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PKO BANK POLSKI
SPÓŁKA AKCYJNA

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

SELECTED FINANCIAL DATA

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	6 383 776	4 842 449	1 594 190	1 115 617
Net fee and commission income	2 937 559	2 363 647	733 583	544 544
Operating profit	4 122 917	3 055 431	1 029 597	703 919
Profit before income tax	4 122 917	3 055 431	1 029 597	703 919
Net profit	3 311 209	2 432 152	826 893	560 326
Earnings per share for the period – basic (in PLN/EUR)	2.65	2.17	0.66	0.50
Earnings per share for the period – diluted (in PLN/EUR)	2.65	2.17	0.66	0.50
Net comprehensive income	3 397 331	2 569 020	848 400	591 858
Net cash flow from / used in operating activities	217 569	(5 278 495)	54 332	(1 216 075)
Net cash flow from / used in investing activities	(1 596 507)	866 336	(398 688)	199 589
Net cash flow from / used in financing activities	960 973	4 974 310	239 979	1 145 996
Total net cash flows	(417 965)	562 151	(104 376)	129 510

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	167 238 919	153 647 479	42 228 851	37 400 194
Total equity	21 201 848	20 179 517	5 353 596	4 912 009
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)	16.96	16.14	4.28	3.93
Diluted book value per share (in PLN/EUR)	16.96	16.14	4.28	3.93
Capital adequacy ratio	11.99%	14.41%	11.99%	14.41%
Tier 1 capital	15 449 743	15 755 513	3 901 155	3 835 138
Tier 2 capital	967 418	1 059 141	244 279	257 811
Tier 3 capital	145 928	129 876	36 848	31 614

Selected items of the 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: EUR 1 = PLN 4.0044 and EUR 1 = PLN 4.3406 respectively;
- statement of financial position items – average NBP rate as at 31 December 2010: EUR 1 = PLN 3.9603 and 31 December 2009: EUR 1 = PLN 4.1082

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(in PLN thousand)

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

	Note	2010	2009
Continuing operations:			
Interest and similar income	3	10 107 552	8 603 448
Interest expense and similar charges	3	(3 723 776)	(3 760 999)
Net interest income		**6 383 776**	**4 842 449**
Fee and commission income	4	3 678 487	3 083 059
Fee and commission expense	4	(740 928)	(719 412)
Net fee and commission income		**2 937 559**	**2 363 647**
Dividend income	5	109 895	101 560
Net income from financial instruments designated at fair value through profit and loss	6	(56 489)	61 402
Gains less losses from investment securities	7	71 282	(594)
Net foreign exchange gains	8	341 348	894 680
Other operating income	9	48 012	167 069
Other operating expense	9	(43 308)	(76 710)
Net other operating income and expense		**4 704**	**90 359**
Net impairment allowance and write-downs	10	(1 767 046)	(1 393 480)
Administrative expenses	11	(3 902 112)	(3 904 592)
Operating profit		**4 122 917**	**3 055 431**
Profit before income tax		**4 122 917**	**3 055 431**
Income tax expense	12	(811 708)	(623 279)
Net profit		**3 311 209**	**2 432 152**
Earnings per share			
– basic earnings per share for the period (in PLN)	13	2.65	2.17
– diluted earnings per share for the period (in PLN)	13	2.65	2.17
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, PKO Bank Polski SA did not carry out discontinued operations

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

	Note	2010	2009
Profit for the year		**3 311 209**	**2 432 152**
Other comprehensive income net of tax		**86 122**	**136 868**
Unrealised net gains on financial assets available for sale (gross)	22	(15 463)	21 719
Deferred tax on unrealised net gains on financial assets available for sale		2 937	(4 127)
Cash flow hedges (gross)	19	121 788	147 254
Deferred tax on cash flow hedges		(23 140)	(27 978)
Total net comprehensive income		**3 397 331**	**2 569 020**

(in PLN thousand)

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	15	6 112 562	6 993 966
Amounts due from banks	16	2 379 239	2 053 767
Trading assets	17	1 503 649	2 212 955
Derivative financial instruments	18	1 719 764	2 029 921
Financial assets designated at fair value through profit and loss	20	10 758 331	12 356 532
Loans and advances to customers	21	128 933 129	114 425 789
Investment securities available for sale	22	9 876 252	7 965 697
Investments in subsidiaries, jointly controlled entities and associates	23	1 467 507	1 333 707
Non-current assets held for sale		19 784	13 851
Intangible assets	24	1 528 267	1 268 781
Tangible fixed assets	25	2 077 140	2 291 949
including investment properties		259	322
Deferred income tax asset	12	462 923	275 204
Other assets	26	400 372	425 360
TOTAL ASSETS		**167 238 919**	**153 647 479**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	27	3 370	6 581
Amounts due to banks	28	4 164 181	4 166 725
Derivative financial instruments	18	2 404 795	1 544 370
Amounts due to customers	30	135 289 055	124 044 400
Subordinated liabilities	31	1 611 779	1 612 178
Other liabilities	32	1 787 599	1 319 917
Current income tax liabilities	12	61 854	175 165
Provisions	33	714 438	598 626
TOTAL LIABILITIES		**146 037 071**	**133 467 962**
Equity			
Share capital	34	1 250 000	1 250 000
Other capital	35	16 640 639	16 497 365
Net profit for the year		3 311 209	2 432 152
TOTAL EQUITY		**21 201 848**	**20 179 517**
TOTAL LIABILITIES AND EQUITY		**167 238 919**	**153 647 479**
Capital adequacy ratio	48	11.99%	14.41%
Book value (in PLN thousand)		21 201 848	20 179 517
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		16.96	16.14
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		16.96	16.14

(in PLN thousand)

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						Unappropriated profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Total other capital			
Note	34	35	35	35	35	35	35			
As at 1 January 2010	**1 250 000**	**12 048 111**	**1 070 000**	**3 276 260**	**(16 282)**	**119 276**	**16 497 365**	**-**	**2 432 152**	**20 179 517**
Transfer of net profit from previous years	-	-	-	-	-	-	**-**	2 432 152	(2 432 152)	**-**
Total comprehensive income	-	-	-	-	(12 526)	98 648	**86 122**	-	3 311 209	**3 397 331**
Transfer from unappropriated profits	-	50 000	-	7 152	-	-	**57 152**	(57 152)	-	**-**
Dividends paid	-	-	-	-	-	-	-	(2 375 000)	-	**(2 375 000)**
As at 31 December 2010	**1 250 000**	**12 098 111**	**1 070 000**	**3 283 412**	**(28 808)**	**217 924**	**16 640 639**	**-**	**3 311 209**	**21 201 848**

for the year ended 31 December 2009	Share capital	Other capital						Unappropriated profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Total other capital			
Note	34	35	35	35	35	35	35			
As at 1 January 2009	**1 000 000**	**7 216 986**	**1 070 000**	**1 395 000**	**(33 874)**	**-**	**9 648 112**	**-**	**2 881 260**	**13 529 372**
Transfer of net profit from previous years	-	-	-	-	-	**-**	**-**	2 881 260	(2 881 260)	**-**
Total comprehensive income	-	-	-	-	17 592	119 276	**136 868**	-	2 432 152	**2 569 020**
Own shares issue	250 000	4 831 125	-	-	-	-	**4 831 125**	-	-	**5 081 125**
Transfer from unappropriated profits	-	-	-	1 881 260	-	**-**	**1 881 260**	(1 881 260)	-	**-**
Dividends paid	-	-	-	-	-	-	**-**	(1 000 000)	-	**(1 000 000)**
As at 31 December 2009	**1 250 000**	**12 048 111**	**1 070 000**	**3 276 260**	**(16 282)**	**119 276**	**16 497 365**	**-**	**2 432 152**	**20 179 517**

(in PLN thousand)

STATEMENT OF CASH FLOWS
for the years ended 31 December 2010 and 31 December 2009 respectively

	Note	2010	2009
Net cash flow from operating activities			
Net profit		3 311 209	2 432 152
Adjustments:		(3 093 640)	(7 710 647)
Amortisation and depreciation		445 989	405 393
(Gains) losses from investing activities	40	(3 947)	(29 408)
Interest and dividends	40	(541 689)	(562 338)
Change in amounts due from banks	40	132 506	1 180 641
Change in trading assets and financial assets at fair value through profit and loss		2 307 507	(8 526 843)
Change in derivative financial instruments (asset)		310 157	1 569 624
Change in loans and advances to customers	40	(15 357 879)	(17 138 175)
Change in deferred income tax asset and in income tax receivables		(187 719)	(108 401)
Change in other assets	40	19 055	31 346
Change in amounts due to banks	40	(5 755)	(1 528 962)
Change in derivative financial instruments (liability)		860 425	(4 605 967)
Change in amounts due to customers	40	7 786 760	21 145 111
Change in impairment allowances and provisions	40	951 610	818 572
Change in other liabilities	40	589 205	107 118
Income tax paid		(1 132 941)	(1 059 036)
Current income tax expense	12	1 019 630	763 785
Other adjustments	40	(286 554)	(173 107)
Net cash from / used in operating activities		**217 569**	**(5 278 495)**
Net cash flow from investing activities			
Inflows from investing activities		**8 504 315**	**12 780 435**
Proceeds from sale of investment securities		8 387 852	12 661 922
Proceeds from sale of intangible assets and tangible fixed assets		6 820	17 236
Other investing inflows		109 643	101 277
Outflows from investing activities		**(10 100 822)**	**(11 914 099)**
Purchase of a subsidiary, net of cash acquired		(148 873)	(548 578)
Purchase of investment securities		(9 402 287)	(10 969 818)
Purchase of intangible assets and tangible fixed assets		(549 662)	(395 703)
Net cash from / used in investing activities		**(1 596 507)**	**866 336**
Net cash flow from financing activities			
Proceeds from shares in issue		-	5 081 125
Dividends paid		(2 375 000)	(1 000 000)
Long-term borrowings		3 457 895	1 042 359
Redemption of debt securities in issue		(82 590)	(106 152)
Repayment of long-term loans		(39 332)	(43 022)
Net cash generated from financing activities		**960 973**	**4 974 310**
Net cash inflow/(outflow)		**(417 965)**	**562 151**
including currency translation differences on cash and cash equivalents		11 096	(31 450)
Cash and cash equivalents at the beginning of the period		8 617 962	8 055 811
Cash and cash equivalents at the end of the period	40	**8 199 997**	**8 617 962**
of which restricted	37	6 950	8 421

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') 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 Bank was established in 1919 as Pocztowa Kasa Oszczędnościowa. Since 1950 the Bank 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:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
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

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 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)

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group includes the following entities:

No.	Entity name	Registered office	Activity	Share capital (%) 31.12.2010	Share capital (%) 31.12.2009
			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) 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)

Additionally, the Bank holds shares in the following jointly controlled entities and associates:

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 associated by 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, shares in the entity are recognized in non-current assets held for sale.

Information about changes in the participation in the share capital of the subsidiaries is set out in Note 23 'Investments in subsidiaries, jointly controlled entities and associates'.

Internal organisational units of the Bank

The financial statements of the Bank comprising financial data for the year ended 31 December 2010 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2010, these organisational units included: the Bank's Head Office in Warsaw, Dom Maklerski PKO Bank Polski SA, COK - Centrum Kart Kredytowych i Operacji Kartowych, CBE Centrum Bankowości Elektronicznej Inteligo, 10 specialised units, 12 regional retail branches,13 regional corporate branches, 55 corporate centres and 1942 agencies. Except from Dom Maklerski PKO BP SA, none of the organisational units listed above prepares separate financial statements.

Indication whether the Bank is a parent company or a significant investor and whether it prepares consolidated financial statements

PKO Bank Polski SA is the parent company of the Powszechna Kasa Oszczędności Bank Polski SA Group and a significant investor for its subordinated entities and entities related to them, whose the Bank is the owner. Accordingly, PKO Bank Polski SA prepares consolidated financial statements for the Group, which include the financial data of these entities.

(in PLN thousand)

Information on members of the Management and Supervisory Board of the Bank

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 of the Bank:

- 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;
- 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 the member of the Supervisory Board of PKO Bank Polski SA.

Approval of financial statements

These financial statements, reviewed by the Supervisory Board's Audit Committee on 2 March 2011, have been approved for issue by the Management Board of the Bank 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 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 International Accounting Standards Board introduces limitations in that respect.

2.2. Going concern

The financial statements of the Bank have been prepared on the basis that the Bank 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 financial statements, the Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank for 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank.

2.3. Basis of 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 losses. The Bank measures non-current assets (or groups of the said assets) classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

2.4. Foreign currencies

2.4.1. Transactions and balances denominated in foreign currencies

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 using the following principles:

1) monetary assets denominated in foreign currency are translated into Polish zloty, using a closing rate, i.e. the average rate communicated by the National Bank of Poland for a given currency prevailing as at the balance date;

2) non-monetary assets valued at historical cost in foreign currency are translated into Polish zloty, using exchange rate as of the date of the transaction;
3) non-monetary assets 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 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.

2.5. Financial assets and liabilities

2.5.1. Classification

Financial assets are classified into the following categories: financial assets 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 into the following categories: financial liabilities at fair value through profit and loss and other financial liabilities. The classification of financial assets and liabilities is determined on initial recognition.

2.5.1.1. Financial assets and liabilities at fair value through profit and loss

A financial asset or financial liability 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. A financial asset or financial liability is 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 designated as at fair value through profit and loss. The Bank 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 properly managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Bank.
3) The Bank 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.

2.5.1.2. Financial assets available for sale

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

a) financial assets at fair value through profit and loss (designated by the Bank upon initial recognition);

b) held-to-maturity financial assets;
c) those that meet the definition of loans and advances.

2.5.1.3. 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 on an active market, other than:

1) those that the Bank intends to sell immediately or in the near term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit and loss;
2) those that the Bank 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.

2.5.1.4. 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 Bank has the intention and ability to hold to maturity other than:

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

2.5.1.5. Other financial liabilities

Other financial liabilities 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.

2.5.2. 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.

2.5.3. 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 to another entity. The financial asset is transferred when:

1) the contractual rights to receive the cash flows from the financial asset are transferred, or
2) the Bank 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 Bank.

When the Bank 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 Bank 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 Bank 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.

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

The Bank 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.

Loans are derecognized 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.

2.5.4. 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 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:

2.5.4.1. 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’.

2.5.4.2. Financial assets available for sale

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

2.5.4.3. Loans and advances and investments held to maturity

They are measured at amortized cost with the use of an effective interest rate with an allowance for impairment losses. If it is not possible to reliably estimate the future cash flows and the effective interest rate, financial liabilities are measured at cost.

2.5.4.4. Other financial liabilities including liabilities resulting from the issue of securities

Other financial liabilities are measured at amortized cost. If it is not possible to reliably estimate the future cash flows and the effective interest rate, financial liabilities are measured at cost.

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

2.5.4.5. 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 at fair value through profit and loss and available for sale equity instruments:
    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 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) available-for-sale debt instruments in the portfolio – based on one of the following methods:
    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, less principal repayments, and increased or decreased by the cumulative amortisation of any difference between that initial amount and the amount at maturity, and decreased by any impairment losses. 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 the next re-pricing, and which is the internal rate of return of the asset/liabilities for the given period. The calculation of this rate includes payments received/paid by the Bank which affect financial characteristics of the instrument, with exception of potential future losses related to default loans.

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

2.5.5. Derivative instruments

2.5.5.1. 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 marked is their market price. In other cases, fair value is derived with the use of valuation models which use market observable data. 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 Bank includes the difference in the net income from financial instruments at fair value through profit and loss in correspondence with 'Derivative financial instruments'.

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

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

2.5.5.2. 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 which otherwise would be required under the contract.

Embedded derivative instruments separated from host contracts and recognized separately and are valued at fair value. Valuation is presented in the statement of financial position under 'Derivative Financial Instruments'. Changes in the fair value of derivative instruments are recorded in the income statement under the 'Net income from financial instruments at fair value through profit and loss' or in the '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 through profit and loss; 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 the case of contracts which are not financial instruments and which include an instrument which fulfils the above conditions, profits and losses from embedded derivatives are recorded in the income statement under the 'Net income from financial instruments at fair value through profit and loss' or in the 'Net foreign exchange gains'.

2.5.6. Hedge accounting

2.5.6.1. Hedge accounting criteria

The Bank 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.

2.5.6.2. Discontinuing hedge accounting

The Bank 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 Bank invalidates a hedge relationship.

2.5.6.3. Fair value hedge

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

2.5.6.4. Cash flow 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 foreign exchange 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. Offsetting of financial instruments

A financial asset or liability may only be offset when the Bank 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 transactions 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. Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are measured at cost less impairment losses.

At each balance date, the Bank makes an assessment of whether there are any indicators of impairment in the value of investments in subsidiaries, jointly controlled entities and associates. If any such indicators exist, the Bank estimates the value in use of the investment or the fair value of the investment less costs to sell, depending on which of these values is higher; if the carrying amount of an asset exceeds its value in use, the Bank recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future cash flows that the Bank 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.

2.9. Impairment of financial assets

2.9.1. Assets measured at amortized cost

At each balance date, 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 Bank determines the amounts of impairment losses. 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 event 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 Bank 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 Bank 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 receivables are classified by the Bank 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 valued with the group method.

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 or assets held to maturity, the amount of the impairment allowance is the difference between the carrying amount of the asset and the present fair value measured as the value of future cash flows discounted (excluding future credit losses that have not been incurred) by the effective interest rate as of the date when objective evidence of the of impairment was identified.

The calculation of the present value of estimated cash flows relating to financial assets for which collateral is held takes into account cash flows arising from the realisation of the collateral, less costs to acquire 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 recovery rates 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 factors that were relevant in the past but which are no longer relevant.

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 Bank plans that the adopted methodology used for estimating impairment allowances will be applications and developed in line with the further accumulations of historic impairment data from the existing information systems. As a consequence, new data obtained by the Bank 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.

2.9.2. Assets available for sale

At each balance date, the Bank makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If any such indicators of impairment on financial assets classified as debt securities available for sale exist, an impairment allowance is calculated.

Objective evidence that a financial asset or group of assets available for sale is impaired includes 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 issuer’s financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganization of the issuer,
6) an 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 Bank 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 using the zero coupon curve based on yield curves for Treasury bonds.

In case of impairment of a financial asset classified as available for sale, the amount of the impairment loss is charged to 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.

2.10. 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. 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 impairment and amortisation losses.

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

2.10.1.2. Other intangible assets

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

2.10.1.3. Development costs

Research and development costs are included in intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. if there is a possibility and intention to complete and use the internally generated intangible asset, there are appropriate technical and financial resources to finish the development and to use the asset and it is possible 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 the end of the reporting period at acquisition cost or cost of production, less accumulated depreciation/amortisation 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 Bank will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible assets (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. Depreciation/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 and investment properties and amortisation 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 amortisation 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.

Depreciation/amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by PKO Bank Polski SA:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment property)	40-60 years
Leaseholds improvements (buildings, premises)	10 years (or term of the lease if shorter)
Machinery and equipment	3-15 years
Computer hardware	4-10 years
Means of transport	5 years
Intangible assets	**Periods**
Software	2-15 years
Other intangible assets	5 years

Costs related 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

An impairment allowance is 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).

2.11. Other items in the statement of financial position

2.11.1. Fixed 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 Bank'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 Bank 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. Accruals and deferred income

Accruals and deferred income mainly comprise fee and 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.

Accruals and deferred income are shown in the statement of financial position under 'Other liabilities'.

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 Bank 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 the detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37 are met. Precisely, the constructive obligation of restructurisation and recognising provisions arises only when the Bank 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 Bank'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 Pracy'), 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 Bank 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 at the balance date by an independent actuary. The basis for calculation of these provisions are internal regulations and especially the Collective Labour Agreement being in force at the Bank. 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 equate 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 Bank 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 which can be directly assigned to the purchasing, construction or production of a qualifying asset, the Bank activates as a part of the purchase price or cost of creation of that assets if there is a probability that they will bring economic benefits and on condition that the purchase price or cost of creation can be measured reliably.

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

2.16. Contingent liabilities and commitments

As regards operating activities, the Bank concludes transactions, which, at the time of their inception, 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 Bank,
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 measured 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 commitments granted.

At 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 amortisation recognized in accordance with IAS 18 'Revenue'.

2.17. Shareholders' equity

Shareholders' equity comprises capital and the other funds of the Bank in accordance with the relevant legal regulations and the Articles of Association.

2.17.1. Share capital

Share capital is stated at nominal value in accordance with Articles of Association and the Register of Entrepreneurs.

2.17.2. Reserve capital

Reserve capital is created according to the Articles of Association of the Bank, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses which might result from the Bank's activities.

2.17.3. Other comprehensive income

Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, as well as the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax. In the statement of financial position, other comprehensive income is presented in the net amount.

2.17.4. 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.

2.17.5. 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.

2.18. Determination of a financial result

The Bank 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 expense 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 allowance values are calculated from present values of debt (that is net of impairment allowance) by using current effective interest rate method 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, which 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 Bank for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Bank 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 the effective interest rate cannot be determined.

2.18.3. Dividend income

Dividend income is recognized in the income statement of the Bank 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

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 National Bank of Poland 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 Bank recognizes 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 in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into Polish zloty using the average National Bank of Poland 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 foreign exchange differences are recorded in the income statement.

2.18.7. Other operating income and expense

Other operating income and expense include 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.

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 '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 resulting from the Act on corporate income tax dated 15 February 1992 have been taken into consideration (Journal of Laws from the year 2000, No. 54, item 654 with subsequent amendments). 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. 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 in the deferred tax as a positive temporary difference.

2.19.2. Deferred income tax

The amount of deferred tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Bank recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the balance 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 a 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.

Deferred tax assets are offset with deferred tax liabilities only when the enforceable legal entitlement to offset current tax receivables with current tax liabilities exists 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 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. Future cash flows are assessed by the Bank 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 Bank 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 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 Bank for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS quotations). The Bank 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 35 229 thousand. A similar downwards movement would result in valuation increase by PLN 36 772 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 yield curve).

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

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed at the balance date by an external independent actuary. The basis for calculation of these provisions are internal regulations and especially the Collective Labour Agreement being in force at the Bank. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions.

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2010, on the basis of calculation conducted by an independent 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 discount rate. Change in the discount rate of ±0.5 pp. would contribute to an increase/decrease in the amount of the provision for retirement and pension benefits and jubilee bonuses by approx. PLN 19 million. Gains and losses of the calculations conducted by an actuary are recognized in the income statement.

The Bank 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.

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

In estimating useful economic lives of particular types of tangible fixed assets, intangible assets and investment properties, the Bank considers a number of factors, including the following:

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 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 since 1 January 2010 and have been applied by the Bank

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 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 entity remains dominant towards a given entity. The standard provides detail on the disclosure if the parent entity 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.
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.

(in PLN thousand)

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 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 entity'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.
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.

(in PLN thousand)

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.
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.

(in PLN thousand)

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential 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 entit
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	The amendment requires 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, additional disclosure is required to enable the effects of those risks to be understood.
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.

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
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 subsequently at fair value, and those to be measured 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 influence 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).

(in PLN thousand)

NOTES TO THE INCOME STATEMENT

3. Interest income and expense

Interest and similar income

	2010	2009
Income from loans and advances to customers [1)]	8 246 231	7 140 485
Income from derivative hedging instruments	649 116	403 899
Income from securities designated at fair value through profit and loss	494 702	403 112
Income from investment securities available for sale[1)]	437 053	389 355
Income from placements with banks[1)]	147 682	158 576
Income from trading securities	128 940	97 207
Other[1)]	3 828	10 814
Total	**10 107 552**	**8 603 448**

In the 'Income from derivative hedging instruments' the Bank presents interest income from derivative instruments designated for hedge accounting that are effective hedging instruments in the respect of cash flow hedges. Details of hedging relationships applied by the Bank are included in Note 19 '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 above values 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)]	(3 586 343)	(3 589 601)
Interest expense on debt securities in issue[2)]	(82 191)	(99 575)
Interest expense on deposits from banks[2)]	(31 218)	(47 523)
Other	(24 024)	(24 300)
Total	**(3 723 776)**	**(3 760 999)**

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 8 834 794 thousand (in the year ended 31 December 2009: PLN 7 699 230 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 (3 703 305) thousand. In the year ended 31 December 2009, interest expense amounted to PLN (3 746 183) 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' line, amounted to PLN (3 553) thousand as at 31 December 2010 and PLN (9 484) 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 amortised cost	**7 312 926**	**6 380 570**
Interest income from loans and advances to customers	8 246 231	7 140 485
Fee and commission income from loans and advances	524 110	365 522
Interest income from placements with banks	147 682	158 576
Net impairment allowance on loans and advances to customers and amounts due from banks measured at amortised cost	(1 605 097)	(1 284 013)
Losses from financial liabilities measured at amortised cost	**(3 699 752)**	**(3 736 699)**
Interest expense on amounts due to customers	(3 586 343)	(3 589 601)
Interest expense on debt securities in issue	(82 191)	(99 575)
Interest expense on amounts due to banks	(31 218)	(47 523)
Net result	**3 613 174**	**2 643 871**

4. 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:	**524 110**	**365 522**
Income from loans and advances	524 110	365 522
Other commissions	**3 152 718**	**2 715 883**
Income from payment cards	963 363	932 890
Income from maintenance of bank accounts	908 208	882 221
Income from loan insurance	653 501	327 312
Income from maintenance of investment funds (including management fees)	170 269	92 049
Income from cash transactions	165 437	177 354
Income from securities transactions	73 231	53 128
Income from servicing foreign mass transactions	44 754	41 524
Income from sale and distribution of court fee stamps	26 255	27 842
Other*	147 700	181 563
Income from fiduciary activities	**1 659**	**1 654**
Total	**3 678 487**	**3 083 059**

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

Fee and commission expense

	2010	2009
Expenses on payment cards	(329 381)	(374 547)
Expenses on loan insurance	(150 842)	(92 937)
Expenses on acquisition services	(133 935)	(139 969)
Expenses on settlement services	(21 071)	(20 401)
Expenses on fee and commissions for operating services rendered by banks	(10 113)	(6 518)
Other*	(95 586)	(85 040)
Total	**(740 928)**	**(719 412)**

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

(in PLN thousand)

5. Dividend income

	2010	2009
Dividend income from the issuers of:	**5 663**	**5 381**
Securities classified as available for sale	5 411	5 351
Securities classified as held for trading	252	30
Dividend income from subsidiaries, jointly controlled entities and associates	**104 232**	**96 179**
of which:		
PKO Towarzystwo Funduszy Inwestycyjnych SA	61 209	78 750
CEUP eService SA	29 000	9 959
Centrum Finansowe Puławska Sp. z o.o.	12 492	7 376
Agencja Inwestycyjna CORP SA	107	94
Inteligo Financial Services SA	1 424	-
Total	**109 895**	**101 560**

On 28 April 2010, the Ordinary General Shareholders' Meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA passed Resolution No. 4 on payment of dividend for 2009 amounting to PLN 61 209 thousand to PKO Bank Polski SA.

On 10 May 2010, the Ordinary General Shareholders' Meeting of Inteligo Financial Services SA passed Resolution No. 13 on payment of dividend for 2009 amounting to PLN 1 424 thousand to PKO Bank Polski SA.

On 17 June 2010, the Ordinary General Shareholders' Meeting of Centrum Finansowe Puławska Sp. z o. o. passed Resolution No. 4 on payment of dividend for 2009 amounting to PLN 12 492 thousand to PKO Bank Polski SA.

On 29 June 2010, the Ordinary General Shareholders' Meeting of Centrum Elektronicznych Usług Płatniczych eService SA passed Resolution No. 3 on payment of dividend for 2009 amounting to PLN 29 000 thousand to PKO Bank Polski SA.

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

	2010	2009
Derivative instruments[1)]	(103 782)	33 567
Debt securities	45 847	24 536
Equity instruments	1 427	1 946
Other[1)]	19	1 353
Total	**(56 489)**	**61 402**

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	8 474 400	(8 568 293)	(93 893)
Financial assets designated upon initial recognition at fair value through profit and loss	54 093	(16 689)	37 404
Total	**8 528 493**	**(8 584 982)**	**(56 489)**

(in PLN thousand)

2009	Gains	Losses	Net result
Trading assets	11 952 886	(11 904 096)	48 790
Financial assets designated upon initial recognition at fair value through profit and loss	78 216	(65 604)	12 612
Total	**12 031 102**	**(11 969 700)**	**61 402**

The total change in fair values of financial instruments 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 (103 763)* thousand (in the year ended 31 December 2009: PLN 34 920 thousand).

7. Net gains/(losses) on investment securities

	2010	2009
Losses/gains recognized directly in other comprehensive income	(86 745)	22 312
Total result recognized directly in other comprehensive income	**(86 745)**	**22 312**
Gains derecognized from other comprehensive income	73 756	10 365
Losses derecognized from other comprehensive income	(2 474)	(10 959)
Total result derecognised from other comprehensive income	**71 282**	**(594)**
Total	**(15 463)**	**21 718**

8. Net foreign exchange gains

	2010	2009
Currency translation differences resulting from financial instruments at fair value through profit and loss	(1 026 841)	2 713 081
Currency translation differences from foreign operations	1 368 189	(1 818 401)
Total	**341 348**	**894 680**

9. Other operating income and expense

	2010	2009
Other operating income		
Sundry income	20 289	20 797
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	6 820	16 457
Recovery of expired and written-off receivables	4 495	20 084
Sale of shares in jointly controlled entities and associates	545	-
Other	15 863	109 731
Total	**48 012**	**167 069**

	2010	2009
Other operating expenses		
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(4 561)	(7 968)
Sundry expenses	(4 378)	(5 004)
Donations	(4 180)	(3 370)
Other	(30 189)	(60 368)
Total	**(43 308)**	**(76 710)**

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

(in PLN thousand)

10. Net impairment allowance and write-downs

For the year ended 31 December 2010	Impairment allowances at the beginning of the period	Increases: Impairment allowances recognised during the period	Increases: Other	Decreases: Decrease in impairment allowances due to derecognition of assets	Decreases: Impairment allowances reversed during the period	Decreases: Other	Impairment allowances at the end of the period	Net impairment allowance – impact on the income statement
Investment securities available for sale	**15 576**	**-**	**-**	**1 060**	**800**	**138**	**13 578**	**800**
measured at fair value through equity (not listed on stock exchange)	13 183	-	-	-	-	138	13 045	-
financial instruments measured at cost (unquoted equity instruments and related derivative instruments)	2 393	-	-	1 060	800	-	533	800
Loans and advances to customers and amounts due from banks measured at amortised cost	**3 442 054**	**4 005 233**	**27 720**	**776 817**	**2 400 136**	**-**	**4 298 054**	**(1 605 097)**
non-financial sector	3 382 144	3 980 172	26 642	768 655	2 373 671	-	4 246 632	(1 606 501)
consumer loans	1 325 580	1 720 258	3 217	638 488	911 164	-	1 499 403	(809 094)
mortgage loans	643 055	773 226	20 377	14 221	515 094	-	907 343	(258 132)
corporate loans	1 413 509	1 486 688	3 048	115 946	947 413	-	1 839 886	(539 275)
financial sector	38 414	10 002	1 078	8 162	3 044	-	38 288	(6 958)
amounts due from banks	27 109	4 541	1 078	-	158	-	32 570	(4 383)
corporate loans	11 305	5 461	-	8 162	2 886	-	5 718	(2 575)
budget sector	21 496	15 059	-	-	23 421	-	13 134	8 362
corporate loans	21 496	15 059	-	-	23 421	-	13 134	8 362
Non-current assets held for sale	**-**	**1 281**	**-**	**-**	**-**	**-**	**1 281**	**(1 281)**
Tangible fixed assets	**1 166**	**29 418**	**-**	**-**	**-**	**12 203**	**18 381**	**(29 418)**
Intangible assets	**15 373**	**2 644**	**-**	**-**	**-**	**-**	**18 017**	**(2 644)**
Investments in subsidiaries, jointly controlled entities and associates	**435 889**	**15 073**	**-**	**-**	**-**	**-**	**450 962**	**(15 073)**
Other, of which:	**315 840**	**338 810**	**2**	**25 735**	**224 477**	**194**	**404 246**	**(114 333)**
Provisions for off-balance sheet liabilities and legal claims	117 483	272 125	2	-	166 968	194	222 448	(105 157)
Total	**4 225 898**	**4 392 459**	**27 722**	**803 612**	**2 625 413**	**12 535**	**5 204 519**	**(1 767 046)**

(in PLN thousand)

For the year ended 31 December 2009	Impairment allowances at the beginning of the period	Increases: Impairment allowances recognised during the period	Increases: Other	Decreases: Decrease in impairment allowances due to derecognition of assets	Decreases: Impairment allowances reversed during the period	Decreases: Other	Impairment allowances at the end of the period	Net impairment allowance – impact on the income statement
Investment securities available for sale	**21 550**	**9 975**	**-**	**7 024**	**8 925**	**-**	**15 576**	**(1 050)**
measured at fair value through equity (not listed on stock exchange)	15 791	9 975	-	3 658	8 925	-	13 183	(1 050)
financial instruments measured at cost (unquoted equity instruments and related derivative instruments)	5 759	-	-	3 366	-	-	2 393	-
Loans and advances to customers and amounts due from banks measured at amortised cost	**2 628 651**	**3 032 779**	**-**	**469 556**	**1 748 766**	**1 054**	**3 442 054**	**(1 284 013)**
Non-financial sector	2 530 090	3 021 259	-	437 780	1 731 425	-	3 382 144	(1 289 834)
consumer loans	694 648	1 329 914	-	166 574	532 408	-	1 325 580	(797 506)
mortgage loans	488 157	420 628	-	38 374	227 356	-	643 055	(193 272)
corporate loans	1 347 285	1 270 717	-	232 832	971 661	-	1 413 509	(299 056)
Financial sector	75 090	9 417	-	31 776	13 263	1 054	38 414	3 846
amounts due from banks	28 111	52	-	-	-	1 054	27 109	(52)
corporate loans	46 979	9 365	-	31 776	13 263	-	11 305	3 898
Budget sector	23 471	2 103	-	-	4 078	-	21 496	1 975
corporate loans	23 471	2 103	-	-	4 078	-	21 496	1 975
Tangible fixed assets	**1 916**	**95**	**-**	**-**	**778**	**67**	**1 166**	**683**
Intangible assets	**15 373**	**-**	**-**	**-**	**-**	**-**	**15 373**	**-**
Investments in subsidiaries, jointly controlled entities and associates	**326 146**	**68 085**	**48 738**	**-**	**-**	**7 080**	**435 889**	**(68 085)**
Other, of which:	**245 303**	**179 257**	**78 588**	**328**	**138 242**	**48 738**	**315 840**	**(41 015)**
Provisions on off-balance sheet liabilities and legal claims	84 623	169 122	-	328	135 934	-	117 483	(33 188)
Total	**3 238 939**	**3 290 191**	**127 326**	**476 908**	**1 896 711**	**56 939**	**4 225 898**	**(1 393 480)**

(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 (1 605 097) thousand include interest income due to loans and advances to customers in the amount of PLN (65 595) thousand recognized in the period 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.

11. Administrative expenses

	2010	2009
Staff costs	(2 197 253)	(2 136 166)
Overheads	(1 147 788)	(1 259 749)
Depreciation and amortisation	(445 989)	(405 393)
Taxes and other charges	(57 698)	(53 661)
Contribution and payments to Banking Guarantee Fund	(53 384)	(49 623)
Total	**(3 902 112)**	**(3 904 592)**

Wages and salaries / Employee benefits

	2010	2009
Wages and salaries, of which:	(1 863 618)	(1 801 038)
actuarial provision for anniversary bonuses and retirement benefits	(43 432)	(2 346)
Social Security, of which:	(274 572)	(275 090)
contributions for retirement pay and pensions*	(220 464)	(221 683)
Other employee benefits	(59 063)	(60 038)
Total	**(2 197 253)**	**(2 136 166)**

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

Finance and operating lease agreements

Finance lease

The Bank does not have any material receivables or payables according to finance lease.

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 Bank in the course of its normal operating activities meet the criteria of operating leases. All of the above are arm's length agreements.

The table below presents data on operating lease agreements concluded by the Bank.

Total value of future lease payments under irrevocable operating lease	31.12.2010	31.12.2009
For the period:		
up to 1 year	122 768	122 985
from 1 year to 5 years	280 186	281 606
above 5 years	83 420	117 015
Total	**486 374**	**521 606**

(in PLN thousand)

Lease and sub-lease payments recognized as an expense of a given period from 1 January 2010 to 31 December 2010 amounted to PLN 147 133 thousand (in the period from 1 January 2009 to 31 December 2009: PLN 148 556 thousand).

12. Income tax expense

	2010	2009
Income statement		
Current income tax expense	(1 019 630)	(763 785)
Deferred income tax related to temporary differences	207 922	140 506
Tax expense in the income statement	**(811 708)**	**(623 279)**
Tax expense in other comprehensive income related to temporary differences	(20 203)	(32 105)
Total	**(831 911)**	**(655 384)**

	2010	2009
Profit before income tax	**4 122 917**	**3 055 431**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland (2009: 19%)	(783 354)	(580 532)
Permanent differences between accounting gross profit and taxable profit, of which:	**(28 938)**	**(43 167)**
Recognition of impairment loss, not constituting taxable expense (KREDOBANK)	-	(12 848)
Recognition/ reversal of provisions and revaluation not constituting taxable expense/income	(37 503)	(30 577)
Other non-tax deductible expenses	(12 042)	(41 262)
Dividend income	20 501	19 265
Other non-taxable income	(1 496)	16 902
Other permanent differences	1 602	5 353
Other differences between gross financial result and taxable income, including donations	**584**	**420**
Income tax in the income statement	**(811 708)**	**(623 279)**
Effective tax rate	**19.69%**	**20.40%**
Temporary difference due to the deferred tax presented in the income statement	207 922	140 506
Total current income tax expense in the income statement	**(1 019 630)**	**(763 785)**

Current income tax liabilities/receivables

	31.12.2010	31.12.2009
Current income tax liabilities	61 854	175 165

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. Current income tax liability of the Bank for the year 2010 will be settled as at 31 March 2011.

(in PLN thousand)

Deferred tax asset/liability

	Statement of financial position		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 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	2 023	2 656	633	941
Gross deferred tax liability, of which:	**724 397**	**641 720**	**-**	**-**
transferred to income statement	673 279	613 742	(59 537)	(10 381)
transferred to other comprehensive income	51 118	27 978	-	-
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:	57 395	15 090	-	-
transferred to income statement	50 640	11 272	39 368	2 878
transferred to other comprehensive income	6 755	3 818	-	-
Provision for employee benefits	118 613	110 171	8 442	134
Loan impairment allowances	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	32 001	19 833	12 168	3 021
Gross deferred income tax asset, of which:	**1 187 320**	**916 924**	**-**	**-**
transferred to income statement	1 180 565	913 106	267 459	150 887
transferred to other comprehensive income	6 755	3 818	-	-
Total deferred tax impact, of which:	**462 923**	**275 204**	-	-
transferred to income statement	507 286	299 364	207 922	140 506
transferred to other comprehensive income	(44 363)	(24 160)	-	-
Deferred income tax asset (presented in the statement of financial position)	**462 923**	**275 204**	**-**	**-**
Net deferred tax impact on the income statement	**-**	**-**	**207 922**	**140 506**

13. 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 shareholder (PLN thousand)	3 311 209	2 432 152
Weighted average number of ordinary shares during the period (thousand)	1 250 000	1 121 562
Profit per share (PLN per share)	2.65	2.17

Earnings per share from discontinued operations

As at 31 December 2010 and 31 December 2009, the Bank 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 and loss attributable to ordinary shareholders, by dividing the respective profit and loss 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 Bank in the year ended 31 December 2010 or in the year ended 31 December 2009.

Diluted earnings per share from discontinued operations

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

14. 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 thousand, 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.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. 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	2 328 669	2 368 309
Other funds	1 176	584
Total	**6 112 562**	**6 993 966**

(in PLN thousand)

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.

16. Amounts due from banks

	31.12.2010	31.12.2009
Deposits with banks	1 501 919	1 133 859
Current accounts	557 408	354 587
Loans and advances	345 620	481 666
Cash in transit	6 862	5 337
Receivables due from repurchase agreements	-	105 427
Total	**2 411 809**	**2 080 876**
Impairment allowances	(32 570)	(27 109)
including amounts due from a foreign bank	(31 734)	(27 013)
Net total	**2 379 239**	**2 053 767**

Details on risk related to amounts due from banks was presented in Note 50 ‘Credit risk’.

17. Trading assets

	31.12.2010	31.12.2009
Debt securities	**1 491 053**	**2 202 847**
issued by the State Treasury, including:	1 483 144	2 198 840
Treasury bills	-	388 500
Treasury bonds	1 483 144	1 810 340
issued by local government bodies, including:	7 390	2 208
municipal bonds	7 390	2 208
issued by non-financial institutions, including:	509	-
corporate bonds	509	-
issued by other financial institutions, including:	10	-
corporate bonds	10	-
issued by banks, including:	-	1 799
BGK bonds	-	1 799
Shares in other entities - listed on stock exchange	**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 other financial institutions	-	-	10	-	-	**10**
issued by other non-financial institutions	-	-	-	509	-	**509**
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**
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**

As at 31 December 2010, the average yield on debt securities issued by the State Treasury and included in the trading assets portfolio 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 debt securities held for trading 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 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)

18. Derivative financial instruments

Derivative instruments used by the Bank

The Bank uses various types of derivatives with a view to manage risk involved in its business activities. As at 31 December 2010 and 31 December 2009, the Bank 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	1 565 843	1 848 812	1 677 660	1 519 058
Total	**1 719 764**	**2 404 795**	**2 029 921**	**1 544 370**

Type of contract	31.12.2010		31.12.2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
IRS	1 447 916	1 553 029	1 307 705	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	**1 719 764**	**2 404 795**	**2 029 921**	**1 544 370**

The most frequently used types of derivatives are: IRS, FRA, FX Swap, CIRS and Forwards.

(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	6 718 392	2 076 477	78 988	-	-	**8 873 857**	-	-
Sale	6 753 924	2 059 874	78 828	-	-	**8 892 626**	-	-
FX forward	2 005 928	2 165 896	3 101 234	149 193	-	**7 422 251**	42 972	18 356
Purchase	1 000 904	1 078 990	1 535 756	73 127	-	**3 688 777**	-	-
Sale	1 005 024	1 086 906	1 565 478	76 066	-	**3 733 474**	-	-
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)	29 696 000	31 596 212	90 355 656	132 765 966	20 420 516	**304 834 350**	1 553 029	1 447 916
Purchase	14 848 000	15 798 106	45 177 828	66 382 983	10 210 258	**152 417 175**	-	-
Sale	14 848 000	15 798 106	45 177 828	66 382 983	10 210 258	**152 417 175**	-	-
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	**75 427 859**	**71 554 802**	**139 359 247**	**165 090 447**	**23 204 091**	**474 636 446**	**2 404 795**	**1 719 764**

(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	6 514 969	1 188 651	21 056	-	-	**7 724 676**	-	-
Sale	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	852 500	852 621	1 245 800	17 769	-	**2 968 690**	-	-
Sale	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	65 680 262	97 881 162	17 146 818	**228 547 768**	1 296 136	1 307 705
Purchase	11 723 713	12 196 050	32 840 131	48 940 581	8 573 409	**114 273 884**	-	-
Sale	11 723 713	12 196 050	32 840 131	48 940 581	8 573 409	**114 273 884**	-	-
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 (including 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**	**88 211 025**	**123 959 454**	**23 818 077**	**335 575 495**	**1 544 370**	**2 029 921**

(in PLN thousand)

19. Derivative hedging instruments

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

1. hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, following from the risk of fluctuations in interest rates and foreign exchange rates, using CIRS transactions;
2. hedges 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. hedges 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 Bank 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 2009.

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 is 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**
IRS in EUR thousand	-	-	-	-	-	**-**
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)**
Influence on other comprehensive income in the period (gross)	**121 788**	**147 254**
Deferred tax on cash flow hedges	**(23 140)**	**(27 978)**

(in PLN thousand)

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

	31.12.2010	31.12.2009
Debt securities	**10 758 331**	**12 356 532**
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 money market bills	3 997 780	6 994 218
issued by local government bodies, including:	128 849	-
Municipal bonds EUR	128 849	-
Total	**10 758 331**	**12 356 532**

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	31.12.2009
NBP money market bills	4 000 000	7 000 000
Treasury bills	1 932 960	4 634 410
Treasury bonds	4 834 445	766 000
EUR bonds	99 008	-

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

(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**	**2 700 136**	**-**	**-**	**12 356 532**
issued by central banks	6 994 218	-	-	-	-	**6 994 218**
issued by the State Treasury	469 074	2 193 104	2 700 136	-	-	**5 362 314**
Total	**7 463 292**	**2 193 104**	**2 700 136**	**-**	**-**	**12 356 532**

(in PLN thousand)

21. Loans and advances to customers

	31.12.2010	31.12.2009
Gross loans and advances, including:	**133 198 613**	**117 840 734**
consumer	25 367 184	23 344 509
corporate	45 046 772	41 910 393
mortgage	62 183 520	52 120 376
Interest	601 137	465 456
Impairment allowances on loans and advances	(4 265 484)	(3 414 945)
Loans and advances -net	**128 933 129**	**114 425 789**

	31.12.2010	31.12.2009
Loans and advances to customers		
Valued with the individual method	5 059 607	4 677 152
of which impaired	4 686 388	3 939 557
of which not impaired	373 219	737 595
Valued with the portfolio method	4 803 630	3 561 171
Valued with the group method (IBNR)	123 335 376	109 602 411
Loans and advances to customers - gross	**133 198 613**	**117 840 734**
Allowances on exposures valued with the individual method	(1 276 776)	(971 326)
of which impaired	(1 276 776)	(971 326)
Allowances on exposures valued with the portfolio method	(2 508 826)	(1 885 369)
Allowances on exposures valued with the group method (IBNR)	(479 882)	(558 250)
Allowances - total	**(4 265 484)**	**(3 414 945)**
Loans and advances to customers – net	**128 933 129**	**114 425 789**

As at 31 December 2010, the share of impaired loans amounted to 7.1% (as at 31 December 2009: 6.4%); whereas the coverage ratio for impaired loans (calculated as total impairment allowances on receivables divided by gross carrying amount of impaired loans) amounted to 44.9% (as at 31 December 2009: 45.5%).

An increase in the volume of loans assessed under the portfolio method in 2010 by PLN 1 242 459 thousand resulted mainly from the increase in delays in repayment in the portfolio of consumer loans and housing loans granted to individuals.

Risk related to loans and advances to customers has been further presented in Note 50 ‘Credit risk’.

(in PLN thousand)

22. Investment securities available for sale

	31.12.2010	31.12.2009
Debt securities available for sale gross	**9 817 952**	**7 904 769**
issued by the State Treasury	5 486 623	4 782 374
Treasury bonds	5 486 623	4 286 686
Treasury bills	-	495 688
issued by local government bodies	2 824 173	2 000 221
municipal bonds	2 824 173	2 000 221
issued by non-financial institutions	1 448 119	786 873
corporate bonds	1 445 357	783 973
bills of exchange	2 762	2 900
issued by banks	50 858	90 086
corporate bonds	50 858	50 901
foreign bonds in EUR	-	39 185
issued by other financial institutions	8 179	245 215
corporate bonds	8 179	245 215
Impairment of debt securities available for sale	**(13 045)**	**(13 183)**
corporate bonds	(10 283)	(10 283)
bills of exchange	(2 762)	(2 900)
Total net debt securities available for sale	**9 804 907**	**7 891 586**
Equity instruments available for sale (gross)	**71 878**	**76 504**
Equity securities admitted to public trading	60 866	68 067
Equity securities not admitted to public trading	11 012	8 437
Allowance for impairment on equity securities available for sale	**(533)**	**(2 393)**
Impairment of equity securities not admitted to public trading	(533)	(2 393)
Total net equity instruments available for sale	**71 345**	**74 111**
Total net investment securities	**9 876 252**	**7 965 697**

Change in investment securities available for sale

	2010	2009
Balance at the beginning of the period	**7 965 697**	**8 756 511**
Currency translation differences	240	43 681
Increases	9 885 297	11 363 543
Decreases (redemption)	(7 959 519)	(12 219 756)
of which change in impairment allowance	*1 998*	*5 975*
Change in fair value	(15 463)	21 718
Balance at the end of the period	**9 876 252**	**7 965 697**

Risk related to investment securities available for sale has been further presented in Note 50 ‘Credit risk’.

(in PLN thousand)

Investment securities available for sale by the maturity date 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 other financial institutions	-	8 179	-	-	-	**8 179**
issued by non-financial institutions	175 489	-	256 087	802 709	200 789	**1 435 074**
issued by the State Treasury	-	-	2 834 440	312 638	2 339 545	**5 486 623**
issued by local government bodies	3 130	5 248	216 534	1 050 709	1 548 552	**2 824 173**
Total	**178 619**	**13 427**	**3 307 061**	**2 166 056**	**4 139 744**	**9 804 907**

The average yield of available-for-sale securities 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:

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

(in PLN 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 other financial institutions	50	157 929	87 236	-	-	**245 215**
issued by non-financial institutions	79 947	33 547	-	627 877	32 319	**773 690**
issued by the State Treasury	346 327	851 240	1 753 992	1 830 815	-	**4 782 374**
issued by local government bodies	3 935	1 218	161 508	791 181	1 042 379	**2 000 221**
Total	**430 259**	**1 043 934**	**2 041 921**	**3 249 873**	**1 125 599**	**7 891 586**

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:

• corporate bonds in PLN	1 076 230
• municipal bonds	2 013 589
• Treasury bonds	4 358 000
• Foreign bonds in EUR	41 082
• Treasury bills	497 270
• Bills of exchange	2 900

As at 31 December 2010 and 31 December 2009, the Bank did not have any securities in the held-to-maturity portfolio.

(in PLN thousand)

23. Investments in subsidiaries, jointly controlled entities and associates

As at 31 December 2010, the Bank's investments in subsidiaries, jointly controlled entities and associates have been recognised at acquisition cost adjusted by impairment allowances.

The Bank's individual shares in subsidiaries, jointly controlled entities and associates are presented below.

As at 31 December 2010	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	935 619	(423 723)	511 896
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Centrum Finansowe Puławska Sp. z o.o.	128 288	-	128 288
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Fort Mokotów Inwestycje Sp. z o.o.[1]	43 546	-	43 546
Bankowe Towarzystwo Kapitałowe SA	18 566	(10 666)	7 900
PKO BP Inwestycje Sp. z o.o. [2]	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
Centrum Haffnera Sp. z o.o.	44 371	-	44 371
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	(15 073)	131 427
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP SA	29	-	29
Total	**1 918 469**	**(450 962)**	**1 467 507**

1) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the amount of PLN 8 053 thousand.
2) Value does not include capital contribution of PKO Bank Polski SA, presented in the statement of financial position as loans and advances to customers in the amount of PLN 113 310 thousand.

As at 31 December 2009	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	786 746	(423 723)	363 023
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Centrum Finansowe Puławska Sp. z o.o.	128 288	-	128 288
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Fort Mokotów Inwestycje Sp. z o.o. [1]	43 546	-	43 546
Bankowe Towarzystwo Kapitałowe SA	18 566	(10 666)	7 900
PKO BP Inwestycje Sp. z o.o. [2]	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
Centrum Haffnera Sp. z o.o.	44 371	-	44 371
Centrum Obsługi Biznesu Sp. z o.o	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	-	146 500
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP SA	29	-	29
Total	**1 769 596**	**(435 889)**	**1 333 707**

1) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the amount of PLN 8 053 thousand.
2) Value does not include capital contribution of PKO Bank Polski SA, presented in the statement of financial position as loans and advances to customers in the amount of PLN 113 310 thousand.

(in PLN thousand)

Selected information on associated entities accounted for using the equity method

	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	25.0001
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**

Financial data 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 Bank'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 Bank had no share in contingent liabilities of associates acquired jointly with other investors.

In 2010, the following events influenced the structure of the PKO Bank Polski SA Group:

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 new 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 registered 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: 27 April, amount of PLN 2 700 thousand and 10 November, 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 each. All the Company's shares were taken up by Bank.Pocztowy SA – an associate of PKO Bank Polski SA.

(in PLN thousand)

24. Intangible assets

For the year ended 31 December 2010	Software	Other, including capital expenditure	Total
Net value of intangible assets as at the beginning of the period	1 206 816	61 965	1 268 781
Purchase	-	464 154	464 154
Impairment allowances	-	(2 644)	(2 644)
Transfers	240 563	(240 563)	-
Amortisation	(182 784)	(1 845)	(184 629)
Other changes	(16 256)	(1 139)	(17 395)
Net book value	**1 248 339**	**279 928**	**1 528 267**
As at 1 January 2010			
Carrying amount – gross	2 200 662	79 479	2 280 141
Accumulated amortisation and impairment allowance	(993 846)	(17 514)	(1 011 360)
Net book value	**1 206 816**	**61 965**	**1 268 781**
As at 31 December 2010			
Carrying amount – gross	2 411 233	301 931	2 713 164
Accumulated amortisation and impairment allowance	(1 162 894)	(22 003)	(1 184 897)
Net book value	**1 248 339**	**279 928**	**1 528 267**

The most significant item of intangible assets of the Bank 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).

Net carrying amount of the Integrated Information System (ZSI) amounted to PLN 701 470 thousand as at 31 December 2010. 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	Software	Other, including capital expenditure	Total
Net value of intangible assets as at the beginning of the period	954 717	200 325	1 155 042
Purchase	-	280 982	280 982
Impairment allowances	-	-	-
Transfers	413 170	(413 170)	-
Amortisation	(161 042)	(1 692)	(162 734)
Other changes	(29)	(4 480)	(4 509)
Net book value	**1 206 816**	**61 965**	**1 268 781**
As at 1 January 2009			
Carrying amount – gross	1 787 570	216 154	2 003 724
Accumulated amortisation and impairment allowance	(832 853)	(15 829)	(848 682)
Net book value	**954 717**	**200 325**	**1 155 042**
As at 31 December 2009			
Carrying amount – gross	2 200 662	79 479	2 280 141
Accumulated amortisation and impairment allowance	(993 846)	(17 514)	(1 011 360)
Net book value	**1 206 816**	**61 965**	**1 268 781**

Bank does not produce any software internally. In the period from 1 January 2010 to 31 December 2010, PKO Bank Polski SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 546 789 thousand (in the period from 1 January 2009 to 31 December 2009: PLN 387 980 thousand).

As at 31 December 2010 and 31 December 2009 respectively, there were no restrictions on the Bank's right to use its intangible assets as a result of pledges.

(in PLN thousand)

25. 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	**2 064 032**	**2 120 753**	**3 813**	**160 362**	**731**	**406 545**	**4 756 236**
Increases, of which:	**34 683**	**117 397**	**-**	**86 233**	**118**	**12 786**	**251 217**
Purchases and other changes	329	1 409	-	86 233	118	1 324	89 413
Transfers from capital expenditure on fixed assets	34 354	115 988	-	-	-	11 462	161 804
Decreases, of which:	**(21 346)**	**(268 944)**	**(911)**	**(163 757)**	**(56)**	**(15 101)**	**(470 115)**
Disposals and sales	(14 594)	(241 045)	(760)	-	(56)	(11 566)	(268 021)
Transfers from capital expenditure on fixed assets	-	-	-	(161 804)	-	-	(161 804)
Transfer from fixed assets to fixed assets held for trading	(6 347)	(26 288)	(151)	-	-	-	(32 786)
Other	(405)	(1 611)	-	(1 953)	-	(3 535)	(7 504)
Gross value of fixed assets at the end of the period	**2 077 369**	**1 969 206**	**2 902**	**82 838**	**793**	**404 230**	**4 537 338**
Accumulated depreciation as at the beginning of the period	**(596 851)**	**(1 558 555)**	**(2 517)**	**-**	**(409)**	**(304 789)**	**(2 463 121)**
Increases, of which:	**(71 319)**	**(175 079)**	**(222)**	**-**	**(126)**	**(27 756)**	**(274 502)**
Depreciation for the period	(71 100)	(162 181)	(222)	-	(126)	(27 731)	(261 360)
Classification of fixed assets held for sale	-	(12 021)	-	-	-	-	(12 021)
Other	(219)	(877)	-	-	-	(25)	(1 121)
Decreases, of which:	**14 056**	**267 161**	**873**	**-**	**1**	**13 715**	**295 806**
Disposal and sales	12 373	240 580	745	-	1	10 519	264 218
Classification of fixed assets held for sale	1 639	25 088	126	-	-	-	26 853
Other	44	1 493	2	-	-	3 196	4 735
Accumulated depreciation at the end of the period	**(654 114)**	**(1 466 473)**	**(1 866)**	**-**	**(534)**	**(318 830)**	**(2 441 817)**
Impairment allowances							
Impairment allowances at the beginning of the period	(1 163)	(3)	-	-	-	-	(1 166)
Increases, of which:	**(149)**	**(12 023)**	**-**	**(17 246)**	**-**	**-**	**(29 418)**
classification of fixed assets held for sale	-	(12 021)	-	-	-	-	(12 021)
Other	(149)	(2)	-	(17 246)	-	-	(17 397)
Decreases, of which:	**179**	**12 024**	**-**	**-**	**-**	**-**	**12 203**
classification of fixed assets held for sale	-	12 021	-	-	-	-	12 021
other	179	3	-	-	-	-	182
Impairment allowances at the end of the period	**(1 133)**	**(2)**	**-**	**(17 246)**	**-**	**-**	**(18 381)**
Net book value	**1 422 122**	**502 731**	**1 036**	**65 592**	**259**	**85 400**	**2 077 140**
Opening balance	**1 466 018**	**562 195**	**1 296**	**160 362**	**322**	**101 756**	**2 291 949**
Closing balance	**1 422 122**	**502 731**	**1 036**	**65 592**	**259**	**85 400**	**2 077 140**

(in PLN thousand)

As at 31 December 2010, the off-balance sheet value of machinery and equipment used under operating lease agreements and operating lease with purchase options contracts amounted to PLN 48 425 thousand (as at 31 December 2009: PLN 43 124 thousand). In the years ended 31 December 2010 and 31 December 2009, respectively, there were no restrictions on the Bank's right to use its tangible fixed assets as a result of pledges.

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 assets as at the beginning of the period	**1 954 645**	**2 082 754**	**8 101**	**530 553**	**32 009**	**383 710**	**4 991 772**
Increases, of which:	**147 436**	**303 045**	**248**	**118 766**	**607**	**41 223**	**611 325**
Purchases and other changes	6 891	952	122	118 766	607	2 533	129 871
Transfers from capital expenditure on fixed assets	140 545	302 093	126	-	-	38 690	481 454
Transfers from fixed assets on fixed assets held for sale	-	-	-	-	-	-	-
Decreases, of which:	**(38 049)**	**(265 046)**	**(4 536)**	**(488 957)**	**(31 885)**	**(18 388)**	**(846 861)**
Disposals and sales	(26 824)	(264 242)	(4 487)	-	(31 885)	(17 826)	(345 264)
Transfers from capital expenditure on fixed assets	-	-	-	(481 454)	-	-	(481 454)
Other	(11 225)	(804)	(49)	(7 503)	-	(562)	(20 143)
Gross value of fixed assets at the end of the period	**2 064 032**	**2 120 753**	**3 813**	**160 362**	**731**	**406 545**	**4 756 236**
Accumulated depreciation as at the beginning of the period	**(541 809)**	**(1 675 887)**	**(6 563)**	**-**	**(7 839)**	**(294 791)**	**(2 526 889)**
Increases, of which:	**(71 305)**	**(145 539)**	**(333)**	**-**	**(803)**	**(27 994)**	**(245 974)**
Depreciation for the period	(70 847)	(145 065)	(211)	-	(803)	(25 733)	(242 659)
Classification of fixed assets held for sale	-	-	-	-	-	-	-
Other	(458)	(474)	(122)	-	-	(2 261)	(3 315)
Decreases, of which:	**16 263**	**262 871**	**4 379**	**-**	**8 233**	**17 996**	**309 742**
Disposal and sales	13 454	261 836	4 330	-	8 233	17 453	305 306
Classification of fixed assets held for sale	-	-	-	-	-	-	-
Other	2 809	1 035	49	-	-	543	4 436
Accumulated depreciation at the end of the period	**(596 851)**	**(1 558 555)**	**(2 517)**	**-**	**(409)**	**(304 789)**	**(2 463 121)**
Impairment allowances							
Impairment allowances at the beginning of the period	(1 216)	-	-	(700)	-	-	(1 916)
Increases, of which:	**-**	**(3)**	**-**	**-**	**-**	**-**	**(3)**
other	-	(3)	-	-	-	-	(3)
Decreases, of which:	**53**	**-**	**-**	**700**	**-**	**-**	**753**
other	53	-	-	700	-	-	753
Impairment allowances at the end of the period	**(1 163)**	**(3)**	**-**	**-**	**-**	**-**	**(1 166)**
Net book value	**1 466 018**	**562 195**	**1 296**	**160 362**	**322**	**101 756**	**2 291 949**
Opening balance	**1 411 620**	**406 867**	**1 538**	**529 853**	**24 170**	**88 919**	**2 462 967**
Closing balance	**1 466 018**	**562 195**	**1 296**	**160 362**	**322**	**101 756**	**2 291 949**

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

(in PLN thousand)

26. Other assets

	31.12.2010	31.12.2009
Settlements of payment cards transactions	204 530	231 133
Settlements of financial instruments	39 750	33 865
Accruals and prepayments	28 219	21 114
Trade receivables	23 853	18 127
Inventory (related to utilization, auxiliary operations and investment)	13 047	15 499
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 from foreign currency trading	-	336
Other*	69 519	61 337
Total	**400 372**	**425 360**
including financial assets**	289 587	327 410

*An item 'Other' includes mainly 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', 'Inventories related to utilization, auxiliary operations and investment' and 'Other'.

27. 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**

28. Amounts due to banks

	31.12.2010	31.12.2009
Loans and advances	2 999 116	2 621 791
Bank deposits	1 027 502	1 399 985
Other money market deposits	93 662	121 679
Current accounts	43 901	23 270
Total	**4 164 181**	**4 166 725**

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

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

(in PLN thousand)

30. Amounts due to customers

	31.12.2010	31.12.2009
Amounts due to retail clients	**94 347 108**	**86 627 306**
Term deposits	47 744 721	48 746 371
Current accounts and overnight deposits	46 308 729	37 613 105
Other money market deposits	293 658	267 830
Amounts due to corporate entities	**34 895 145**	**27 736 114**
Term deposits	18 485 939	17 298 043
Current accounts and overnight deposits	11 139 468	8 784 705
Loans and advances received*	5 020 400	1 421 527
Other money market deposits	249 338	231 839
Amounts due to state budget entities	**6 046 802**	**9 680 980**
Term deposits	3 349 821	6 279 377
Current accounts and overnight deposits	2 689 361	3 355 753
Other money market deposits	7 620	45 850
Total	**135 289 055**	**124 044 400**

*In 'Amounts due to customers' there is included a loan of EUR 800 000 thousand from PKO Finance AB, the Bank's subsidiary, as funds gathered through Eurobonds issue.

31. Subordinated liabilities

In 2007, the Bank issued subordinated bonds with 10-year maturities, 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 6M WIBOR 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
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)

32. Other liabilities

	31.12.2010	31.12.2009
Accounts payable	236 504	201 827
Deferred income	312 480	252 675
Other liabilities relating to:	**1 238 615**	**865 415**
liabilities arising from social and legal transactions	277 830	127 156
liabilities relating to investment activities and internal operations	196 671	12 345
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
liabilities due to suppliers	46 965	36 776
financial instruments settlements	39 683	36 325
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22 310	22 310
liabilities related to payment cards	20 187	5 949
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets and their usage	4 613	3 570
liabilities arising from transactions with non-financial institutions	4 078	6 586
other*	138 119	107 968
Total	**1 787 599**	**1 319 917**
including financial liabilities**	1 337 000	959 274

* Item 'other' includes: liabilities from sale of Treasury stamps, liabilities arising from bank transfers and other payment orders, amounts due 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, PKO Bank Polski SA had no overdue contractual liabilities.

33. 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:	**6 841**	**367 291**	**110 642**	**113 852**	**598 626**
Short term provision	**6 841**	**27 277**	**110 642**	**113 852**	**258 612**
Long term provision	**-**	**340 014**	**-**	**-**	**340 014**
Increase/reassessment	**-**	43 432	272 125	6 482	322 039
Use	**(194)**	**-**	-	(3 436)	(3 630)
Release	**(336)**	-	(166 632)	(35 631)	(202 599)
Other changes and reclassifications	**-**	-	2	-	2
As at 31 December 2010, including:	**6 311**	**410 723**	**216 137**	**81 267**	**714 438**
Short term provision	**6 311**	**29 537**	**81 965**	**81 267**	**199 080**
Long term provision	**-**	**381 186**	**134 172**	**-**	**515 358**

*Included in 'Other provisions' is: restructuring provision of PLN 65 861 thousand and provision of PLN 11 430 thousand for potential claims on impaired loans portfolios sold.

(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	**6 841**	**364 945**	**77 782**	**111 785**	**561 353**
Short term provision	**6 841**	**46 517**	**77 782**	**111 785**	**242 925**
Long term provision	**-**	**318 428**	**-**	**-**	**318 428**
Increase/reassessment	-	2 691	169 122	17 316	189 129
Use	-	-	(328)	(12 941)	(13 269)
Release	-	(345)	(135 934)	(2 308)	(138 587)
As at 31 December 2009, including:	**6 841**	**367 291**	**110 642**	**113 852**	**598 626**
Short term provision	**6 841**	**27 277**	**110 642**	**113 852**	**258 612**
Long term provision	**-**	**340 014**	**-**	**-**	**340 014**

* Included in "Other provisions' is: restructuring provision of PLN 72 604 thousand and provision of PLN 31 589 thousand for potential claims on sold impaired loans portfolios.

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

34. 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) – shares fully paid. 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 parent company (currently 8.4% of the share capital of the parent company).

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)

35. Other capital

	31.12.2010	31.12.2009
Share capital		
Reserve capital	12 098 111	12 048 111
Other reserves	3 283 412	3 276 260
General banking risk fund	1 070 000	1 070 000
Total other reserves	**16 451 523**	**16 394 371**
Financial assets available for sale	(28 808)	(16 282)
Cash flow hedges	217 924	119 276
Total other capital from comprehensive income	**189 116**	**102 994**
Total other capital	**16 640 639**	**16 497 365**

OTHER NOTES

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

As at 31 December 2010 and 31 December 2009, PKO Bank Polski SA 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.

37. Pledged assets

PKO Bank Polski SA has 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
Value of the fund	489 891	442 092
Nominal value of pledge	515 000	455 000
Type of pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2021	24.11.2010
Carrying value of the pledged asset	506 992	464 532

(in PLN thousand)

The Bank's contribution to the Bank Guarantee 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 providing 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 who holds the status of settlements-making participant is obliged to make payments to the settlement fund which 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.

38. 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 sweet 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

All securities under the sub-issue (underwriting) program have an unlimited transferability, are not quoted on the stock exchange and are not traded on a regulated OTC market.

(in PLN thousand)

Contractual commitments

On 31 December 2010 the value of contractual commitments concerning intangible assets amounted to PLN 1 100 thousands (as at 31 December 2009: PLN 1 748 thousand).

Granted loan commitments

	31.12.2010	31.12.2009
Financial sector	1 139 573	1 131 047
Non-financial sector	27 790 351	24 683 557
Public sector	1 005 614	1 814 276
Total	**29 935 538**	**27 628 880**
of which: irrevocable loan commitments	7 001 338	7 360 144

Granted loan commitments have been presented in nominal values.

Guarantees issued

Guarantees and sureties	31.12.2010	31.12.2009
Financial sector	2 504 479	373 918
Non-financial sector	5 494 578	5 066 241
Public sector	253 771	373 300
Total	**8 252 828**	**5 813 459**

In the years ended on 31 December 2010 and 31 December 2009, the Bank 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 Bank's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 33 'Provisions'.

Contingent liabilities by maturity as at 31 December 2010

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Loan commitments	16 629 361	291 994	3 999 554	3 320 204	5 694 425	**29 935 538**
Guarantee liabilities issued	1 649 125	971 746	1 828 734	3 313 539	489 684	**8 252 828**
Total	**18 278 486**	**1 263 740**	**5 828 288**	**6 633 743**	**6 184 109**	**38 188 366**

Contingent liabilities by maturity as at 31 December 2009

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Loan commitments	15 083 878	306 327	5 065 882	2 438 473	4 734 320	**27 628 880**
Guarantee liabilities issued	1 364 677	1 493 569	1 532 101	1 289 899	133 213	**5 813 459**
Total	**16 448 555**	**1 799 896**	**6 597 983**	**3 728 372**	**4 867 533**	**33 442 339**

(in PLN thousand)

Contingent liabilities (by nominal amount)

	31.12.2010	31.12.2009
financial	395 625	628 627
guarantees	2 231 427	2 702 564
Total	**2 627 052**	**3 331 191**

Assets pledged as collateral for contingent liabilities

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

Right to sell or pledge collateral established for the Bank

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

39. 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 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

(in PLN thousand)

Consumer Protection (UOKiK) appealed against the verdict of the Court of Competition and Consumer 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 and misleading for customers advertisement of the „Max Lokata" term deposit, 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 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, 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 fulfill 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-privatisation claims relating to properties held by the Bank

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.

40. Supplementary information to the 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 other 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	6 112 562	6 993 966
Current receivables from financial institutions	2 087 435	1 623 996
Total	**8 199 997**	**8 617 962**

Cash flow from interests and dividends, both received and paid

Interest income – received	2010	2009
Income from loans and advances	6 890 834	6 158 944
Income from securities at fair value through profit and loss	473 152	361 537
Income from placements	163 871	177 742
Income from investment securities	432 045	461 061
Income from trading securities	133 245	94 588
Other interest received	2 592 896	1 707 398
Total	**10 686 043**	**8 961 270**

(in PLN thousand)

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**

Interest expense – paid	2010	2009
Interest expense on deposits - paid	(3 002 080)	(2 370 793)
Interest expense on loans and advances - paid	(39 366)	(52 709)
Interest expense on debt securities in issue - paid	(82 871)	(106 556)
Other (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(1 408 065)	(1 338 355)
Total	**(4 532 382)**	**(3 868 413)**

Dividend expense - paid	2010	2009
Dividend paid to shareholders	(2 375 000)	(1 000 000)
Total	**(2 375 000)**	**(1 000 000)**

Cash flow from operating activities - other adjustments

	2010	2009
Interest accrued, discount, premium on debt securities decreased by deferred tax on portfolio available for sale	(456 398)	(390 533)
Disposal and impairment allowances for tangible fixed assets and intangible assets	56 123	39 866
Valuation, impairment allowances for investments in jointly controlled entities and associates	15 073	81 935
Hedge accounting	98 648	119 276
Land brought as contribution in kind to a subsidiary	-	(23 651)
Total	**(286 554)**	**(173 107)**

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

Gains (losses) on sale and disposal of tangible fixed assets and intangible assets under 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
Contribution in kind net brought to a subsidiary	-	(19 895)
Total	**(3 947)**	**(29 408)**

Interests and dividends	2010	2009
Interest from investment securities of the available for sale portfolio presented under investing activities	(432 046)	(461 061)
Dividends received, presented under investing activities	(109 643)	(101 277)
Total	**(541 689)**	**(562 338)**

(in PLN thousand)

Change in amounts due from banks	2010	2009
Change in the balance of the statement of financial position	(325 472)	1 853 206
Change in impairment allowances on amounts due from banks	(5 461)	1 002
Exclusion of a change in the balance of cash and cash equivalents	463 439	(673 567)
Total	**132 506**	**1 180 641**

Change in loans and advances to customers	2010	2009
Change in the balance of the statement of financial position	(14 507 340)	(16 323 770)
Change in the impairment allowances on amounts due from customers	(850 539)	(814 405)
Total	**(15 357 879)**	**(17 138 175)**

Change in other assets and non-current assets held for sale	2010	2009
Change in the balance of the statement of financial position	19 055	31 346
Total	**19 055**	**31 346**

Change in amounts due to banks	2010	2009
Change in the balance of the statement of financial position	(5 755)	(1 528 962)
Total	**(5 755)**	**(1 528 962)**

Change in amounts due to customers	2010	2009
Change in the balance of the statement of financial position	11 244 655	22 187 470
Transfer of loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities	(3 457 895)	(1 042 359)
Total	**7 786 760**	**21 145 111**

Change in impairment allowances and provisions	2010	2009
Change in the balance of the statement of financial position	115 812	37 273
Impairment allowances on amounts due from banks	5 461	(1 002)
Impairment allowances on loans and advances to customers	850 539	814 405
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	(20 202)	(32 104)
Total	**951 610**	**818 572**

Change in other liabilities and subordinated liabilities	2010	2009
Change in the balance of the statement of financial position	467 283	(42 056)
Transfer of interests payments on advances received from non-financial institution to financing activities	39 332	43 022
Transfer of interest paid on own issue	82 590	106 152
Total	**589 205**	**107 118**

(in PLN thousand)

Cash flows from investing activities – outflows

In 2009 PKO Bank Polski SA excluded from investing activities the amount of PLN 43 546 thousand that refers to unrealized cash flows related to shares obtained in exchange for a contribution in kind made to the subsidiary.

41. 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 Bank'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 mortgage loans, reimbursement of guarantee premium paid and amendments several acts (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 mortgage 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 mortgage loans by State Treasury (Journal of Laws, 2000, No. 122 item 1310) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. 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 by the State Treasury on mortgage 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. The Bank receives commissions in this respect from the State Treasury.

	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 the Bank 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

Entity	31.12.2010						31.12.2009					
	Total receivables	Total liabilities	Contingent liabilities and commitments – financial and guarantee	Interest income	Fee and commission income	Interest expenses	Total receivables	Total liabilities	Contingent liabilities and commitments	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)	54 614	-	-	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 significant exposures	65 852	1 136 793	2 843 915	22 908	4 720	(70 552)	2 184 729	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 allowances were recognized for above-mentioned receivables.

(in PLN thousand)

42. Related party transactions

All presented below 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	Capital relation	Net receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Direct subsidiary	121	-	234	3 317	3 195	400	400	-
Centrum Finansowe Puławska Sp. z o.o.	Direct subsidiary	64 940	64 810	28 744	2 935	2 935	43 802	891	-
KREDOBANK SA	Direct subsidiary	247 819	130 096	25	9 827	9 827	-	-	489 427
PKO BP Inwestycje Sp. z o.o.	Direct subsidiary	113 310	-	1 509	9	9	638	203	1 500
Inteligo Financial Services SA	Direct subsidiary	7 822	-	120 044	1 741	22	50 838	4 512	-
Centrum Elektronicznych Usług Płatniczych "eService" SA	Direct subsidiary	864	-	27 342	5 110	5 110	37 908	37 907	2 500
Bankowy Fundusz Leasingowy SA	Direct subsidiary	50 467	41 652	26 882	8 496	5 855	10 799	272	807 665
Bankowe Towarzystwo Kapitałowe SA	Direct subsidiary	3 000	-	4 175	4	4	108	108	7 000
PKO Towarzystwo Funduszy Inwestycyjnych SA	Direct subsidiary	15 557	-	3 686	162 142	161 752	248	248	467
Fort Mokotów Inwestycje Sp. z.o.o.	Direct subsidiary	8 053	-	3 591	1	1	108	108	-
PKO Finanse AB	Direct subsidiary	-	-	3 188 019	-	-	22 892	22 664	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	-	-	6 293	1	1	211	211	-
PKO BP Inwestycje - Neptun Park Sp. z o.o.*	Indirect subsidiary	132 016	131 500	14 802	8 090	8 090	298	298	-
PKO BP Inwestycje - Nowy Wilanów Sp. z o.o.**	Indirect subsidiary	132 088	132 088	20 020	9 168	9 168	120	120	67 912
PKO BP Inwestycje - Rezydencja Flotylla Sp. z o.o. ***	Indirect subsidiary	13 909	13 909	89	1 461	1 461	-	-	54 759
Bankowy Leasing Sp. z o.o.	Indirect subsidiary	946 242	946 169	230	35 654	35 442	6	6	126 889
BFL Nieruchomości Sp. z o.o.	Indirect subsidiary	307 305	307 305	1 501	13 210	13 210	15	15	5 071
PKO BP Finat Sp. z o.o	Indirect subsidiary	-	-	5 856	7	7	168	168	-
PKO BP Inwestycje - Sarnia Dolina Sp. z o. o. ****	Indirect subsidiary	15 260	15 260	149	828	828	-	-	50 000
PKO BP Faktoring SA	Indirect subsidiary	92 542	92 542	1 196	3 911	3 911	-	-	157 476
WISŁOK Inwestycje Sp. z o.o	Indirect subsidiary	-	-	-	337	337	-	-	-
CENTRUM HAFFNERA Sp. z o.o.	Direct jointly controlled entity	-	-	2 478	9	9	59	59	-
Centrum Obsługi Biznesu Sp z o.o.	Direct jointly controlled entity	30 799	30 799	22 285	753	752	558	557	-
Centrum Majkowskiego Sp. z o.o.	Indirect jointly controlled entity	-	-	4 765	6	6	93	93	-
Kamienica Morska Sp. z o.o.	Indirect jointly controlled entity	-	-	66	6	6	-	-	-
Sopot Zdrój Sp. z o.o.	Indirect jointly controlled entity	209 785	209 785	4 049	5 617	5 617	60	60	-
Promenada Sopocka Sp. z o.o.	Indirect jointly controlled entity	43 805	43 805	691	1 165	1 165	-	-	-
Bank Pocztowy SA	Associate	-	-	105	146	131	1 962	419	1 330
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	5 824	5 824	538	74	74	9	9	8 375
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	16 178	1	1	152	141	-
Agencja Inwestycyjna CORP SA	Associate	61		87	628	-	2 425	-	-
TOTAL		**2 441 589**	**2 165 544**	**3 505 629**	**274 654**	**268 926**	**173 877**	**69 469**	**1 780 371**

* Previous name POMERANKA Sp. z o.o.

** Previous name Wilanów Investments Sp. z o.o.

*** Previous name PKO Inwestycje – Międzyzdroje Sp. z o.o.

****Previous name Baltic Dom 2 Sp. z.o.o.

(in PLN thousand)

31 December 2009

Entity	Capital relation	Net receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Direct subsidiary	37	-	14 895	582	582	757	757	-
Centrum Finansowe Puławska Sp. z o.o.	Direct subsidiary	75 678	74 765	28 632	3 586	3 586	45 397	1 247	-
KREDOBANK SA	Direct subsidiary	322 573	263 416	1 282	18 684	18 684	-	-	268 792
PKO BP Inwestycje Sp. z o.o.	Direct subsidiary	113 310	-	6 291	947	947	2	2	-
Inteligo Financial Services SA	Direct subsidiary	10	-	113 229	1 833	1 833	54 250	688	-
Centrum Elektronicznych Usług Płatniczych "eService" SA	Direct subsidiary	780	-	48 375	5 503	4 823	42 324	41 894	2 500
Bankowy Fundusz Leasingowy SA	Direct subsidiary	341 337	95 285	5 196	27 415	27 415	12 554	1 477	423 569
Bankowe Towarzystwo Kapitałowe SA	Direct subsidiary	-	-	4 535	4	4	263	263	10 000
PKO Towarzystwo Funduszy Inwestycyjnych SA	Direct subsidiary	8 590	-	3 875	91 219	90 733	318	318	466
PKO Finance AB	Direct subsidiary	-	-	-	-	-	230	-	-
Fort Mokotów Inwestycje Sp. z.o.o.	Direct subsidiary	8 053	-	6 836	-	-	-	-	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	-	-	8 253	1	1	40	40	-
PKO BP Inwestycje - Neptun Park Sp. z o.o.*	Indirect subsidiary	142 045	142 045	11 420	8 419	8 419	399	399	2 000
PKO BP Inwestycje - Nowy Wilanów Sp. z o.o.**	Indirect subsidiary	149 642	149 642	1 007	7 775	7 775	-	-	358
PKO BP Inwestycje - Rezydencja Flotylla Sp. z o.o. ***	Indirect subsidiary	12 668	12 668	286	34	34	676	227	1 500
Bankowy Leasing Sp. z o.o.	Indirect subsidiary	544 216	543 827	713	16 962	16 962	40	40	72 469
BFL Nieruchomości Sp. z o.o.	Indirect subsidiary	226 248	226 248	3 068	8 372	8 372	60	60	-
PKO BP Finat Sp. z o.o	Indirect subsidiary	-	-	4 870	7	7	179	179	-
WISŁOK Inwestycje Sp. z o. o.	Indirect subsidiary	57 427	57 427	158	3 371	3 371	2	2	
PKO BP Inwestycje - Sarnia Dolina Sp. z o. o. ****	Indirect subsidiary	15 260	15 260	823	881	881	-	-	-
PKO BP Faktoring SA	Indirect subsidiary	13 667	12 500	219	326	326	4	4	22 833
CENTRUM HAFFNERA Sp. z o.o.	Direct jointly controlled entity	-	-	151	12	12	321	321	4 108
Centrum Obsługi Biznesu Sp z o.o.	Direct jointly controlled entity	32 627	32 627	23 313	1 146	1 146	686	686	-
Centrum Majkowskiego Sp. z o.o.	Indirect jointly controlled entity	-	-	4 904	5	5	151	151	-
Kamienica Morska Sp. z o.o.	Indirect jointly controlled entity	-	-	328	5	5	-	-	-
Sopot Zdrój Sp. z o.o.	Indirect jointly controlled entity	229 852	229 852	6 999	10 196	10 196	27	27	-
Promenada Sopocka Sp. z o.o.	Indirect jointly controlled entity	45 555	45 555	689	1 926	1 926	1	1	-
Bank Pocztowy SA	Associate	-	-	294	28	28	3 229	3 229	1 156
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	-	-	4	5	5	46	46	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	437	1	1	47	47	-
Agencja Inwestycyjna CORP SA	Associate	-	-	58	-	-	1 784	-	-
TOTAL		**2 339 575**	**1 901 117**	**301 140**	**209 245**	**208 079**	**163 787**	**52 105**	**809 751**

* Previous name POMERANKA Sp. z o.o.
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**** Previous name Baltic Dom 2 Sp. z.o.o.

(in PLN thousand)

43. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Name	Title	2010	2009
	The Management Board of the Bank		
Jagiełło Zbigniew	President of the Bank's Management Board	1 071	60
Alicki Piotr	Vice-President of the Bank's Management Board	160	-
Drabikowski Bartosz	Vice-President of the Bank's Management Board	1 025	279
Dresler Krzysztof	Vice-President of the Bank's Management Board	1 064	280
Myjak Jarosław	Vice-President of the Bank's Management Board	1 009	236
Papierak Wojciech	Vice-President of the Bank's Management Board	1 061	278
Papierski Jakub	Vice-President of the Bank's Management Board	753	-
Remuneration of the Management Board Members who ceased their functions in 2010 or 2009			
Zarzycki Mariusz	Vice-President of the Bank's Management Board	688	280
Pruski Jerzy	President of the Bank's Management Board	-	281
Mironczuk Tomasz	Vice-President of the Bank's Management Board	-	160
Total short-term employee benefits of the Bank's Management Board		**6 831**	**1 854**
	The Supervisory Board of the Bank		
Banasiński Cezary	Chairman of the Bank's Supervisory Board	107	25
Zganiacz Tomasz	Vice-Chairman of the Bank's Supervisory Board	96	10
Czekaj Mirosław	Secretary of the Bank's Supervisory Board	86	10
Bossak Jan	Member of the Bank's Supervisory Board	75	40
Lepczyński Błażej	Member of the Bank's Supervisory Board	75	25
Marczak Piotr	Member of the Bank's Supervisory Board	52	-
Nowak Alojzy Zbigniew	Member of the Bank's Supervisory Board	75	10
Fąfara Ireneusz	Member of the Bank's Supervisory Board	55	10
Krześniak Eligiusz	Vice-Chairman of the Bank's Supervisory Board	-	15
Osiatyński Jerzy	Member of the Bank's Supervisory Board	-	15
Pałaszek Urszula	Member of the Bank's Supervisory Board	-	15
Sobiecki Roman	Member of the Bank's Supervisory Board	-	15
Gdański Jacek	Member of the Bank's Supervisory Board	-	14
Piszczek Marzena	Chairman of the Bank's Supervisory Board	-	30
Stachowicz Jerzy	Member of the Bank's Supervisory Board	-	15
Wierzba Ryszard	Member of the Bank's Supervisory Board	-	30
Total short-term employee benefits of the members of the Supervisory Board		**621**	**279**
Total		**7 452**	**2 133**

(in PLN thousand)

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

Name	Title	2010	2009
The Management Board of the Bank			
Jagiełło Zbigniew	President of the Bank's Management Board	39	8
Drabikowski Bartosz	Vice-President of the Bank's Management Board	19	219
Dresler Krzysztof	Vice-President of the Bank's Management Board	19	219
Myjak Jarosław	Vice-President of the Bank's Management Board	-	142
Papierak Wojciech	Vice-President of the Bank's Management Board	37	82
Zarzycki Mariusz	Vice-President of the Bank's Management Board	23	219
Pruski Jerzy	President of the Bank's Management Board	-	135
Mironczuk Tomasz	Vice-President of the Bank's Management Board	-	115
Total short-term employee benefits of the Bank's Management Board		**137**	**1 139**
The Supervisory Board of the Bank			
Gdański Jacek	Member of the Bank's Supervisory Board	-	21
Total short-term employee benefits of the members of the Bank's Supervisory Board		**-**	**21**
Total		**137**	**1 160**

b) post-employment benefits

In the years ended 31 December 2010 and 31 December 2009 no post-employment benefits were paid.

c) other long-term benefits

In the years ended 31 December 2010 and 31 December 2009 no 'other long-term benefits' were paid.

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

In the years ended 31 December 2010 and 31 December 2009 no benefits were granted in the form of share-based payments.

Loans, advances, guarantees and other advances 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.

(in PLN thousand)

44. 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 measured at fair value in the statement of financial position

On the basis of applied methods of valuation at fair value, the Bank 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 Bank 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 are observable on the market directly (as prices) or indirectly (based on prices). The Bank classified to that category the following items:
   - debt securities valuated to the curve or those whose price comes from Bloomberg platform or brokerages pages in Reuters system but for which market is not active,
   - 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 market,
   - derivative instruments.
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 Bank classified to this category shares that are not quoted on the Warsaw Stock Exchange.

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

The table below presents a reconciliation of financial assets and liabilities presented in the financial statements at fair value divided into three levels of the fair value 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	**1 719 764**	**718**	**1 719 046**	**-**
Hedging instruments	153 921	-	153 921	-
Trade instruments	1 565 843	718	1 565 125	-
Financial assets designated 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	-
Shares in other entities	-	-	-	-
Investment securities available for sale	**9 876 252**	**5 548 693**	**4 318 284**	**9 275**
Debt securities	9 804 907	5 486 623	4 318 284	-
Equity securities	71 345	62 070	-	9 275
Financial assets at fair value - total	**23 857 996**	**10 046 436**	**13 802 285**	**9 275**
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**	**-**

(in PLN thousand)

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	**2 029 921**	**72**	**2 029 849**	**-**
Hedging instruments	352 261	-	352 261	-
Trade instruments	1 677 660	72	1 677 588	-
Financial assets designated at fair value through profit and loss	**12 356 532**	**92 882**	**12 263 650**	**-**
Debt securities	12 356 532	92 882	12 263 650	-
Shares in other entities	-	-	-	-
Investment securities available for sale	**7 965 697**	**3 653 050**	**4 306 779**	**5 868**
Debt securities	7 891 586	3 584 807	4 306 779	-
Equity securities	74 111	68 243	-	5 868
Financial assets at fair value - total	**24 565 105**	**4 636 484**	**19 922 753**	**5 868**
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 as regards financial result and total assets and liabilities.

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

	Investment securities available for sale	Total
Opening balance as at 1 January 2010	**5 868**	**5 868**
Total gains or losses recognised	2 638	2 638
in financial result	1 718	1 718
in other comprehensive income	920	920
Purchase	4 858	4 858
Sale	(3 060)	(3 060)
Transfer to or from level 3	(1 029)	(1 029)
Closing balance as at 31 December 2010	**9 275**	**9 275**
Total gains or losses for the period presented in the financial result for assets held at the end of the period	**2 638**	**2 638**

	Investment securities available for sale	Total
Opening balance as at 1 January 2009	**4 708**	**4 708**
Total gains or losses recognised	3 379	3 379
in financial result	3 379	3 379
Purchase	22	22
Sale	(10)	(10)
Settlement	(2 231)	(2 231)
Closing balance as at 31 December 2009	**5 868**	**5 868**
Total gains or losses for the period presented in the financial result for assets held at the end of the period	**3 379**	**3 379**

Assets and financial liabilities not presented at the fair value in the statement of financial position.

The Bank holds certain financial instruments which are not presented 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 with use of 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. All models calculations include 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 values.

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 involves the following groups of financial assets:

- loans and advances to clients: 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 and for which the fair value equals their carrying amount,
- 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 with a variable interest rate (change of interest rate maximum on a three month basis),
- cash and funds in central bank and amounts due to the central bank,
- other financial assets and liabilities.

With regard to loans and advances to customers, 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 on instruments with similar credit risk concluded in the last quarter of the year.

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

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

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.

The table below shows a summary of the carrying amounts and fair values for particular groups of financial instruments which have not been presented at fair value in the Bank's statement of financial position 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	6 112 562	6 112 562	6 993 966	6 993 966
Amounts due from banks	2 379 239	2 382 884	2 053 767	2 053 767
Loans and advances to customers	128 933 129	130 639 024	114 425 789	109 893 261
corporate loans	43 375 099	44 258 462	40 575 820	39 398 610
consumer loans	24 061 792	24 233 330	22 186 928	21 650 604
mortgage loans	61 496 238	62 147 232	51 663 041	48 844 047
Other financial assets	289 587	289 587	327 410	327 410
Amounts due to the central bank	3 370	3 370	6 581	6 581
Amounts due to banks	4 164 181	4 163 898	4 166 725	4 164 478
Amounts due to customers	135 289 055	135 077 234	124 044 400	124 016 929
due to corporate entities	34 895 145	34 686 487	27 736 114	27 734 293
due to state budget entities	6 046 802	6 046 888	9 680 980	9 681 128
due to retail clients	94 347 108	94 343 859	86 627 306	86 601 508
Subordinated liabilities	1 611 779	1 617 238	1 612 178	1 618 093
Other financial liabilities	1 337 000	1 337 000	959 274	959 274

45. 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 by the Polish Bank Association, PKO Bank Polski SA takes part in developing regulations and market standards.

46. Sale of impaired loan portfolios

The Bank 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 of 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.

47. Differences between previously published financial statements and these financial statements

In 2010 there were no significant changes in relation to previously published financial statements.

48. Influence of macroeconomic situation on the Bank's results

In 2010 the Bank'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 PKO Bank Polski, the Bank 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 Bank's/Group's financial statements.

The Bank'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 Bank earned the best financial results in its history. At the same time, the Bank 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 Bank'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 Bank 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

49. Risk management in the Bank

Risk management is one the most important internal processes in PKO Bank Polski SA. Risk management aims at ensuring an appropriate level of security and profitability of business activitiy in the changing legal and economic environment and the level of the risks plays an important role in the planning process.

At the Bank, the following types of risk have been identified, which are subject to management: 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:

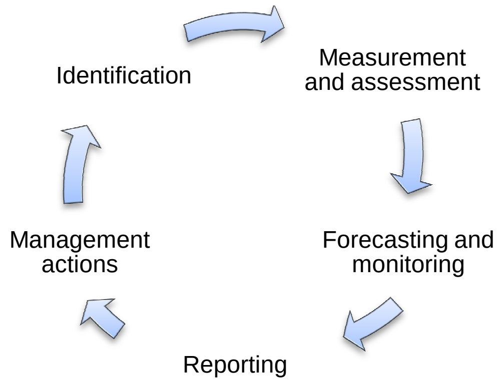
– protecting the value of the shareholders' capital;
– protecting client deposits;
– supporting the Bank in conducting effective operations.

The process of banking risk management consists in PKO Bank Polski Sa of the following stages:

– risk identification – the identification of actual and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the financial situation in the Bank. Within the risk identification process, types of risk perceived as material in the banking activity are identified;
– risk measurement and assessment – defining risk assessment tools adequate to the type and 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 assumption providing a fair risk assessment;
– risk forecasting and monitoring – preparing risk level forecasts and monitoring deviances from forecasts and adopted reference points (e.g. 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 the 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 objective of taking management actions is to form the risk management and credit risk level.

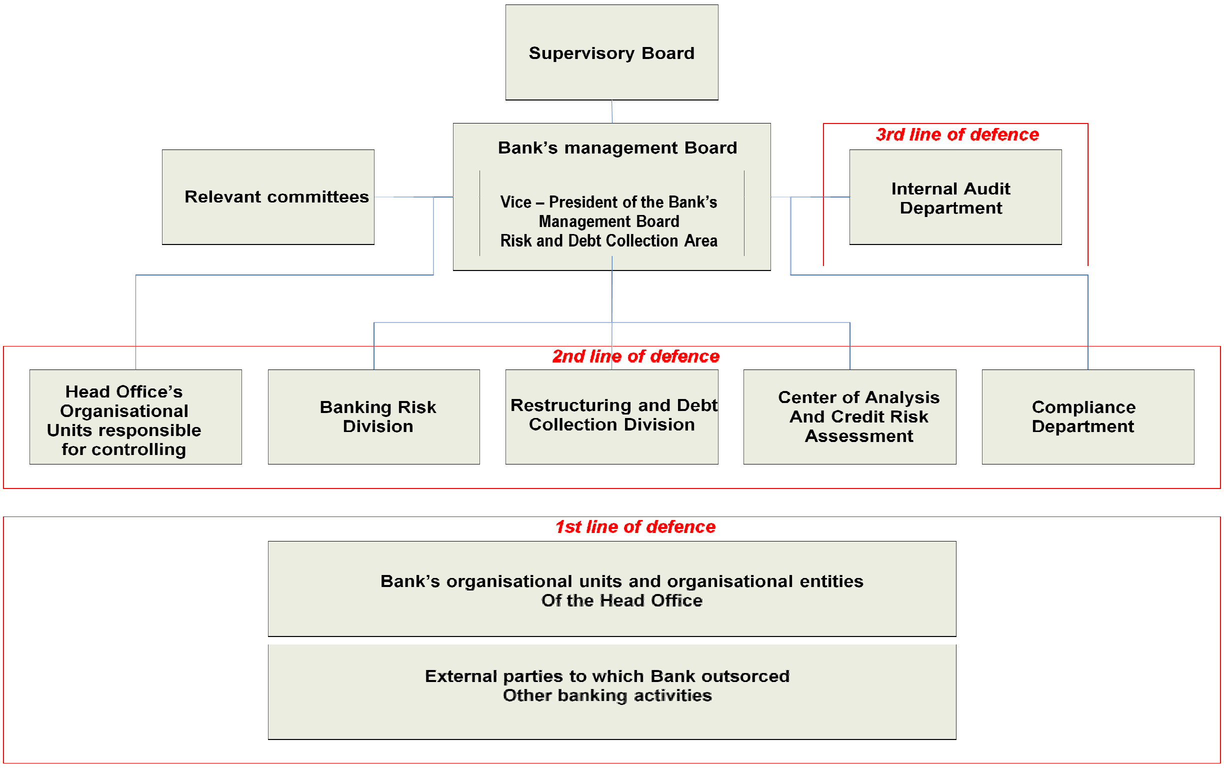
The risk management process is described on the chart below.



Risk management in the PKO Bank Polski SA is based specially on the following principles:

- the Bank 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 Bank’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 PKO Bank Polski SA 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 takes 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 Chairman of the Management Board of the Bank.

The first line of defence is effected in the organizational units of the Bank, the organizational units of the Head Office and the external entities which the Bank commissioned to carry out the activities related to banking activities and concerns the activities of those units and entities which may generate risk. The units and entities 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 defence.

The second line of defence is effected, 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 effected 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 operating risk tolerance, operating risk limits reserved for the competences of the Bank's

Management Board, defining operating risk stress tests and other activities related to systemic management of the operating risk,
- taking decisions in respect of thresholds and critical values of key risk indicators (KRI), operating risk limits reserved for the competences of KRO, values of key parameters used in calculating value at risk (VaR) in respect of operating risk, and individual approach to outliers.

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

In consequence, in 2010, the Bank:

- Continued is activity with an aim to acquire new deposits from its customers
- 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. When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank'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. In particular, monitoring is conducted if significant change in activities took place or the profile of the Bank or the Group changed.

50. 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 optimize the loan portfolio in terms of its quality and value, which at the same time is characterized by its high profitability and safety understood as minimalizing the risk of loans threatened with impairment.

The Bank applies 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 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 appropriate credit margins 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 (IRB) 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.

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 IFRS);
- coverage ratio of non-performing loans with impairment allowances (according to IFRS)
- 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 resulted 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 corporate 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's collateral management is meant to secure properly the credit risk, to which the Bank 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 liquid 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,
- 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.

(in PLN thousand)

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 –sized enterprises and corporate clients, collateral can be established on: trade receivables, bank accounts, movable property, real estate or securities.

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. The reports contain information on historical credit risk amounts and credit risk forecasts.

Exposure of the Bank to credit risk

Amounts due from banks	Exposure	
	31.12.2010	31.12.2009
Amounts due from banks impaired	42 720	27 496
of which assessed with an individual method	42 250	27 013
Amounts due from banks not impaired	2 369 089	2 053 380
neither past due nor impaired	2 368 738	2 052 968
past due but not impaired	351	412
past due up to 4 days	351	412
Gross total	**2 411 809**	**2 080 876**
Impairment allowance	**(32 570)**	**(27 109)**
Net total by carrying amount	**2 379 239**	**2 053 767**

Loans and advances to customers	Exposure	
	31.12.2010	31.12.2009
Loans and advances impaired	9 490 018	7 500 728
of which assessed with an individual method	4 686 388	3 939 557
Loans and advances not impaired	123 708 595	110 340 006
neither past due nor impaired	119 904 124	106 011 526
past due but not impaired	3 804 471	4 328 480
past due up to 4 days	2 025 979	2 809 553
past due over 4 days	1 778 492	1 518 927
Gross total	**133 198 613**	**117 840 734**
Impairment allowances	**(4 265 484)**	**(3 414 945)**
Net total by carrying amount	**128 933 129**	**114 425 789**

Investment securities available for sale – debt securities	Exposure	
	31.12.2010	31.12.2009
Debt securities impaired	13 045	13 183
of which assessed on an individual basis	13 045	13 183
Debt securities not impaired	9 804 907	7 891 586
neither past due nor impaired	9 804 907	7 891 586
with external rating	5 537 481	4 872 460
with internal rating	4 267 426	3 019 126
Gross Total	**9 817 952**	**7 904 769**
Impairment allowances	**(13 045)**	**(13 183)**
Net Total by carrying amount	**9 804 907**	**7 891 586**

(in PLN thousand)

Other assets – other financial assets	Exposure	
	31.12.2010	**31.12.2009**
Other assets impaired	124 455	152 903
Other assets not impaired	282 597	305 482
neither past due nor impaired	282 305	305 329
past due but not impaired	292	153
Gross total	**407 052**	**458 385**
Impairment allowances	**(117 465)**	**(130 975)**
Net total (carrying amount)	**289 587**	**327 410**

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Bank 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	**2 379 239**	**2 053 767**
Trading assets – debt securities	**1 491 053**	**2 202 847**
issued by banks	-	1 799
issued by other financial institutions	10	-
issued by non-financial institutions	509	-
issued by the State Treasury	1 483 144	2 198 840
issued by local government bodies	7 390	2 208
Derivative financial instruments	**1 719 764**	**2 029 921**
Financial instruments at fair value through profit and loss - debt securities	**10 758 331**	**12 356 532**
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	-
Loans and advances to customers	**128 933 129**	**114 425 789**
financial entities (other than banks)	4 247 208	3 280 198
corporate loans	4 247 208	3 280 198
non-financial entities	120 848 557	106 199 350
consumer loans	24 061 792	22 186 928
mortgage loans	61 495 594	51 663 041
corporate loans	35 291 171	32 349 381
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	**9 804 907**	**7 891 586**
issued by the State Treasury	5 486 623	4 782 374
issued by other banks	50 858	90 086
issued by other financial institutions	8 179	245 215
issued by non-financial institutions	1 435 074	773 690
issued by local government bodies	2 824 173	2 000 221
Other assets - other financial assets	**289 587**	**327 410**
Total	**159 158 727**	**145 912 925**

(in PLN thousand)

Off-balance sheet items	31.12.2010	31.12.2009
Irrevocable liabilities granted	7 001 338	7 360 144
Guarantees granted	5 048 902	4 274 985
Letters of credit granted	229 946	230 078
Guarantees of issue (underwriting)	2 973 980	1 308 396
Total	**15 254 166**	**13 173 603**

Quality of financial assets neither past due nor impaired

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 market corporate 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	**2 368 738**	**2 052 968**
of which:		
with rating	2 277 715	2 018 406
without rating	91 023	34 562
Loans and advances to customers	**119 904 124**	**106 011 526**
with rating – financial, non-financial and public sector (corporate loans)	38 486 951	35 529 992
A (first rate)	1 118 776	955 973
B (very good)	2 683 977	3 042 110
C (good)	6 165 665	5 043 565
D (satisfactory)	11 047 664	10 682 141
E (average)	8 755 152	7 677 225
F (acceptable)	8 715 717	8 128 978
with rating – non-financial sector (consumer and mortgage loans)	77 841 071	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)	4 406 241	5 516 964
without rating – non-financial sector (other consumer and mortgage loans)	3 576 102	4 806 591
Other assets – other financial assets	**282 305**	**305 329**
Total	**122 555 167**	**108 369 823**

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. It concerns, in particular, retail loans (including mortgages) which are not individually significant and thus do not create significant credit risk.

(in PLN thousand)

Structure of debt securities and amounts due from banks, 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		Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by other 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 banks	
AAA	-	-	-	-	-	-		-	-	-
AA- to AA+	-	-	-	-	-	-	-	-	-	404 269
A- to A+	1 483 144	-	-	-	6 631 702		3 997 780	5 486 623	-	1 286 609
BBB- to BBB+	-	-	-	-	-	-	-	-	50 858	350 469
BB- to BB+	-	-	-	-	-	-	-	-	-	1 897
B- to B+	-	-	-	-	-	-	-	-	-	234 471
CCC- to CCC+	-	-	-	-	-	-	-	-	-	-
without rating	-	7 390	10	509	-	128 849	-	-	-	91 023
Total	**1 483 144**	**7 390**	**10**	**509**	**6 631 702**	**128 849**	**3 997 780**	**5 486 623**	**50 858**	**2 368 738**

31 December 2009

Rating/ portfolio	trading assets			at fair value through profit and loss		available for sale		Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by banks	issued by the State Treasury	issued by central banks	issued by the State Treasury	issued by banks	
AAA	-	-	-	-		-	-	-
AA- to AA+	-	-	-	-	-	-	-	666 261
A- to A+	2 198 840	-	-	5 362 314	6 994 218	4 782 374	-	896 645
BBB- to BBB+	-	-	-	-	-	-	50 901	131 868
BB- to BB+	-	-	-	-	-	-	39 185	-
CCC- to CCC+	-	-	-	-	-	-	-	323 632
without rating	-	2 208	1 799	-	-	-	-	34 562
Total	**2 198 840**	**2 208**	**1 799**	**5 362 314**	**6 994 218**	**4 782 374**	**90 086**	**2 052 968**

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)	959 992	412 533
F (acceptable)	573 439	667 470
G (weak)	215 261	-
TOTAL	**4 267 426**	**3 019 126**

Concentration of credit risk within the Bank

The Bank 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.

(in PLN thousand)

Concentration by the largest business entities

The Banking Law specifies maximum concentration limits for the Bank. 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 funds if any of these entities is related to the Bank, or 25% of the Bank's own 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, those concentration limits were not exceeded.

As at 31.12.2010, the level of concentration risk with respect to individual exposures was low – the biggest exposure to a single entity was equal to 9.1%*; 6.5%* and 5.4% of the Bank's own funds.

Total exposure of the Bank towards 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	0.56%	1.	1 542 437	***	1.31%
2.	464 247	0.35%	2.	744 334		0.63%
3.	350 441	0.27%	3.	544 230		0.46%
4.	334 671	0.25%	4.	415 957		0.35%
5.	326 815	0.25%	5.	358 614		0.31%
6.	297 702	0.23%	6.	340 278		0.29%
7.	287 418	0.21%	7.	328 965		0.28%
8.	281 790	0.21%	8.	316 892		0.27%
9.	256 297	0.19%	9.	301 523		0.26%
10.	250 000	0.19%	10.	296 439		0.25%
11.	243 947	0.19%	11.	295 076		0.25%
12.	230 999	0.18%	12.	275 120		0.23%
13.	229 921	0.17%	13.	256 380		0.22%
14.	223 904	0.17%	14.	250 000		0.21%
15.	218 157	0.17%	15.	249 806		0.21%
16.	214 447	0.16%	16.	245 140		0.21%
17.	212 636	0.16%	17.	241 129		0.21%
18.	209 785	0.16%	18.	232 169		0.20%
19.	199 078	0.15%	19.	231 779		0.20%
20.	195 894	0.15%	20.	229 852		0.20%
Total	**5 765 022**	**4.37%**	**Total**	**7 696 120**		**6.55%**

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

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

(in PLN thousand)

Concentration by the largest groups

The largest concentration of the Bank into the capital group is 0.90% of the loan portfolio of the Bank.

As at 31 December 2010, the concentration risk by the largest capital groups was low. The greatest exposure of the Bank towards a capital group amounted to 13.3%* and 7.2% of the Bank's own funds.

Total exposure of the Bank 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	0.90%	***1	1 625 430	1.38%
2	898 546	0.68%	2	1 356 212	1.15%
3	892 191	0.68%	3	1 439 703	1.23%
4	871 694	0.66%	4	1 078 403	0.92%
5	848 561	0.64%	5	736 516	0.63%
Total	**4 694 386**	**3.56%**	**Total**	**6 236 264**	**5.31%**

*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 PKO Bank Polski SA in industry sectors has increased by PLN 2.2 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 defence...' amounted to approx. 69% of the total loan portfolio covered by an analysis of the sector.

Analysis of exposure to industry segments as at 31 December 2010 and 31 December 2009 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	25.44%	14.14%	25.27%	13.27%
G	Wholesale and retail trade, repair of motor vehicles and personal and household goods	19.22%	28.99%	16.96%	29.92%
K	Property management, lease and services related to the running of business activities	16.00%	10.13%	14.25%	10.81%
L	Public administration and national defense. obligatory social security and public health insurance	8.45%	0.61%	11.63%	0.57%
F	Construction	7.64%	13.89%	6.94%	14.17%
E	Electricity, gas and water production and supply	1.78%	0.15%	2.91%	0.18%
Other exposure		21.47%	32.09%	22.04%	31.08%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

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

(in PLN thousand)

Concentration of credit risk by geographical regions

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

As at 31 December 2010, the largest concentration of the Bank's loan portfolio was in the mazowiecki region. More than half of the Bank'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	17.22%	18.82%
śląsko-opolski	13.06%	12.60%
wielkopolski	10.30%	9.96%
małopolsko-świętokrzyski	9.45%	9.11%
dolnośląski	7.85%	7.65%
zachodnio-pomorski	7.00%	6.45%
lubelsko-podkarpacki	6.86%	6.56%
pomorski	6.52%	6.57%
łódzki	6.35%	5.77%
kujawsko-pomorski	4.99%	4.67%
other	3.67%	5.43%
warmińsko-mazurski	3.59%	3.49%
podlaski	3.14%	2.92%
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 Bank amounted to 22.8%. The greatest parts of currency exposures of PKO Bank Polski SA are those in CHF.

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.

Concentration of credit risk by currency

Currency	31.12.2010	31.12.2009
PLN	77.17%	76.59%
Foreign currencies, of which:	22.83%	23.41%
CHF	17.31%	18.20%
EUR	4.51%	4.06%
USD	1.00%	1.13%
GBP	0.01%	0.02%
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.

(in PLN thousand)

Renegotiated receivables

The purpose of the restructuring activity of the Bank 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 possible costs relating to these recoveries which, in the case of debt collection activities, are very high.

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 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	**133 198 613**	**117 840 734**
including renegotiated:	**83 423**	**165 249**
non-financial sector	83 423	165 249
consumer loans	762	476
mortgage loans	2 383	-
corporate loans	80 278	164 773

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			31.12.2009		
	up to 1 month	from 1 to 3 months	Total	up to 1 month	from 1 to 3 months	Total
Loans and advances to clients:	2 988 943	815 528	**3 804 471**	3 561 426	767 054	**4 328 480**
financial sector	-	-	**-**	40	59	**99**
non-financial sector	2 387 042	815 528	**3 202 570**	3 238 860	766 995	**4 005 855**
public sector	601 901	-	**601 901**	322 526	-	**322 526**
Amounts due from banks	351	-	**351**	412	-	**412**
Other assets – other financial assets	-	292	**292**	**-**	153	**153**
Total	**2 989 294**	**815 820**	**3 805 114**	**3 561 838**	**767 207**	**4 329 045**

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 financial assets the expected cash flows fully cover the carrying amount of these exposures.

(in PLN thousand)

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	**42 250**	**27 013**
Loans and advances to customers	**4 686 388**	**3 939 557**
Financial entities	-	6 209
corporate loans	-	6 209
Non-financial entities	4 678 866	3 917 272
consumer loans	88 303	33 454
mortgage loans	764 065	616 568
corporate loans	3 826 498	3 267 250
State budget entities	7 522	16 076
corporate loans	7 522	16 076
Financial assets available for sale	**13 045**	**13 183**
issued by non-financial entities	13 045	13 183
Total	**4 741 683**	**3 979 753**

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

– for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables - with a fair value of PLN 4 171 153 thousand (as at 31 December 2009 the amount was PLN 2 936 193 thousand),
– for investment securities available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Bank considered 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 reliefs 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 performs a monthly review of credit exposures in order to identify credit exposures threatened with impairment, measure the impairment of credit 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 indications of impairment of credit 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 credit exposure. The events considered as 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 indication of impairment will be recognized, if the convenience 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 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.

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:

- 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,

(in PLN thousand)

– 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.

With regard to other credit exposures

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 due arising 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 the loan portfolio and the recorded impairment charges in respect of PKO Bank Polski SA's loan exposures are presented in Note 21 'Loans and advances to customers'.

Credit risk of financial institutions

As at 31 December 2010, the greatest exposures of PKO Bank Polski SA on the interbank market 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 PKO Bank Polski SA on the interbank market as at 31 December 2009:

Interbank portfolio*				
Counterparty**	Type of instrument			Total
	Deposit	Securities	Other derivatives	
Counterparty 21	308 115	-	(4 648)	308 115
Counterparty 22	287 574	-	-	287 574
Counterparty 5	237 073	-	68	237 141
Counterparty 23	142 515	-	-	142 515
Counterparty 24	77 451	-	(21 743)	77 451
Counterparty 25	-	-	72 529	72 529
Counterparty 26	-	-	72 284	72 284
Counterparty 4	-	-	45 798	45 798
Counterparty 27	-	-	42 354	42 354
Counterparty 20	-	-	41 953	41 953
Counterparty 2	41 492	-	(2 102)	41 492
Counterparty 28	-	-	41 232	41 232
Counterparty 29	-	41 082	-	41 082
Counterparty 30	-	-	38 250	38 250
Counterparty 9	607	-	32 454	33 061
Counterparty 16	-	-	28 920	28 920
Counterparty 31	-	-	23 408	23 408
Counterparty 32	20 000	-	(2 724)	20 000
Counterparty 33	-	-	15 089	15 089
Counterparty 34	-	-	14 038	14 038

* Excluding exposure to the State Treasury and the National Bank of Poland
** Counterparty names are consistent with counterparty names presented in the table 'the largest exposures 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 localization of counterparties:

The counterparties generating the 20 largest exposures on the interbank market as at 31 December 2010 and 31 December 2009 come from the following 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.	UK	Counterparty 5, Counterparty 7, Counterparty 14, Counterparty 17, Counterparty 26, Counterparty 30
16.	Italy	Counterparty 1

Counterparty structure by rating

Exposure 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 Bank had an exposure to financial institutions on the 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 of the counterparty
	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 collaterals as a result of restructuring or debt collection activities are either used by the Bank 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 Bank 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 Bank are aimed at selling 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 Bank, 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 Bank.

The Bank takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Bank's website; placing announcements in the national press; using internet portals (e.g. to carry out Internet auctions), sending offers. In addition, PKO Bank Polski SA 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 Bank as a result of restructuring and debt collection activities. The Bank has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Bank 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 1 243 thousand and PLN 388 thousand respectively. The above mentioned amounts are presented in Note 26, 'Other assets', in line item 'Other'.

51. Interest rate risk

The interest rate risk is a risk of incurring losses on the Bank's balance and off-balance sheet items sensitive 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, PKO Bank Polski SA uses, in particularly, 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 revaluation 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.

Repricing Gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 Years**	**>5 years**	**Total**
PLN (in PLN thousand)								**31.12.2010**
Periodic gap	40 603 280	16 992 290	(23 909 590)	(13 445 830)	(2 969 000)	497 640	329 000	**18 097 790**
Cumulative gap	40 603 280	57 595 570	33 685 980	20 240 150	17 271 150	17 768 790	18 097 790	**-**
PLN (in PLN thousand)								**31.12.2009**
Periodic gap	26 246 173	28 202 011	(28 721 022)	(11 760 226)	(1 765 471)	1 492 090	266 161	**13 959 716**
Cumulative gap	26 246 173	54 448 184	25 727 162	13 966 936	12 201 465	13 693 555	13 959 716	**-**
USD (in USD thousand)								**31.12.2010**
Periodic gap	350 450	(117 590)	(139 590)	(138 470)	(870)	20	20	**(46 030)**
Cumulative gap	350 450	232 860	93 270	(45 200)	(46 070)	(46 050)	(46 030)	**-**
USD (in USD thousand)								**31.12.2009**
Periodic gap	181 330	(132 246)	(129 154)	(139 582)	(1 287)	35	23	**(220 881)**
Cumulative gap	181 330	49 084	(80 070)	(219 652)	(220 939)	(220 904)	(220 881)	**-**

Repricing Gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 Years**	**>5 years**	**Total**
EUR (in EUR thousand)								**31.12.2010**
Periodic gap	659 050	(305 770)	87 580	(220 140)	9 960	(605 320)	26 230	**(348 410)**
Cumulative gap	659 050	353 280	440 860	220 720	230 680	(374 640)	(348 410)	**-**
EUR (in EUR thousand)								**31.12.2009**
Periodic gap	(310 527)	115 694	(42 316)	(82 772)	2 585	(2 571)	(3 795)	**(323 702)**
Cumulative gap	(310 527)	(194 833)	(237 149)	(319 921)	(317 336)	(319 907)	(323 702)	**-**
CHF (in CHF thousand)								**31.12.2010**
Periodic gap	312 490	(562 620)	(3 600)	(4 460)	(40)	1 520	6 770	**(249 940)**
Cumulative gap	312 490	(250 130)	(253 730)	(258 190)	(258 230)	(256 710)	(249 940)	**-**
CHF (in CHF thousand)								**31.12.2009**
Periodic gap	(56 944)	(245 727)	1 937	(6 517)	1 280	875	6 044	**(299 052)**
Cumulative gap	(56 944)	(302 671)	(300 734)	(307 251)	(305 971)	(305 096)	(299 052)	**-**

As at the end of 2010 and 2009, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time spans.

The main tools used in interest rate risk management in PKO Bank Polski include:

- procedures for interest rate risk management,
- limits and thresholds for interest rate risk,
- defining allowable transactions based on interest rates.

The Bank 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.

Exposure of the Bank to interest rate risk was at 31 December 2010, within accepted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 62% of Bank's value at risk (VaR) as at 31 December 2010. Interest rate risk was determined mainly by the risk of a mismatch between the repricing of interest rates of Banks assets and liabilities.

VaR of the Bank and stress tests analysis of the Bank'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 (in PLN thousand)	39 004	17 086
Parallel movement of interest rate curves by +200 base points (in PLN thousand) (stress tests)	475 091	164 418

As at 31 December 2010, the interest rate VaR for the holding period of 10 days 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 for 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.

52. Currency risk

Currency risk is the risk of incurring losses due to unfavourable 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.

PKO Bank Polski SA measures currency risk using the Value at Risk model and stress tests.

The value at risk (VaR) is defined as a potential loss arising from currency position and foreign exchange rate volatility under the assumed confidence 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.

Main tools used in currency risk management in the Bank include:

– procedures for currency risk management,
– limits and thresholds for currency risk,
– defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Bank has set 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.

VaR of the Bank and stress-testing of the Bank's financial assets exposed to currency risk are stated cumulatively for all currencies in the table below:

[*] Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	3 171	1 092
Change in CUR/PLN +15% (in PLN thousand) (stress-tests)	3 954	4 440

The level of currency risk was low both at 31 December 2010 and 31 December 2009.

The Bank's currency positions are presented in the table below:

	31.12.2010	31.12.2009
	Currency Position	**Currency Position**
USD	(60 735)	(6 777)
GBP	48 110	1 507
CHF	(19 038)	(3 594)
EUR	(13 120)	24 748
Other (Global Net)	18 424	13 715

The volume of currency positions is a key factor determining the level of currency risk on which the Bank 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 Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as disbursement of loans denominated in foreign currency in PLN, repayment of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated new position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at the end of 2010 amounted to approx. 0.02%).

The Bank prepares daily, weekly, monthly, quarterly and semi-annually reports addressing currency risk. Reports gather the information on currency 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.

(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	5 549 373	364 200	17 417	181 572	**6 112 562**
Amounts due from banks	243 047	1 121 015	621 532	426 215	**2 411 809**
Loans and advances to customers	103 345 706	5 927 535	22 827 853	1 097 519	**133 198 613**
Securities	22 017 842	133 968	-	-	**22 151 810**
Tangible assets	9 168 971	-	-	-	**9 168 971**
Other assets and derivatives	2 611 308	120 390	491	39 443	**2 771 632**
TOTAL ASSETS (GROSS)	142 936 247	7 667 108	23 467 293	1 744 749	**175 815 397**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(8 039 112)	(95 134)	(352 037)	(90 195)	**(8 576 478)**
TOTAL ASSETS (NET)	**134 897 135**	**7 571 974**	**23 115 256**	**1 654 554**	**167 238 919**
LIABILITIES AND EQUITY, of which:					
Amounts due to the central bank	3 370	-	-	-	**3 370**
Amounts due to other banks	689 461	443 957	3 024 714	6 049	**4 164 181**
Amounts due to customers	123 166 413	8 649 236	1 069 806	2 403 600	**135 289 055**
Subordinated liabilities	1 611 779	-	-	-	**1 611 779**
Provisions	570 975	6 110	669	136 684	**714 438**
Other liabilities and derivatives	3 908 774	246 192	1 079	98 203	**4 254 248**
Equity	21 201 848	-	-	-	**21 201 848**
TOTAL LIABILITIES AND EQUITY	**151 152 620**	**9 345 495**	**4 096 268**	**2 644 536**	**167 238 919**
CONTINGENT LIABILITIES GRANTED	**34 264 882**	**2 522 631**	**148 314**	**1 252 539**	**38 188 366**

	Currency translated to PLN – 31.12.2009				
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the central bank	6 553 246	262 956	17 235	160 529	**6 993 966**
Amounts due from banks	252 619	1 075 202	190 404	562 651	**2 080 876**
Loans and advances to customers	90 805 491	4 631 260	21 370 299	1 033 684	**117 840 734**
Securities	22 511 172	39 587	-	1	**22 550 760**
Tangible assets	8 805 973	-	-	-	**8 805 973**
Other assets and derivatives	2 773 887	109 606	367	20 716	**2 904 576**
TOTAL ASSETS (GROSS)	131 702 388	6 118 611	21 578 305	1 777 581	**161 176 885**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(7 287 223)	(37 200)	(181 384)	(23 599)	**(7 529 406)**
TOTAL ASSETS (NET)	**124 415 165**	**6 081 411**	**21 396 921**	**1 753 982**	**153 647 479**
LIABILITIES AND EQUITY, of which:					
Amounts due to the central bank	6 581	-	-	-	**6 581**
Amounts due to other banks	1 288 670	183 966	2 622 002	72 087	**4 166 725**
Amounts due to customers	116 103 469	4 843 387	934 399	2 163 145	**124 044 400**
Subordinated liabilities	1 612 178	-	-	-	**1 612 178**
Provisions	598 626	-	-	-	**598 626**
Other liabilities and derivatives	2 833 616	166 249	61	39 526	**3 039 452**
Equity	20 179 517	-	-	-	**20 179 517**
TOTAL LIABILITIES AND EQUITY	**142 622 657**	**5 193 602**	**3 556 462**	**2 274 758**	**153 647 479**
CONTINGENT LIABILITIES GRANTED	**29 762 320**	**2 316 999**	**306 355**	**1 056 665**	**33 442 339**

53. Liquidity risk

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets; lack of liquidity may arise from inappropriate structure of the Bank's statement of financial position, misfit of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of the Bank's statement of financial position and contingent liabilities and commitments.

PKO Bank Polski SA'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 Bank makes use of the following liquidity risk measures:

- the contractual liquidity gap method and the liquidity gap in real terms,
- liquidity reserve,
- measure of stability of deposit and loan portfolios,
- stress tests (liquidity stress tests).

The main tools for liquidity risk management in PKO Bank Polski SA 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 has 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.

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 Bank in real terms. The main adjustments concern the following:

- core deposits outside interbank market and their maturity – clients deposits (current and saving accounts, term 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).

The Bank prepares daily, weekly, monthly, quarterly and semi-annually reports addressing liquidity risk. Reports present the information on liquidity risk exposure and usages of available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

	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								
Adjusted gap in real terms	3 220 646	14 309 944	(711 294)	(65 793)	3 965 229	5 019 030	(1 317 240)	(24 420 522)
Cumulative adjusted gap in real terms	3 220 646	17 530 590	16 819 296	16 753 503	20 718 732	25 737 762	24 420 522	-
31.12.2009								
Adjusted gap in Real terms	6 681 563	15 885 011	(3 041 057)	590 062	3 842 031	7 812 255	(1 169 351)	(30 600 514)
Cumulative adjusted gap in real terms	6 681 563	22 566 574	19 525 517	20 115 579	23 957 610	31 769 865	30 600 514	-

In all time horizons, PKO Bank Polski SA's cumulative liquidity gap in real terms as at 31 December 2010 and 31 December 2009 was positive. This means a surplus of assets receivable over liabilities payable.

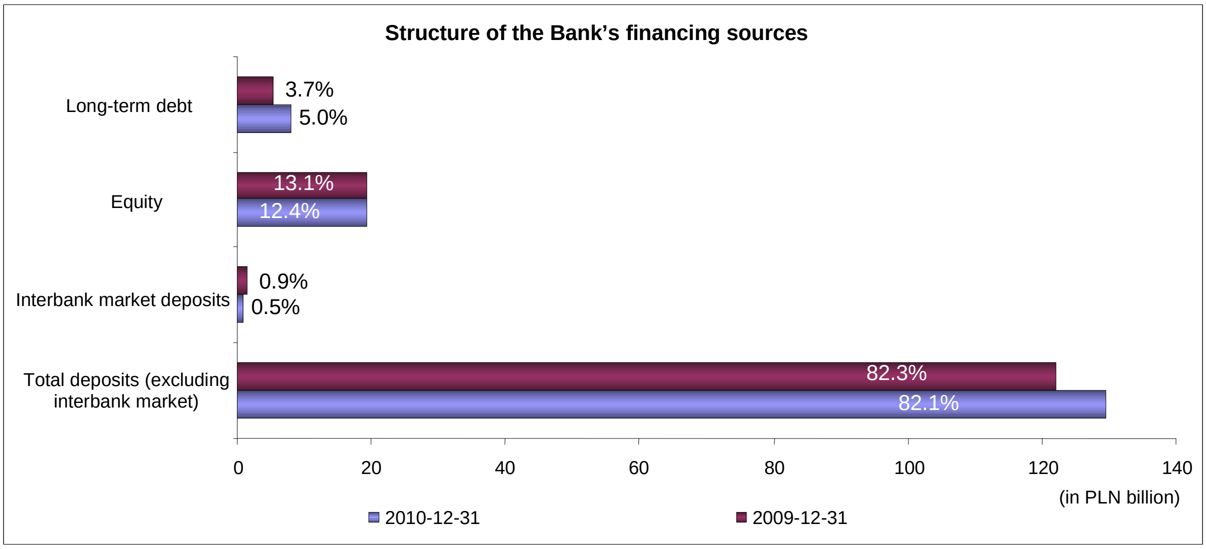
The table below presents liquidity reserve of the Bank as at 31 December 2010 and 31 December 2009:

Name of sensitivity measure	31.12.2010	31.12.2009
Liquidity reserve up 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 about 95.2% of all deposits in the Bank (except for interbank market), which means an decrease by approximately 0.3 pp. as compared to the end of 2009.

The chart below shows the structure of the Bank's sources of financing as at 31 December 2010 and as at 31 December 2009.



(in PLN thousand)

Contractual flows of the Bank's liabilities 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 other banks	1 109 587	2 304	6 990	4 064 602	-	5 183 483	**4 164 181**
Derivative financial instruments	1 189 058	2 380 039	8 932 706	18 247 660	3 058 444	33 807 907	**2 404 795**
Amount due to customers	82 185 269	17 198 795	31 504 824	5 437 904	1 523 160	137 849 952	**135 289 055**
Subordinated liabilities	-	-	80 835	323 563	1 762 592	2 166 990	**1 611 779**
Other liabilities	1 787 451	-	-	148	-	1 787 599	**1 787 599**
Off-balance sheet financial liabilities – granted	16 629 361	291 994	3 999 554	3 320 204	5 694 425	29 935 538	**-**
Off-balance sheet guarantee liabilities – issued	1 649 125	971 746	1 828 734	3 313 539	489 684	8 252 828	**-**

Contractual flows of the Bank's liabilities 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 other banks	1 439 131	108 098	7 955	2 645 718	105 427	4 306 329	**4 166 725**
Derivatieve financial instruments	991 914	2 195 028	7 412 837	14 926 893	2 773 816	28 300 488	**1 544 370**
Amount due to customers	71 645 951	20 316 475	29 302 799	3 296 711	648 278	125 210 214	**124 044 400**
Subordinated liabilities	-	-	84 997	255 224	1 940 921	2 281 142	**1 612 178**
Other liabilities	1 107 004	-	212 868	-	-	1 319 872	**1 319 917**
Off-balance sheet financial liabilities – granted	15 083 878	306 327	5 065 882	2 438 473	4 734 320	27 628 880	**-**
Off-balance sheet guarantee liabilities – issued	1 364 677	1 493 569	1 532 101	1 289 899	133 213	5 813 459	**-**

(in PLN thousand)

Current and non-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	6 112 562	-	-	**6 112 562**
Amounts due from banks	2 177 832	233 977	(32 570)	**2 379 239**
Financial assets held for trading	873 046	630 603	-	**1 503 649**
Derivative financial instruments	653 319	1 066 445	-	**1 719 764**
Financial instruments at fair value through profit and loss	8 533 646	2 224 685	-	**10 758 331**
Loans and advances to customers	24 732 023	108 466 590	(4 265 484)	**128 933 129**
Investment securities available for sale	3 512 329	6 377 501	(13 578)	**9 876 252**
Other assets	1 622 393	4 989 749	(656 149)	**5 955 993**
TOTAL ASSETS	**48 217 150**	**123 989 550**	**(4 967 781)**	**167 238 919**
Liabilities				
Amounts due to the central bank	3 370	-	-	**3 370**
Amounts due to other banks	1 154 440	3 009 741	-	**4 164 181**
Derivate financial instruments	843 773	1 561 022	-	**2 404 795**
Amounts due to customers	123 278 062	12 010 993	-	**135 289 055**
Subordinated liabilities	-	1 611 779	-	**1 611 779**
Other liabilities	2 048 533	515 358	-	**2 563 891**
TOTAL LIABILITIES	**127 328 178**	**18 708 893**	**-**	**146 037 071**
EQUITY	**-**	**21 201 848**	**-**	**21 201 848**
TOTAL LIABILITIES AND EQUITY	**127 328 178**	**39 910 741**	**-**	**167 238 919**

Current and non-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	6 993 966	-	-	**6 993 966**
Amounts due from banks	1 769 181	311 695	(27 109)	**2 053 767**
Financial assets held for trading	1 433 754	779 201	-	**2 212 955**
Derivative financial instruments	684 775	1 345 146	-	**2 029 921**
Financial instruments at fair value through profit and loss	12 356 532	-	-	**12 356 532**
Loans and advances to customers	25 447 641	92 393 093	(3 414 945)	**114 425 789**
Investment securities available for sale	3 516 114	4 465 159	(15 576)	**7 965 697**
Other assets	746 458	5 476 033	(613 639)	**5 608 852**
TOTAL ASSETS	**52 948 421**	**104 770 327**	**(4 071 269)**	**153 647 479**
Liabilities				
Amounts due to the central bank	6 581	-	-	**6 581**
Amounts due to other banks	1 538 930	2 627 795	-	**4 166 725**
Derivative financial instruments	514 054	1 030 316	-	**1 544 370**
Amounts due to customers	122 063 063	1 981 337	-	**124 044 400**
Subordinated liabilities	-	1 612 178	-	**1 612 178**
Other liabilities	1 753 694	340 014	-	**2 093 708**
TOTAL LIABILITIES	**125 876 322**	**7 591 640**	**-**	**133 467 962**
EQUITY	**-**	**20 179 517**	**-**	**20 179 517**
TOTAL LIABILITIES AND EQUITY	**125 876 322**	**27 771 157**	**-**	**153 647 479**

54. 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 inequity 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 divided 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 risks

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.

This risk is also immaterial – a capital requirement, pursuant to Resolution No 76/2010 of the Polish Financial Supervision Authority (with subs. amendments), to cover the above mentioned risk was at the end of the year 2010 lower than PLN 1 million.

55. Derivative instruments risk

The risk of derivative instruments is a risk resulting from the Bank's taking up a position in financial instruments, which meet all of the following conditions:

- the value of an instrument changes with the change of the underlying instrument;
- 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;
- it is to be settled at a future date.

The derivative risk management is integrated in the Bank with management of the following types of risk: interest rate risk, currency risk, liquidity risk, credit risk. 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. 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 Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or in section on currency risk, depending on the risk factor which affects the value of the instrument.

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 specifying i.al. settlement mechanisms.
– collateral agreement, under which selected clients of the Bank are required to establish a collateral on exposures due to derivative instruments.

Risk management is carried out by imposing limits on 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).

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank pays particular attention to monitor financial risk related to the maintenance of currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.

56. 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 objective 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 Bank 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.

In order to manage the operational 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 applications 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 operational risk comprises:

- KRI calculation,
- calculation of VaR for operating risk,
- scenario-based analyses.

The Bank regularly monitors:

- under the system-based operational risk management activities :
  - tolerance of operational risk,
  - limits for operational risk,
  - effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- under the on-going operational 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 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 operational 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 operational 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 level of 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.

57. 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 Bank, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to ensure the Bank's compliance with law and adopted standards and the Bank's acting as a entity that is reliable, fair and honest, through mitigating compliance risk, reputation risk or risk of the Bank's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions towards eliminating this risk.

The Bank performs identification and assessment of compliance risk. In order to identify compliance risk, information on cases of non-compliance and their origins is 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 Bank's Management Board and the Bank's Supervisory Board. The reports contain among others:

– cases of non-compliance;
– the most important adjustment actions of the Bank.

Compliance risk management involves in particular:

– preventing involvement of the Bank in illegal activities;
– ensuring data protection;
– development of ethical standards and monitoring of their application;
– conflict of interest management;
– preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
– professional, fair and transparent formulation of product offers, advertising and marketing messages;
– prompt, fair and professional consideration of complaints, requests and quality claims of clients.

58. 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 on 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 of the strategic risk level is performed in the Bank on an annual basis at minimum.

Strategic risk reporting is conducted annually in the Bank. Reports on strategic risk are prepared mainly for the Bank's Management Board and for managing directors of the Bank's Head Office.

Management of strategic risk in the Bank is mainly applied in the form of actions undertaken if an elevated level of strategic risk occurs.

59. 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 Bank's image.

The objective of managing the reputation risk is to protect the Bank'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 Bank 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 unfavourable events on the Bank's image.

60. Capital adequacy

Capital adequacy is the maintenance of a level of capital by PKO Bank Polski SA 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 Bank's activities.

The process of managing the Bank'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 2.42% and reached the level of 11.99%, 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 Bank's loan portfolio.

In spite of the fact that the capital adequacy ratio has decreased in 2010, the level of capital adequacy of the Bank remained 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 based on the provisions of the Banking Law and Resolution No. 381/2008[5] 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 Law, 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.

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.

[5] 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 activities in groups while calculating own funds.

(in PLN thousand)

If the amount of reduction would result in supplementary funds falling below nil, the amount is subtracted from the basic funds.

The own funds of the Bank include also short-term capital.

In 2010, the Bank's own funds decreased by PLN 381 441 thousand, mainly due to the increase in the value of deductions of the Bank's own funds, i.e. capital exposure of the Bank by approx. PLN 180 112 thousand, intangible assets by approx. PLN 259 486 thousand and unrealised losses on debt and equity instruments classified as available for sale by approx. PLN 13 380 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 Bank's own funds is presented in the table below:

BANK'S OWN FUNDS	31.12.2010	31.12.2009
Basic funds (Tier 1)	**15 449 743**	**15 755 513**
Share capital	1 250 000	1 250 000
Reserve capital	12 098 111	12 048 111
Other reserves	3 283 412	3 276 260
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	-	-
Unrealised losses on debt and equity instruments classified as available for sale	(65 935)	(52 555)
Intangible assets	(1 528 267)	(1 268 781)
Equity exposures	(657 578)	(567 522)
Supplementary funds (Tier 2)	**967 418**	**1 059 141**
Subordinated liabilities classified as suplementary 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)	24 296	25 963
Equity exposures	(657 578)	(567 522)
Short-term equity (Tier 3)	**145 928**	**129 876**
TOTAL EQUITY	**16 563 089**	**16 944 530**

Capital requirements (Pillar 1)

Since 31 December 2010, the Bank 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 – using the standardized approach, and in respect of market risk – using the basic approach. The data for 2009 have been standardised pursuant to the provisions of the resolution.

The scale of the Bank'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:
   - settlement/delivery risk,
   - the risk of exceeding the exposure concentration limit and the large exposure limit,
   - the risk of exceeding the capital concentration threshold.

(in PLN thousand)

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. 11.8%. 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 127%.

The tables below show the Bank's exposure to credit risk and other types of risk. The amounts have been calculated in accordance with the so-called CRD II.

Capital requirements	31.12.2010	31.12.2009
Credit risk	**9 625 972**	**8 312 989**
credit risk (banking book)	9 560 923	8 243 092
counterparty risk (trading book)	65 049	69 897
Market risk	**465 911**	**230 171**
equity securities risk	767	2 390
specific risk of debt instruments	379 948	192 460
general risk of interest rates	85 196	35 321
Operational risk	**957 564**	**862 160**
Total capital requirements	**11 049 447**	**9 405 320**
Capital adequacy ratio	**11.99%**	**14.41%**

The Bank calculates capital requirements on account of credit risk according to the following formula:

- in case of statement of financial position items – a product of a carrying amount, a risk weight of the exposure calculated according to the standardized method of credit risk requirement and 8% (considering collateral),
- in case of granted contingent liabilities and commitments – a product of nominal value of liability (considering value of allowances on the liability), a risk weight of the product, a risk weight of exposure calculated according to the standardized method of credit risk requirement and 8% (considering recognized collateral),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the exposure calculated according to the standardized method of credit risk requirement, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position 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:

Type of instrument	Carrying amount	Risk - weighted value
Bank portfolio	161 467 844	108 109 577
Trading portfolio	5 771 075	1 985 072
Total instruments in the statement of financial position	**167 238 919**	**110 094 649**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	35 214 386	11 939 871	10 944 167
Trading portfolio	2 973 980	2 973 980	2 773 866
Total off-balance sheet instruments	**38 188 366**	**14 913 851**	**13 718 033**

(in PLN thousand)

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	65 615 762	1 401 166	457 802
Trading portfolio	212 224 402	1 995 550	813 106
Total derivative instruments	**277 840 164**	**3 396 716**	**1 270 908**

* the above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets of 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
Bank portfolio	147 511 239	93 359 519
Trading portfolio	6 136 240	1 424 856
Total instruments in the statement of financial position	**153 647 479**	**94 784 375**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	32 133 943	10 890 704	9 147 496
Trading portfolio	1 308 396	1 308 396	1 010 769
Total off-balance sheet instruments	**33 442 339**	**12 199 100**	**10 158 265**

Type of instrument	Nominal value*	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	47 224 887	1 643 096	531 636
Trading portfolio	134 243 449	1 948 488	873 715
Total derivative instruments	**181 468 336**	**3 591 584**	**1 405 351**

* the above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets of operations and amounts received or granted, for options - the value of delta equivalent.

Internal capital (Pillar 2)

PKO Bank Polski SA 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 Bank that is necessary to cover all of the significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

In 2010, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

The internal capital in PKO Bank Polski SA is intended to cover each of the significant risk types:

– credit risk (as regards default risk),
– currency risk,
– interest rate risk,
– liquidity risk,
– operational risk,
– business risk (including strategy risk).

The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The correlation coefficient for different types of risk 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.

Disclosures (Pillar 3)

In accordance with § 6 of Resolution 385/2008 of the Banking 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 (Banking Supervision Authority's 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

61. 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 the 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 stand-alone 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).

62. 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 1 000 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 increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.

Signatures of all Members of the Management Board of the Bank

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)