**(512 319)**
Share in gains or losses of associates and jointly controlled entities	-	-	-	-	**(815)**
Segment gross profit	**2 802 854**	**386 175**	**462 245**	**428 777**	**4 079 236**
Income tax expense (tax burden)	**-**	**-**	**-**	**-**	**(866 430)**
Profit/loss attributable to non-controlling shareholders	**-**	**-**	**-**	**-**	**(4 077)**
Net profit attributable to the parent company	**2 802 854**	**386 175**	**462 245**	**428 777**	**3 216 883**

As at 31 December 2010	Continuing activity				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets, of which:	112 010 210	34 963 122	22 687 169	-	**169 660 501**
Investments in associates and joint ventures	-	-	172 931	-	**172 931**
Liabilities	109 307 500	27 721 094	11 272 339	-	**148 300 933**

For the period from 1 January to 31 December 2009	Continuing activity*				
			Investment segment		
	Retail segment	Corporate segment	Own activities	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	**5 112 462**	**585 102**	**266 408**	**(912 790)**	**5 051 182**
Net fee and commission income	**2 264 928**	**223 068**	**95 007**	**-**	**2 583 003**
Other net income	**315 013**	**88 558**	**229 584**	**600 498**	**1 233 653**
Result from financial operations	(3 537)	4 412	58 306	(931)	**58 250**
Net foreign exchange gains	109 608	63 136	134 966	601 429	**909 139**
Dividend income	-	-	5 381	-	**5 381**
Net other operating income/expense	182 942	47 010	30 931	-	**260 883**
Income/expenses relating to internal customers	26 000	(26 000)	-	-	**-**
Net impairment allowance	**(1 281 366)**	**(393 528)**	**(6 181)**	**-**	**(1 681 075)**
Administrative expenses, of which:	**(3 865 716)**	**(276 113)**	**(102 006)**	**-**	**(4 243 835)**
Amortization and depreciation	(421 086)	(29 708)	(18 358)	-	**(469 152)**
Share in gains or losses of associates and jointly controlled entities	-	-	-	-	**342**
Segment gross profit	**2 545 321**	**227 087**	**482 812**	**(312 292)**	**2 943 270**
Income tax expense (tax burden)	**-**	**-**	**-**	**-**	**(631 486)**
Profit/loss attributable to non-controlling shareholders	**-**	**-**	**-**	**-**	**6 246**
Net profit attributable to the parent company	**2 545 321**	**227 087**	**482 812**	**(312 292)**	**2 305 538**

** due to presentation changes in the segments result, data for 2009 have been brought to comparability.*

(in PLN thousand)

As at 31 December 2009	Continuing activity*				Total activity of the PKO Bank Polski SA Group
	Retail segment	Corporate segment	Investment segment		
			Own activities	Transfer centre	
Assets, of which:	96 506 139	36 426 480	23 546 066	-	**156 478 685**
Investments in associates and joint ventures	-	-	228 692	-	**228 692**
Liabilities	100 543 468	28 402 191	7 097 156	-	**136 042 815**

***** *due to presentation changes in the segments result, data for 2009 have been brought to comparability.*

Geographical segments

Additionally, PKO Bank Polski SA Group applies information on segments by geographical areas. The PKO Bank Polski SA Group activity is also conducted in Ukraine – through KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o.

For the period from 1 January to 31 December 2010	Continuing activity		
	Poland	Ukraine	Total
Net interest income	6 446 248	69 918	**6 516 166**
Net fee and commission income	3 102 281	40 548	**3 142 829**
Other net income	539 835	(1 279)	**538 556**
Administrative expenses	(4 135 277)	(113 859)	**(4 249 136)**
Net impairment allowance	(1 858 988)	(9 376)	**(1 868 364)**
Share in profit/loss of associates and jointly controlled entities	-	-	**(815)**
Segment gross profit	**4 094 099**	**(14 048)**	**4 079 236**
Income tax expense (tax burden)	-	-	**(866 430)**
Profit (loss) attributable to non-controlling shareholders	-	-	**(4 077)**
Net profit (loss)	**4 094 099**	**(14 048)**	**3 216 883**
Assets of the segment, of which:	168 030 912	1 629 589	**169 660 501**
non-current assets**	4 768 563	191 982	**4 960 545**
Liabilities of the segment	147 264 946	1 035 987	**148 300 933**

For the period ended 31 December 2009	Continuing activity		
	Poland	Ukraine	Total
Net interest income	4 912 173	139 009	**5 051 182**
Net fee and commission income	2 541 950	41 053	**2 583 003**
Other net income	1 230 168	3 485	**1 233 653**
Administrative expenses	(4 115 772)	(128 063)	**(4 243 835)**
Net impairment allowance	(1 405 754)	(275 321)	**(1 681 075)**
Share in profit/loss of associates and jointly controlled entities	-	-	**342**
Segment gross profit	**3 162 765**	**(219 837)**	**2 943 270**
Income tax expense (tax burden)	-	-	**(631 486)**
Profit (loss) attributable to non-controlling shareholders	-	-	**6 246**
Net profit/loss attributable to the parent company	**3 162 765**	**(219 837)**	**2 305 538**
Assets of the segment, of which:	154 555 349	1 923 336	**156 478 685**
non-current assets**	4 538 397	215 092	**4 753 489**
Liabilities of the segment	134 726 841	1 315 974	**136 042 815**

**Non-current assets other than financial instruments, deferred income tax asset.

(in PLN thousand)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

4. Interest income and expense

Interest and similar income

	2010	2009
Income from loans and advances to customers [1)]	8 532 201	7 562 344
Income from derivative hedging securities	649 116	403 899
Income from securities at fair value through profit and loss	494 702	403 112
Income from investment securities, of which:[1)]	457 958	393 530
securities available for sale	457 802	393 278
securities held to maturity	156	252
Income from placements with other banks[1)]	148 494	159 262
Income from trading securities	128 940	97 207
Other[1)]	3 904	11 976
Total	**10 415 315**	**9 031 330**

In the 'Income from derivative hedging instruments' section, the Group presents interest income from derivative instruments designated for hedge accounting that are effective hedging instruments in respect to cash flow hedge. Details of hedging relationships applied by the Bank are included in Note 21: 'Derivative hedging instruments'.

In connection with IT systems development implemented throughout 2010, the Bank has obtained, as at 31 December 2010, information about the amount of interest income from loans for which objective evidence of impairment has been identified and amounted to PLN 420 780 thousand, of which interest income from impaired loans amounted to PLN 320 718 thousand. This income has been included in the position 'Income from loans and advances to customers'.

The values above include the amount of PLN 65 595 thousand recognised in 2010 in correspondence with 'Net impairment allowance and write-downs', resulting from additional data obtained from available applications and IT systems.

Interest expense and similar charges

	2010	2009
Interest expense on customers[2)]	(3 715 721)	(3 785 790)
Interest expense on debt securities in issue[2)]	(123 382)	(119 319)
Interest expense on deposits from other banks[2)]	(30 276)	(47 470)
Other	(29 770)	(27 569)
Total	**(3 899 149)**	**(3 980 148)**

In the year ended 31 December 2010 the total amount of interest and similar income, calculated using the effective interest rate method and arising from financial assets not valued at fair value through profit and loss, amounted[*)] to PLN 9 142 557 thousand (in the year ended 31 December 2009: PLN 8 127 112 thousand).

In the year ended 31 December 2010, interest expense, calculated using the effective interest rate method and arising from financial liabilities which are not valued at fair value through profit and loss, amounted[**)] to PLN (3 872 932) thousand. In the year ended 31 December 2009, interest expense amounted to PLN (3 962 098) thousand.

[*)] the total amount of the items marked with [1)]
[**)] the total amount of the items marked with [2)], increased by the premium of debt securities available for sale, presented in 'Other', amounted to PLN (3 553) thousand as at 31 December 2010 and PLN (9 519) thousand as at 31 December 2009.

(in PLN thousand)

Net gains and losses from financial assets and liabilities measured at amortised cost

	2010	2009
Net gains and losses from financial assets and liabilities measured at amortized cost	**7 462 566**	**6 506 185**
Interest income from loans and advances to customers	8 532 201	7 562 344
Fee and commission income from loans and advances to customers	528 824	367 955
Interest income from placements with other banks	148 494	159 262
Net impairment allowance on loans and advances to customers and amounts due from banks measured at amortized cost	(1 728 268)	(1 554 276)
Net impairment allowance on finance lease receivables	(18 685)	(29 100)
Losses from financial liabilities measured at amortized cost	**(3 869 379)**	**(3 952 579)**
Interest expense on amounts due to customers	(3 715 721)	(3 785 790)
Interest expense on debt securities in issue	(123 382)	(119 319)
Interest expense on amounts due to other banks	(30 276)	(47 470)
Net result	**3 593 187**	**2 553 606**

5. Fee and commission income and expense

Fee and commission income

	2010	2009
Income from financial assets, which are not valued at fair value through profit and loss, of which:	**528 824**	**367 955**
Income from loans and advances	528 824	367 955
Other fee and commissions	**3 350 380**	**2 965 738**
Income from payment cards	963 434	932 319
Income from maintenance of bank accounts	922 632	895 974
Income from loan insurance	653 501	327 312
Income from maintenance of investment funds and pension funds (including management income)	338 144	310 366
Income from cash transactions	177 684	189 221
Income from securities transactions	73 261	53 300
Income from foreign mass transactions servicing	44 754	41 524
Income from sale and distribution of court fee stamps	26 255	27 842
Other*	150 715	187 880
Income from fiduciary services	**1 659**	**1 654**
Total	**3 880 863**	**3 335 347**

* Included in 'Other' are commissions received for servicing bond sale transactions, commissions of Dom Maklerski (the Brokerage House) for servicing Initial Public Offering issue and commissions for servicing loans granted by the State budget.

(in PLN thousand)

Fee and commission expense

	2010	2009
Expenses on payment cards	(293 247)	(334 400)
Expenses on loan insurance	(150 842)	(92 937)
Expenses on acquisition services	(144 252)	(152 428)
Expenses on settlement services	(21 751)	(20 401)
Expenses on asset management fees	(21 672)	(58 266)
Expenses on fee and commissions for operating services granted by other banks	(10 137)	(6 734)
Other*	(96 133)	(87 178)
Total	**(738 034)**	**(752 344)**

* Included in 'Other' are: fee and expenses paid by Dom Maklerski (Brokerage House) to Warsaw Stock Exchange (GPW) and the National Depository for Securities (KDPW) and fee and commissions paid due to settlement and clearing services.

6. Dividend income

	2010	2009
Dividend income from the issuers of:		
Securities classified as available for sale	5 411	5 351
Securities classified as held for trading	252	30
Total	**5 663**	**5 381**

7. Net income from financial instruments at fair value through profit and loss

	2010	2009
Derivative instruments[1)]	(104 809)	33 380
Debt securities	40 786	24 193
Equity instruments	1 427	1 946
Other[1)]	19	1 353
Total	**(62 577)**	**60 872**

In the net income from financial instruments at fair value, position 'Derivative instruments', in financial year ended 31 December 2010, an ineffective portion related to cash flow hedges was recognized and it amounted to PLN (82 879) thousand (in financial year ended 31 December 2009, an ineffective portion related to cash flow hedges was recognized and it amounted to PLN (435) thousand).

2010	Gains	Losses	Net result
Trading assets	8 472 769	(8 567 689)	(94 920)
Financial assets designated upon initial recognition at fair value through profit and loss	54 192	(21 849)	32 343
Total	**8 526 961**	**(8 589 538)**	**(62 577)**

2009	Gains	Losses	Net result
Trading assets	11 951 118	(11 902 515)	48 603
Financial assets designated upon initial recognition at fair value through profit and loss	78 394	(66 125)	12 269
Total	**12 029 512**	**(11 968 640)**	**60 872**

The total change in fair values of financial instruments designated at fair value through profit and loss determined with use of valuation models (where no quotations from active market were available) in the year ended 31 December 2010 amounted to PLN (104 790)* thousand (in the year ended 31 December 2009: PLN 34 733 thousand).

* The total amount of the items marked with [1)]

(in PLN thousand)

8. Net gains/(losses) on investment securities

	2010	2009
Gains/losses recognized directly in other comprehensive income	(89 215)	25 302
Total result recognized directly in other comprehensive income	**(89 215)**	**25 302**
Gains derecognized from other comprehensive income	75 530	10 836
Losses derecognized from other comprehensive income	(2 474)	(13 458)
Total result derecognised from other comprehensive income	**73 056**	**(2 622)**
Total	**(16 159)**	**22 680**

9. Net foreign exchange gains

	2010	2009
Currency translation differences from financial instruments designated at fair value through profit and loss	(1 026 841)	2 712 617
Currency translation differences from foreign operations	1 373 603	(1 803 478)
Total	**346 762**	**909 139**

10. Other operating income and expense

	2010	2009
Other operating income		
Net income from sale of goods, commodities and materials	323 919	326 105
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	51 255	67 224
Damages, penalties and fines received	23 443	32 390
Sundry income	20 730	21 614
Recovery of expired and written-off receivables	4 977	20 084
Sale of shares in jointly controlled entities and associates	1 426	512
Other	43 638	117 020
Total	**469 388**	**584 949**

	2010	2009
Other operating expenses		
Costs of sale of goods, commodities and materials	(200 536)	(179 385)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(48 107)	(60 268)
Sundry expenses of the Bank	(4 378)	(5 004)
Donations	(4 296)	(3 648)
Other	(36 419)	(75 761)
Total	**(293 736)**	**(324 066)**

(in PLN thousand)

11. Net impairment allowance and write-downs

For the year ended 31 December 2010	Impairment allowances at the beginning of the period	Increases			Decreases				Impairment allowances at the end of the period	Net impairment allowance – impact on the income statement
		Impairment allowances recognised during the period	Currency translation differences	Other	Decrease in impairment allowances due to derecognition of assets	Impairment allowances reversed during the period	Currency translation differences	Other		
Investment securities available for sale	**21 572**	**8 156**	**216**	**-**	**1 060**	**6 837**	**-**	**138**	**21 909**	(1 319)
measured at fair value through equity (not listed on stock exchange)	19 155	8 063	216	-	-	6 037	-	138	**21 259**	(2 026)
financial instruments measured at purchase cost (unquoted equity instruments and related derivative instruments)	2 417	93	-	-	1 060	800	-	-	**650**	707
Loans and advances to customers and amounts due from other banks measured at amortised cost	**3 964 233**	**4 360 655**	**16 728**	**27 720**	**870 039**	**2 613 702**	**-**	**-**	**4 885 595**	**(1 746 953)**
Non-financial sector	3 824 558	4 196 059	16 688	26 642	861 275	2 475 979	-	-	4 726 693	(1 720 080)
consumer loans	1 362 621	1 728 793	2 149	3 217	668 058	915 005	-	-	1 513 717	(813 788)
mortgage loans	734 760	797 121	3 799	20 377	44 286	528 460	-	-	983 311	(268 661)
corporate loans	1 727 177	1 670 145	10 740	3 048	148 931	1 032 514	-	-	2 229 665	(637 631)
Financial sector	46 357	19 730	40	1 078	8 162	3 180	-	-	55 863	(16 550)
amounts due from banks	27 109	896	-	1 078	-	158	-	-	28 925	(738)
corporate loans	19 248	18 834	40	-	8 162	3 022	-	-	26 938	(15 812)
Budget sector	21 496	15 059	-	-	-	23 421	-	-	13 134	8 362
corporate loans	21 496	15 059	-	-	-	23 421	-	-	13 134	8 362
Finance lease receivables	71 822	129 807	-	-	602	111 122	-	-	89 905	(18 685)
Tangible fixed assets	**1 856**	**29 418**	**-**	**-**	**9**	**628**	**-**	**12 203**	**18 434**	**(28 790)**
Intangible assets	**95 135**	**37 837**	**-**	**-**	**-**	**-**	**-**	**-**	**132 972**	**(37 837)**
Investments in entities measured using equity method	**5 028**	**55 171**	**-**	**-**	**-**	**61**	**-**	**-**	**60 138**	**(55 110)**
Non-current assets held for sale	**1 680**	**1 281**		-	-	-	-	-	**2 961**	**(1 281)**
Other, of which:	**359 043**	**230 182**	**379**	**27**	**42 068**	**233 108**	**-**	**241**	**314 214**	**2 926**
Provisions for off-balance sheet liabilities and legal claims	119 849	141 014	69	-	987	170 101	-	45	89 799	29 087
Total	**4 448 547**	**4 722 700**	**17 323**	**27 747**	**913 176**	**2 854 336**	**-**	**12 582**	**5 436 223**	**(1 868 364)**

(in PLN thousand)

For the year ended 31 December 2009	Impairment allowances recognised at the beginning of the period	Increases			Decreases				Impairment allowances at the end of the period	Net impairment allowance – impact on the income statement
		Impairment allowances during the period	Currency translation differences	Other	Decrease in impairment allowances due to derecognition of assets	Impairment allowances reversed during the period	Currency translation differences	Other		
Investment securities available for sale, including:	**25 691**	**14 240**	**-**	**28**	**7 025**	**10 948**	**414**	**-**	**21 572**	**(3 292)**
measured at fair value through equity (not listed on stock exchange)	19 932	14 240	-	3	3 658	10 948	414	-	19 155	(3 292)
financial instruments measured at purchase cost (unquoted equity instruments and related derivative instruments)	5 759	-	-	25	3 367	-	-	-	2 417	-
Loans and advances to customers and amounts due from other banks measured at amortised cost	**2 945 987**	**3 896 001**	**-**	**-**	**534 587**	**2 312 625**	**27 459**	**3 084**	**3 964 233**	**(1 583 376)**
Non-financial sector	2 792 220	3 809 446	-	-	502 810	2 246 973	27 233	92	3 824 558	(1 562 473)
consumer loans	715 653	1 399 530	-	-	169 786	580 486	2 290	-	1 362 621	(819 044)
mortgage loans	535 713	590 322	-	-	45 604	339 769	5 902	-	734 760	(250 553)
corporate loans	1 540 854	1 819 594	-	-	287 420	1 326 718	19 041	92	1 727 177	(492 876)
Financial sector	85 636	24 101	-	-	31 776	30 324	226	1 054	46 357	6 223
amounts due from banks	28 111	52	-	-	-	-	-	1 054	27 109	(52)
corporate loans	57 525	24 049	-	-	31 776	30 324	226	-	19 248	6 275
Budget sector	23 471	2 103	-	-	1	4 077	-	-	21 496	1 974
corporate loans	23 471	2 103	-	-	1	4 077	-	-	21 496	1 974
Finance lease receivables	44 660	60 351	-	-	-	31 251	-	1 938	71 822	(29 100)
Tangible fixed assets	**2 035**	**654**	**-**	**50**	**-**	**815**	**-**	**68**	**1 856**	**161**
Intangible assets	**91 733**	**3 402**	**-**	**-**	**-**	**-**	**-**	**-**	**95 135**	**(3 402)**
Investments in entities measured using equity method	**4 360**	**3 876**	**-**	**-**	**-**	**-**	**-**	**3 208**	**5 028**	**(3 876)**
Non-current assets held for sale	-	**1 680**	-	-	-	-	-	-	**1 680**	**(1 680)**
Other, of which:	**219 549**	**227 691**	**-**	**79 147**	**13 939**	**142 081**	**412**	**10 912**	**359 043**	**(85 610)**
Provisions for off-balance sheet liabilities and legal claims	87 602	172 594	-	-	3 330	135 949	504	564	119 849	(36 645)
Total	**3 289 355**	**4 147 544**	**-**	**79 225**	**555 551**	**2 466 469**	**28 285**	**17 272**	**4 448 547**	**(1 681 075)**

(in PLN thousand)

Impairment allowances on loans and advances to customers and amounts due from banks measured at amortised cost recognised in the amount of PLN (1 746 953) thousand include interest income due to loans and advances to customers in the amount of PLN (65 595) thousand recognized in the year ended 31 December 2010 in correspondence with 'Income from loans and advances to customers', resulting from additional data obtained from available applications and IT systems.

12. Administrative expenses

	2010	2009
Staff costs	(2 374 901)	(2 307 514)
Overheads	(1 237 892)	(1 351 208)
Depreciation and amortisation expense	(512 319)	(469 152)
Taxes and other charges	(70 640)	(66 338)
Contribution and payments to Banking Guarantee Fund	(53 384)	(49 623)
Total	**(4 249 136)**	**(4 243 835)**

Wages and salaries / Employee benefits

	2010	2009
Wages and salaries, of which:	(2 011 724)	(1 943 269)
actuarial provision for anniversary bonuses and retirement benefits	(43 497)	(3 109)
Social Security, of which:	(299 985)	(301 263)
contributions to retirement pay and pensions*	(239 819)	(241 784)
Other employee benefits	(63 192)	(62 982)
Total	**(2 374 901)**	**(2 307 514)**

* Total expense incurred by the Group related to contributions for retirement pay and pensions.

Operating lease agreements

Operating lease – lessee

Lease agreements, under which the lessor retains substantially the risk and rewards incidental to the ownership of an asset, are classified as operating lease agreements. Lease payments under operating leases are recognized as expenses in the income statement, on a straight-line basis over the lease term.

Rental and tenancy agreements concluded by the Group in the course of its normal operating activities meet the criteria of operating leases. All agreements are concluded at arm's length.

The table below presents data on operating lease agreements concluded by the Group entities:

Total value of future lease payments under non-cancellable operating lease	**31.12.2010**	**31.12.2009**
For the period:		
up to 1 year	92 788	93 898
from 1 year to 5 years	153 089	158 879
above 5 years	51 125	50 829
Total	**297 002**	**303 606**

Lease and sub-lease payments recognized as an expense in the period from 1 January 2010 to 31 December 2010 amounted to PLN 104 895 thousand (in the period from 1 January 2009 to 31 December 2009: PLN 104 367 thousand).

(in PLN thousand)

13. Share of profit (loss) of associates and jointly controlled entities

Entity	2010	2009
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(1 883)	248
Centrum Haffnera Sp. z o.o. Group	(6 077)	(7 690)
Associates		
Bank Pocztowy SA	7 153	2 597
Kolej Gondolowa Jaworzyna Krynicka SA	-	1 680
Agencja Inwestycyjna 'CORP' SA	53	94
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	(61)	3 413
Total	**(815)**	**342**

Additional information on jointly controlled entities and associates is presented in Note 1 'General Information' and Note 49 'Changes to the entities of the Group'.

14. Income tax expense

	2010	2009
Consolidated income statement		
Current income tax expense	(1 064 174)	(817 478)
Deferred income tax related to temporary differences	197 744	185 992
Tax expense in the consolidated income statement	**(866 430)**	**(631 486)**
Tax expense in other comprehensive income related to temporary differences	(20 390)	(21 690)
Total	**(886 820)**	**(653 176)**

(in PLN thousand)

	2010	2009
Profit before income tax	**4 079 236**	**2 943 270**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland (2009: 19%)	(775 055)	(559 221)
Effect of other tax rates of foreign entities	(340)	13 183
Permanent differences between accounting gross profit and taxable profit, of which:	**(66 154)**	**(71 965)**
Recognition of an impairment loss not constituting taxable expense (KREDOBANK)	-	(12 848)
Recognised/reversed provisions and positive revaluation not constituting taxable expense/income	(36 487)	(30 453)
Other non-tax-deductible expenses	(19 480)	(43 185)
Dividend income	20 501	20 525
Other non-taxable income	(1 047)	17 098
Other permanent differences	(29 641)	(23 102)
Other differences between gross financial result and taxable income, including donations	**(25 064)**	**(19 878)**
Tax loss settlement	**183**	**6 395**
Income tax in the consolidated income statement	**(866 430)**	**(631 486)**
Effective tax rate	**21.24%**	**21.46%**
Temporary difference due to the deferred tax presented in the income statement	197 744	185 992
Current income tax expense in the consolidated income statement, of which:	**(1 064 174)**	**(817 478)**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland (2009: 19%)	(1 064 171)	(817 471)
Effect of other tax rates of foreign entities*	(3)	(7)

* As at 31 December 2010 and 31 December 2009 there is no current income tax expense of KREDOBANK SA.

Current income tax liabilities/ receivables

	31.12.2010	31.12.2009
Current income tax receivables	4 318	7 184
Current income tax liabilities	67 744	181 893

The Group entities are subject to corporate income tax. The amount of current tax liability is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2010 is made within the statutory deadline of 31 March 2011.

According to regulations on considering tax liabilities as past due, tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted.

(in PLN thousand)

Deferred tax asset/liability

	Consolidated statement of financial position		Consolidated income statement	
	31.12.2010	**31.12.2009**	**2010**	**2009**
Deferred tax liability				
Interest accrued on receivables (loans)	111 398	88 454	(22 944)	12 438
Capitalised interest on performing mortgage loans	211 576	238 446	26 870	20 313
Interest on securities	44 537	37 713	(6 824)	6 400
Valuation of derivative financial instruments, of which:	98 859	40 935	-	-
transferred to income statement	47 741	12 957	(34 784)	(12 957)
transferred to other comprehensive income	51 118	27 978	-	-
Difference between book value and tax value of tangible fixed assets	256 004	233 516	(22 488)	(37 516)
Other taxable temporary positive differences, of which:	24 786	23 190	-	-
transferred to income statement	24 535	22 940	(1 595)	722
transferred to other comprehensive income	251	250	-	-
Gross deferred tax liability, of which:	**747 160**	**662 254**	**-**	**-**
transferred to income statement	695 791	634 026	(61 765)	(10 600)
transferred to other comprehensive income	51 369	28 228	-	-
Deferred tax asset				
Interest accrued on liabilities	406 364	326 419	79 945	103 415
Valuation of derivative financial instruments, of which:	19 470	17 410	-	-
transferred to income statement	19 470	17 410	2 060	(60 324)
transferred to other comprehensive income	-	-	-	-
Valuation of securities, of which:	57 394	15 090	-	-
transferred to income statement	50 640	11 272	39 368	2 878
transferred to other comprehensive income	6 754	3 818	-	-
Provision for employees benefits	118 613	110 171	8 442	134
Impairment allowances on credit exposure	335 477	236 494	98 983	76 705
Adjustment to effective interest rate valuation	218 000	191 507	26 493	25 058
Other temporary negative differences, of which:	151 880	147 847	-	-
transferred to income statement	152 262	148 044	4 218	48 726
transferred to other comprehensive income	(382)	(197)	-	-
Gross deferred income tax asset, of which:	**1 307 198**	**1 044 938**	**-**	**-**
transferred to income statement	1 300 826	1 041 317	259 509	196 592
transferred to other comprehensive income	6 372	3 621	-	-
Total deferred tax impact, of which:	**560 038**	**382 684**	-	**-**
transferred to income statement	605 035	407 291	197 744	185 992
transferred to other comprehensive income	(44 997)	(24 607)	-	-
Deferred income tax asset (presented in statement of financial position)	**582 802**	**403 218**	-	**-**
Deferred tax liability (presented in statement of financial position) (presented in the statement of financial position)	**22 764**	**20 534**	-	**-**
Net deferred tax impact on the income statement	**-**	**-**	**197 744**	**185 992**

As at 31 December 2010, in accordance with IAS 12, the Group present the tax effect of the unsettled tax loss related to its subsidiaries in the 'Other temporary negative differences' position of deferred income tax asset. The tax effect of the abovementioned loss amounts to PLN 66 992 thousand. According to regulations specific for each foreign tax jurisdiction for those entities, the there is no time limit for settling of the unsettled tax loss (which amounts to 63 327 thousand).

15. Earnings per share

Basic earnings per share

The basic earnings per share ratio is calculated on the basis of profit and loss attributable to ordinary shareholders of the Bank, by dividing the respective profit and loss by the weighted average number of ordinary shares outstanding during a given period.

Earnings per share

	2010	2009
Profit per ordinary shareholders (in PLN thousand)	3 216 883	2 305 538
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 121 562
Earnings per share (in PLN per share)	2.57	2.06

Earnings per share from discontinued operations

As at 31 December 2010 and 31 December 2009, the Group did not report any material income or expenses from discontinued operations.

Diluted earnings per share

The diluted earnings per share ratio is calculated on the basis of profit attributable to ordinary capital shareholders, by dividing the respective profit by the weighted average number of ordinary shares outstanding during a given period, adjusted for the effect of all potential dilutive ordinary shares.

There were no dilutive instruments in the year ended 31 December 2010 nor in the year ended 31 December 2009.

Diluted earnings per share from discontinued operations

As at 31 December 2010 and 31 December 2009 the Group did not report any material income or expenses from discontinued operations.

16. Dividends paid (in total and per share) on ordinary shares and other shares

Dividends declared after the balance date are not recognized by the Bank as liabilities existing as at 31 December 2010.

Pursuant to Resolution No. 39/2010 of the Ordinary General Shareholders' Meeting of PKO Bank Polski SA passed on 23 July 2010, the dividend for 2009 amounted to PLN 2.375.000, i.e. PLN 1.90 (gross) per one share.

The list of shareholders eligible to receive dividend for 2009 was determined as at 23 October 2010, and the payment was made on 20 December 2010.

As at 31 December 2010, the Bank did not decide on whether to pay dividends. In accordance with the Bank's policy on paying dividends, the Management Board of the Bank, while placing proposals on paying dividends, will take into consideration the necessity to ensure an appropriate level of the capital adequacy ratio and the capital necessary to the Bank's development amounting to 40% of the Bank's net profit for a given calendar year.

(in PLN thousand)

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

17. Cash and balances with the central bank

	31.12.2010	31.12.2009
Current account with the central bank	3 782 717	4 625 073
Cash	2 398 207	2 463 763
Other funds	1 488	5 514
Total	**6 182 412**	**7 094 350**

During the course of the working day, the Bank may use funds from the obligatory reserve account for ongoing payments, on the basis of an instruction submitted to the Central Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2010, this interest rate was 3.375%.

As at 31 December 2010 and 31 December 2009, there were no further restrictions as regards the use of these funds.

18. Amounts due from banks

	31.12.2010	31.12.2009
Deposits with other banks	1 493 827	1 160 377
Receivables due from repurchase agreements	-	105 427
Current accounts	722 717	617 388
Loans and advances	112 551	161 378
Cash in transit	6 862	5 594
Total	**2 335 957**	**2 050 164**
Impairment allowances on receivables	(28 925)	(27 109)
of which impairment allowances on exposure to a foreign bank	(28 089)	(27 013)
Net total	**2 307 032**	**2 023 055**

Details on risk related to amounts due from banks was presented in Note 56 ‘Credit risk’.

19. Trading assets

	31.12.2010	31.12.2009
Debt securities	**1 491 053**	**2 202 847**
issued by the State Treasury, of which:	1 483 144	2 198 840
Treasury bills	-	388 500
Treasury bonds	1 483 144	1 810 340
issued by local government units, of which:	7 390	2 208
municipal bonds	7 390	2 208
issued by non-financial entities, of which:	509	-
corporate bonds	509	-
issued by other financial institutions, of which:	10	-
corporate bonds	10	-
issued by banks, of which:	-	1 799
BGK bonds	-	1 799
Shares in other entities – listed on stock exchanges	**12 596**	**10 108**
Total trading assets	**1 503 649**	**2 212 955**

(in PLN thousand)

Trading assets at carrying amount by maturity as at 31 December 2010 and as at 31 December 2009

As at 31 December 2010	up to 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	over 5 years	Total
Debt securities	**-**	**292**	**860 158**	**254 749**	**375 854**	**1 491 053**
issued by the State Treasury	-	102	859 530	249 224	374 288	**1 483 144**
issued by local government bodies	-	190	618	5 016	1 566	**7 390**
issued by other financial institutions	-	-	10	-	-	**10**
issued by non-financial entities	-	-	-	509	-	**509**
Shares in other entities – listed on stock exchange	**12 596**	-	-	-	-	**12 596**
Total	**12 596**	**292**	**860 158**	**254 749**	**375 854**	**1 503 649**

The average yield on debt securities issued by the State Treasury and included in the trading assets portfolio as at 31 December 2010 amounted to 4.79%. As at 31 December 2010 the Bank's portfolio did not include Treasury securities denominated in foreign currencies.

The portfolio of trading assets as at 31 December 2010 comprised the following securities carried at nominal values:

- Treasury bonds 1 520 742
- Municipal bonds 7 249
- Corporate bonds 523

(in PLN thousand)

As at 31 December 2009	up to 1 month	1 – 3 months	3 months - 1 year	1 year - 5 years	over 5 years	Total
Debt securities	**74 828**	**633 188**	**715 630**	**607 866**	**171 335**	**2 202 847**
issued by other banks	-	-	-	1 536	263	**1 799**
issued by the State Treasury	74 828	633 188	715 630	604 162	171 032	**2 198 840**
issued by local government bodies	-	-	-	2 168	40	**2 208**
Shares in other entities – listed on stock exchange	**10 108**	-	-	-	-	**10 108**
Total	**84 936**	**633 188**	**715 630**	**607 866**	**171 335**	**2 212 955**

As at 31 December 2009, the average yield on debt securities issued by the State Treasury and included in the trading assets portfolio amounted to 4.57%. As at 31 December 2009, the Bank's portfolio did not include Treasury securities denominated in foreign currencies.

The portfolio of debt securities held for trading as at 31 December 2009 comprised the following securities carried at nominal values:

- Treasury bills 397 600
- Treasury bonds 1 840 020
- BGK bonds 1 799
- Municipal bonds 2 176

(in PLN thousand)

20. Derivative financial instruments

Derivative instruments used by the Group

The Bank and other entities within the Group use various types of derivatives in order to manage risk involved in its business activities. As at 31 December 2010 and 31 December 2009, the Group held the following derivative instruments:

	31.12.2010		31.12.2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging instruments	153 921	555 983	352 261	25 312
Other derivative instruments	1 565 164	1 848 812	1 676 861	1 519 058
Total	**1 719 085**	**2 404 795**	**2 029 122**	**1 544 370**

Type of contract	31.12.2010		31.12.2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
IRS	1 447 237	1 553 029	1 306 906	1 296 136
FRA	12 157	11 107	7 613	8 298
FX Swap	62 204	83 613	90 056	27 181
CIRS	126 219	687 977	402 221	33 699
Forward	18 356	42 972	24 167	49 349
Options	46 397	25 382	198 159	127 847
Other	6 515	715	-	1 860
Total	**1 719 085**	**2 404 795**	**2 029 122**	**1 544 370**

The most frequently used types of derivatives are: IRS, FRA, FX Swap, CIRS and Forwards. The remaining entities in the Group may enter into transactions in derivatives exclusively for the purpose of hedging against the risk resulting from their core activities (the banking portfolio).

(in PLN thousand)

Derivative financial instruments as at 31 December 2010

Nominal amounts of underlying instruments and fair value of derivative financial instruments:

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	13 472 316	4 136 351	157 816	-	-	**17 766 483**	83 613	62 204
Purchase of currency	6 718 392	2 076 477	78 988	-	-	**8 873 857**	-	-
Sale of currency	6 753 924	2 059 874	78 828	-	-	**8 892 626**	-	-
FX forward	2 005 928	2 165 895	3 101 234	149 193	-	**7 422 250**	42 972	18 356
Purchase of currency	1 000 904	1 078 990	1 535 756	73 127	-	**3 688 777**	-	-
Sale of currency	1 005 024	1 086 905	1 565 478	76 066	-	**3 733 473**	-	-
Options	2 309 507	2 601 855	2 779 398	1 063 314	-	**8 754 074**	25 382	46 397
Purchase	1 166 247	1 297 847	1 383 949	517 322	-	**4 365 365**	-	-
Sale	1 143 260	1 304 008	1 395 449	545 992	-	**4 388 709**	-	-
Cross Currency IRS	1 885 130	303 795	5 133 837	28 861 974	2 783 575	**38 968 311**	687 977	126 219
Purchase	902 828	145 600	2 526 216	14 080 858	1 353 021	**19 008 523**	-	-
Sale	982 302	158 195	2 607 621	14 781 116	1 430 554	**19 959 788**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	29 692 198	31 588 056	90 322 034	132 693 552	20 420 516	**304 716 356**	1 553 029	1 447 237
Purchase	14 846 099	15 794 028	45 161 017	66 346 776	10 210 258	**152 358 178**	-	-
Sale	14 846 099	15 794 028	45 161 017	66 346 776	10 210 258	**152 358 178**	-	-
Forward Rate Agreement (FRA)	22 013 000	30 732 000	37 825 000	1 850 000	-	**92 420 000**	11 107	12 157
Purchase	11 950 000	14 616 000	18 250 000	800 000	-	**45 616 000**	-	-
Sale	10 063 000	16 116 000	19 575 000	1 050 000	-	**46 804 000**	-	-
Other transactions								
Other (including stock market index derivatives)	4 045 978	18 693	6 306	400 000	-	**4 470 977**	715	6 515
Purchase	2 022 989	11 181	111	200 000	-	**2 234 281**	-	-
Sale	2 022 989	7 512	6 195	200 000	-	**2 236 696**	-	-
Total derivative instruments	**75 424 057**	**71 546 645**	**139 325 625**	**165 018 033**	**23 204 091**	**474 518 451**	**2 404 795**	**1 719 085**

(in PLN thousand)

Derivative financial instruments as at 31 December 2009

Nominal amounts of underlying instruments and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	12 955 378	2 381 565	41 597	-	-	**15 378 540**	27 181	90 056
Purchase of currency	6 514 969	1 188 651	21 056	-	-	**7 724 676**	-	-
Sale of currency	6 440 409	1 192 914	20 541	-	-	**7 653 864**	-	-
FX forward	1 711 582	1 707 652	2 532 286	36 321	-	**5 987 841**	49 349	24 167
Purchase of currency	852 500	852 621	1 245 800	17 769	-	**2 968 690**	-	-
Sale of currency	859 082	855 031	1 286 486	18 552	-	**3 019 151**	-	-
Options	1 598 363	4 075 651	3 958 544	222 614	-	**9 855 172**	127 847	198 159
Purchase	806 041	2 052 047	2 009 861	119 346	-	**4 987 295**	-	-
Sale	792 322	2 023 604	1 948 683	103 268	-	**4 867 877**	-	-
Cross Currency IRS	-	-	3 691 407	25 419 357	6 671 259	**35 782 023**	33 699	402 221
Purchase	-	-	1 852 643	12 742 333	3 335 244	**17 930 220**	-	-
Sale	-	-	1 838 764	12 677 024	3 336 015	**17 851 803**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	23 447 426	24 392 100	65 679 342	97 732 042	17 146 818	**228 397 728**	1 296 136	1 306 906
Purchase	11 723 713	12 196 050	32 839 671	48 866 021	8 573 409	**114 198 864**	-	-
Sale	11 723 713	12 196 050	32 839 671	48 866 021	8 573 409	**114 198 864**	-	-
Forward Rate Agreement (FRA)	4 334 000	20 484 000	12 300 000	-	-	**37 118 000**	8 298	7 613
Purchase	1 750 000	14 834 000	6 250 000	-	-	**22 834 000**	-	-
Sale	2 584 000	5 650 000	6 050 000	-	-	**14 284 000**	-	-
Other transactions								
Other (stock market index derivatives)	2 493 314	5 908	6 929	400 000	-	**2 906 151**	1 860	-
Purchase	1 246 657	1 840	858	200 000	-	**1 449 355**	-	-
Sale	1 246 657	4 068	6 071	200 000	-	**1 456 796**	-	-
Total derivative instruments	**46 540 063**	**53 046 876**	**88 210 105**	**123 810 334**	**23 818 077**	**335 425 455**	**1 544 370**	**2 029 122**

(in PLN thousand)

21. Derivative hedging instruments

As at 31 December 2010, the Group applies the following hedging strategies:

1. hedging against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and foreign exchange rates, using CIRS transactions,
2. hedging against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions,
3. hedging against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions.

The characteristics of the cash flow hedges applied by the Group are presented in the table below:

Hedging strategy:	**Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions**	**Hedges against fluctuations from loans in PLN at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions**	**Hedges against fluctuations from loans in EUR at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions**
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in CHF and negotiated term deposits in PLN resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.	Elimination of the risk of cash flow fluctuations generated by floating rate PLN loans resulting from the interest rate risk in the period covered by the hedge.	Elimination of the risk of cash flow fluctuations generated by floating rate EUR loan portfolio resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Currency risk and interest rate risk.	Interest rate risk.	Interest rate risk.
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal amount defined in CHF and PLN respectively.	IRS transactions where the Bank pays coupons based on variable 3M WIBOR, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.	IRS transactions where the Bank pays coupons based on variable 3M EURIBOR, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	1) The portfolio of floating rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiable term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39.AG.99C as adopted by the EU.	The portfolio of loans in PLN indexed to the variable 3M WIBOR rate.	The portfolio of loans in EUR indexed to the variable EURIBOR rate.
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2011 to January 2017	January 2011 to October 2013	January 2011 to December 2015

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and / or foreign exchange rate as at 31 December 2010 and 31 December 2009, respectively.

Type of instrument:	Carrying amount/fair value					
	31.12.2010			31.12.2009		
	Assets	Liabilities	Total	Assets	Liabilities	Total
IRS	103 219	18 755	**84 464**	7 610	93	**7 517**
CIRS	50 702	537 228	**(486 526)**	344 651	25 219	**319 432**
Total	**153 921**	**555 983**	**(402 062)**	**352 261**	**25 312**	**326 949**

The nominal value of hedging instruments by maturity as at 31 December 2010 and as at 31 December 2009 are as follows:

Type of instrument:		Nominal value as at 31 December 2010					
		Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	TOTAL
IRS	in PLN thousand	3 375 000	1 700 000	780 000	125 000	-	**5 980 000**
IRS							
	in PLN thousand	-	-	-	1 128 686	-	**1 128 686**
	in EUR thousand	-	-	-	285 000	-	**285 000**
CIRS							
	in PLN thousand	632 780	1 265 560	1 740 145	12 418 308	1 423 755	**17 480 548**
	in CHF thousand	200 000	400 000	550 000	3 925 000	450 000	**5 525 000**

Type of instrument:		Nominal value as at 31 December 2009					
		Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	TOTAL
IRS	in PLN thousand	260 000	140 000	-	30 000	-	**430 000**
CIRS							
	in PLN thousand	418 155	1 115 740	1 666 295	9 022 190	3 314 055	**15 536 435**
	in CHF thousand	150 000	400 000	600 000	3 250 000	1 200 000	**5 600 000**

Other comprehensive income as regards hedging cash flows	**31.12.2010**	**31.12.2009**
Other comprehensive income at the beginning of the period	147 254	-
Gains or losses transferred to other comprehensive income in the period	(145 504)	636 166
Amount transferred from other comprehensive income to profit and loss, of which transferred to:	267 292	(488 912)
- interest income	(649 116)	(403 899)
- net foreign exchange gains	916 408	(85 013)
Other comprehensive income at the end of the period (gross)	**269 042**	**147 254**
Tax effect	**(51 118)**	**(27 978)**
Other comprehensive income at the end of the period (net)	**217 924**	**119 276**
Ineffective part of hedging cash flows recognized through profit and loss	**(82 879)**	**(435)**
Effect on other comprehensive income in the period (gross)	**121 788**	**147 254**
Deferred tax on cash flow hedges	**(23 140)**	**(27 978)**

22. Financial assets designated at fair value through profit and loss

	31.12.2010	31.12.2009
Debt securities	**10 758 331**	**12 360 690**
issued by the State Treasury, including:	6 631 702	5 362 314
Treasury bills	1 893 058	4 566 506
Treasury bonds	4 738 644	795 808
issued by central banks, including:	3 997 780	6 994 218
NBP bills	3 997 780	6 994 218
issued by local government units, including:	128 849	-
Municipal bonds	128 849	-
Issues by non-financial institutions, including:	-	4 158
Corporate bonds in UAH	-	4 158
Total	**10 758 331**	**12 360 690**

As at 31 December 2010 and 31 December 2009, the portfolio of securities designated at fair value through profit and loss comprised of the following:

By nominal amount	31.12.2010	Currency	31.12.2009	Currency
in the parent company:				
NBP money market bills	4 000 000	PLN thousand	7 000 000	PLN thousand
Treasury bills	1 932 960	PLN thousand	4 634 410	PLN thousand
Treasury bonds	4 834 445	PLN thousand	766 000	PLN thousand
EUR bonds	99 008	PLN thousand	-	PLN thousand
in subsidiaries:				
bonds of other entities	22 148	UAH thousand	22 595	UAH thousand

As at 31 December 2010, the average yield on debt securities issued by the State Treasury and included in the portfolio of other financial instruments at fair value through profit and loss was PLN 4.57%. As at 31 December 2009, the average yield on such securities amounted to: 4.16% for PLN.

(in PLN thousand)

Financial assets designated at fair value through profit and loss by maturity by carrying amount

As at 31 December 2010	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**3 997 780**	**430 435**	**4 105 431**	**2 095 836**	**128 849**	**10 758 331**
issued by central banks	3 997 780	-	-	-	-	**3 997 780**
issued by the State Treasury	-	430 435	4 105 431	2 095 836	-	**6 631 702**
Issued by local government bodies	-	-	-	-	128 849	**128 849**
Total	**3 997 780**	**430 435**	**4 105 431**	**2 095 836**	**128 849**	**10 758 331**

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**7 463 292**	**2 193 104**	**2 704 114**	**-**	**180**	**12 360 690**
issued by central banks	6 994 218	-	-	-	-	**6 994 218**
issued by non-financial institutions	-	-	3 978	-	180	**4 158**
issued by the State Treasury	469 074	2 193 104	2 700 136	-	-	**5 362 314**
Total	**7 463 292**	**2 193 104**	**2 704 114**	**-**	**180**	**12 360 690**

(in PLN thousand)

23. Loans and advances to customers

	31.12.2010	31.12.2009
Gross loans and advances, of which:	**135 524 789**	**120 509 709**
consumer	25 446 265	23 483 449
corporate	46 912 413	43 990 773
mortgage	62 441 248	52 471 695
Interest	724 863	563 792
Impairment allowances on loans and advances	(4 856 670)	(3 937 124)
Loans and advances – net	**130 668 119**	**116 572 585**

	31.12.2010	31.12.2009
Loans and advances to customers		
Valued using the individual method	6 562 353	6 254 327
Impaired, of which:	5 899 231	5 355 887
Receivables from finance leases	*125 556*	*191 082*
Not impaired, of which:	663 122	898 440
Receivables from finance leases	*155 373*	*30 313*
Valued using the portfolio method, of which:	4 987 943	3 752 263
Receivables from finance leases	*102 133*	*74 814*
Valued using the group method (IBNR), of which:	123 974 493	110 503 119
Receivables from finance leases	*2 177 602*	*2 062 495*
Loans and advances to customers – gross	**135 524 789**	**120 509 709**
Allowances for exposures valued using the individual method	(1 765 956)	(1 365 574)
Impaired, of which:	(1 765 956)	(1 365 574)
Allowances on lease receivables	*(29 509)*	*(24 163)*
Allowances for exposures valued using the portfolio method, of which:	(2 593 103)	(1 989 868)
Allowances on lease receivables	*(48 013)*	*(37 980)*
Allowances for impairment on exposures with group impairment (IBNR), of which:	(497 611)	(581 682)
Allowances on lease receivables	*(12 383)*	*(9 679)*
Total allowances	**(4 856 670)**	**(3 937 124)**
Loans and advances to customers- net	**130 668 119**	**116 572 585**

As at 31 December 2010, the share of impaired loans amounted to 8.0% (as at 31 December 2009: 7.6%); whereas the coverage ratio for impaired loans (calculated as total impairment allowances on total receivables divided by gross carrying amount of impaired loans) amounted to 44.6% (as at 31 December 2009: 43.2%).

The increase in the volume of loans assessed under the portfolio method in 2010 by PLN 1 235 680 thousand resulted mainly from the increase in delays in repayment in the portfolio of consumer loans and mortgage loans granted to individuals.

Details on risk related to amounts due from banks was presented in Note 56 ‘Credit risk’.

Finance lease agreements

Finance lease – lessor

The Group conducts lease activities through the entities from the Bankowy Fundusz Leasingowy SA Group.

The value of gross investments in leases and the minimum lease payments resulting from finance lease agreements amounted to:

(in PLN thousand)

as at 31 December 2010

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	1 094 331	944 182	150 149
from 1 to 5 years	1 520 458	1 310 743	209 715
over 5 years	370 404	305 739	64 665
Gross total	**2 985 193**	**2 560 664**	**424 529**
Impairment allowances	(89 905)	(89 905)	-
Net total	**2 895 288**	**2 470 759**	**424 529**

Net lease investment	
Present value of the minimal lease payments	2 560 664
of which non guaranteed final amounts due to the lessor	1 059

as at 31 December 2009

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unrealised income
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	988 988	841 443	147 545
from 1 to 5 years	1 645 608	1 451 404	194 204
over 5 years	118 595	65 857	52 738
Gross total	**2 753 191**	**2 358 704**	**394 487**
Impairment allowances	(71 822)	(71 822)	-
Net total	**2 681 369**	**2 286 882**	**394 487**

Net lease investment	
Present value of the minimal lease payments	2 358 704
non guaranteed final amounts due to the lessor	926

(in PLN thousand)

24. Investment securities available for sale

	31.12.2010	31.12.2009
Debt securities available for sale, gross	**10 144 678**	**7 867 725**
issued by banks	50 858	90 086
corporate bonds	50 858	50 901
foreign bonds in EUR	-	39 185
issued by non-financial institutions	1 456 333	794 812
corporate bonds in PLN	1 445 357	783 973
corporate bonds in UAH	8 214	7 939
bills of exchange	2 762	2 900
issued by the State Treasury	5 813 314	4 982 606
Treasury bonds	5 636 357	4 461 657
Treasury bonds in UAH	153 323	16 305
Treasury bills	23 634	504 644
issued by local government bodies	2 824 173	2 000 221
municipal bonds	2 824 173	2 000 221
Allowance for impairment on debt securities available for sale	**(21 259)**	**(19 155)**
corporate bonds	(10 283)	(10 283)
corporate bonds in UAH	(8 214)	(5 972)
bills of exchange	(2 762)	(2 900)
Total debt securities available for sale, net	**10 123 419**	**7 848 570**
Equity securities available for sale, gross	**96 631**	**98 164**
Equity securities admitted to public trading	85 491	89 687
Equity securities not admitted to public trading	11 140	8 477
Allowance for impairment on investment securities available for sale	**(650)**	**(2 417)**
Impairment of equity securities not admitted to public trading	(650)	(2 417)
Total net equity securities available for sale	**95 981**	**95 747**
Total net investment securities	**10 219 400**	**7 944 317**

Change in investment securities available for sale

	2010	2009
Investment securities available for sale		
Balance at the beginning of the period	**7 944 317**	**8 614 913**
Currency translation differences	(2 811)	43 336
Increases	10 508 141	10 138 272
of which: change in impairment allowance	*(337)*	*4 119*
Decreases (redemption)	(8 214 088)	(10 874 884)
Change in the fair value	(16 159)	22 680
Balance at the end of the period	**10 219 400**	**7 944 317**

Details on risk related to investment securities available for sale was presented in Note 56 ‘Credit risk’.

Investment securities available for sale by maturity by carrying amount

As at 31 December 2010	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by banks	-	-	-	-	50 858	**50 858**
issued by non-financial institutions	175 489	-	256 087	802 709	200 789	**1 435 074**
issued by the State Treasury	13 655	37 941	2 887 736	533 558	2 340 424	**5 813 314**
issued by local government bodies	3 130	5 248	216 534	1 050 709	1 548 552	**2 824 173**
Total	**192 274**	**43 189**	**3 360 357**	**2 386 976**	**4 140 623**	**10 123 419**

The average yield of securities available for sale as at 31 December 2010 amounted to 5.16%.

As at 31 December 2010, the portfolio of debt securities available for sale, at nominal values, comprised the following:

in the parent company:

- corporate bonds in PLN 1 479 200
- municipal bonds 2 814 845
- Treasury bonds 5 537 770
- Treasury bills of exchange 2 762

in subsidiaries:

- Treasury bonds 153 470
- Treasury bills 23 940
- investment funds participation units 21 409
- corporate bonds 19 235*
- Treasury bonds 394 638*
- shares and investments 345*

*in UAH thousand

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by banks	-	-	39 185	-	50 901	**90 086**
issued by non-financial institutions	79 947	33 547	1 256	628 407	32 500	**775 657**
issued by the State Treasury	346 327	851 240	1 779 253	2 003 295	2 491	**4 982 606**
issued by local government bodies	3 935	1 218	161 508	791 181	1 042 379	**2 000 221**
Total	**430 209**	**886 005**	**1 981 202**	**3 422 883**	**1 128 271**	**7 848 570**

The average yield of available-for-sale securities as at 31 December 2009 amounted to 4.62 %.

As at 31 December 2009, the portfolio of debt securities available for sale, at nominal values, comprised the following:

in the parent company:

• corporate bonds in PLN	827 010
• Treasury bills	497 270
• municipal bonds	2 013 589
• Treasury bonds	4 358 000
• Foreign bonds EUR	41 082
• Bills of exchange	2 900

in subsidiaries:

• Treasury bonds	181 493
• Treasury bills	9 200
• investment funds participation units	20 409
• corporate bonds	20 735*
• Treasury bonds	50 000*
• shares and investments	98*

*in UAH thousand

(in PLN thousand)

25. Securities held to maturity

	31.12.2010	31.12.2009
Debt securities held to maturity	**-**	**9 894**
issued by the State Treasury, of which:	-	9 894
Treasury bonds	-	9 894
Total	**-**	**9 894**

Change in securities held to maturity

	2010	2009
Debt securities held to maturity		
Balance at the beginning of the period	9 894	-
Increases	-	9 642
Decreases	(9 894)	-
Changes in the fair value	-	252
Balance at the end of the period	**-**	**9 894**

Securities held to maturity by carrying amount and by maturity

As at 31 December 2010 there were no securities held to maturity.

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	Total
issued by the State Treasury	-	1 881	8 013	**9 894**
Total	**-**	**1 881**	**8 013**	**9 894**

26. Investments in associates and jointly controlled entities

a) the value of the Bank's investments in jointly controlled entities (i.e. the acquisition cost adjusted to the Bank's share in the change in the entity's net assets after acquisition date and allowances for impairment losses).

Entity name	31.12.2010	31.12.2009
Centrum Obsługi Biznesu Sp. z o.o	9 298	11 182
Centrum Haffnera Sp. z o.o. Group	31 981	38 058
Total	**41 279**	**49 240**

b) the value of the Bank's investments in associates (i.e. the acquisition cost adjusted to share in net assets change and allowances for impairment losses)

Entity name	31.12.2010	31.12.2009
Bank Pocztowy SA	131 427	179 173
Agencja Inwestycyjna CORP SA	225	279
Total	**131 652**	**179 452**

(in PLN thousand)

Selected data on associated entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2010					
Bank Pocztowy SA	4 170 155	3 857 505	342 933	14 706	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	16 892	48	604	82	33.33
Agencja Inwestycyjna CORP SA	3 017	1 593	13 007	503	22.31
Total	**4 190 064**	**3 859 146**	**356 544**	**15 291**	**X**
31.12.2009					
Bank Pocztowy SA	3 914 409	3 631 441	309 820	9 338	25.00
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	16 291	25	573	34	33.33
Agencja Inwestycyjna CORP SA	3 710	2 073	14 823	479	22.31
Total	**3 934 410**	**3 633 539**	**325 216**	**9 851**	**X**

The information concerning Bank Pocztowy SA as at 2010, presented in the above table is derived from financial statements prepared, for the first time, in accordance with the IFRS/IAS. Data about other companies are derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Bank. Data for the year 2009 are derived from audited financial statements.

As at 31 December 2010 and 31 December 2009, the Group had no share in contingent liabilities of associates acquired jointly with other investors.

Selected data on jointly controlled entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenues	Net profit	% share
31.12.2010					
Centrum Obsługi Biznesu Sp. z o.o	125 007	98 811	20 196	(875)	41.44
Centrum Haffnera Sp. z o.o. Group	340 409	270 584	44 896	(15 575)	49.43
Total	**465 416**	**369 395**	**65 092**	**(16 450)**	**X**
31.12.2009					
Centrum Obsługi Biznesu Sp. z o.o	129 648	103 772	18 470	(6 041)	41.44
Centrum Haffnera Sp. z o.o. Group	367 513	282 087	32 219	(117)	49.43
Total	**497 161**	**385 859**	**50 689**	**(6 158)**	**X**

The information presented in the above table for Centrum Obsługi Biznesu Sp. z o.o. is derived from financial statements prepared in accordance with the Polish Accounting Standards, and the information for Centrum Haffnera Sp. z o.o. is derived from consolidated financial statements prepared in accordance with Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. The information for both companies for the year 2009 is derived from audited financial statements.

In the consolidated financial statements for the year ended 31 December 2010, all associates and jointly controlled entities are accounted for using the equity method.

(in PLN thousand)

	2010	2009
Investments in associates at the beginning of the period	**179 452**	**190 463**
Share in profit/(loss)	7 146	7 785
Share in changes recognized directly in equity	271	705
Dividends paid	(107)	(94)
Share in changes recognised directly in equity	-	(15 531)
Reclassification of Kolej Gondolowa Jaworzyna Krynicka SA shares to non-current assets held for sale	-	(15 531)
Change in impairment allowances of investment	(55 110)	(3 876)
Investment in associates at the end of the period	**131 652**	**179 452**

In 2010, the Group recognized an impairment allowance against shares of Bank Pocztowy SA amounting to PLN 55 171 thousand and decreased by PLN 61 thousand impairment allowance against shares of Poznański Fundusz Poręczeń Kredytowych Sp.z o.o. Impairment allowance against shares of Bank Pocztowy SA was recognized on the basis of fair value of the shares based on market indicators for a group of comparable banks.

In 2009, the Group recognized an impairment allowance against shares of Poznański Fundusz Poręczeń Kredytowych Sp.z o.o. amounting to PLN 3 876 thousand.

In January 2009, PKO Bank Polski SA, taking into consideration the status of the work related to the sale of shares in Kolej Gondolowa Jaworzyna Krynicka SA, reclassified all the shares held in the above-mentioned company to non-current assets held-for-sale (in accordance with IFRS 5). Until January 2009, the company was classified as investment in associates and recognized in the consolidated financial statements under the equity method.

	2010	2009
Investments in jointly controlled entities at the beginning of the period	**49 240**	**56 682**
Share of profit (loss)	(7 961)	(7 442)
Investments in jointly controlled entities at the end of the period	**41 279**	**49 240**

As at 31 December 2010 and 31 December 2009, the parent company had no share in contingent liabilities and commitments of associates acquired jointly with other investors.

In the year ended 31 December 2010, PKO Bank Polski SA did not make any direct investments in jointly controlled entities or associates.

27. Inventories

Carrying amount of inventories by kind*	31.12.2010	31.12.2009
Work-in-progress – construction investments	261 609	424 824
Finished goods - construction investments	195 817	144 347
Supplies	96 298	105 252
Materials	11 409	12 666
Impairment allowances on inventories	(34 858)	(34 014)
TOTAL	**530 275**	**653 075**

* The balance relates mainly to expenses on real estate development incurred by the Group entities whose scope of activity relates to real estate development.

On 31 December 2010 and 31 December 2009 the Group had no inventories constituting collateral for liabilities to third parties.

(in PLN thousand)

28. Intangible assets

For the year ended 31 December 2010	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Intangible assets at the beginning of the period - net	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
Purchases	58	15 002	-	463 096	**478 156**
Sales and disposals	-	(252)	-	(4 927)	**(5 179)**
Impairment allowances	-	-	(35 193)	(2 644)	**(37 837)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	394	-	7	**401**
Transfers	-	240 132	-	(240 132)	**-**
Amortisation	-	(190 135)	-	(3 533)	**(193 668)**
Other value changes	14	(16 290)	-	3 863	**(12 413)**
Net carrying amount as at 31 December 2010	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**
As at 1 January 2010					
Purchase price (gross carrying amount)	3 414	2 254 339	344 695	180 126	**2 782 574**
Accumulated amortisation and impairment allowances	-	(1 023 887)	(79 762)	(106 348)	**(1 209 997)**
Net carrying amount	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
As at 31 December 2010					
Purchase price (gross carrying amount)	3 486	2 479 718	344 695	397 155	**3 225 054**
Accumulated amortisation and impairment allowances	-	(1 200 415)	(114 955)	(107 647)	**(1 423 017)**
Net carrying amount	**3 486**	**1 279 303**	**229 740**	**289 508**	**1 802 037**

The most significant item of intangible assets of the Group relates to expenditures on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2010 amounted to PLN 1 066 066 thousand (during the years 2003 – 2009, they amounted to PLN 983 150 thousand). As at 31 December 2010, the carrying amount of the Integrated Information System (ZSI) amounted to PLN 701 470 thousand. The expected useful life of the ZSI system is 15 years. As at 31 December 2010, the remaining useful life is 11 years.

For the year ended 31 December 2009	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including capital expenditure	Total
Intangible assets at the beginning of the period	**6 923**	**971 226**	**164 720**	**209 909**	**1 352 778**
Purchase of shares of a subsidiary	-	-	103 615	-	**103 615**
Purchases	375	8 689	-	283 366	**292 430**
Sales and disposals	-	(209)	-	-	**(209)**
Impairment allowances	-	-	(3 402)	-	**(3 402)**
Currency translation differences on revaluation of foreign entities' operations results into the presentation currency	-	(534)	-	44	**(490)**
Transfers	-	414 497	-	(414 497)	**-**
Amortisation	-	(166 423)	-	(2 932)	**(169 355)**
Other changes of value	(3 884)	3 206	-	(2 112)	**(2 790)**
Net carrying amount as at 31 December 2009	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
As at 1 January 2009					
Purchase price (gross carrying amount)	6 923	1 828 366	241 080	314 458	**2 390 827**
Accumulated amortisation and impairment allowances	-	(857 140)	(76 360)	(104 549)	**(1 038 049)**
Net carrying amount	**6 923**	**971 226**	**164 720**	**209 909**	**1 352 778**
As at 31 December 2009					
Purchase price (gross carrying amount)	3 414	2 254 339	344 695	180 126	**2 782 574**
Accumulated amortisation and impairment allowances	-	(1 023 887)	(79 762)	(106 348)	**(1 209 997)**
Net carrying amount	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**

The Group does not produce any software internally. In the period from 1 January 2010 to 31 December 2010, the Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 630 492 thousand (in the period from 1 January 2009 to 31 December 2009: PLN 448 694 thousand).

(in PLN thousand)

As at 31 December 2010 and as at 31 December 2009, there were no restrictions as regards the Group legal rights to intangible assets as cash flow hedges.

The table below presents data concerning goodwill included in the Group's financial statements as at 31 December 2010 and 31 December 2009.

Net goodwill	31.12.2010	31.12.2009
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	51 158	51 158
Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
PKO BP Inwestycje - Nowy Wilanów Sp. z o.o.	21 233	49 412
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP Inwestycje - Sarnia Dolina Sp. z o.o.	-	7 014
Total	**229 740**	**264 933**

As at 31 December 2010, the Group conducted mandatory goodwill impairment tests in accordance with the model developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of operations of particular entities.

Test models (with the exception of PKO BP BANKOWY PTE where the model is based on actuarial estimates) are based on discounted future cash flows and on the assumptions that the shares will be held in the future and recovery value is equal to value in use. The forecasts related to cash flows are developed on the basis of financial plans of entities covering a period of 3 to 5 years, using differentiated discount rates tailored to the specific nature of operations of the particular entities.

The aforesaid tests indicated a need for goodwill impairment write-downs in 2010 concerning shares in PKO BP Inwestycje – Sarnia Dolina Sp. z o.o. in a full amount. Moreover, in 2010, goodwill was reduced in relation to the acquisition of shares in PKO BP Inwestycje – Nowy Wilanów Sp. z o.o., in proportion to the disposed part of the cash-generating units to which the goodwill was allocated (i.e. project stage understood as a separate multi-apartment building or group of buildings developed by the Company).

(in PLN thousand)

29. Tangible fixed assets

For the year ended 31 December 2010	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible assets as at the beginning of the period	**2 444 010**	**2 430 397**	**72 073**	**207 251**	**731**	**454 305**	**5 608 767**
Increases, of which:	**4 009**	**42 828**	**20 092**	**126 967**	**118**	**5 392**	**199 406**
Purchases and other changes	1 834	40 643	19 903	124 578	118	4 034	191 110
Currency translation differences	2 175	2 185	189	2 389	-	1 358	8 296
Decreases, of which:	**(22 572)**	**(274 676)**	**(12 183)**	**(33 714)**	**(56)**	**(18 540)**	**(361 741)**
Disposals and sales	(15 820)	(246 740)	(3 647)	(97)	(56)	(14 806)	(281 166)
Other	(405)	(1 648)	(8 385)	(33 617)	-	(3 734)	(47 789)
Transfer from fixed assets to fixed assets held for trading	(6 347)	(26 288)	(151)	-	-	-	(32 786)
Transfers from capital expenditure on fixed assets	**59 786**	**115 988**	**-**	**(187 236)**	**-**	11 462	**-**
Gross value of fixed assets at the end of the period	**2 485 233**	**2 314 537**	**79 982**	**113 268**	**793**	**452 619**	**5 446 432**
Accumulated depreciation as at the beginning of the period	**(693 034)**	**(1 778 135)**	**(27 233)**	**-**	**(409)**	**(330 406)**	**(2 829 217)**
Increases, of which:	**(83 217)**	**(205 336)**	**(12 587)**	**-**	**(126)**	**(32 503)**	**(333 769)**
Depreciation for the period	(82 525)	(191 587)	(12 495)	-	(126)	(31 918)	(318 651)
Currency translation differences	(471)	(851)	(85)	-	-	(559)	(1 966)
Other	(221)	(877)	(7)	-	-	(26)	(1 131)
Transfer from fixed assets to fixed assets held for trading	-	(12 021)	-	-	-	-	(12 021)
Decreases, of which:	**14 948**	**272 377**	**7 541**	**-**	**1**	**16 566**	**311 433**
Disposal and sales	13 265	245 701	2 115	-	1	13 282	274 364
Other	44	1 588	5 424	-	-	3 284	10 340
Transfer from fixed assets to fixed assets held for trading	1 639	25 088	2	-	-	-	26 729
Accumulated depreciation at the end of the period	**(761 303)**	**(1 711 094)**	**(32 279)**	**-**	**(534)**	**(346 343)**	**(2 851 553)**
Impairment allowances							
Impairment allowances at the beginning of the period	**(1 163)**	**(685)**	**(8)**	**-**	**-**	**-**	**(1 856)**
Increases, of which:	**(149)**	**(12 023)**	**-**	**(17 246)**	**-**	**-**	**(29 418)**
Other	(149)	(2)	-	(17 246)	-	-	(17 397)
Transfer from fixed assets to fixed assets held for trading	-	(12 021)	-	-	-	-	(12 021)
Decreases, of which:	**179**	**12 653**	**8**	**-**	**-**	**-**	**12 840**
Other	179	632	8	-	-	-	819
Transfer from fixed assets to fixed assets held for trading	-	12 021	-	-	-	-	12 021
Impairment allowances at the end of the period	**(1 133)**	**(55)**	**-**	**(17 246)**	**-**	**-**	**(18 434)**
Net book value	**1 722 797**	**603 388**	**47 703**	**96 022**	**259**	**106 276**	**2 576 445**
Opening balance	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**
Closing balance	**1 722 797**	**603 388**	**47 703**	**96 022**	**259**	**106 276**	**2 576 445**

As at 31 December 2010, the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 48 425 thousand (as at 31 December 2009: PLN 43 604 thousand). In the years ended 31 December 2010 and 31 December 2009, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges.

(in PLN thousand)

For the year ended 31 December 2009	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets as at the beginning of the period	**2 346 187**	**2 382 497**	**81 853**	**560 319**	**32 009**	**430 035**	**5 832 900**
Increases, of which:	**9 078**	**26 912**	**1 009**	**148 160**	**607**	**6 902**	**192 668**
Purchases and other changes	9 078	26 912	1 009	148 160	607	6 902	192 668
Decreases, of which:	**(43 601)**	**(284 638)**	**(17 254)**	**(18 051)**	**(31 885)**	**(21 372)**	**(416 801)**
Disposals and sales	(29 347)	(280 307)	(15 417)	-	(31 885)	(19 232)	(376 188)
Currency translation differences	(3 028)	(2 736)	(185)	(2 108)	-	(1 520)	(9 577)
Other	(11 226)	(1 595)	(1 652)	(15 943)	-	(620)	(31 036)
Transfers from assets under construction to tangible fixed assets	**132 346**	**305 626**	**6 465**	**(483 177)**	**-**	**38 740**	**-**
Gross value of fixed assets at the end of the period	**2 444 010**	**2 430 397**	**72 073**	**207 251**	**731**	**454 305**	**5 608 767**
Accumulated depreciation as at the beginning of the period	**(628 830)**	**(1 884 212)**	**(26 671)**	**-**	**(7 839)**	**(318 654)**	**(2 866 206)**
Increases, of which:	**(83 087)**	**(174 441)**	**(12 620)**	**-**	**(803)**	**(32 236)**	**(303 187)**
Depreciation for the period	(82 628)	(173 960)	(12 498)	-	(803)	(29 908)	(299 797)
Other	(459)	(481)	(122)	-	-	(2 328)	(3 390)
Decreases, of which:	**18 883**	**280 518**	**12 058**	**-**	**8 233**	**20 484**	**340 176**
Disposal and sales	15 400	277 662	11 109	-	8 233	18 435	330 839
Other	2 808	1 473	817	-	-	1 318	6 416
Currency translation differences	675	1 383	132	-	-	731	2 921
Accumulated depreciation at the end of the period	**(693 034)**	**(1 778 135)**	**(27 233)**	**-**	**(409)**	**(330 406)**	**(2 829 217)**
Impairment allowances							
Impairment allowances at the beginning of the period	**(1 216)**	**(119)**	**-**	**(700)**	**-**	**-**	**(2 035)**
Increases	-	(603)	(8)	-	-	-	(611)
Decreases	53	37	-	700	-	-	790
Impairment allowances at the end of the period	(1 163)	(685)	(8)	-	-	-	(1 856)
Net book value	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**
Opening balance	**1 716 141**	**498 166**	**55 182**	**559 619**	**24 170**	**111 381**	**2 964 659**
Closing balance	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**

In the years 2010 and 2009, the Group did not recognize in the income statement any significant compensation from third parties due to impairment or loss of tangible fixed assets.

(in PLN thousand)

Operating lease – lessor

As at the balance date the total value of future lease receivables within minimal lease payment under operating lease are as follows:

Total value of future lease payments under non-cancellable operating lease	31.12.2010	31.12.2009
For the period:		
up to 1 year	4 326	5 069
from 1 year to 5 years	4 507	8 334
above 5 years	7 539	7 759
Total	**16 372**	**21 162**

The average agreement period for operating lease agreements where the Group is a lessor amounts to 36 months. The lessee bears service and insurance costs.

As at the balance date the assets in lease under operating lease are as follows:

Means of transport	2010	2009
Gross value as at the beginning of the period	14 983	20 274
Changes in the period	7 338	(5 291)
Gross value at the end of the period	22 321	14 983
Accumulated depreciation as at the beginning of the period	(5 246)	(6 104)
Depreciation for the period	(3 553)	(3 284)
Other changes in depreciation	456	4 142
Impairment allowances as at the end of the period	(8 343)	(5 246)
Net book value	**13 978**	**9 737**

Investment properties	2010	2009
Gross value as at the beginning of the period	-	-
Changes in the period	2 327	-
Gross value at the end of the period	2 327	-
Accumulated depreciation as at the beginning of the period	-	-
Depreciation for the period	(55)	-
Other changes in depreciation	(198)	-
Impairment allowances as at the end of the period	(253)	-
Net book value	**2 074**	**-**

30. Other assets

	31.12.2010	31.12.2009
Settlements of payment cards transactions	204 677	230 400
Accruals and prepayments	170 978	112 543
Trade receivables	86 592	67 888
Settlements of financial instruments	39 750	33 865
Receivables from the state budget due to distribution of court fee stamps	9 311	13 800
Receivables from unsettled transactions related to derivatives	7 121	20 598
Settlements of investment securities turnover	5 022	9 551
Receivables relating to foreign exchange activities	-	336
Other*	90 430	86 445
Total	**613 881**	**575 426**
including financial assets **	352 473	376 438

* Included in 'Other' are i.al. receivables arising from internal operations, receivables arising from other transactions with financial, non-financial and public entities.

** Financial assets include all items of 'Other assets', with the exception of 'Accruals and prepayments' and 'Other'.

(in PLN thousand)

31. Amounts due to the central bank

	31.12.2010	31.12.2009
Up to 1 month	3 370	6 581
Total	**3 370**	**6 581**

32. Amounts due to banks

	31.12.2010	31.12.2009
Loans and advances received	4 068 332	3 597 839
Other banks' deposits	1 027 518	1 399 985
Current accounts	44 379	26 545
Other money market deposits	93 646	121 679
Total	**5 233 875**	**5 146 048**

33. Other financial liabilities designated at fair value through profit and loss

As at 31 December 2010 and 31 December 2009 the Group had no other financial liabilities valued at fair value through profit and loss.

34. Amounts due to customers

	31.12.2010	31.12.2009
Amounts due to retail clients	**95 107 854**	**87 557 401**
Current accounts and overnight deposits	46 416 011	37 730 475
Term deposits	48 398 185	49 559 096
Other	293 658	267 830
Amounts due to corporate entities	**31 826 551**	**27 834 542**
Current accounts and overnight deposits	11 264 473	8 895 727
Term deposits	18 454 432	17 286 459
Loans and advances received	1 856 819	1 420 517
Other	250 827	231 839
Amounts due to state budget entities	**6 046 810**	**9 680 991**
Current accounts and overnight deposits	2 689 369	3 355 764
Term deposits	3 349 821	6 279 377
Other	7 620	45 850
Total	**132 981 215**	**125 072 934**

35. Debt securities in issue

	31.12.2010	31.12.2009
Debt securities in issue		
Bonds issued by:		
PKO Finance AB	3 187 766	-
BFL SA	111 101	289 251
KREDOBANK SA	-	109
Total	**3 298 867**	**289 360**

	31.12.2010	31.12.2009
Debt securities in issue by maturity:		
Up to 1 month	24 901	139 520
From 1 month to 3 months	86 200	120 120
From 3 months to 1 year	23 389	29 611
From 1 year to 5 years*	3 164 377	109
Total	**3 298 867**	**289 360**

*A significant item in the position comprises a liability due to the Eurobonds issue in the nominal value of EUR 800 000 thousand.

As at 31 December 2010, the average interest rate of securities issued by PKO Finance AB was 3.73% and of securities issued by BFL – 5.36%. As at 31 December 2009, the interest rate of securities issued by KREDOBANK SA and BFL amounted to 22% and 5.77%, respectively.

36. Subordinated liabilities

In 2007, the Bank issued subordinated bonds with 10-year maturity, of a total value of PLN 1 600 700 thousand. The interest on these bonds accrues on a semi-annual basis. Interest on the bonds is calculated on the nominal value of the bonds using a variable interest rate equal to WIBOR 6M plus a margin of 100 base points.

as at 31 December 2010

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	5.05%	30.10.2017	1 611 779

as at 31 December 2009

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance (PLN thousand)
Subordinated bonds	1 600 700	PLN	5.30%	30.10.2017	1 612 178

change in subordinated liabilities

	2010	2009
As at the beginning of the period	**1 612 178**	**1 618 755**
Increases, of which:	**82 191**	**99 575**
accrued interest	82 191	99 575
Decreases, of which:	**(82 590)**	**(106 152)**
repayment of interest	(82 590)	(106 152)
Subordinated liabilities as at the end of the period	**1 611 779**	**1 612 178**

(in PLN thousand)

37. Other liabilities

	31.12.2010	31.12.2009
Accounts payable	304 515	227 492
Deferred income	345 302	291 704
Other liabilities relating to:	**1 443 017**	**1 047 427**
liabilities due to legal settlements	283 408	137 194
liabilities relating to investment activities and internal operations	196 687	12 689
liabilities due to suppliers	162 137	148 896
liabilities relating to settlements of security transactions	181 456	276 221
interbank settlements	174 854	182 275
liabilities arising from foreign currency activities	131 849	47 934
financial instruments settlements	39 683	36 325
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22 310	22 310
liabilities relating to payment cards	20 430	1 468
liabilities arising from transactions with non-financial institutions	12 022	7 951
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	4 844	3 570
liabilities arising from other settlements	4 177	8 058
other*	209 160	162 536
Total	**2 092 834**	**1 566 623**
of which financial liabilities **	1 538 372	1 112 383

* Item 'other' includes: liabilities from sale of Treasury stamps, liabilities arising from bank transfers and other payment orders, payables to insurance companies.

** Financial liabilities include all items of 'Other liabilities' with the exception of 'Deferred income' and 'Other'.

As at 31 December 2010 and 31 December 2009, none of the Group entities had overdue contractual liabilities.

38. Provisions

For the year ended 31 December 2010	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2010, including:	**8 128**	**368 295**	**111 721**	**114 150**	**602 294**
Short term portion	**8 128**	**27 418**	**111 721**	**114 150**	**261 417**
Long term portion	**-**	**340 877**	**-**	**-**	**340 877**
Increase/reassessment	722	43 497	140 292	6 591	**191 102**
Use	(987)	-	-	(3 466)	**(4 453)**
Release	(337)	-	(169 764)	(35 696)	**(205 797)**
Currency translation differences	-	-	69	-	**69**
Other changes and reclassifications	(47)	-	2	520	**475**
As at 31 December 2010, including:	**7 479**	**411 792**	**82 320**	**82 099**	**583 690**
Short term portion	**7 479**	**29 628**	**82 320**	**82 023**	**201 450**
Long term portion	**-**	**382 164**	**-**	**76**	**382 240**

*Included in 'Other provisions' is: restructuring provision amounting to PLN 65 861 thousand and provision for potential claims on receivables sold amounting to PLN 11 430 thousand.

(in PLN thousand)

For the year ended 31 December 2009	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2009, including	**9 352**	**365 186**	**78 250**	**113 228**	**566 016**
Short term portion	**9 352**	**46 648**	**78 250**	**113 228**	**247 478**
Long term portion	**-**	**318 538**	**-**	**-**	**318 538**
Increase/reassessment	389	3 529	172 205	17 413	**193 536**
Use	(1 034)	-	(2 296)	(14 288)	**(17 618)**
Release	(15)	(396)	(135 934)	(2 829)	**(139 174)**
Currency translation differences	-	-	(504)	-	**(504)**
Other changes and reclassifications	(564)	(24)	-	626	**38**
As at 31 December 2009, including:	**8 128**	**368 295**	**111 721**	**114 150**	**602 294**
Short term portion	**8 128**	**27 418**	**111 721**	**114 150**	**261 417**
Long term portion	**-**	**340 877**	**-**	**-**	**340 877**

* Included in "Other provisions' is: restructuring provision amounting to PLN 72 604 thousand and provision for potential claims on receivables sold amounting PLN 31 589 thousand.

Provisions for disputes were recognized in the amount of expected outflow of economic benefits.

39. Share capital

As compared to 31 December 2009, there were no changes in the amount of the share capital of PKO Bank Polski SA in the year ended 31 December 2010.

As at 31 December 2010, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand ordinary shares with nominal value of PLN 1 each (as at 31 December 2009: PLN 1 250 000 thousand, 1 250 000 thousand ordinary shares with nominal value of PLN 1 each). Issued shares of PKO Bank Polski SA are not preferred shares.

The structure of PKO Bank Polski SA share capital:

Series	Type	Number	Nominal value of 1 share	Issue amount by nominal value
Series A	ordinary, registered shares	510 000 000	PLN 1	PLN 510 000 000
Series B	ordinary, bearer shares	105 000 000	PLN 1	PLN 105 000 000
Series C	ordinary, bearer shares	385 000 000	PLN 1	PLN 385 000 000
Series D	ordinary, bearer shares	250 000 000	PLN 1	PLN 250 000 000
Total	**---**	**1 250 000 000**	**---**	**PLN 1 250 000 000**

On 10 November 2004, based on a Resolution dated 30 August 1996 on commercialization and privatization (Journal of Laws 2002, No. 171, item 1397 with subsequent amendments) and Par. 14, Resolution 1 of the Ministry of the State Treasury dated 29 January 2003 on specific rules for categorization of authorized employees into groups, setting a number of shares to be allocated on each of such groups, and procedures for acquiring shares by authorized employees (Journal of Laws No. 35, item 303), the parent company of the Group has issued its shares to its employees. As a result, employees received 105 000 000 shares, which constituted 10.5% of the share capital of the Bank (currently 8.4% of the share capital of the Bank).

As at 31 December 2010, 609 490 thousand shares were subject to public trading (as at 31 December 2009: 609 490 thousand shares).

As at 31 December 2010 and 31 December 2009, the subsidiaries, jointly controlled entities and associates of the Bank did not hold shares of PKO Bank Polski SA.

Information on the shareholders of PKO Bank Polski SA is presented in Note 1 'General information'.

(in PLN thousand)

40. Other capital

	31.12.2010	31.12.2009
Share capital, of which:		
Reserve capital	12 212 177	12 149 682
Other reserves	3 412 239	3 405 087
General banking risk fund	1 070 000	1 070 000
Total other reserves	**16 694 416**	**16 624 769**
Share in other comprehensive income of an associate	976	705
Financial assets available for sale	(25 171)	(11 762)
Cash flow hedges	217 924	119 276
Total other capital from comprehensive income	**193 729**	**108 219**
Total other capital	**16 888 145**	**16 732 988**

OTHER NOTES

41. Transferred financial assets which do not qualify for derecognition from financial statement of financial position

As at 31 December 2010 and 31 December 2009, the Group did not hold any significant transferred financial assets in such a way that part or all of the financial assets would not qualify for derecognition from statement of financial position.

42. Pledged assets

The Group had the following pledged assets:

Liabilities from sell-buy-back transactions (SBB)

	31.12.2010	31.12.2009
Treasury bonds:		
nominal value	458 322	314 760
carrying amount	445 460	294 542
Treasury bills:		
nominal value	-	46 730
carrying amount	-	46 555

Bank deposit guarantee fund

PKO Bank Polski SA contributes to a fund for the guarantee of retail deposits in accordance with Article 25 of the Act on the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny) dated 14 December 1994 (unified text Journal of Laws 2009, No. 84, item 711 with subsequent amendments).

	31.12.2010	31.12.2009
The value of the fund	489 891	442 092
Nominal value of the hedge	515 000	455 000
Type of the hedge	Treasury bonds	Treasury bonds
Maturity of the hedge	25.01.2021	24.11.2010
Carrying value of the hedged asset	506 992	464 532

The Bank's contribution to the Fund is secured by Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the above Act. The Fund is increased or decreased on 1 July of each year, in proportion to the amount of the basis for calculation of mandatory reserve deposits.

Guarantee Fund for the Settlement of Stock Exchange Transactions

Cash pledged as collateral for securities' transactions conducted by Dom Maklerski PKO BP SA are deposited in the National Depository for Securities (KDPW SA), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions.

	31.12.2010	31.12.2009
Guarantee Fund for the Settlement of Stock Exchange Transactions	6 950	8 421

Each direct participant that holds the status of settlements-making participant is obliged to make payments to the settlement fund that guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant, and is updated by KDPW SA on a daily basis.

In addition, KREDOBANK SA, an entity consolidated using the full method, had the following pledged assets:

	31.12.2010	31.12.2009
Bonds issued by the Ministry of Finance of Ukraine, hedged as collateral for loans received from National Bank of Ukraine		
in UAH thousand	-	50 000
equivalent in PLN thousand	-	17 790

43. Contingent liabilities

Underwriting programs

As at 31 December 2010, the Bank's underwriting agreements covered the following securities:

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	**304 000**	2013.07.31	Bonds Issue Agreement*
Company B	corporate bonds	**200 000**	2012.01.02	Bonds Issue Agreement*
Company C	corporate bonds	**155 000**	2024.12.31	Bonds Issue Agreement*
Company D	corporate bonds	**74 900**	2015.12.30	Bonds Issue Agreement*
Company E	corporate bonds	**13 000**	2018.12.31	Bonds Issue Agreement*
Entity A	municipal bonds	**4 000**	2025.12.31	Bonds Issue Agreement*
Total		**750 900**		

* Relates to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Program

As at 31 December 2009, the Bank's underwriting agreements covered the following securities:

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	**500 000**	2025.12.31	Bonds Issue Agreement*
Company B	corporate bonds	**199 786**	2010.11.15	Bonds Issue Agreement*
Company C	corporate bonds	**119 915**	2012.01.02	Bonds Issue Agreement*
Company D	corporate bonds	**44 500**	2016.12.30	Bonds Issue Agreement*
Company E	corporate bonds	**13 000**	2018.12.31	Bonds Issue Agreement*
Entity A	municipal bonds	**15 000**	2025.12.31	Bonds Issue Agreement*
Total		**892 201**		

* Relates to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Program.

No securities under the underwriting program have limited transferability, are quoted on the stock exchange or traded on a regulated market.

(in PLN thousand)

Contractual commitments

As at 31 December 2010 contractual commitments concerning intangible assets amounted to PLN 1 100 thousand (as at 31 December 2009: PLN 1 748 thousand).

Loan commitments

	31.12.2010	31.12.2009
Financial sector	752 074	783 978
Non-financial sector	27 747 336	24 786 905
Public sector	1 005 614	1 814 276
Total	**29 505 024**	**27 385 159**
of which: irrevocable loan commitments	7 001 338	6 985 527

Loan commitments have been presented in nominal values.

Guarantees issued

Guarantees and sureties	31.12.2010	31.12.2009
Financial sector	2 234 228	22 587
Non-financial sector	4 792 355	5 101 594
Public sector	253 771	373 300
Total	**7 280 354**	**5 497 481**

In the years ended 31 December 2010 and 31 December 2009, the Bank and its subsidiaries did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a single entity or a subsidiary thereof with a total value accounting for 10% of the Group's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 38 'Provisions'.

Contingent liabilities by maturity as at 31 December 2010

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loan commitments	16 631 759	314 035	3 994 998	2 923 109	5 641 123	**29 505 024**
Guarantee liabilities issued	1 649 878	974 119	1 828 614	2 550 325	277 418	**7 280 354**
Total	**18 281 637**	**1 288 154**	**5 823 612**	**5 473 434**	**5 918 541**	**36 785 378**

Contingent liabilities by maturity as at 31 December 2009

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
Loan commitments	15 085 902	313 335	5 111 897	2 191 153	4 682 872	**27 385 159**
Guarantee liabilities issued	1 366 141	1 505 984	1 541 703	1 083 653	-	**5 497 481**
Total	**16 452 043**	**1 819 319**	**6 653 600**	**3 274 806**	**4 682 872**	**32 882 640**

(in PLN thousand)

Contingent liabilities (by nominal value)

	31.12.2010	31.12.2009
Financial	403 874	843 627
Guarantees	3 726 067	3 736 394
Total	**4 129 941**	**4 580 021**

Assets pledged as collateral for contingent liabilities

As at 31 December 2010 and 31 December 2009 the Group had no assets pledged as collateral for contingent liabilities.

Right to sell or pledge collateral established for the Group

As at 31 December 2010 and 31 December 2009, there was no collateral established for the Group which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

44. Legal claims

As 31 December 2010, the total value of court proceedings in which the Bank is a defendant was PLN 308 304 thousand (as at 31 December 2009: PLN 232 234 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 60 207 thousand (as at 31 December 2009: PLN 71 114 thousand).

The most significant disputes of the PKO Bank Polski SA are described below:

a) Unfair competition proceedings

The Bank is a party to proceedings initiated on the basis of a decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) upon request of the Polish Trade and Distribution Organization (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange' fees for transactions made using Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of interchange fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, in the amount of PLN 16 597 thousand. As at 31 December 2010, the Bank recognized a liability for the above amount. On 19 January 2007, the Bank filed an appeal from the decision of the President of UOKiK to the regional court. At the end of October 2007, the President of UOKiK referred the case to the Regional Court in Warsaw, the Court for Competition and Consumer Protection, including the appeals of the banks against Settlement of the Decision; the banks' complaints against the immediate enforcement clause issued for the Decision as well as the banks' complaints against the costs of the proceedings. The Court has commenced the activities stipulated by the Code of Civil Procedure and i.al. issued a call to the parties to provide their reply to the appeals. On 21 January 2008 the Regional Court in Warsaw, the Court for Competition and Consumer Protection issued a resolution (in case of the Bank's appeal to the Decision of UOKiK President No. DAR 15/2006 as of 29 December 2006), in which it decided to suspend execution of the Decision above in article I (a court order to abandon joint establishing interchange fee rates). On 12 November 2008, the District Court in Warsaw, the Competition and Consumers Protection Court issued a verdict changing sections I, II, III and V of the Decision appealed against. The Court ruled that the banks participating in the proceedings, including PKO Bank Polski SA, had not committed an act of unfair competition by being party to an agreement restricting competition on the market of acquiring outsourcing services associated with the settlement of the consumers' liabilities to acceptors with respect to payment for goods and services purchased by the consumers with the use of credit and debit cards in the territory of Poland. The agreement in question set out common interchange fees on transactions concluded with the use of VISA and MasterCard cards in Poland.On 12 January 2009, the President of the Office for Competition and Consumer Protection (UOKiK) appealed against the verdict of the Court of Competition and Consumer

(in PLN thousand)

Protection reversing the decisions of the UOKiK President. The Bank submitted the reply to the appeal on 13 February 2009. On 22 April 2010, the Court of Appeal reversed the judgment of the Court of Competition and Consumer Protection.

With reference to the Decision of UOKiK President as of 12 December 2008 imposing a fine on PKO Bank Polski SA for the unfair advertisement of the ‘Max Lokata’ term deposit, as at the balance date the Bank recognised a provision in the amount of PLN 5 712 thousand as at 31 December 2008. On 2 January 2009, the Bank appealed against the verdict to the Court of Competition and Consumer Protection. On 10 March 2010, the Court of Competition and Consumer Protection issued a decision dismissing the Bank’s appeal and sustaining the decision of UOKiK (Office of Competition and Consumer Protection) dated 12 December 2008. The decision of the SOKiK (Court of Competition and Consumer Protection) was delivered to the Bank’s agent for litigation on 19 April 2010. On 4 May 2010, the Bank appealed against the judgment. As at 31 December 2010, the liability remained on an unchanged level.

On 9 February 2011, the decision of the court of the second instance was issued. In this decision, the Court of Appeals dismissed the Bank’s appeal from the decision of the court of the first instance (the District Court in Warsaw, the Competition and Consumer Protection Court). The latter decision dismissed the Bank’s appeal from the decision of the Chairman of the Office for Competition and Consumer Protection of 14 December 2008. This means that the Bank is obliged to fulfil the duties imposed on it by decision of the Chairman of the Office for Competition and Consumer Protection of 14 December 2008 within the deadline specified therein.

b) Re-privatization claims relating to properties held by the Group

As at the date of these financial statements, three administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatization claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties claims were submitted by their former owners (court proceedings are pending). Until 31 December 2010 there had been no further developments with respect to this issue.

In the opinion of the Management Board of PKO Bank Polski SA, the probability of significant claims arising against the Bank in relation to the above mentioned proceedings is remote.

45. Supplementary information to the consolidated cash flow statement

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on nostro accounts with the National Bank of Poland, current amounts due from banks, as well as other cash equivalents with maturities up to three months from the date of acquisition. These amounts are presented in their nominal values.

	31.12.2010	31.12.2009
Cash and balances with the central bank	6 182 412	7 094 350
Current receivables from financial institutions	2 256 269	1 898 043
Total	**8 438 681**	**8 992 393**

(in PLN thousand)

Cash flow from interests and dividends, both received and paid

Interest income - received	2010	2009
Income from loans and advances	7 139 112	6 573 215
Income from securities at fair value through profit and loss	473 267	362 718
Income from placements	164 434	178 479
Income from investment securities	513 639	474 861
Income from trading securities	133 245	94 558
Other interest received	2 596 549	1 707 633
Total	**11 020 246**	**9 391 464**

Interest expense – paid	2010	2009
Interest expense on deposits	(3 111 424)	(2 525 411)
Interest expense on loans and advances	(70 829)	(108 734)
Interest expense on debt securities in issue	(101 423)	(108 654)
Other (mainly interests on debt securities premium, interests on cash pledge liabilities, interests on accounts of special allocation funds)	(1 408 249)	(1 338 489)
Total	**(4 691 925)**	**(4 081 288)**

Dividend income - received	2010	2009
Dividend income from subsidiaries, jointly controlled entities and associates	104 232	96 179
Dividend income from other entities	5 663	5 381
Total	**109 895**	**101 560**

Dividend expense - paid	2010	2009
Dividend paid to shareholders of the parent company	(2 375 000)	(1 000 000)
Dividend paid to non-controlling shareholders	-	(32 620)
Total	**(2 375 000)**	**(1 032 620)**

Cash flow from operating activities - other adjustments

Other adjustments	2010	2009
Interest accrued, discount, premium – on available for sale debt securities decreased by deferred tax	(463 264)	(512 927)
Disposal and impairment allowances for tangible fixed assets and intangible assets	73 142	(58 997)
Valuation, impairment allowances for investments in jointly controlled entities and associates	57 593	237 383
Hedge accounting	98 648	119 276
Currency translation differences from foreign operations	(1 211)	(51 378)
Total	**(235 092)**	**(266 643)**

(in PLN thousand)

Reconciliation of differences between the statement of financial position changes and the cash flow statement changes of items presented under operating activities in the consolidated cash flow statement

Gains (losses) on disposal and liquidation of tangible fixed assets and intangible assets from investing activities	2010	2009
Income from sale and disposal of tangible fixed assets and intangible assets	(6 820)	(17 236)
Costs of sale and disposal of tangible fixed assets and intangible assets	2 873	7 723
Total	**(3 947)**	**(9 513)**

Interests and dividends	2010	2009
Interest from investment securities of the available for sale portfolio, presented in the investing activities	(432 046)	(461 061)
Dividends received, presented in the investing activities	(5 411)	(5 192)
Interest paid from loans granted, presented in financing activities	23 630	41 166
Total	**(413 827)**	**(425 087)**

Change in amounts due from banks	2010	2009
Change in the balance of the statement of financial position	(283 977)	1 340 544
Change in impairment allowances on amounts due from banks	(1 816)	(1 002)
Exclusion of the change in the balance of cash and cash equivalents	358 226	(535 308)
Total	**72 433**	**804 234**

Change in loans and advances to customers	2010	2009
Change in the balance of the statement of financial position	(14 095 534)	(15 464 694)
Change in impairment allowances on amounts due from customers	(919 546)	1 019 248
Total	**(15 015 080)**	**(14 445 446)**

Change in amounts due to banks	2010	2009
Change in the balance of the statement of financial position	84 616	(1 838 790)
Transfer of loans and advances received from banks/repayment of these loans and advances - to financing activities	(16 763)	339 656
Total	**67 853**	**(1 499 134)**

Change in amounts due to customers	2010	2009
Change in the balance of the statement of financial position	7 908 281	22 133 653
Transfer of long-term loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities	(408 967)	(1 041 134)
Total	**7 499 314**	**21 092 519**

Change in allowances and provisions	2010	2009
Change in the balance of the statement of financial position	(16 374)	36 227
Change in impairment allowances on amounts due from banks	1 816	1 002
Change in impairment allowances on loans and advances to customers	919 546	(1 019 248)
Change in the balance of deferred tax provisions related to valuation of the available-for-sale portfolio included in deferred income tax	(20 202)	(32 104)
Total	**884 786**	**(1 014 123)**

(in PLN thousand)

Change in other liabilities and subordinated liabilities	2010	2009
Change in the balance of the statement of financial position	526 211	(101 153)
Transfer of repayment of interest on loans and advances to non-financial entities, presented in financing activities	39 332	43 022
Transfer of the self - issue interests payment	82 590	106 152
Total	**648 133**	**48 021**

46. Transactions with the State Treasury and related entities

Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Group's statement of financial position. All of the above are arm's length transactions.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans (Journal of Laws, 2003; No. 119, item 1115 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on those loans.

	2010	2009
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognized for this period	120 371	157 393
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	106 608	98 885
Difference between income recognized for this period and income received in cash – 'Loans and advances to customers'	13 763	58 508

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001 (Journal of Laws 2000, No.122, item 1310). The coverage of the so called 'old portfolio' housing loan receivables by the guarantees of the State Treasury resulted in the neutralization of the default risk on these loans. The State Treasury guarantees are realized when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee. PKO Bank Polski SA receives commission for settlements relating to redemption of interest on housing loans.

	2010	2009
Fee and commission income	6 590	6 771

As of 1 January 1996, the Bank became the general distributor of court fee stamps and receives commission from the State Budget.

	2010	2009
Fee and commission income	26 255	21 664

Dom Maklerski PKO BP SA (the brokerage house of PKO Bank Polski SA) performs the role of an agent for the issue of retail Treasury bonds under an agreement signed between the Ministry of Finance as the issuer and PKO Bank Polski SA on 11 February 2003. Under this agreement, Dom Maklerski PKO BP SA receives a fee for providing the services of an agent for the issue of bonds.

	2010	2009
Fee and commission income	31 842	40 127

(in PLN thousand)

Significant transactions of PKO Bank Polski SA with the State Treasury's related entities

The transactions were concluded at arm's length.

Entity	31.12.2010						31.12.2009					
	Total receivables	Total liabilities	Contingent liabilities and commitments – guarantee and finance	Interest income	Fee and commission income	Interest expenses	Total receivables	Total liabilities	Contingent liabilities and commitments- guarantee and finance	Interest income*	Fee and commission income	Interest expenses
Entity 1	349 633	-	260 851	5 067	639	(15)	357 919	-	286 807	7 127	426	(223)
Entity 2	268 908	-	520 418	10 201	628	(2 224)	414 164	-	400 225	13 843	1 189	(2 475)
Entity 3	154 846	128 924	407 670	19 133	883	(2 222)	327 619	141 797	245 258	10 345	1 060	(1 965)
Entity 4	120 000	481 611	200 000	12 620	790	(7 268)	200 000	179 408	85 000	5 953	1 188	(6 345)
Entity 5	91 040	-	8 002	3 518	270	(2)	38 272	-	11 644	2 512	363	(85)
Entity 6	66 421	38 943	155 000	3 219	9	(137)	78 498	-	-	4 307	6	(485)
Entity 7	60 246	28 101	89 754	2 699	355	(766)	35 905	25 192	4 139	-	401	(951)
Entity 8	57 438	-	24 562	4 366	38	(381)	59 466	39 944	106 898	2 656	19	(3 540)
Entity 9	39 603	-	-	353	5	(7)	41 082	-	-	751	7	(9)
Entity 10	36 409	65 092	-	2 407	10	(1 498)	54 613	-	-	3 632	5	(1 969)
Entity 11	34 011	-	-	1 812	6	(81)	42 978	-	-	2 593	5	(133)
Entity 12	23 790	-	3 601	1 424	72	-	29 469	-	945	1 470	120	-
Entity 13	23 620	-	580	1 484	29	(176)	22 911	-	2 089	1 368	7	-
Entity 14	15 182	-	-	592	-	-	10 181	-	-	17	-	-
Entity 15	12 250	-	-	506	8	-	10 109	-	2 391	284	7	-
Other entities' significant exposures	65 852	1 136 793	2 843 915	22 908	4 720	(70 552)	2 184 730	3 540 719	2 138 693	53 476	4 774	(66 213)
Total	**1 419 249**	**1 879 464**	**4 514 353**	**92 309**	**8 462**	**(85 329)**	**3 907 916**	**3 927 060**	**3 284 089**	**110 334**	**9 577**	**(84 393)**

In 2010 and 2009, no significant impairment charges on these exposures were recognised in the income statement.

(in PLN thousand)

47. Related party transactions

Transactions of the parent company with associates and jointly controlled entities accounted for using the equity method

All transactions with entities related by capital and personal relationships were arm's length transactions. Repayment terms are within a range from 1 month to 10 years.

31 December 2010

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total costs	including interest and fee and commission costs	Contingent liabilities and commitments
CENTRUM HAFFNERA Sp. z o.o.	-	-	2 478	9	9	59	59	-
Centrum Obsługi Biznesu Sp. z o.o.	30 799	30 799	22 285	753	752	558	557	-
Centrum Majkowskiego Sp. z o.o.	-	-	4 765	6	6	93	93	-
Kamienica Morska Sp. z o.o.	-	-	66	6	6	-	-	-
Sopot Zdrój Sp. z o.o.	209 785	209 785	4 049	5 617	5 617	60	60	-
Promenada Sopocka Sp. z o.o.	43 805	43 805	691	1 165	1 165	-	-	-
Bank Pocztowy SA	-	-	105	146	131	1 962	419	1 330
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	16 178	1	1	152	141	-
Agencja Inwestycyjna CORP SA	61	-	87	628	-	2 425	-	-
Kolej Gondolowa 'Jaworzyna Krynicka' SA	5 824	5 824	538	74	74	9	9	8 375
Total	**290 274**	**290 213**	**51 242**	**8 405**	**7 761**	**5 318**	**1 338**	**9 705**

31 December 2009

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total costs	including interest and fee and commission costs	Contingent liabilities and commitments
CENTRUM HAFFNERA Sp. z o.o.	-	-	151	12	12	321	321	4 108
Centrum Obsługi Biznesu Sp. z o.o.	32 627	32 627	23 313	1 146	1 146	686	686	-
Centrum Majkowskiego Sp. z o.o.	-	-	4 904	5	5	151	151	-
Kamienica Morska Sp. z o.o.	-	-	328	5	5	-	-	-
Sopot Zdrój Sp. z o.o.	229 852	229 852	6 999	10 196	10 196	27	27	-
Promenada Sopocka Sp. z o.o.	45 555	45 555	689	1 926	1 926	1	1	-
Bank Pocztowy SA	-	-	294	28	28	3 229	3 229	1 156
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	437	1	1	47	47	-
Agencja Inwestycyjna CORP SA	-	-	58	-	-	1 784	-	-
Kolej Gondolowa 'Jaworzyna Krynicka' SA	-	-	4	5	5	46	46	-
Total	**308 034**	**308 034**	**37 177**	**13 324**	**13 324**	**6 292**	**4 508**	**5 264**

48. Remuneration – key management of the parent company

a) short-term employee benefits.

Remuneration received from PKO Bank Polski SA

	2010	2009
The Management Board of the Bank		
Short-term employee benefits	6 831	1 854
The Supervisory Board of the Bank		
Short-term employee benefits	621	279
Total	**7 452**	**2 133**

Remuneration received from related companies (other than the State Treasury and entities related to the State Treasury)

	2010	2009
The Management Board of the Bank		
Short-term employee benefits	137	1 139
The Supervisory Board of the Bank		
Short-term employee benefits	-	21
Total	**137**	**1 160**

(in PLN thousand)

b) post-employment benefits.

As at 31 December 2010 and 31 December 2009, no post-employment benefits were granted.

c) other long-term benefits.

As at 31 December 2010 and 31 December 2009, no 'other long-term benefits' were granted.

d) benefits due to termination of employment.

As at 31 December 2010, benefits paid due to termination of employment amounted to PLN 1 440 thousand. As at 31 December 2009, no benefits were granted due to termination of employment.

e) share-based payments

As at 31 December 2010 and 31 December 2009, no benefits were granted in the form of share-based payments.

Loans, advances and guarantees provided by the Bank to the management and employees

	31.12.2010	31.12.2009
Employees	1 468 436	1 384 420
The Management Board members	199	135
The Supervisory Board members	2 400	2 466
Total	**1 471 035**	**1 387 021**

Interest conditions and repayment periods of the above items are set at arm's length.

Remuneration received by members of the Management Board and the Supervisory Board of the PKO Bank Polski SA Group subsidiaries

	2010	2009
The Management Board		
Short-term employee benefits	14 099	15 584
The Supervisory Board		
Short-term employee benefits	539	3 435
Total employee benefits	**14 638**	**19 019**

49. Changes to the entities of the Group

The information below concerns share purchase transactions with subsidiaries, which were concluded within the year of 2010.

a) concerning KREDOBANK SA

On 22 July 2010 the 20th issue of KREDOBANK SA shares was registered. PKO Bank Polski SA participated in the increase in the share capital of KREDOBANK SA within the 20th share issue, purchasing shares with a total nominal value of UAH 367 497 thousand (PLN 148 873 thousand), which constituted 99.83% of the issue. Non-controlling shareholders acquired shares of total nominal amount of UAH 503 thousand constituting 0.14% of the shares issue. After the said issue was registered, PKO Bank Polski SA's share in the registered capital of KREDOBANK SA and the share of votes on the Company's General Shareholders' Meeting increased from 99.4948% to 99.5655%.

b) concerning WISŁOK Inwestycje Sp. z o.o.

On 26 February 2010, all the shares in possession of PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, in the entity WISŁOK Inwestycje Sp. z o.o. changed its holder and became the property of the entity JEDYNKA SA with headquarters in Rzeszów due to the fact that all the criteria included in Contingent Agreement of Shares Sale dated from 23 November 2009 have been met. The selling price of the shares amounted to PLN 3 952 thousand.

c) concerning BFL Nieruchomości Sp. z o. o.

In 2010, the increase in the share capital of BFL Nieruchomości Sp. z o.o. in the total amount of PLN 3 300 thousand, including: on 5 March, amount of PLN 2 000 thousand, 7 September, amount of PLN 800 thousand and 9 November, amount of PLN 500 thousand, was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 10 400 thousand and consists of 20 800 shares of PLN 500 nominal value each.

All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA - a subsidiary company of PKO Bank Polski SA, for a price equal to the nominal value of the shares taken up.

As at 31 December 2010, Bankowy Fundusz Leasingowy SA held a total of 99.9952% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

d) concerning Bankowy Leasing Sp. z o. o.

In 2010, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 6 400 thousand, including: on 27 April by an amount of PLN 2 700 thousand and on 10 November by an amount of PLN 3 700 thousand, was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 22 700 thousand and consists of 45 400 shares of PLN 500 nominal value each.

All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA - a subsidiary company of PKO Bank Polski SA, for a price equal to the nominal value of the shares taken up.

As at 31 December 2010, Bankowy Fundusz Leasingowy SA held a total of 99.9978% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

e) concerning PKO BP Inwestcje – Sarnia Dolina Sp. z o. o.

In 2010 (on 23 April and 19 August), PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, made an additional payment of PLN 448 thousand to PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.

f) concerning PKO BP Faktoring SA

On 29 September 2010, the increase in the share capital of PKO BP Faktoring SA in the total amount of PLN 1 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 7 500 thousand and consists of 7 500 shares of PLN 1 thousand nominal value each.

All the shares in the increased share capital were taken up by Bankowe Towarzystwo Kapitałowe SA - a subsidiary company of PKO Bank Polski SA, for a price equal to PLN 2 000 thousand.

As at 31 December 2010, Bankowe Towarzystwo Kapitałowe SA held a total of 99.9867% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

g) concerning changes in the names of PKO BP Inwestycje Sp. z o. o. Group entities

As part of the process of unification of the names and symbols of the PKO BP Inwestycje Sp. z o. o. Group companies, the following companies changed their names in 2010:

- the company PKO Inwestycje – Międzyzdroje Sp. z o. o. changed its name to PKO BP Inwestycje – Rezydencja Flotylla Sp. z o. o. on 26 March 2010, the change was registered with the National Court Register,
- the company Baltic Dom 2 Sp. z o. o. changed its name to PKO BP Inwestycje – Sarnia Dolina Sp. z o. o. on 7 April 2010, the change was registered with the National Court Register,

- the company Wilanów Inwestments Sp. z o. o. changed its name to PKO BP Inwestycje – Nowy Wilanów Sp. z o. o.: on 13 October 2010, the change was registered with the National Court Register,
- the company Pomeranka Sp. z o. o. changed its name to PKO BP Inwestycje – Neptun Park Sp. z o. o.: on 15 October 2010, the change was registered with the National Court Register,

and the following events relating to associates:

h) concerning Bank Pocztowy SA

On 14 June 2010, Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. was registered in the National Court Register. The Company's share capital amounts PLN 2 000 thousand and is divided into 100 shares with a par value of PLN 20 thousand each. All the Company's shares were taken up by Bank Pocztowy SA – a company associated with PKO Bank Polski SA.

On 17 June 2010, Centrum Operacyjne Sp. z o.o. was registered in the National Court Register. The Company's share capital amounts to PLN 3 284 thousand and is divided into 250 shares. All the Company's shares were taken up by Bank Pocztowy SA – a company associated with PKO Bank Polski SA.

50. Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing, unrelated parties in an arm's length transaction.

Categories of valuation at fair value of financial assets and liabilities stated at fair value in the statement of financial position.

On the basis of applied methods of valuation at fair value, the Group classifies financial assets and liabilities to the following categories:

1) **Level 1:** Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Group classified to that category the following items:
   - debt securities valued at fixing from Bondspot platform,
   - debt and equity securities in the Brokerage House (Dom Maklerski) portfolio,
   - debt and equity securities which are traded on regulated market.
2) **Level 2:** Financial assets and liabilities whose fair value is determined with use of valuation models, where all significant entry data is observable on the market directly (as prices) or indirectly (based on prices). The Group classified to that category the following items:
   - debt securities valuated to the curve or those whose price comes from Bloomberg platform and brokered system of Reuters but for which market is illiquid,
   - non-treasury debt securities issued by other financial entities, local government bodies, non-financial entities quoted on the stock exchange or traded on a regulated OTC market,
   - securities issued by Ministry of finance of Ukraine in Kredobank SA portfolio
   - derivative instruments.

(in PLN thousand)

3) **Level 3:** Financial assets and liabilities whose fair value is determined with use of valuation models, for which available data is not derived from observable markets. The Group classified to this category shares not quoted on Warsaw Stock Exchange (WSE), equity securities portfolio and debt securities of KREDOBANK SA.

Note 2 'Summary of significant accounting policies including estimates and judgements' provides detailed information on the method of fair value calculation.

The table below presents the classification of financial assets and liabilities measured in the period at fair value divided into a three-level hierarchy as at 31 December 2010 and as at 31 December 2009:

Assets and liabilities valued at fair value as at 31 December 2010	Carrying amount	Level 1	Level 2	Level 3
Trading assets	**1 503 649**	**1 448 815**	**54 834**	**-**
Debt securities	1 491 053	1 436 219	54 834	-
Shares in other entities	12 596	12 596	-	-
Derivative financial instruments	**1 719 085**	**718**	**1 718 367**	**-**
Hedging instruments	153 921	-	153 921	-
Trade instruments	1 565 164	718	1 564 446	-
Financial assets desiganted at fair value through profit and loss	**10 758 331**	**3 048 210**	**7 710 121**	**-**
Debt securities	10 758 331	3 048 210	7 710 121	-
Investment securities available for sale	**10 219 400**	**5 746 686**	**4 463 428**	**9 286**
Debt securities	10 123 419	5 659 991	4 463 428	-
Equity securities	95 981	86 695	-	9 286
Financial assets at fair value - total	**24 200 465**	**10 244 429**	**13 946 750**	**9 286**
Derivative financial instruments	**2 404 795**	**-**	**2 404 795**	**-**
Hedging instruments	555 983	-	555 983	-
Trade instruments	1 848 812	-	1 848 812	-
Financial liabilities at fair value - total	**2 404 795**	**-**	**2 404 795**	**-**

Assets and liabilities valued at fair value as at 31 December 2009	Carrying amount	Level 1	Level 2	Level 3
Trading assets	**2 212 955**	**890 480**	**1 322 475**	**-**
Debt securities	2 202 847	880 372	1 322 475	-
Shares in other entities	10 108	10 108	-	-
Derivative financial instruments	**2 029 122**	**72**	**2 029 050**	**-**
Hedging instruments	352 261	-	352 261	-
Trade instruments	1 676 861	72	1 676 789	-
Financial assets desiganted at fair value through profit and loss	**12 360 690**	**92 882**	**12 263 650**	**4 158**
Debt securities	12 360 690	92 882	12 263 650	4 158
Investment securities available for sale	**7 944 317**	**3 858 601**	**4 077 869**	**7 847**
Debt securities	7 848 570	3 768 733	4 077 869	1 968
Equity securities	95 747	89 868	-	5 879
Financial assets at fair value - total	**24 547 084**	**4 842 035**	**19 693 044**	**12 005**
Derivative financial instruments	**1 544 370**	**-**	**1 544 370**	**-**
Hedging instruments	25 312	-	25 312	-
Trade instruments	1 519 058	-	1 519 058	-
Financial liabilities at fair value - total	**1 544 370**	**-**	**1 544 370**	**-**

In the course of 2010 and 2009, there were no significant transfers between level 1 and 2.

(in PLN thousand)

The following tables present a reconciliation of the fair value of level 3 fair value hierarchy during the measurement period (for 2010 and 2009).

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
Opening balance as at 1 January 2010	**4 158**	**7 847**	**12 005**
Gains or losses	(3 885)	1 182	(2 703)
in financial result	(3 885)	262	(3 623)
total in other comprehensive income	-	920	920
Purchase	-	4 950	4 950
Sales	(273)	(3 664)	(3 937)
Settlement	-	-	-
Transfer to or from level 3	-	(1 029)	(1 029)
Closing balance as at 31 December 2010	**-**	**9 286**	**9 286**
Total gains or losses for the period in the financial result for assets held at the end of the period	**(3 885)**	**1 182**	**(2 703)**

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
Opening balance s at 1 January 2009	**8 630**	**20 007**	**28 637**
Gains or losses	603	3 263	3 866
in financial result	603	3 263	3 866
Purchase	-	15 419	15 419
Sales	(5 075)	(28 612)	(33 687)
Settlement	-	(2 230)	(2 230)
Closing balance as at 31 December 2009	**4 158**	**7 847**	**12 005**
Total gains or losses for the period in the financial result for assets held at the end of the period	**603**	**3 263**	**3 866**

Financial assets and liabilities not presented at fair value in the statement of financial position

The Group holds certain financial instruments which are not stated at fair value in the statement of financial position.

Where there is no market value of financial instruments available, their fair values have been estimated using various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates. Such a model includes certain simplifying assumptions and therefore is sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair value.

For certain categories of financial instruments it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and their fair value resulting from the features of these groups (such as short term character, high correlation with market parameters, unique character of the instrument). This applies to following groups of financial instruments:

- loans and advances to customers: a portion of the housing loans portfolio (the so-called ‘old portfolio’), loans with no specified repayment schedule, which are due at the moment of valuation

- amounts due to clients: liabilities with no specified payment schedule, other specific products for which no active market exists, such as housing plan passbooks and bills of savings,
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans and advances granted and taken on interbank market at a variable interest rate (change of interest rate maximum on a three month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities,
- debt securities in issue (at variable interest rate), issued by KREDOBANK and BFL.

With regard to loans and advances to clients, the fair value of these instruments has been calculated using discounted future cash flows, and applying current interest rates plus a risk margin and relevant scheduled repayment dates. The current margin level has been established based on transactions with similar credit risk executed during the last quarter of the year ended as of the balance date.

The fair value of deposits and other amounts due to customers other than banks, with specified maturities, has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the yield curve.

The fair value of the obligation from issuance of PKO Finance AB bonds was calculated using Bloomberg data.

The fair value of interbank placements and deposits has been estimated based on the expected future cash flows discounted using the current interbank interest rates.

Receivables on financial lease have been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance date.

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the Group's statement of financial positions as at 31 December 2010 and 31 December 2009:

(in PLN thousand)

	31.12.2010		31.12.2009	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with the central bank	6 182 412	6 182 412	7 094 350	7 094 350
Amounts due from banks	2 307 032	2 310 677	2 023 055	2 023 055
Loans and advances to customers	130 668 119	132 354 672	116 572 585	112 051 297
corporate loans	44 842 815	45 730 364	42 338 393	41 168 107
consumer loans	24 129 437	24 276 727	22 295 745	21 754 627
mortgage loans	61 695 867	62 347 581	51 938 447	49 128 563
Other financial assets	352 473	352 473	376 438	376 438
Amounts due to the central bank	3 370	3 370	6 581	6 581
Amounts due to other banks	5 233 875	5 233 592	5 146 048	5 143 801
Amounts due to clients	132 981 215	132 769 766	125 072 934	125 046 649
due to corporate entities	31 826 551	31 617 979	27 834 542	27 832 985
due to state budget entities	6 046 810	6 046 896	9 680 991	9 681 139
due to retail clients	95 107 854	95 104 891	87 557 401	87 532 525
Liabilities related to own issue	3 298 867	3 298 867	289 360	289 360
Subordinated liabilities	1 611 779	1 617 238	1 612 178	1 618 093
Other financial liabilities	1 538 372	1 538 372	1 112 383	1 112 383

51. Fiduciary activities

The Bank is a direct participant in the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych*) and the Securities Register (at the National Bank of Poland). The Bank maintains investment accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets placed in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

Moreover, as a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities acting by the Polish Bank Association, PKO Bank Polski SA takes part in developing regulations and market standards.

52. Sale of impaired loan portfolio

The Group did not enter any securitisation transactions, although:

– in the second and third quarter of 2009, the Bank terminated the operations related to packaging sell of 3 packages: package I and II are 59 thousand of retail receivables at the total amount of PLN 628 million, package III – 3 thousand of economic receivables at the total amount of PLN 885 million,

– in the first half of 2010, the parent company performed a subsequent sale of 58 thousand retail receivables classified as ‘loss’ in relation to individuals who do not conduct business activities. The debt portfolio exposure amounted to PLN 634 million.

– in the second half of 2010, consecutive batch sales were carried out:

a) in the third quarter, 1.4 thousand receivables from institutional clients classified as 'loss', with a total value of PLN 307 million;

b) in the fourth quarter, 62 thousand retail receivables classified as ‘loss’ that arose in relation to individuals who do not engage in business activity. The debt portfolio of PLN 493 million in total was sold.

– the total carrying amount of relevant provisions as at 31 December 2010 amounted to PLN 11 430 thousand (as at 31 December 2009 they amounted to PLN 31 589 thousand). The parent company did not receive any securities as a result of the aforesaid transactions.

53. Description of differences between the previously published financial statements and these financial statements

In 2010 there were no significant changes as compared to previously published financial statements.

54. Influence of macroeconomic situation on the Group's results

In 2010 the Group's operations and financial position were significantly affected by the macroeconomic developments, including a recovery in the economic growth in Poland, following an improvement in the economic situation in the USA and the euro area after a sudden economic slowdown in 2009 resulting from the global economic crisis. While the situation in the real economy gradually stabilized, in the course of 2010 an increased volatility could be noted in the financial markets, particularly in Europe, due to the deteriorating financial position of the public sectors and the banking sectors in peripheral countries of the euro area (Greece, Ireland, Portugal, Spain) and instability in Hungary. The strongest turbulences occurred in May (the Greek crisis) and in November 2010 (an escalation of the banking crisis in Ireland). In the environment of a sudden deterioration in the situation in the financial markets (a strong weakening of the euro, an increase in CDS rates and the profitability of the Treasury bonds issued by the peripheral countries of the euro area), Member States and institutions of the European Union implemented measures aimed at preventing the crisis from spilling over to the entire euro area. In 2010, the growth trend continued in Poland, which was one of the fastest growing economies in the region. The economic growth was supported by the strengthening of private consumption in the environment of a growth in employment and the continuation of infrastructural projects. On the other hand, throughout the year, the concerns regarding the sustainability of the observed economic recovery dampened the recovery of investment activities in enterprises which translated into a slump in investment which continued for the second year in a row. Turbulences in the European financial markets brought about strong exchange rate volatility of the euro and the Polish złoty.

At the same time, 2010 saw an improvement in the field of transactions in the interbank market, while the increase in the banking sector's capital base translated into its increased stability and growth potential.

PKO Bank Polski SA successfully passed the stress tests conducted in mid-2010 as part of the mandate of the European Council of Finance Ministers, coordinated by the Committee of European Banking Supervisors in cooperation with the European Central Bank, national regulators and the European Commission. The tests, which are theoretical tests of resilience in the case of a potential deterioration in the macroeconomic situation, showed that the Bank significantly exceeded the minimum ratios adopted for the tests. It is worth mentioning that the Group has no exposures to debt securities issued by the governments of the peripheral countries of the euro area and the Hungarian government.

Taking into account the impact of the macroeconomic situation on the condition of the customers of the PKO Bank Polski SA Group, the Group strictly follows a conservative approach to risk by recognizing impairment losses whose scale and structure reflects the impact of the current macroeconomic situation on the Group's financial statements.

The Group's high level of equity, resulting, *inter alia,* from a share issue conducted in the second half of 2009, combined with significant additional sources of financing obtained in 2010, namely the issue of 5-year Eurobonds with a nominal value of EUR 800 million and an interest rate of 3.733% per annum (the issue most successfully placed by any Polish issuer except the State Treasury) enabled the further stable development of business activities in all operating segments.

In 2010, the Group earned the best financial results in its history. At the same time, the Group is the leader of the banking sector in terms of total assets, equity, loans granted and deposits accepted. The high financial results were achieved due to the strong growth, compared with the prior year, of net interest income and fee and commission income and the stable level of administrative expenses. At the same time, there was a significant growth in the Group's loan portfolio and core deposits.

The financial results achieved are an important component of the 'Leader' Strategy of PKO Bank Polski SA adopted by the Management Board of the Bank and approved by its Supervisory Board in February 2010. The strategy set out two main strategic objectives for 2010-2012: PKO Bank Polski SA being a clear leader of the Polish banking sector and being a stable, profitable and effective bank.

The strategy, focused on fulfilling the needs of the Bank's customers, as well as the expectations of its owners and employees, provides for the continuation of sustainable, organic growth, synergies and leveraging the potential of the entire Group.

Given its involvement in Kredobank SA, the Group is exposed to the effects of risks typical for the Ukrainian market. The Ukrainian banking sector suffered from the global economic crisis much more strongly than the Polish market. After the sudden recession in 2009, in 2010 the Ukraine recorded a growth in GDP. A more stable economic situation resulted in an increase in salaries, in real terms, and stabilization of the exchange rates of the Ukrainian currency. In 2010, the IMF continued providing financial assistance to the Ukraine (the *Stand-by Arrangement* programme) and towards the end of the year, the IMF granted a second loan to the Ukraine as part of this programme. In spite of the gradual stabilization, the Ukrainian banking sector continued to face difficulties, resulting from the low economic growth combined with the low income of households, a high level of unemployment and low economic activity of enterprises.

PKO Bank Polski SA continues to implement measures aimed at ensuring the safe functioning of Kredobank SA in the environment of the current macroeconomic situation in the Ukraine. These measures include strengthening oversight activities, monitoring funds transferred to the Company by the Bank and the development of the regulatory requirements determined by the National Bank of Ukraine.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

55. Risk management in the Group

Risk management is one the most important internal processes in both PKO Bank Polski SA and the other entities of the Group, especially KREDOBANK SA and Grupa Kapitałowa Bankowego Funduszu Leasingowego SA. Risk management aims at ensuring an appropriate level of security and profitability of business activities in the changing legal and economic environment. The level of the risk plays an important role in the planning process.

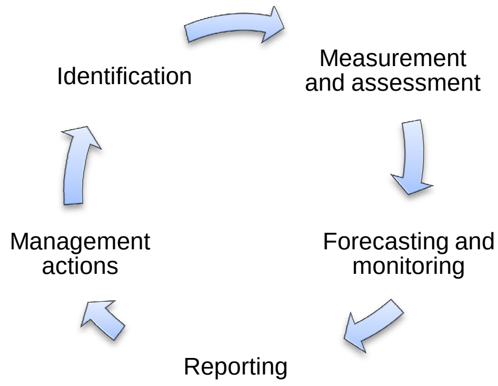
The following types of risk which are subject to risk management have been identified in the Group: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk, including strategic risk, and reputation risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments. Managing the banking risk by maintaining the risk level within the adopted tolerance bracket is aimed at:

- protecting the value of the shareholders' capital,
- protecting client deposits,
- supporting the Bank in conducting effective operations.

The process of banking risk management in the Group consists of the following stages:

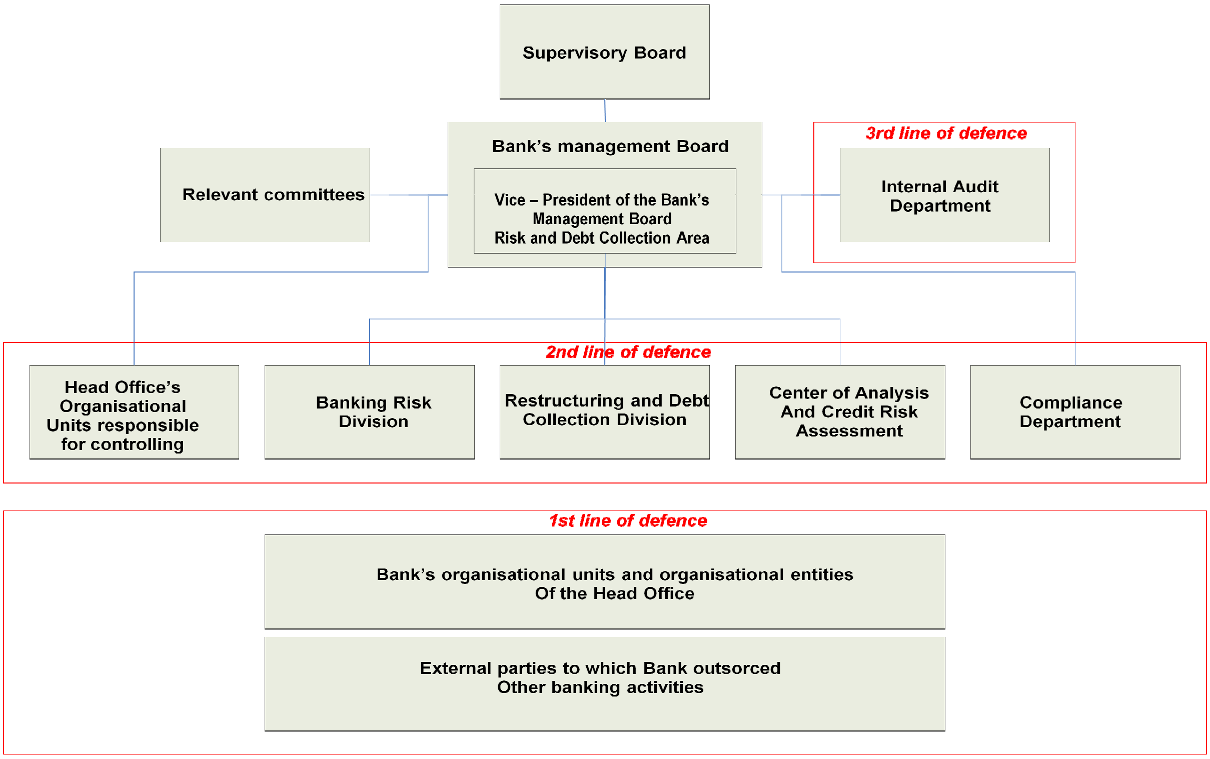
- risk identification – the identification of current and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the Group. The types of risk which are perceived as material in the banking activity are identified within the risk identification process;
- risk measurement and assessment – defining risk assessment tools adequate to the type, significance of the risk, data availability and quantitative risk assessment by means of defined tools, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, stress-test are being conducted on the basis of assumptions providing a fair risk assessment;
- risk forecasting and monitoring – preparing risk level forecasts and monitoring deviances from forecasts and adopted reference points (for example limits, thresholds, plans, measurements from the previous period, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type;
- risk reporting – periodic informing the Management of the Bank about the results of risk assessment, taken actions and recommendations. Scope, frequency and the form of reporting is adjusted to the managing level of recipients.
- management actions – including, among others, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The aim of taking management actions is to form the risk management process and risk level.

The risk management process is described on the chart below.



Risk management in the Group is based on the following principles:
– the Group manages all of the identified types of banking risk;
– the risk level is monitored on a current basis;
– the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis;
– the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis;
– the risk management process supports the pursuit of the Group's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk;
– the area of risk and debt recovery remains organizationally independent of business activities;
– risk management is integrated with the planning and controlling systems.

Risk management in the Bank takes place in all of the organizational units of the Bank. The organization of risk management is presented in the chart below:



The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank as well as of the PKO Bank Polski SA Group and the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk profile of the Bank and enacts internal regulations defining the risk management system.

The risk management process is carried out in three, mutually independent lines of defence:

1) the first line of defence, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws;
2) the second line of defence, which is the risk management system, including risk management methods, tools, process and organization of risk management;
3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organizational independence in the following areas:

– the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence;
– the function of the third line of defence is independent of the functions of the first and second lines of defence;
– the function of managing the compliance risk reports directly to the President of the Management Board of the Bank.

The first line of defense is being performed in the organizational units of the Bank, the organizational units of the Head Office and entities of the Group and concerns the activities of those units and entities which may generate risk. The units, cells and entities of the Group are responsible for identifying risks, designing and implementing appropriate controls, including in the external entities, unless controls have been implemented as part of the measures taken in the second line of defense. At the same time the Group's entities are obliged to have comparable and cohesive systems of risk control (taking into account the specific business characteristic of each entity and market conditions).

The second line of defence is being performed, in particular, in the Risk and Debt Collection Area, the specialist organizational units of the Bank responsible for credit analyses, the organizational unit of the Head Office managing the compliance risk, as well as the organizational units of the Head Office responsible for controlling.

The third line of defence is being performed as part of internal audit, including the audit of the effectiveness of the system of managing the risk relating to the Bank's activities.

The organizational units of the Head Office of the Bank that are grouped within the Banking Risk Division, the Restructuring and Debt Collection Division, and the Credit Risk Assessment Department manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible for:

– identifying risk factors and sources;
– measuring, assessing, and monitoring and reporting risk levels (material risks) on a regular basis;
– measuring and assessing capital adequacy;
– preparing recommendations for the Management Board of the Bank or committees regarding the acceptable level of risk;
– creating internal regulations on managing risk and capital adequacy;
– developing IT systems dedicated to supporting risk and capital adequacy management.

The Restructuring and Debt Collection Department is responsible for:

– recovering receivables from difficult clients swiftly and increasing the effectiveness of such measures;
– effective and early monitoring of delays in the collection of receivables of retail market clients;
– selling difficult receivables effectively and outsourcing the tasks carried out, as well as effective management of assets taken over as a result of recovering the Bank's receivables.

The Analysis and Credit Risk Assessment Centre (*Centrum Analiz i Oceny Ryzyka Kredytowego*) is responsible for evaluating and verifying the level of credit risk level assessed in respect of individual credit exposures, which due to the scale of the exposure, client's segment or risk level required independent assessment. In connection with the implementation of the T Recommendation by the Bank, the Analysis and Credit Risk Assessment Centre takes lending decisions in respect of individual clients.

Risk management is supported by the following committees:

– Assets & Liabilities Committee (ALCO),
– Bank's Credit Committee (BCC),
– Central Credit Committee (CCC),
– the Operating Risk Committee (ORC);
– credit committees which operate in the regional retail and corporate branch offices.

ALCO and BCC are committees chaired by the Vice-President of the Bank's Management Board who is in charge of the Risk and Debt Collection Area.

ALCO makes decisions within the scope of granted authorisations and issues recommendations to the Bank's Management Board with regard to portfolio credit risk management, interest rate risk management, currency risk, liquidity risk and the Bank's asset and liabilities management.

BCC makes loan decisions with regard to significant individual loan exposures, or issues recommendations in this respect to the Bank's Management Board.

CCC supports the decisions taken by the relevant managing directors and the Management Board members with its recommendations and the credit committees operating in the regions support branch directors and directors of the Regional Corporate Branches in matters bearing a higher risk level.

ORC (Operating Risk Committee) supports the Bank's Management Board in the process of managing operating risk by:

- giving recommendations, inter alia, as to the Bank's Management Board approval of the level of operational risk tolerance, operational risk limits reserved for the competences of the Bank's Management Board, defining operational risk stress tests and other activities related to systemic management of the operational risk,
- taking decisions in respect of thresholds and critical values of key risk indicators (KRI), operational risk limits reserved for the competences of KRO, values of key parameters used in calculating value at risk (VaR) in respect of operational risk, and individual approach to outliers.

Moreover, KRO prepares operating risk management recommendations for member companies of the PKO BP SA Group, which are submitted to the Group member as part of the Bank's corporate governance.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the specific nature of the entity's activity and the market on which it operates.

PKO Bank Polski SA's top priority is to maintain its strong capital position and to further increase its stable sources of financing, which are a precondition for increasing the loan portfolio.

In consequence, in 2010, the Bank:

- continued actions aimed at obtaining New deposits from its clients,
- in October, obtained via its PKO Finance AB company funds from the issuance of 5-year bonds under the EMTN programme, in the amount of EUR 800 million,
- took into account factors related to the financial crisis (inter alia, in respect of stress test scenarios) in the bank risk measurement methods.

In 2010, the Bank implemented the T Recommendation requirements, in particular in respect of:

- separating the sales functions from the functions related to the assessment of credit risk,
- monitoring the timeliness of repayment of loan liabilities by loan recipients who drew liabilities with other banks;
- introducing new rules for evaluating the security accepted in respect of loan transactions with individual clients, taking into account the liquidity, value, accessibility and control of the security over the period of the loan;
- introducing the obligation to notify clients of the risks and of all costs related to the loan agreement before it is concluded,
- changing the algorithm for evaluating creditworthiness of clients by taking into account the applicant's debt to net income ratio, and by accounting for debt related to charge cards in the total debt.

The significance of the individual types of risk is established at the Bank's level as well as at the particular subsidiaries of the PKO Bank Polski SA Group level. When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank's as well as on a given entity's of the Group and the whole Group`s activities are taken into account, whereas three types of risk are recognised:

- considered as significant a priori – being managed actively,
- potentially significant – for which significance monitoring is being made,
- other non-defined or non-occurring in the Bank types of risk (insignificant and non-monitored).

Based on quantitative and qualitative information, an assessment of significance of given types of risk is performed in the Bank periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. Similar assessment is conducted periodically in the entities of the Group. In particular, monitoring is conducted if significant change in activities took place or the profile of the Bank or the Group changed.

56. Credit risk

Definitions, aims and principles

Credit risk is defined as a risk of occurrence of losses due to a counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of a counterparty's ability to repay amounts due to the Bank.

The objective of credit risk management is to minimize losses on the credit portfolio as well as to minimize the risk of occurrence of loans threatened with impairment exposure, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank and subsidiaries of the Group apply the following principles of credit risk management:

– each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
– credit risk relating to potential and concluded loan transactions is measured when loan application is analysed and on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
– credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
– terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
– loan granting decisions are made only by authorised persons, within their authority,
– credit risk is diversified by geographical location, by industry, by product and by clients,
– expected credit risk is mitigated by setting collateral, appropriate credit margins from customers and appropriate allowances for credit losses.

The above-mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Financial Supervision Authority.

The Group entities, which have significant credit risk levels (KREDOBANK SA, BFL SA Group) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the Group companies are agreed every time with the Bank's units responsible for risk management.

The BFL SA Group and KREDOBANK SA measure credit risk regularly and the results of such measurements are submitted to the Bank.

KREDOBANK SA and the BFL SA Group have units responsible for risk in their organizational structures, which are in particular responsible for:

– developing methods of credit risk assessment, recognizing provisions and allowances,
– controlling and monitoring credit risk during the lending process,
– the quality and efficiency of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making at KREDOBANK SA and the BFL SA Group is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

Appropriate organizational units of the Banking Risk Division participate in managing the credit risk in the Group companies by giving their opinions on projects and periodically reviewing internal regulations of the companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

In 2010, KREDOBANK SA centralized the credit risk assessment functions and implemented a pilot version of the early warning system, Early Warning System (EWS) which relates to loans granted to legal entities. It also implemented a system of mobile phone short text messages (SMS) for notifying customers: a preventive text message – three days before repayment deadline, and a text message – on the third day after the loan becomes outstanding. It carried out actions to systematize the monitoring of lending operations, in particular, by developing a database of the current loan insurance agreements. It established a Restructuring Committee to increase the effectiveness of decision-making in respect of the restructuring of loans.

The main directions of the BFL SA Group credit risk management policy comprise constructing a secure lease portfolio which guarantees positive consolidated results of the BFL Group, capital security and efforts to reduce the share of non-performing loans in the portfolio. The policies defined, inter alia, the criteria for identifying undesirable industries, clients and specific entities and exposure limits in respect of specific industries and concentration limits for customers. The BFL SA Group's goal is to develop lease activities through the banking distribution channel.

Portfolio risk measurement

Credit risk measurement methods

In order to assess the level of credit risk and profitability of loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- Probability of Default (PD);
- Expected Loss (EL);
- Credit Value at Risk (CVaR);
- effectiveness measures used in scoring methodologies (Accuracy Ratio);
- share and structure of non-performing loans (according to IAS);
- coverage ratio of non-performing loans with impairment allowances (according to IAS)
- cost of risk.

PKO Bank Polski SA extends regularly the scope of credit risk measures used, taking account of the internal rating-based method (IRB) requirements, and extends the use of risk measures to cover the whole Bank's loan portfolio with these methods.

The portfolio credit risk measurement methods make it possible, among other things, to reflect the credit risk in the price of products; determine the optimum cut-off levels and determine impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of Bank's loan portfolio. The test results are reported to the Bank's Executives. The above-mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavorable market changes on the Bank's performance.

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. The assessment methods are supported by specialist application software. The scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the credit process.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external sources and internal records of the Bank.

The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions. The comprehensive measure of credit risk which reflects both risk factors is the aggregate rating. As of 1 September 2010, the Bank implemented a scoring method for credit risk evaluation of clients in the SME segment, and a dedicated software application. The said clients are covered not only by the rating method, but also by the scoring method under which the Bank assesses credit risk in two dimensions: credit capacity and creditworthiness.

Implementation of the scoring method for SME customers will result in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness.

The information about ratings and scoring is widely used at the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the amounts above which independent credit assessment services are activated and in the credit risk assessment and reporting system.

In order to reduce the period of response as regards warning signals suggesting an increase in credit risk level, the Bank implemented a dedicated application to support the Early Warning System (EWS) in August 2010.

Credit risk management tools

Basic credit risk management tools used by the Bank include:

– minimum transaction requirements determined for a given type of transaction (e.g. minimum LtV, maximum loan amount, required collateral);
– the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class or cumulative rating class (for corporate clients), which a client must obtain to receive a loan;
– concentration limits – the limits defined in §71, clause 1 of the Banking Law,
– industry-related limits – limits which limit the risk level related to financing institutional clients that conduct business activities in industries characterized by high level of credit risk,
– limits on credit exposures related to the Bank's customers - the limits defining the appetite for credit risk as result of from the recommendations of S and T,
– competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients; the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organizational structure).
– minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given institutional client; the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin;

Collateral management policy plays a significant role in establishing minimum transaction terms as regards credit risk. The Bank and the Group entities' collateral policy is meant to secure properly the credit risk, to which the Group is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

The Bank follows the following rules with respect to accepting legal collateral for loans:

– in the case of substantial loans (in terms of value), several types of collateral are established. If possible, personal guarantees are combined with collateral established on assets,
– liquid types of collateral (i.e. collateral established on tangible assets, which the Bank is likely to dispose of quickly for a price approximating the value of the assets put up as collateral) are preferred,

(in PLN thousand)

- types of collateral which are exposed to a risk of significant adverse fluctuations of value are treated as auxiliary collateral,
- when an asset is accepted as collateral, an assignment of rights from the insurance policy relating to this asset or the insurance policy issued to the Bank are accepted as additional collateral,
- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

The policy regarding legal collateral is defined by internal regulations of Group's subsidiary entities.

The type of collateral depends on the product and the type of the client. With regard to real estate financing products, collateral is required to be established as mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin or/and a collateral in the form of a cession of receivables related to the construction agreement, bill of exchange, guarantee or an insurance of receivables.

With regard to retail banking loans for individuals, usually personal guarantees are used (a civil law surety/guarantee, a bill of exchange) or collateral is established on the client's bank account, his car or securities.

With regard to loans for the financing of small and medium enterprises and corporate clients, collateral can be established on: trade receivables, bank accounts, movable property, real estate or securities.

When signing a leasing agreement, BFL SA Group, as a proprietor of leased objects, treats them as collateral.

Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports for i.a. ALCO, the Central Credit Committee, the Management Board and the Supervisory Board. Risk reporting comprises reporting on credit portfolio exposure on regular basis. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for two Group entities (KREDOBANK SA and the BFL SA Group), which have significant credit risk levels.

The Group's exposure to credit risk

Amounts due from banks	Exposure	
	31.12.2010	31.12.2009
Amounts due from banks impaired	28 559	27 496
of which valued with an individual method	28 089	27 013
Amounts due from banks not impaired	2 307 398	2 022 668
neither past due nor impaired	2 307 047	2 022 256
past due but not impaired	351	412
past due up to 4 days	351	412
past due over 4 days	-	-
Gross total	**2 335 957**	**2 050 164**
Impairment allowances	**(28 925)**	**(27 109)**
Total receivables by carrying amount (net)	**2 307 032**	**2 023 055**

(in PLN thousand)

Loans and advances to customers	Exposure	
	31.12.2010	31.12.2009
Loans and advances impaired	10 887 174	9 108 150
of which valued with an individual method	5 899 231	5 355 887
Loans and advances not impaired	124 637 615	111 401 559
neither past due nor impaired	120 260 937	106 581 588
past due but not impaired	4 376 678	4 819 971
past due up to 4 days	2 027 160	2 810 055
past due over 4 days	2 349 518	2 009 916
Gross total	**135 524 789**	**120 509 709**
Impairment allowances	**(4 856 670)**	**(3 937 124)**
Total receivables by carrying amount net	**130 668 119**	**116 572 585**

Investment securities – debt securities	Exposure	
	31.12.2010	31.12.2009
Debt securities impaired	21 259	20 592
of which valued with an individual method	21 259	20 592
Debt securities not impaired	10 123 419	7 857 027
neither past due nor impaired	10 123 419	7 857 027
with external rating	5 864 172	5 083 116
with internal rating	4 259 247	2 773 911
Total gross	**10 144 678**	**7 877 619**
Impairment allowances	**(21 259)**	**(19 155)**
Total instruments by carrying amount (net)	**10 123 419**	**7 858 464**

Other assets – other financial assets	Exposure	
	31.12.2010	31.12.2009
Other assets impaired	132 213	159 906
Other assets not impaired	345 483	355 294
neither past due nor impaired	345 191	353 963
past due but not impaired	292	1 331
Gross total	**477 696**	**515 200**
Impairment allowances	**(125 223)**	**(138 762)**
Total other assets by carrying amount net	**352 473**	**376 438**

(in PLN thousand)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Group as at 31 December 2010 and as at 31 December 2009, without taking into consideration values of collateral and the resulting improvement in the credit risk exposure by carrying amount.

Items of the statement of financial position	**31.12.2010**	**31.12.2009**
Current account in the central bank	**3 782 717**	**4 625 073**
Amounts due from banks	**2 307 032**	**2 023 055**
Trading assets – debt securities	**1 491 053**	**2 202 847**
issued by the State Treasury	1 483 144	2 198 840
issued by local government bodies	7 390	2 208
issued by banks	-	1 799
issued by financial institutions	10	-
issued by non-financial institutions	509	-
Derivative financial instruments	**1 719 085**	**2 029 122**
Other financial instruments designated at fair value through profit and loss - debt securities	**10 758 331**	**12 360 690**
issued by the State Treasury	6 631 702	5 362 314
issued by central banks	3 997 780	6 994 218
issued by local government bodies	128 849	-
issued by non-financial institutions	-	4 158
Loans and advances to customers	**130 668 119**	**116 572 585**
Financial entities (other than banks)	2 972 158	2 441 962
corporate loans	2 972 158	2 441 962
Non-financial entities	123 858 597	109 184 382
consumer loans	24 129 437	22 295 745
mortgage loans	61 695 223	51 938 447
corporate loans	38 033 937	34 950 190
State budget entities	3 837 364	4 946 241
corporate loans	3 836 720	4 946 241
mortgage loans	644	-
Investment securities available for sale - debt securities	**10 123 419**	**7 858 464**
issued by banks	50 858	90 086
issued by non-financial institutions	1 435 074	775 657
issued by the State Treasury	5 813 314	4 992 500
issued by local government bodies	2 824 173	2 000 221
Other assets - other financial assets	**352 473**	**376 438**
Total	**161 202 229**	**148 048 274**

Off-balance sheet items	**31.12.2010**	**31.12.2009**
Irrevocable liabilities granted	7 001 338	6 985 527
Guarantees granted	4 554 377	4 018 748
Letters of credit granted	229 946	230 078
Guarantees of issue (underwriting)	2 496 031	1 248 655
Total	**14 281 692**	**12 483 008**

Credit quality of financial assets which are neither past due nor impaired

Taking the type of Group's business activity and the amount of credit and leasing debts into consideration, the most important portfolios are managed by the Bank and Bankowy Fundusz Leasingowy SA. Information about credit quality of loans granted by the Bank and the BFL SA Group is presented below.

(in PLN thousand)

The Bank uses the following classification:

- for corporate clients (corporate loans) who are not individually impaired – internal rating classes form A (first-rate) to F (acceptable)
- for other non-financial clients (consumer and housing loans) who are not individually impaired – internal rating classes form A (first-rate) to E (acceptable).

The following loan portfolios are covered by the rating system:

- corporate clients,
- housing corporate market clients
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

Financial assets neither past due nor impaired	31.12.2010	31.12.2009
Amounts due from banks	**2 307 047**	**2 022 256**
of which:		
with rating	2 215 818	1 852 652
without rating	91 229	169 604
Loans and advances to customers	**120 260 937**	**106 581 588**
with rating	115 489 715	100 703 384
without rating	4 771 222	5 878 204
PKO Bank Polski SA	**118 036 993**	**104 558 956**
with rating – financial, non-financial and budget sector (corporate loans)	36 648 989	34 077 422
A (first rate)	1 053 966	955 973
B (very good)	2 683 977	3 042 110
C (good)	6 165 665	4 960 747
D (satisfactory)	10 691 018	10 191 790
E (average)	7 460 009	7 024 072
F (acceptable)	8 594 354	7 902 730
with rating – non-financial sector (consumer and mortgage loans)	77 811 902	65 674 943
A (first rate)	43 929 181	13 744 126
B (very good)	13 666 144	23 597 457
C (good)	12 303 034	18 830 587
D (average)	3 536 471	3 985 809
E (acceptable)	4 377 072	5 516 964
without rating – non-financial sector (other consumer and mortgage loans)	3 576 102	4 806 591
The BFL SA Group	**1 858 253**	**1 667 560**
with rating	1 028 824	951 019
A2(first rate)	2 858	10 697
A3 (very good)	109 326	89 883
A4 (good)	132 142	154 388
A5 (satisfactory)	284 998	206 962
A6(average)	391 914	304 653
B1 (acceptable)	94 634	140 180
B2 (poor)	12 065	40 631
C (bad)	887	3 625
without rating	829 429	716 541
without rating: customers of non-financial and financial sector of other entities of the PKO Bank Polski SA Group	365 691	355 072
Other assets – other financial assets	**345 191**	**353 963**
Total	**122 913 175**	**108 957 807**

(in PLN thousand)

Loans and advances which are not individually determined to be impaired and are not rated, are characterized with a low level of the credit risk. These are, in particular, retail loans (including mortgages) which are not individually significant and thus do not create significant credit risk.

With regard to the portfolio managed by Bankowy Fundusz Leasingowy, in case of exposures, the value of which is below certain level, simplified procedures are applied, i.e. these are not rated.

Structure of debt securities and inter-bank deposits, neither past due nor impaired by external rating class is presented below:

31 December 2010

Rating/ portfolio	trading assets				at fair value through profit and loss			available for sale		Held to maturity	Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by financial institutions	issued by non-financial institutions	issued by the State Treasury	issued by local government bodies	issued by central banks	issued by the State Treasury	issued by other banks	issued by the State Treasury	
AAA	-	-	-	-	-	-	-	-	-	-	-
AA- to AA+	-	-	-	-	-	-	-	-	-	-	521 466
A- to A+	1 483 144	-	-	-	6 631 702	-	3 997 780	5 659 991	-		1 292 018
BBB- to BBB+	-	-	-	-	-	-	-	-	50 858	-	350 470
BB- to BB+	-	-	-	-	-	-	-	-	-	-	2 066
B- to B+	-	-	-	-	-	-	-	-	-	-	43 685
CCC- to CCC+	-	-	-	-	-	-	-	-	-	-	-
without rating	-	7 390	10	509	-	128 849	-	-	-	-	91 229
Financial assets rated differently in entities of the Group	-	-	-	-		-		153 323	-	-	6 113
Total	**1 483 144**	**7 390**	**10**	**509**	**6 631 702**	**128 849**	**3 997 780**	**5 813 314**	**50 858**	**-**	**2 307 047**

31 December 2009

Rating/ portfolio	trading assets			at fair value through profit and loss			available for sale			Held to maturity	Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by non-financial institutions	issued by the State Treasury	issued by other non-financial entities	issued by central banks	issued by the State Treasury	Issued by non-financial institutions	issued by other banks	issued by the State Treasury	
AA- to AA+	-	-	-	-	-	-	-	-	-	-	667 171
A- to A+	2 198 840	-	-	5 362 314	-	6 994 218	4 966 301	-	-	9 894	975 256
BBB- to BBB+	-	-	-	-	-	-	-	-	50 901	-	131 868
BB- to BB+	-	-	-	-	-	-	-	-	39 185	-	-
B- to B+											67 976
CCC- to CCC+	-	-	-	-	-	-	-	-	-	-	1 059
without rating	-	2 208	1 799	-	-	-	-	-	-	-	169 604
Financial assets rated differently in entities of the Group	-	-	-	-	4 158	-	16 305	530	-	-	9 322
Total	**2 198 840**	**2 208**	**1 799**	**5 362 314**	**4 158**	**6 994 218**	**4 982 606**	**530**	**90 086**	**9 894**	**2 022 256**

(in PLN thousand)

Structure of other debt securities issued by other financial entities, non-financial entities and local government bodies by internal rating class:

Entities with rating	31.12.2010	31.12.2009
	carrying amount	carrying amount
A (first rate)	10 233	98 658
B (very good)	304 834	771 797
C (good)	987 295	842 518
D (satisfactory)	1 216 372	226 150
E (average)	951 813	167 318
F (acceptable)	573 439	667 470
G (weak)	215 261	-
TOTAL	**4 259 247**	**2 773 911**

Concentration of credit risk within the Group

The Group defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Bank analyses the risk of credit risk concentration in respect of:

- the largest borrowers,
- the largest capital groups,
- industries,
- geographical regions,
- currencies,
- exposures with established mortgage collateral.

Concentration by the biggest business entities

The Banking Law specifies maximum concentration limits for the Bank, which have an influence upon the Group. According to Article 71.1 of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities and commitments granted or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership sums - whichever higher - in a limited partnership or limited joint-stock partnership with a risk of one entity or a group of entities related by capital or management, cannot exceed 20% of the Bank's own consolidated funds if any of these entities is related to the Bank, or 25% of the Bank's own consolidated funds if any such entity is unrelated to the Bank.

Furthermore, according to the Article 71.2 of the Banking Law, the aggregate amount of the Bank’s exposures equal or in excess of 10% of its own funds towards individual entities, shall not exceed the large exposure limit, which is 800% of the Bank’s own funds.

As at 31 December 2010 and 31 December 2009, those concentration limits had not been exceeded.

As at 31 December 2010, the level of concentration risk with respect to individual exposures was low – the biggest exposure to a single entity was equal to 8.5*%; 6.1*% and 5.1%of the Bank’s own consolidated funds.

Among 20 of the biggest borrowers of the Group there are exclusively PKO Bank Polski SA clients.

* Concentration in respect of the entities exempted from concentration limits

(in PLN thousand)

Total exposure of the Group to the 20 largest non-banking sector clients:

31.12.2010			31.12.2009		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1.	736 873	0.54%	1.	1 542 437 ***	1.28%
2.	464 247	0.34%	2.	744 334	0.62%
3.	350 441	0.26%	3.	544 230	0.45%
4.	334 671	0.25%	4.	415 957	0.35%
5.	326 815	0.24%	5.	358 614	0.30%
6.	297 702	0.22%	6.	340 278	0.28%
7.	287 418	0.21%	7.	328 965	0.27%
8.	281 790	0.21%	8.	316 892	0.26%
9.	256 297	0.19%	9.	301 523	0.25%
10.	250 000	0.18%	10.	296 439	0.25%
11.	243 947	0.18%	11.	295 076	0.24%
12.	230 999	0.17%	12.	275 120	0.23%
13.	229 921	0.17%	13.	256 380	0.21%
14.	223 904	0.17%	14.	250 000	0.21%
15.	218 157	0.16%	15.	249 806	0.21%
16.	214 447	0.16%	16.	245 140	0.20%
17.	212 636	0.16%	17.	241 129	0.20%
18.	209 785	0.15%	18.	232 169	0.19%
19.	199 078	0.15%	19.	231 779	0.19%
20.	195 894	0.14%	20.	229 852	0.19%
Total	**5 765 022**	**4.25%**	**Total**	**7 696 120**	**6.38%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable.
** The credit portfolio value does not include off-balance sheet and capital exposures.
*** Concentration in respect of the entities excluded from concentration limits under the Article 71.3 of the Banking Law.

Concentration by the largest capital groups

The greatest exposure of the PKO Bank Polski SA Group towards a group of borrowers amounted to 0.87%. Top 5 of the biggest capital groups contains only the clients of PKO Bank Polski SA.

As at 31 December 2010, the concentration of credit risk by the largest capital groups was low. The greatest exposure of the Group towards a capital group amounted to 12.5%* and 6.7% of the Groups own consolidated funds.

Total exposure of the Group towards the 5 largest capital groups:

31.12.2010			31.12.2009		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
***1	1 183 394	0.87%	1	1 625 430	1.35%
2	898 546	0.66%	2	1 356 212	1.13%
3	892 191	0.66%	3	1 439 703	1.19%
4	871 694	0.64%	4	1 078 403	0.89%
5	848 561	0.63%	5	736 516	0.61%
Total	**4 694 386**	**3.46%**	**Total**	**6 236 264**	**5.17%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees, interest receivable, debt securities, off-balance sheet and capital exposures.
**The value of the loan portfolio does not include off-balance sheet and capital exposures.
***Concentration in respect of the entities exempted from concentration limits (Banking Law, art. 71 item 3)

Concentration of credit risk by industry

As compared with 31 December 2009 the exposure of the Group in industry sectors has increased by over PLN 2.3 billion. The total exposure in the four largest industry sectors: ‘Industrial processing’, ‘Wholesale and retail trade, repair of cars, motorcycles...’, ‘Maintenance and rental of real estate...’ and ‘Public administration and national defense...’ amounted to approx. 67% of the total loan portfolio covered by an analysis of the sector.

* Concentration in respect of the entities excluded from concentration limits.

(in PLN thousand)

Analysis of exposure to industry segments is presented in the table below.

Section	Description	31.12.2010		31.12.2009	
		Exposure	**Number of entities**	**Exposure**	**Number of entities**
D	Industrial processing	25.20%	12.89%	24.71%	10.78%
G	Wholesale and retail trade, repair of motor vehicles and personal and household goods	19.20%	25.76%	16.88%	23.70%
K	Property management, lease and services related to the running of business activities	15.24%	9.09%	13.36%	8.65%
L	Public administration and national defense. obligatory social security and public health insurance	7.71%	0.51%	10.58%	0.41%
F	Construction	7.56%	12.25%	6.71%	10.82%
E	Electricity, gas and water production and supply	1.68%	0.14%	2.86%	0.17%
Other exposure		23.41%	39.36%	24.90%	45.47%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

Concentration of credit risk by geographical regions

The Group's loan portfolio is diversified in terms of geographical location.

As at 31 December 2010, the largest concentration of the Group's loan portfolio was in the mazowiecki region. More than half of the Group's loan portfolio is concentrated in four regions: mazowiecki, śląsko-opolski, wielkopolski and małopolsko-świętokrzyski, which is consistent with the regions' domination both in terms of population and economy in Poland.

Region	31.12.2010	31.12.2009
Poland		
mazowiecki	16.97%	18.49%
śląsko-opolski	13.01%	12.52%
wielkopolski	10.20%	9.79%
małopolsko-świętokrzyski	9.36%	8.99%
dolnośląski	7.71%	7.54%
zachodnio-pomorski	6.88%	6.32%
lubelsko-podkarpacki	6.83%	6.50%
pomorski	6.41%	6.45%
łódzki	6.27%	5.68%
kujawsko-pomorski	4.98%	4.66%
warmińsko-mazurski	3.56%	3.45%
podlaski	3.13%	2.92%
other	3.55%	5.24%
Ukraine	**1.14%**	**1.45%**
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2010, the share of currency exposures, other than PLN, in the total credit portfolio of the Group amounted to 23.6%. The greatest parts of currency exposures of the Group are those in CHF and they are related to Bank's credit portfolio. In case of the Group's entities the situation is different, i.e. in the BFL SA currency portfolio, the EUR exposure constitutes the largest part (74.1% of the currency portfolio) and in KREDOBANK SA loans granted in USD constitute approx. 78.0% of the currency portfolio an 40.8% of the whole entity's portfolio.

A decrease in the share of loans denominated in foreign currencies in 2010 results from concentration of new sales of mortgage loans in the Polish currency.

(in PLN thousand)

Concentration of credit risk by currency

Currency	31.12.2010	31.12.2009
PLN	76.43%	75.60%
Foreign currencies, of which:	23.57%	24.40%
CHF	16.85%	17.69%
EUR	4.73%	4.35%
USD	1.44%	1.77%
UAH	0.54%	0.58%
GBP	0.01%	0.01%
Total	**100.00%**	**100.00%**

Other types of concentration

In accordance with the Recommendation S and T of the Polish Financial Supervision Authority, the Bank has implemented internal limits with regard to:

- portfolio of exposures with established mortgage collateral,
- portfolio of loans granted to individual clients.

As at 31 December 2010, these limits have not been exceeded.

Renegotiated receivables

The purpose of the restructuring activity of the Group is to maximize the effectiveness of non-performing loan management. The aim is to receive the highest possible recoveries and, at the same time, incur the minimal costs relating to these recoveries which, in the case of enforcement proceedings.

The restructuring activities include a change in payment terms which is individually agreed on an each contract basis. Such changes may concern:

1) repayment deadline,
2) repayment schedule,
3) interest rate,
4) payment recognition order,
5) collateral,
6) amount to be repaid (reduction of the amount).

As a result of signing and a timely service a restructuring agreement the loan being restructured is reset from overdue to current. Evaluation of the ability of a debtor to fulfil the restructuring agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the restructuring process. Active restructuring agreements are monitored by the Bank on an on-going basis.

Financial assets for which terms had been renegotiated (or otherwise they would be considered as past due or impaired) include the following loans and advances granted:

Financial assets	Carrying amount	
	31.12.2010	31.12.2009
Loans and advances to customers, by gross value	**135 524 789**	**120 509 709**
including renegotiated:	**347 700**	**219 004**
Financial entities	89	-
corporate loans	89	-
Non-financial entities	347 611	219 004
consumer loans	765	4 268
mortgage loans	4 855	12 568
corporate loans	341 991	202 168

(in PLN thousand)

Past due financial assets

Financial assets which are past due at the reporting date but not impaired include the following financial assets:

Financial Assets	31.12.2010 up to 1 month	31.12.2010 over 1 month - up to 3 months	31.12.2010 over 3 months	31.12.2010 Total	31.12.2009 up to 1 month	31.12.2009 over 1 month - up to 3 months	31.12.2009 over 3 months	31.12.2009 Total
Loans and advances to clients	3 259 441	1 021 127	96 110	**4 376 678**	3 561 426	1 239 420	19 125	**4 819 971**
financial sector	-	-	102	**102**	40	174	-	**214**
non-financial sector	2 657 540	1 021 127	96 008	**3 774 675**	3 238 860	1 239 246	19 125	**4 497 231**
budget sector	601 901	-	-	**601 901**	322 526	-	-	**322 526**
Amounts due from banks	351	-	-	**351**	412	-	-	**412**
Other assets – other financial assets	-	292	-	**292**	-	156	1 175	**1 331**
Total	**3 259 792**	**1 021 419**	**96 110**	**4 377 321**	**3 561 838**	**1 239 576**	**20 300**	**4 821 714**

Collateral for the above receivables includes: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

The Bank made an assessment which proved that for the above-mentioned loan exposures the expected cash flows exceed the carrying amount of these exposures.

Financial assets individually determined to be impaired for which individual impairment allowance has been recognised by carrying amount gross

	31.12.2010	31.12.2009
Amounts due from banks	**28 089**	**27 013**
Loans and advances to customers	**5 899 231**	**5 355 887**
Financial entities	41 188	40 712
corporate loans	41 188	40 712
Non-financial entities	5 850 521	5 299 099
consumer loans	91 982	40 500
mortgage loans	903 038	761 205
corporate loans	4 855 501	4 497 394
State budget entities	7 522	16 076
corporate loans	7 522	16 076
Financial assets available for sale	**21 376**	**20 616**
issued by financial entities	8	8
issued by non-financial entities	21 368	20 608
Total	**5 948 696**	**5 403 516**

As at 31 December 2010, financial assets individually determined to be impaired were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes, transfers of receivables and property right for cash,- with a fair value of PLN 5 050 520 thousand (as at 31 December 2009 the amount was PLN 3 808 288 thousand),
- for investment securities available for sale: blank promissory notes, guarantee, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Group took into account the following factors:

– delay in payment of the amounts due by the debtor,
– -the debt being declared as due and payable,
– -enforcement proceedings against the debtor,
– -declaration of the debtor's bankruptcy or filling a petition to declare bankruptcy,
– -the amount of the debt being challenged by the debtor,
– -commencement of corporate recovery proceedings against the debtor,
– establishing imposed administration over the debtor or suspending the debtor's activities,
– -a decline in debtor's rating to a level indicating a significant threat to the repayment of debt
– ('G';'H' rating),

- restructuring actions taken and payment relief applied
- additional impairment indicators identified for exposures to housing cooperatives arising from
- housing loans of the so called 'old portfolio', covered by State Treasury guarantees,
- expected future cash flows from the exposure and the related collateral,
- expected future economic and financial position of the client,
- the extent of execution of forecasts by the client.

Allowances for credit losses

PKO Bank Polski SA Group performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and record impairment charges or provisions. The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Bank's IT systems the events that are material from the point of view of identifying any indications of impairment of loan exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment charge or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.

The method of determining the amount of impairment charges is dependent on the type of indications of impairment identified and the individual significance of a given loan exposure. The events considered as constituting indications of individual impairment are, in particular, as follows:

- a loan being overdue for at least 3 months;
- a significant deterioration in a customer's internal rating;
- entering into restructuring agreement or granting a discount concerning debt repayment (the evidence of impairment will be recognized, if the discount granted to the consumer is a result of its difficult legal or economic position).

When determining the overdue period of a loan, the amounts of interest not paid according to the schedule or instalment payments exceeding accepted thresholds are taken into account.

PKO Bank Polski SA Group applies three methods of estimating impairment:

- the individualized method applied in respect of individually significant loans, which show the indications of impairment or are restructured,
- the portfolio method applied in respect of individually insignificant loans, in the case of which indications of individual impairment have been recognized,
- the group method (IBNR) applied in respect of the loans in the case of which indications of individual impairment have not been identified, but there is a possibility of losses incurred but not recognized occurring.

Impairment allowances in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while calculating impairment allowances under the individualized method, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realization;
- an impairment charge in respect of loan exposures under the portfolio method or the group method corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

(in PLN thousand)

A provision for off-balance sheet loan exposures is recorded in an amount equal to the resulting expected (and possible to estimate) loss of economic benefits.

When determining a provision for off-balance sheet loan exposures, PKO Bank Polski SA Group:

- uses the individualized method in respect of the individually significant loan exposures which show indications of individual impairment or those relating to debtors whose other exposures show such indications,
- the portfolio method (if an exposure shows indications of individual impairment) or the group method (if an exposure only shows indications of group impairment) - in the case of the remaining off-balance sheet loan exposures.

<u>With regard to other credit exposures</u>

The provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet commitment (from the date at which the assessment is performed till the date of overdue amounts considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the commitment.

When determining a provision under the individualized method, the expected future cash flows are estimated for each loan exposure separately.

When determining a provision under the portfolio method or the group method, the portfolio parameters are used, estimated using statistical methods, based on the historic observation of exposures with the same features.

The structure of loan portfolio and loan impairment allowances of the PKO Bank Polski SA Group is presented in Note 23 ‘Loans and advances to customers’.

Credit risk of financial institutions

As at 31 December 2010, the largest exposures of PKO Bank Polski SA Group were as follows:

Interbank portfolio*				
Counterparty	**Type of instrument**			**Total**
	Deposits	**Securities**	**Other derivatives**	
Counterparty 1	396 030	-	-	396 030
Counterparty 2	229 437	-	5 285	234 722
Counterparty 3	-	-	61 291	61 291
Counterparty 4	-	-	55 803	55 803
Counterparty 5	16 308	-	(157)	16 308
Counterparty 6	-	-	12 895	12 895
Counterparty 7	-	-	12 347	12 347
Counterparty 8	-	-	11 393	11 393
Counterparty 9	213	-	8 377	8 590
Counterparty 10	6 711	-	-	6 711
Counterparty 11	-	-	6 500	6 500
Counterparty 12	5 527	-	5	5 532
Counterparty 13	-	-	4 641	4 641
Counterparty 14	-	-	2 496	2 496
Counterparty 15	-	-	2 220	2 220
Counterparty 16	-	-	2 165	2 165
Counterparty 17	-	-	1 419	1 419
Counterparty 18	-	-	1 331	1 331
Counterparty 19	-	-	993	993
Counterparty 20	-	-	862	862

* Excluding exposure to the State Treasury and the National Bank of Poland.

(in PLN thousand)

The table below presents the greatest exposures of the PKO Bank Polski SA Group on the interbank market as at 31 December 2009:

Interbank portfolio*				
Counterparty	Type of instrument			Total
	Deposit	Securities	Other derivatives	
Counterparty 1	308 115	-	(4 648)	308 115
Counterparty 2	287 574	-	-	287 574
Counterparty 3	237 073	-	68	237 141
Counterparty 4	142 515	-	-	142 515
Counterparty 5	77 451	-	(21 743)	77 451
Counterparty 6	-	-	72 529	72 529
Counterparty 7	-	-	72 284	72 284
Counterparty 8	-	-	45 798	45 798
Counterparty 9	-	-	42 354	42 354
Counterparty 10	-	-	41 953	41 953
Counterparty 11	41 492	-	(2 102)	41 492
Counterparty 12	-	-	41 232	41 232
Counterparty 13	-	41 082	-	41 082
Counterparty 14	-	-	38 250	38 250
Counterparty 15	607	-	32 454	33 061
Counterparty 16	-	-	28 920	28 920
Counterparty 17	-	-	23 408	23 408
Counterparty 18	20 000	-	(2 724)	20 000
Counterparty 19	-	-	15 089	15 089
Counterparty 20	-	-	14 038	14 038

* Excluding exposure to the State Treasury and the National Bank of Poland

** Counterparty names presented in the above table are consistent with counterparty names presented in the table with the largest exposures of the PKO Bank Polski SA Group on the interbank market as at 31 December 2010.

For the purpose of determining exposures, placements and securities issued by the counterparties, are stated at nominal values, while derivative instruments are stated at market values, excluding the collateral established by the counterparty. Total exposure to each counterparty ('Total') is the sum of exposures arising from placements and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2010 the Bank had signed master agreements (in accordance with ISDA/ Polish Banks Association standards) with 26 local banks and 45 foreign banks and credit institutions. Additionally the Bank was a party of 45 CSA agreements (Credit Support Annex)/Polish Banks Association Agreements with established collateral and 3 ISMA agreements (International Securities Market Association).

Geographical location of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2010 and 31 December 2009 come from countries (classified by location of registered office):

No.	Country	Counterparty
1.	Austria	Counterparty 21, Counterparty 25
2.	Belgium	Counterparty 13
3.	Denmark	Counterparty 9
4.	France	Counterparty 16, Counterparty 20, Counterparty 34
5.	Spain	Counterparty 22
6.	Netherlands	Counterparty 11, Counterparty 31
7.	Canada	Counterparty 19
8.	Germany	Counterparty 23
9.	Norway	Counterparty 12
10.	Poland	Counterparty 2, Counterparty 3, Counterparty 4,Counterparty 6, Counterparty 15, Counterparty 24, Counterparty 27, Counterparty 28, Counterparty 32
11.	Switzerland	Counterparty 8
12.	Sweden	Counterparty 10
13.	USA	Counterparty 18
14.	Hungary	Counterparty 29
15.	United Kingdom	Counterparty 5, Counterparty 7, Counterparty 14,Counterparty 17, Counterparty 26, Counterparty 30, Counterparty 33
16.	Italy	Counterparty 1

Counterparty structure by rating

Counterparty structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied). Rating for counterparties 1 to 20 was accepted as at 31 December 2010, while for counterparties 21 to 34 as at 31 December 2009.

Rating	Counterparty
AA	Counterparty 5,Counterparty 16, Counterparty 19,Counterparty 20, Counterparty 22, Counterparty 26,Counterparty 30,Counterparty 31,Counterparty 33,
A	Counterparty 1, Counterparty 7, Counterparty 8, Counterparty 9, Counterparty 10, Counterparty 11, Counterparty 12, Counterparty 13, Counterparty 15, Counterparty 17, Counterparty 18, Counterparty 21, Counterparty 23, Counterparty 24, Counterparty 25, Counterparty 27, Counterparty 34
BBB	Counterparty 4, Counterparty 6, Counterparty 28
BB	Counterparty 29
Without rating	Counterparty 2, Counterparty 3, Counterparty 14, Counterparty 32

Credit risk of financial institutions on retail markets

In addition to the interbank market exposure discussed above, as at 31 December 2010 the Group had an exposure to financial institutions on the aforesaid retail market (over PLN 5 million). The structure of this exposure is presented in the table below:

	Nominal value of exposure (in thousand PLN)		Country
	Statement of financial position item	Off-balance	
Counterparty 35	129 739	488 559	Ukraine
Counterparty 36	79 206	-	Slovenia
Counterparty 37	50 000	86	Poland
Counterparty 38	39 603	-	Slovenia
Counterparty 39	23 762	-	Slovenia
Counterparty 40	-	1 500 000	Poland

Management of foreclosed collateral

Foreclosed collateral as a result of restructuring or debt collection activities is either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analyzed in order to determine whether they can be used by the Group for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2010 and 31 December 2009, respectively, were designated for sale.

Activities undertaken by the Group are aimed at selling foreclosed assets as soon as possible. In individual and justified cases, assets may be withheld from sale. This occurs only if circumstances, which are beyond the control of the Group, indicate that the sale of the assets at a later date is likely to generate greater financial benefits. The primary procedure for a sale of assets is open auction. Other procedures are acceptable in cases where they provide a better chance of finding a buyer and generate higher proceeds for the Group.

The Group takes steps to broadly disseminate to the public the information about assets being sold by publishing it on the Group's website; placing announcements in the national press; using internet portals (e.g. to carry out internet auctions), sending offers. In addition, Group cooperates with external firms operating all over Poland in respect of collection, transportation, storage and intermediation in the sale of assets taken over by the Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realization of collateral.

The carrying amounts of assets taken over in exchange for debts as at 31 December 2010 and 31 December 2009 amounted to PLN 56 585 thousand and PLN 55 334 thousand respectively. The above mentioned amounts are presented in Note 30, 'Other assets', in line item 'Other' (PLN 11 188 thousand and PLN 4 005 thousand respectively) and in 'Materials' in the note 27 'Inventories' (PLN 45 397 thousand and PLN 51 329 thousand respectively).

57. Interest rate risk

The interest rate risk is a risk of incurring losses on the Bank's balance and off-balance sheet items to interest rate fluctuations, as a result of changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level by shaping the structure of balance and off-balance sheet items.

In the process of interest rate risk management, the Group uses the Value at Risk (VaR) model, interest income sensitivity measure, stress tests and a repricing gap.

The value at risk (VaR) is defined as a potential loss arising from the maintained structure of balance and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors.

The sensitivity of interest income is a measure showing changes in interest income resulting from abrupt changes in the interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

Stress-tests are used to estimate potential losses arising from a held structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the following currencies: PLN, EUR, USD, CHF and GBP by ±50 basis points and by ±200 basis points,

2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a yield curve along with portfolio positions, a bend of yield curve of peak and twist types, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognized on the transaction date.

Measures of interest rate gap are determined for other Group entities using similar methods to those used for determining the interest rate gap for the Bank itself, taking into account the specific nature of the entities.

Repricing Gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
PLN (PLN thousand)								**31.12.2010**
The Group Periodic Gap	40 074 163	16 872 118	(23 857 194)	(13 908 620)	(2 867 293)	538 212	329 000	**17 180 386**
The Group Cumulative Gap	40 074 163	56 946 281	33 089 087	19 180 467	16 313 174	16 851 386	17 180 386	-
PLN (PLN thousand)								**31.12.2009**
The Group Periodic Gap	26 078 583	28 008 165	(28 778 134)	(11 719 649)	(1 755 068)	1 598 803	268 068	**13 700 768**
The Group Cumulative Gap	26 078 583	54 086 748	25 308 614	13 588 965	11 833 897	13 432 700	13 700 768	-
USD (USD thousand)								**31.12.2010**
The Group Periodic Gap	304 316	(161 359)	(166 953)	(139 043)	11 781	54 871	94 404	**(1 983)**
The Group Cumulative Gap	304 316	142 957	(23 996)	(163 039)	(151 258)	(96 387)	(1 983)	-
USD (USD thousand)								**31.12.2009**
The Group Periodic Gap	117 747	(208 620)	(166 316)	(145 008)	31 720	65 766	127 461	**(177 250)**
The Group Cumulative Gap	117 747	(90 873)	(257 189)	(402 197)	(370 477)	(304 711)	(177 250)	-
EUR (EUR thousand)								**31.12.2010**
The Group Periodic Gap	661 080	(308 414)	78 172	(223 242)	19 577	(592 387)	40 700	**(324 514)**
The Group Cumulative Gap	661 080	352 666	430 838	207 596	227 173	(365 214)	(324 514)	-
EUR (EUR thousand)								**31.12.2009**
The Group Periodic Gap	(338 541)	82 100	(46 202)	(83 143)	7 144	21 090	2 740	**(354 812)**
The Group Cumulative Gap	(338 541)	(256 441)	(302 643)	(385 786)	(378 642)	(357 552)	(354 812)	-
CHF (CHF thousand)								**31.12.2010**
The Group Periodic Gap	302 630	(552 592)	(3 600)	(4 460)	(40)	1 520	6 770	**(249 772)**
The Group Cumulative Gap	302 630	(249 962)	(253 562)	(258 022)	(258 062)	(256 542)	(249 772)	-
CHF (CHF thousand)								**31.12.2009**
The Group Periodic Gap	(72 200)	(230 734)	1 937	(6 517)	1 280	875	6 044	**(299 315)**
The Group Cumulative Gap	(72 200)	(302 934)	(300 997)	(307 514)	(306 234)	(305 359)	(299 315)	-

As at the end of 2010 and 2009, the PKO Bank Polski SA Group had a positive cumulative gap in PLN in all the time spans.

The main tools used in interest rate risk management include:

- procedures for interest rate risk management,
- limits and thresholds for interest rate risk,
- defining allowable transactions for interest rates.

The Group established limits and thresholds for interest rate risk comprising the following: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

Methods of interest rate risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank for Group entities.

As at 31 December 2010 and 31 December 2009, the exposure of the PKO Bank Polski SA Group to the interest rate risk mainly comprised of the exposure of the Bank. Interest rate risk generated by the other Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly changed by exposure of the Group, in which the biggest part has the exposure of KREDOBANK SA.

Exposure of the Group to interest rate risk was within accepted limits.

VaR of the Bank and stress tests analysis of the Group's exposure to the interest rate risk (for all currencies) are presented in the following table:

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon (PLN thousand)*	39 004	17 086
Parallel movement of interest rate curves by +200 base points (in PLN thousand) (stress tests)	522 641	233 304

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market in which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 30 150 thousand as of 31 December 2010 and approx. PLN 40 048 thousand as of 31 December 2009, respectively.

As at 31 December 2010, the interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 39 004 thousand, which accounted for approximately 0.24 % of the value of the Bank's own funds. As at 31 December 2009, VaR for the Bank amounted to PLN 17 086 thousand, which accounted to approximately 0.10% of the Bank's own funds[*].

The Bank prepares daily, weekly, monthly, quarterly and semi-annually reports addressing interest rate risk. Reports gather the information on interest rate risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

58. Currency risk

Currency risk is the risk of incurring losses due to unfavorable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

The objective of managing the currency risk is to mitigate the risk of incurring losses arising from the structure of the Bank's currency mismatch to an acceptable level by shaping the structure of balance and off-balance sheet items.

The Bank measures currency risk using the Value at Risk model and stress tests.

[*] Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.

The value at risk (VaR) is defined as a potential loss arising from the maintained structure of statement of financial position and off-balance sheet items and the volatility of exchange, with the assumed probability level and taking into account the correlation between the risk factors.

Stress-testing and crash-testing are used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 15% and 50%),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

The main tools used in currency risk management in the Group include:

- written procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable transactions in foreign currencies and the exchange rates used in such transactions.

The Group sets limits and threshold values for the following items: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in other entities of the Group are defined by internal regulations implemented by these entities. The regulations are developed by the Group entities, which are characterized by high level of currency risk measure outcomes. The regulations are issued after consultation with the Bank and take into account recommendations issued by the Bank to the Group entities.

VaR of the Bank and stress-testing of the Group financial assets exposed to currency risk are stated cumulatively in the table below:

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon (in PLN thousand)*	3 171	1 092
Change of CUR/PLN by15% (in PLN thousands) (stress-tests)	6 081	697

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day interest rate VaR which amounted to approx. PLN 182 thousand as of 31.12.2010 and PLN 64 thousand as of 31.12.2009.

The level of the currency risk was low both in 2010 and 2009.

The Group's currency positions are presented in the table below:

	31.12.2010	31.12.2009
	Currency position	**Currency position**
USD	(78 916)	(31 811)
GBP	48 073	1 501
CHF	(18 820)	(3 634)
EUR	(4 035)	26 489
Other (Global Net)	11 257	12 101

The volume of currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 December 2010 amounted to approx. 0.02%).

The Bank prepares daily, weekly, monthly, quarterly and semi-annually reports addressing currency risk whereas monthly reports for the last months of a quarter, quarterly and semi-annually reports concern the Group as well. Reports gather the information on currency exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

(in PLN thousand)

Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and contingent liabilities and commitments.

	Currency translated to PLN – 31.12.2010				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which:					
Cash and balances with the central bank	5 563 983	373 306	17 420	227 703	**6 182 412**
Amounts due from banks	248 565	1 113 541	637 132	336 719	**2 335 957**
Loans and advances to customers	103 869 753	6 285 663	22 910 754	2 458 619	**135 524 789**
Securities	22 207 655	133 968	-	161 666	**22 503 289**
Tangible assets	8 448 191	-	-	223 295	**8 671 486**
Other assets and derivatives	3 672 430	120 470	491	122 908	**3 916 299**
TOTAL ASSETS (GROSS)	144 010 577	8 026 948	23 565 797	3 530 910	**179 134 232**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(8 313 676)	(152 029)	(358 477)	(649 549)	**(9 473 731)**
TOTAL ASSETS (NET)	**135 696 901**	**7 874 919**	**23 207 320**	**2 881 361**	**169 660 501**
LIABILITIES AND EQUITY, of which					
Amounts due to the central bank	3 370	-	-	-	**3 370**
Amounts due to other banks	1 471 161	618 794	3 125 225	18 695	**5 233 875**
Amounts due to customers	122 932 057	5 577 720	1 067 586	3 403 852	**132 981 215**
Debt securities in issue	111 101	3 187 766	-	-	**3 298 867**
Provisions	574 043	6 131	669	2 847	**583 690**
Subordinated liabilities	1 611 779	-	-	-	**1 611 779**
Other liabilities and derivatives and deferred tax liabilities	4 221 714	246 579	1 079	118 765	**4 588 137**
Equity	21 359 568	-	-	-	**21 359 568**
TOTAL LIABILITIES AND EQUITY	**152 284 793**	**9 636 990**	**4 194 559**	**3 544 159**	**169 660 501**
CONTINGENT LIABILITIES GRANTED	**33 334 068**	**2 519 541**	**123 465**	**808 304**	**36 785 378**

	Currency translated to PLN – 31.12.2009				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which:					
Cash and balances with the central bank	6 559 322	285 671	17 237	232 120	**7 094 350**
Amounts due from banks	259 619	1 143 695	190 444	456 406	**2 050 164**
Loans and advances to customers	91 383 795	5 090 291	21 479 796	2 555 827	**120 509 709**
Investment securities	22 481 403	39 587	-	28 438	**22 549 428**
Tangible assets	8 423 563	-	-	201 498	**8 625 061**
Other assets and derivatives	3 664 200	110 121	367	110 199	**3 884 887**
TOTAL ASSETS (GROSS)	132 771 902	6 669 365	21 687 844	3 584 488	**164 713 599**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(7 447 737)	(111 175)	(188 753)	(487 249)	**(8 234 914)**
TOTAL ASSETS (NET)	**125 324 165**	**6 558 190**	**21 499 091**	**3 097 239**	**156 478 685**
LIABILITIES AND EQUITY, of which:					
Amounts due to the central bank	6 581				**6 581**
Amounts due to other banks	1 846 331	415 729	2 740 971	143 017	**5 146 048**
Amounts due to customers	115 854 902	5 109 126	925 009	3 183 897	**125 072 934**
Debt securities in issue	289 251	-	-	109	**289 360**
Provisions	601 215	374	-	705	**602 294**
Subordinated liabilities	1 612 178	-	-	-	**1 612 178**
Other liabilities, derivatives and deferred tax liabilities	3 099 326	166 610	61	47 423	**3 313 420**
Equity	20 435 870	-	-	-	**20 435 870**
TOTAL LIABILITIES AND EQUITY	**143 745 654**	**5 691 839**	**3 666 041**	**3 375 151**	**156 478 685**
CONTINGENT LIABILITIES GRANTED	**29 542 617**	**2 164 022**	**306 355**	**869 646**	**32 882 640**

59. Liquidity risk

The liquidity risk is defined as the lack of the possibility to pay the debts on time due to the lack of liquid assets. Situation of the lack of liquidity may arise due to inconvenient structure of the statement of financial position, misfit cash flows, not received payments from contractors, sudden withdraw of cash by clients or other market events.

The objective of liquidity risk management is to shape the structure of the Bank's statement of financial position and contingent liabilities and commitments that will ensure the continuous and future (and potential) liquidity of the Bank, taking into account the nature of its activities and requirements which may occur due to changes in market environment.

The Group's policy concerning liquidity is based on keeping a portfolio of liquid securities and increasing stable sources of financing (stable deposits, in particular). In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

The Group makes use of the following liquidity risk measures:

- the contractual liquidity gap method and the liquidity gap in real terms method,
- the surplus liquidity method,
- analysis of stability of deposit and loan portfolios,
- stress tests.

The main tools for liquidity risk management in PKO Bank Polski SA Group are as follows:

- procedures for liquidity risk management, emergency plans in particular,
- limits and thresholds mitigating liquidity risk,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of Bank's lending activities.

To ensure an adequate liquidity level, the Bank and the entities of the Group accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Methods of liquidity risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by high levels of liquidity risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank.

Liquidity gaps in real terms presented below include the table of assets and liabilities and have additionally been adjusted to real values with the aim to present the liquidity position of the Group in real terms. The main adjustments concern the following:

- core deposits outside interbank market and their maturity – clients deposits (current and saving accounts, deposits) have been classified to proper time schedules with regard to their stability (sustaining appropriate balance and renewability after the maturity day),
- core loans in current accounts for non-financial entities and their maturity – loans in current account have been classified to proper time schedule, with regard to renewability of the loans,
- liquid securities and their maturity – liquid securities have been classified up to 1 month according to possible date of liquidity (pledge, sales).

(in PLN thousand)

	a'vista	0 – 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.12.2010								
The Group - adjusted gap	3 207 473	14 102 549	(949 842)	(106 638)	3 800 570	5 160 414	(1 014 208)	**24 200 318**
The Group - cumulative adjusted gap	3 207 473	17 310 022	16 360 180	16 253 542	20 054 112	25 214 526	24 200 318	-
31.12.2009								
The Group - adjusted gap	6 844 999	15 325 981	(3 472 120)	475 847	3 890 259	7 836 616	(683 106)	**(30 218 476)**
The Group - cumulative adjusted gap	6 844 999	22 170 980	18 698 860	19 174 707	23 064 966	30 901 582	30 218 476	**-**

*Data brought to comparability.

In all time horizons, the PKO Bank Polski SA Group's cumulative[1] liquidity gap as at 31 December 2010 and 31 December 2009 was positive. This means a surplus of assets receivable over liabilities payable.

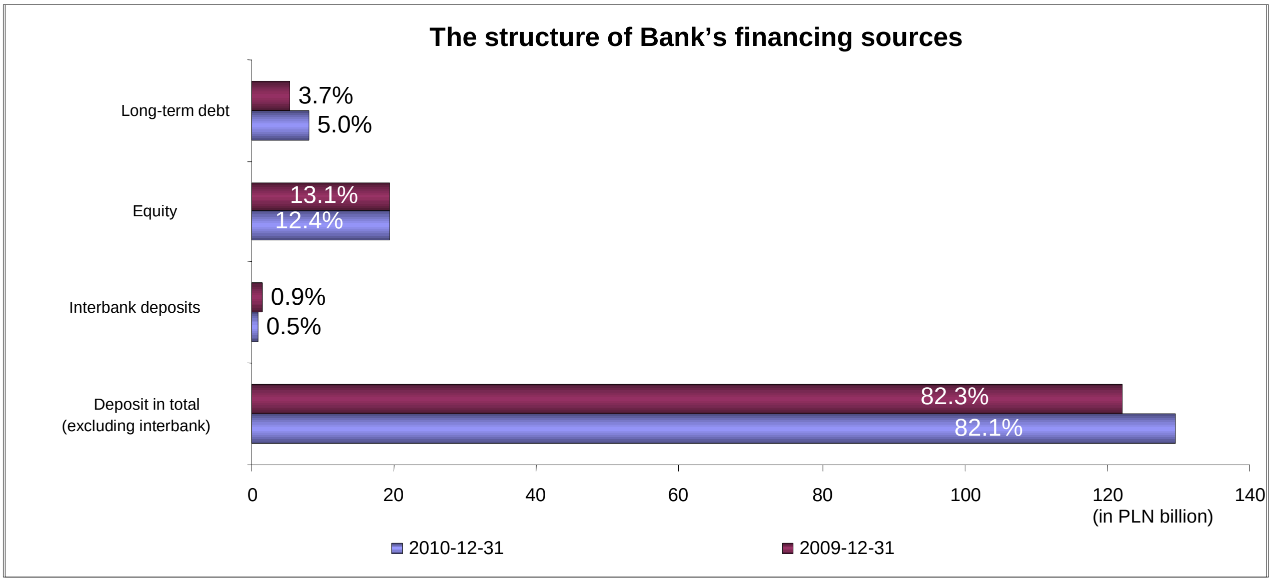
The table below presents liquidity reserve of the Bank as at 31 December 2010 and 31 December 2009.

	31.12.2010	31.12.2009
Liquidity reserve to 1 month* (in PLN million)	10 151	16 030

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 31 December 2010, the level of core deposits constituted approximately 95.2% of all deposits of the Bank's (excluding interbank market), which is approximately 0.3 p.p. lower as compared to the level as at the end of 2009.

The chart below presents the structure of the Bank's financing sources as at 31 December 2010 and as at 31 December 2009:



*The Group's liquidity gap in real terms has been determined as the sum of the Bank's liquidity gap in real terms and contractual liquidity gaps of the remaining entities of the PKO Bank Polski SA Group.

(in PLN thousand)

Outstanding contractual liabilities of the Group as at 31 December 2010 by maturity

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	3 370	-	-	-	-	3 370	**3 370**
Amounts due to banks	1 175 530	99 282	518 099	4 268 099	196 449	6 257 459	**5 233 875**
Derivative financial instruments	1 189 058	2 380 039	8 932 706	18 247 660	3 058 444	33 807 907	**2 404 795**
Amounts due to customers	82 510 946	17 377 623	31 661 703	1 877 178	1 608 955	135 036 405	**132 981 215**
Debt securities in issue	25 000	95 000	122 469	3 658 117	-	3 900 586	**3 298 867**
Subordinated liabilities	-	-	80 835	323 563	1 762 592	2 166 990	**1 611 779**
Other liabilities	1 984 551	41 329	42 972	16 136	6 343	2 091 331	**2 092 834**
Off-balance sheet liabilities – financial liabilities granted	16 631 759	314 035	3 994 998	2 923 109	5 641 123	29 505 024	**-**
Off-balance sheet liabilities – guarantee liabilities issued	1 649 878	974 119	1 828 614	2 550 325	277 418	7 280 354	-

Outstanding contractual liabilities of the Group as at 31 December 2009 by maturity

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	6 581	-	-	-	-	6 581	**6 581**
Amounts due to banks	1 544 583	194 536	287 966	3 155 324	189 908	5 372 317	**5 146 048**
Derivative financial instruments	991 914	2 195 028	7 412 837	14 926 893	2 773 816	28 300 488	**1 544 370**
Amounts due to customers	72 246 082	20 462 087	29 552 945	3 358 205	728 239	126 347 558	**125 072 934**
Debt securities in issue	140 050	122 886	31 975	130	-	295 041	**289 360**
Subordinated liabilities	-	-	84 997	255 224	1 940 921	2 281 142	**1 612 178**
Other liabilities	1 298 593	9 630	228 613	16 662	13 126	1 566 624	**1 566 623**
Off-balance sheet liabilities – financial liabilities granted	15 085 902	313 335	5 111 897	2 191 153	4 682 872	27 385 159	**-**
Off-balance sheet liabilities – guarantee liabilities issued	1 366 141	1 505 984	1 541 703	1 083 653	-	5 497 481	-

(in PLN thousand)

Non-current and current assets and liabilities of the Bank as at 31 December 2010

	Short term	Long term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	6 182 412			**6 182 412**
Amounts due from banks	2 324 738	11 219	(28 925)	**2 307 032**
Trading assets	873 046	630 603	-	**1 503 649**
Derivative financial instruments	652 640	1 066 445	-	**1 719 085**
Other financial instruments designated at fair value through profit and loss	8 533 646	2 224 685	-	**10 758 331**
Loans and advances to customers	25 865 842	109 658 947	(4 856 670)	**130 668 119**
Investment securities available for sale	3 614 202	6 627 107	(21 909)	**10 219 400**
Inventories	356 639	208 494	(34 858)	**530 275**
Other assets	1 517 897	4 644 073	(389 772)	**5 772 198**
TOTAL ASSETS	**49 921 062**	**125 071 573**	**(5 332 134)**	**169 660 501**
Liabilities				
Amounts due to the central bank	3 370		-	**3 370**
Amounts due to other banks	1 856 924	3 376 951	-	**5 233 875**
Derivative financial instruments	843 518	1 561 277	-	**2 404 795**
Amounts due to customers	124 025 037	8 956 178	-	**132 981 215**
Debt securities in issue	134 490	3 164 377	-	**3 298 867**
Subordinated liabilities	-	1 611 779	-	**1 611 779**
Other liabilities	2 008 051	758 981	-	**2 767 032**
TOTAL LIABILITIES	**128 871 390**	**19 429 543**	**-**	**148 300 933**
EQUITY	**-**	**21 359 568**		**21 359 568**
TOTAL LIABILITIES AND EQUITY	**128 871 390**	**40 789 111**	**-**	**169 660 501**

Non-current and current assets and liabilities of the Bank as at 31 December 2009

	Short term	Long term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	7 094 350	-	-	**7 094 350**
Amounts due from banks	2 049 848	316	(27 109)	**2 023 055**
Trading assets	1 534 181	678 774	-	**2 212 955**
Derivative financial instruments	683 976	1 345 146	-	**2 029 122**
Other financial instruments designated at fair value through profit and loss	12 360 510	180	-	**12 360 690**
Loans and advances to customers	26 618 614	93 891 095	(3 937 124)	**116 572 585**
Investment securities available for sale	3 309 874	4 665 909	(21 572)	**7 954 211**
Inventories	265 217	421 872	(34 014)	**653 075**
Other assets	1 331 776	4 517 882	(271 016)	**5 578 642**
TOTAL ASSETS	**55 248 346**	**105 521 174**	**(4 290 835)**	**156 478 685**
Liabilities				
Amounts due to the central bank	6 581	-	-	**6 581**
Amounts due to other banks	4 636 480	509 568	-	**5 146 048**
Derivative financial instruments	514 054	1 030 316	-	**1 544 370**
Amounts due to customers	124 995 298	77 636	-	**125 072 934**
Debt securities in issue	289 251	109	-	**289 360**
Subordinated liabilities	-	1 612 178	-	**1 612 178**
Other liabilities	2 359 346	11 998	-	**2 371 344**
TOTAL LIABILITIES	**132 801 010**	**3 241 805**	**-**	**136 042 815**
EQUITY	**-**	**20 435 870**	**-**	**20 435 870**
TOTAL LIABILITIES AND EQUITY	**132 801 010**	**23 677 675**	**-**	**156 478 685**

60. Price risk of equity securities

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.

The price risk of equity securities results from operations conducted as part of trading activities (DM PKO BP SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimizing the positions taken in instruments sensitive to changes in these market parameters.

The risk is managed by imposing limits on the activities of Dom Maklerski PKO BP SA broken down into the banking portfolio and the trading portfolio, and by monitoring the utilization thereof.

The effect of the price risk of equity securities on the financial position of the Bank was assessed as immaterial in accordance with the adopted budget of the Bank. The positions taken in equity securities and index instruments are limited, and the Bank does not expect them to increase significantly.

Other price risk

Taking into consideration other price risks, at the end of the year 2010, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

These risks are immaterial – a capital requirement, pursuant to Resolution No 76/2010 of the Financial Supervision Authority (with further amendments), to cover the above mentioned risk was at the year 2010 lower than PLN 1 million.

61. Derivative instruments risk

The risk of derivative instruments is a risk of incurring losses arising from the Bank taking up a position in financial instruments, which meet all of the following conditions:

1) the value of an instrument changes with the change of the underlying instrument;
2) it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms;
3) it is to be settled at a future date.

The process of derivative instruments risk management is integrated with the process of: interest rate, currency, liquidity as well as credit risk management. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.

The Bank prepares daily, weekly, monthly, quarterly and semi-annually reports addressing the risk of derivative instruments, whereas monthly reports for the last month of a quarter, quarterly and semi-annual reports concern the Group as well. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

The main tools used in derivative risk management are as follows:

- written procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements (ISDA – (International Swaps and Derivatives Accociation), ZBP (Polish Bank Association)) specifying, among others, settlement mechanisms.

Risk management is carried out by imposing limits on the individual derivative instruments included in the Bank's trading and banking portfolios, monitoring limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

The Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

In the measurement of other Group members' derivative-related risk, information on the companies' positions in specific instruments is used, as indicated by the Bank.

The derivative risk is managed as part of managing other types of financial risks and credit risk. The Bank pays special attention to monitoring of risk related to currency options and credit risk related to the Banks' receivable from the client stemming from derivative instruments.

Methods of derivative risk management in the other Group entities are defined by internal regulations implemented by these entities which take up a position in financial instruments or intend to take up such a position in instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group entities.

62. Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events.

The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Group to events which are beyond its control.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralised at the PKO Bank Polski SA head office level. The ongoing operational risk management is conducted by every organizational unit of the Bank.

The main tools for managing the operational risk are as follows:

- control instruments;
- human resources management instruments (proper staff selection, enhancement of professional qualification of employees, motivation packages);
- setting threshold values of Key Risk Indicators (KRI);
- tolerance and operational risk limits;
- contingency plans;
- insurance;
- outsourcing.

The other Group entities manage the operational risk in accordance with the rules implemented by the Bank PKO Bank Polski SA, taking into account the specific nature of the business conducted by the Group entities. During the year 2010, Group entities continued to develop key operational risk ratios and introduced trainings concerning this type of risk.

In order to manage the operating risk, the Bank gathers internal and external data about operating events and their causes, data on the operating environment, and data related to the quality of internal functional controls.

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT software of the Bank; the above is conducted with the use of:

- accumulation of data on operational events;
- results of internal audit;
- results of functional internal control;
- Key Risk Indicators (KRI).

Measurement of operational risk in the Bank aims at defining the scale of threats related to the existence of operational risk with the use of defined risk measures. The measurement of operating risk comprises:

- KRI calculation,
- calculation of VaR for operating risk,
- scenario-based analyses.

The Bank regularly monitors:

- under the system-based operating risk management activities :
  - tolerance of operating risk,
  - limits for operating risk,
  - effectiveness and timeliness of actions taken to reduce or transfer the operating risk,
- under the on-going operating risk management activities:
  - KRI values,
  - operating events and their effects, broken down by areas of the Bank activities,
  - effects of actions taken following external control recommendations or internal audits,
  - quality of the internal functional controls.

The dominant impact on the operational risk profile in the year 2010 is exercised by the following three entities: PKO Bank Polski SA, BFL SA Group and KREDOBANK SA. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk.

The Bank prepares reports concerning operating risk on a quarterly basis. The reports are addressed to the Operational Risk Committee, Bank's Management Board and the Bank's Supervisory Board. The reports contain among others:

- information on the operating risk profile of the Bank resulting from the process of identifying and assessing the threats, for products, processes and IT software of the Bank;
- information on the results of measuring and monitoring operating risk;
- information on operating events and their financial effects;
- the most important projects and initiatives as regards operational risk management.

Each month, information on operating risk is prepared and forwarded to members of the Bank's Management Board and organizational units of the Bank responsible for system-based operating risk management. The scope of information is diversified and tailored to the scope of responsibilities of individual recipients of the information.

If the level of operational risk is too high, the Bank takes the following actions:

- risk avoidance – withdrawing from too risky activity or resigning from undertaking it if there is no possibility of managing it;
- reducing the scale of activities characterized by too high risk, if it can be possibly managed and it is possible to take actions reducing risk;
- risk transfer – insurance against the risk of occurring operational events ensuring the maintenance of operational risk on such a level that the Bank's activities are not threatened.

63. Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Group, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Group, including ethical standards.

The objective of compliance risk management is to ensure the Group's compliance with law and adopted standards and the Group's acting as a entity that is reliable, fair and honest, through mitigating compliance risk, reputation risk or risk of the Group's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.

The Group has adopted a zero tolerance policy against compliance risk, which means that the Group focuses its actions towards eliminating this risk.

The rules concerning the process of compliance risk management adopted by all Group entities is inherent within the Group.

The Bank performs an identification and assessment of compliance risk. In order to identify compliance risk, information on cases of non-compliance and their origins are being used, including information based on internal audits results, functional control and external controls.

While performing an assessment a character and potential losses are defined together with methods of reducing or eliminating compliance risk. Assessment is held through workshops.

The Bank prepares reports concerning compliance risk on a quarterly basis. The reports are addressed to the Operational Risk Committee, the Bank's Management Board and the Bank's Supervisory Board. The reports contain among others:

- cases of incompliance;
- the most important adjustment procedures performed by the Bank.

Compliance risk management involves in particular:

- preventing involvement of the Group in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Group's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

64. Strategic risk

The strategic risk is defined as a risk related to the possibility of negative financial consequences caused by erroneous decisions, decisions made on the basis of an inappropriate assessment or failure to make correct decisions relating to the direction of the Bank's strategic development.

Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from bad decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of the strategic development of the Bank.

In measuring the strategic risk, the Bank takes into account an impact of selected types of factors, distinguished in the activity and in the environment, which comprise in particular:

- external factors;

- factors related to the growth and development of the banking operations;
- factors related to the management of human resources;
- factors related to investment activities;
- factors related to the organization's culture.

Monitoring the strategic risk level are performed at least on an annual basis.

The reports on the level of strategic risk are prepared on an annual basis and are addressed to the Bank's Management Board and managing directors in the Bank's Head Office.

The strategic risk management in the Bank relates in particular to activities taken up in the situation of higher level of strategic risk.

65. Reputation risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned results of the Bank due to the deterioration of the Group's image.

The objective of managing the reputation risk is to protect the Group's image and limit the probability of the occurrence and level of reputation-related losses.

Reputation risk ratios are calculated based on annual assessment of negative image-related events identified in a given calendar year for particular types of image-related events. Main tools used to determine the Bank's reputation risk level are:

- a catalogue of image-related events categories containing a list of image-related categories with appropriate weights assigned;
- a register of image-related events containing a list of negative image-related events that occurred grouped by image-related events categories.

Monitoring of image-related events is performed on an ongoing basis and includes:

- monitoring the external and internal communication channels of the Bank with the environment in terms of identifying the negative impact of image-related events;
- gathering and analyzing information related to the occurrence or a possibility of occurrence of image-related events;
- recording data on the identified negative impact of image-related events.

The reports on the level of reputation risk are prepared in the Bank on an annual basis. The reports are addressed to the organizational units of the Banking Risk Division.

Management of reputation risk in the Group mainly comprises preventive activities aimed at reducing or minimizing the scale and the scope of reputation events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavourable effect of imagerelated events on the Group's image.

66. Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO Bank Polski SA Group which is sufficient to meet regulatory capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2).

The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the Group's activities.

The process of managing the Group's capital adequacy comprises:

- identifying and monitoring of all of significant risks;
- assessing internal capital to cover the individual risk types and total internal capital;
- monitoring, reporting, forecasting and limiting of capital adequacy;

- performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses;
- using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy ratio of the Bank as compared to 31 December 2009 (comparable data calculated in accordance with the amended regulations concerning rules of calculating capital requirements as well as own funds) decreased by 2.34% and reached the level of 12.47%, which has been mainly caused by the increase in items decreasing the Bank's own funds; simultaneously there was observed an increase of capital requirements because of credit risk, which was mainly due to high dynamics in the growth of the loan portfolio.

In spite of the fact that the capital adequacy ratio has decreased, the level of capital adequacy of the Group remained in 2010 on the level significantly above the statutory limits.

Own funds for the capital adequacy requirements

Own funds for the purposes of capital adequacy are calculated in accordance with the Banking Law and Resolution No. 381/2008* of the Polish Financial Supervision Authority of 17 December 2008 on decreasing core funds, amended by Resolution No. 367/2010 of the Commission of 12 October 2010, which is applicable to the data as of 31 December 2010. The comparability of data for 2009 was ensured in accordance with the provisions of the aforesaid Resolution.

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds are comprised of the following items:

1) principal funds comprising: share capital, reserve capital, other reserve capital,
2) general banking risk fund,
3) unappropriated profits from previous years
4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Act, Article 127, Point 2c.

Basic funds are reduced by deducting the following items:

1) intangible assets stated at carrying amount,
2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
3) unrealised losses on debt and equity instruments classified as available for sale.

Supplementary funds are comprised of the following items:

1) subordinated liabilities,
2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 80% of their pre-tax value.

* Resolution no. 381/2008 of the Polish Financial Supervision Authority of 17 December 2008 on other deductions from the primary funds - their value, scope and methods of application; other balance sheet items included in complementary funds – their value, scope and methods of allocation to the bank's additional funds; deductions from the additional funds – their value, scope and methods of application; the scope and method of considering the bank's connections with its subsidiaries or other companies in calculation of own funds.

(in PLN thousand)

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies. If the amount of reduction would result in supplementary funds failing below nil, the amount is subtracted from the basic funds.

In addition, the following items are included in the calculation of consolidated own funds:

1) goodwill of subsidiaries (which decreases the value of own funds),
2) non-controlling interests in equity (which increase the value of own funds),
3) currency translation differences from foreign operations (negative differences decrease original own funds, whereas positive differences increase additional own funds).

In 2010, the value of the Groups own funds decreased by PLN 254 190 thousand, which was mainly due to the increase in value of deductions of the Group's own funds i.e. intangible assets by approx. PLN 229 460 thousand and unrealised losses on debt and equity instruments classified as available for sale by approx. PLN 14 657 thousand with simultaneous decrease in income from previous year by PLN 136 509 thousand. The Bank's net profit for 2009 reduced by deducting dividends paid (of PLN 57 152 thousand) has been included in own funds.

The structure of the Group's own funds is presented in the table below:

GROUP'S OWN FUNDS	31.12.2010	31.12.2009
Basic funds (Tier 1 capital)	**15 960 255**	**16 253 084**
Share capital	1 250 000	1 250 000
Reserve capital	12 212 177	12 149 682
Other reserves	3 412 239	3 405 087
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Net profit for the current period in the part verified by a registered auditor after deduction of forecasted charges	-	-
Profits from previous years	112 297	248 806
Unrealised losses on debt and equity instruments classified as available for sale	(67 406)	(52 749)
Intangible assets, of which:	(1 802 037)	(1 572 577)
goodwill of subsidiaries	(229 740)	(264 933)
Equity exposures	(118 285)	(142 371)
Negative currency translation differences from foreign operations	(110 720)	(110 123)
Non-controlling interest	1 990	7 329
Supplementary funds (Tier 2 capital)	**1 512 546**	**1 489 959**
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	29 158	30 298
Positive currency translation differences from foreign operations	973	1 332
Equity exposures	(118 285)	(142 371)
Short-term equity (Tier 3 capital)	**145 928**	**129 876**
TOTAL EQUITY	**17 618 729**	**17 872 919**

Capital requirements (Pillar 1)

Since 31 December 2010, the Group calculates capital requirements in accordance with Resolution No. 76/2010 of the Banking Supervision Authority dated 10 March 2010, amended Resolution No. 369/2010 dated 12 October 2010 (CRD II): in respect of credit risk – using the standardized approach; in respect of operational risk – in the Bank – using the standardized approach, for the Group – using the basic indicator approach and in respect of market risk – using the basic approach. The 2009 data have been standardised pursuant to the provisions of the Resolution.

(in PLN thousand)

The scale of the Bank's and the Group's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

1) credit risk – including credit risk of the banking book and counterparty credit risk,
2) market risk – including foreign exchange risk, commodities risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
3) operational risk,
4) other types of capital requirements in respect of:
    a) settlement/delivery risk,
    b) the risk of exceeding the exposure concentration limit and the large exposure limit,
    c) the risk of exceeding the capital concentration threshold.

An increase in the capital requirement in 2010 in respect of credit risk resulted from a significant increase in the volume of loan portfolio in (statement of financial position and off-balance-sheet exposure) by approx. 11.5%. An increase in the capital requirement in respect with market risk resulted mainly from an increase in the value of issue underwriting liabilities approx. by 100 %.

The tables below show the Group's exposure to credit risk and other types of risk. The values have been calculated according to the requirement of CRD II.

Capital requirements	31.12.2010	31.12.2009
Credit risk	**9 821 710**	**8 497 504**
credit risk (banking book)	9 756 757	8 427 715
counterparty risk (trading book)	64 953	69 790
Market risk	**422 154**	**204 148**
equity securities risk	767	2 390
specific risk of debt instruments	341 058	168 088
general risk of interest rates	80 329	33 670
Operational risk	**1 057 922**	**952 075**
Total capital requirements	**11 301 786**	**9 653 727**
Capital adequacy ratio	**12.47%**	**14.81%**

The Group calculates capital requirements on account of credit risk, according to the following formula:

- in case of exposure of the statement of financial position – a product of a carrying amount, a risk weight of the assigned exposure according to the standard method of credit risk requirement calculation and 8% (considering recognised collateral),
- in case of contingent liabilities granted – a product of liability (considering value of allowances on the liability), a product risk weight, a risk weight of the assigned off- balance sheet exposure according to the standard method of credit risk requirement calculation and 8% (considering recognised collateral),
- in case of off-balance sheet transactions (derivative instruments) – product of risk weight of the assigned off-balance sheet transaction according to the standard method of credit risk requirement calculation, the value of the statement of financial position equivalent and 8% (the value of the statement of financial position equivalent is calculated in accordance with the mark-to-market method).

Risk-weighted amount divided into portfolios (on account of credit risk of instruments included into banking book, counterparty credit risk and specific risk of instruments from the trading portfolio) as at 31 December 2010 is as follows:

(in PLN thousand)

Type of instrument	Carrying amount	Risk-weighted value
Banking book	163 897 606	110 839 073
Trading book	5 762 895	1 976 896
Total instruments in the statement of financial position	**169 660 501**	**112 815 969**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk-weighted value
Banking book	34 289 347	11 654 884	10 662 583
Trading book	2 496 031	2 496 031	2 295 917
Total off-balance sheet instruments	**36 785 378**	**14 150 915**	**12 958 500**

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	65 615 762	1 401 166	457 802
Trading book	212 165 405	1 994 358	811 914
Total derivatives	**277 781 167**	**3 395 524**	**1 269 716**

* the above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets, operations and amounts received or granted, for options the value of delta equivalent.

Risk-weighted amount divided into portfolios (on account of credit risk of instruments included into banking book, counterparty credit risk and specific risk of instruments from the trading portfolio) as at 31 December 2009 is as follows (comparable data, calculated in accordance with regulations used for the data as at 31 December 2010):

Type of instrument	Carrying amount	Risk-weighted value
Banking book	150 587 660	95 800 218
Trading book	5 891 025	1 179 946
Total instruments in the statement of financial position	**156 478 685**	**96 980 164**

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	31 633 985	10 785 210	9 014 580
Trading book	1 248 655	1 248 655	951 029
Total off-balance sheet instruments	**32 882 640**	**12 033 865**	**9 965 609**

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	47 224 887	1 643 096	531 636
Trading book	134 168 429	1 947 141	872 369
Total derivatives	**181 393 316**	**3 590 237**	**1 404 005**

* The above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets, operations and amounts received or granted, for options the value of delta equivalent.

Internal capital (Pillar 2)

The Group calculates internal capital in accordance with Resolution No 383/2008 of the Financial Supervision Authority of 17 December 2008 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital (Financial Supervision Authority's Journal of Laws 2008, No. 8, item 37).

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

In the first half of 2010, the relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

The internal capital in the PKO Bank Polski SA Group is intended to cover each of the significant risk types:

- credit risk, including default and concentration risk,
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (including strategy risk).

The total internal capital of each of the Group's entities is the sum of internal capital amount necessary to cover all of the significant risks for each of the entities.

The total internal capital of the Group is the sum of internal capital of the Bank and internal capitals of all of the Group's entities.

The correlation coefficient for different types of risk and different companies of the Group used in the internal capital calculation is equal to 1.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities and activities of Group's entities.

Disclosures (Pillar 3)

In accordance with § 6 of Resolution 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced (Polish Financial Supervision Authority Journal of Laws 2008, No. 8, item 39), the Powszechna Kasa Oszczędności Bank Polski SA, which is the parent company within the meaning of §3 of the resolution, publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of authorization of the annual financial statements by the Ordinary General Shareholders' Meeting.

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in the PKO Bank Polski SA Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

67. Information on the entity authorised to audit financial statements

Entity authorised to audit financial statements with which PKO Bank Polski SA concluded an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement concerns auditing the financial statements of PKO Bank Polski SA as well as auditing the consolidated financial statements of PKO Bank Polski SA Group. The above agreement was concluded on 12 May 2008.
Total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA amounted in 2010 to PLN 1 140 thousand (2009: PLN 1 225 thousand); total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the certifying services, including the review of the financial statements amounted in 2010 to PLN 560 thousand (2009: PLN 560 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to rendering PKO Bank Polski SA other services amounted in 2010 to PLN 1 066 thousand (2009: PLN 2 492 thousand).

68. Events after the reporting period

On 12 January 2011, the increase in the share capital of Bankowe Towarzystwo Kapitałowe SA. in the total amount of PLN 3 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 24 244 thousand and consists of 242 439 shares of nominal value of PLN 100 each.

All the shares in the increased share capital were acquired by PKO Bank Polski SA.

On 27 January 2011, the increase in the share capital of BFL Nieruchomości Sp. z.o.o in the total amount of PLN 1000 thousand was registered with National Court Register. All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.

On 27 January 2011, the increase in the share capital of Bankowy Leasing Sp. z.o.o in the total amount of PLN 6 600 thousand was registered with National Court Register. All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.

Signatures of all Members of the Bank's Management Board

01.03.2011	Zbigniew Jagiełło	President of the Board	.... (signature)
01.03.2011	Piotr Alicki	Vice-President of the Board	.... (signature)
01.03.2011	Bartosz Drabikowski	Vice-President of the Board	.... (signature)
01.03.2011	Krzysztof Dresler	Vice-President of the Board	.... (signature)
01.03.2011	Jarosław Myjak	Vice-President of the Board	.... (signature)
01.03.2011	Wojciech Papierak	Vice-President of the Board	.... (signature)
01.03.2011	Jakub Papierski	Vice-President of the Board	.... (signature)

Signature of person responsible for
maintaining the books of account

01.03.2011
Danuta Szymańska

Director of the Bank

(signature)