2009 ANNUAL REPORT

Bank Zachodni WBK S.A.
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WBK Bank Zachodni WBK S.A.

2009 | Annual Report

Financial Highlights

	for the period ended:	PLN k 31.12.2009	PLN k 31.12.2008	EUR k 31.12.2009	EUR k 31.12.2008
Consolidated financial statements of Bank Zachodni WBK Group					
I	Interest and similar income	3,226,088	3,232,124	743,235	915,071
II	Fee and commission income	1,535,565	1,606,669	353,768	454,876
III	Operating profit	1,163,322	1,211,357	268,009	342,957
IV	Profit before tax	1,162,988	1,210,580	267,933	342,737
V	Net profit attributable to the Company's equity holders	886,192	855,446	204,163	242,192
VI	Total net cash flow	238,746	300,765	55,003	85,152
VII	Total assets	54,058,360	57,433,069	13,158,649	13,764,996
VIII	Deposits from banks and central bank	5,349,984	5,338,051	1,302,270	1,279,372
IX	Deposits from customers	41,222,871	42,810,727	10,034,290	10,260,456
X	Total liabilities	48,002,806	52,220,628	11,684,632	12,515,729
XI	Total equity	6,055,554	5,212,441	1,474,016	1,249,267
XII	Non-controlling interests in equity	108,338	239,872	26,371	57,490
XIII	Net profit attributable to non-controlling interests	53,964	98,840	12,432	27,983
XIV	Number of shares	73,076,013	72,960,284		
XV	Net book value per share in PLN/EUR	82.87	71.44	20.17	17.12
XVI	Solvency ratio	12.97%	10.74%		
XVII	Profit per share in PLN/ EUR	12.13	11.72	2.79	3.32
XVIII	Diluted earnings per share in PLN/EUR	12.08	11.68	2.78	3.31
XIX	Declared or paid dividend per share in PLN/ EUR	4.00	–	0.97	–

The following exchange rates were applied in order to convert financial figures into EUR:

- for balance sheet items: 4.1082 PLN rate to EUR as at 31.12.2009 stated by National Bank of Poland (NBP), 4.1724 PLN rate to EUR as at 31.12.2008
- for profit and loss items – 4.3406 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2009), and 3.5321 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2008).

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Dear Colleagues,

the last year was determined by recession whose hits turned out to be severally harsh for the US and the EU economies. The global developments affected also the business climate in Poland. The pace of economic growth slowed down rapidly. Based on some preliminary data, in 2009 the Polish GDP grew by merely 1.7%. This is not much but still Poland was the only EU member state which recorded a positive economic growth. In the last quarter of 2009, both the global and the Polish economies witnessed some improvement. Both the EU and the US saw the green shoots of recovery, while the Polish GDP for Q4 2009 fluctuated around 3%. Therefore, there is hope that the worst is over.

The economic slowdown had its impact on consumer behaviour. The private consumption dynamics fell down from almost 6% in 2008 down to 2.3% last year. Higher unemployment rate and lower average salaries were additional adverse contributors.

Those developments negatively influenced also Bank Zachodni WBK and its subsidiaries. However, owing to a good strategy and commitment on the part of the Management Board and staff, the bank and its subsidiaries not only managed to maintain their market position but also strengthened it in many market segments. With its high quality credit process, the bank fended off fears voiced by many analysts whereby the property lending would drive down the quality of the credit book.

It should be highlighted that for many years Bank Zachodni WBK has sustained its very good reputation among the market regulators. In many cases, the procedures applicable in our bank have become the industry standard. That has been evidenced by numerous awards, including the title of the “Best managed company in the financial sector” granted by “Parkiet” and the “Service Quality Emblem” from “Newsweek”. All those successes are undoubtedly the fruit of sound management, diversified income mix and high activity in the most profitable market segments. Those successes are best epitomised by the results of research carried out last year by “Rzeczpospolita” which pointed to Bank Zachodni WBK as one of three banks operating on the Polish market which enjoyed the highest customer trust.

Bank Zachodni WBK is one of three banks operating on the Polish market which enjoy the highest customer trust

For all the bank’s shareholders, the results published in this report should evidence a high existing potential of Bank Zachodni WBK Group and provide grounds for a spectacular success in a more conducive macroeconomic environment.

The Supervisory Board would like to recognise the bank’s staff and its authorities for their readiness to make sacrifices. During that difficult year, many employees voluntarily approved of reduced salaries or work time. I am convinced that the display of your solidarity with the bank will not be forgotten.

On behalf of all Supervisory Board Members, I would like to express our deepest respect to the Management Board and all employees of Bank Zachodni WBK and its subsidiaries for navigating BZ WBK Group skilfully throughout the tough period of economic slowdown.

Aleksander Szwarc
Chairman of the Supervisory Board

Dear All,

last year was the most difficult period in the history of Bank Zachodni WBK given the crisis in the world financial markets as a result of which the Polish economy slowed down significantly, enterprise performance weakened and unemployment increased. Despite such serious turbulence, we closed the year in a good condition. In 2009, Bank Zachodni WBK impressed with its activity and creativity which allowed us to strengthen our position in the lead of the largest and most profitable Polish banks. This augurs well for the execution of our strategy in the years to come.

In 2009, our bank distinguished itself positively against the banking sector. First of all, unlike many of our competitors we managed to avoid group redundancies. The savings programme, which was innovative in the Polish market and applied to all the bank's employees across the board, allowed us to put the growth in staff costs on hold and keep them at a low level. Good work organisation, optimum location of our branches and, primarily, the efforts taken by our people prevented our bank, unlike many others, from closing its branches. On the contrary, in 2009 we opened more than ten new outlets and additionally we materially expanded our partner network. Thanks to that, we can invite our customers and all other people interested in our products and services to more than 600 outlets with Bank Zachodni WBK logo.

Other successes of the last year include the maintenance of the loans to deposits ratio under 84%, which is very safe and one of the best in the sector, stable loan volumes, including a nearly 20% growth in sales of cash loans and more than 11% growth in the sales of home loans, which have become our flagship product, very popular and highly assessed by customers. On the deposit side, we expanded the array of our products and strengthened our market position.

We also expanded our personal account proposition, which supported on its own merits and by marketing campaigns, was well-received by customers and the market and allowed us to become the third biggest player in terms of the personal accounts number.

In 2009, Bank Zachodni WBK impressed with its activity and creativity which allowed us to strengthen our position in the lead of the largest and most profitable Polish banks

It is also worth noting that we are still in the group of banks with the best bad loan ratio. Moreover, last year we also kept diversifying our business and increasing our activity in new business areas, including bancassurance and third party services.

Though 2009 was the most difficult year for the Polish economy in the recent history, the total income of Bank Zachodni WBK Group increased by nearly 3% excluding gains on non-recurring capital markets transactions. Owing to savings initiatives, we reduced our total costs by 2.2% last year and recorded the cost/income ratio at 50% – one of the lowest ratios in the sector. The solvency ratio of Bank Zachodni WBK Group is at a very good level – 12.97% while the return on equity (ROE) is at 17.5%. And finally, the most important indicator for investors – profit. Bank Zachodni WBK Group closed 2009 with the profit-before-tax of PLN 1,163 m, and the Group's profit attributable to the parent company was PLN 886 m.

The year 2009, given the economic environment and huge fluctuations in stock prices, was very difficult for the largest subsidiaries of Bank Zachodni WBK. This refers in particular to Dom Maklerski BZ WBK (Brokerage House), BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych (Investment Fund Corporation) and BZ WBK AIB Asset Management. Despite the challenging market, all the companies have defended their market positions. Dom Maklerski BZ WBK took the second position on the stock market and its market share is 11%. As regards the futures market, the second most important one, our brokerage house came third, yet its market share was higher and stood at 12.5%. Moreover, it is worth highlighting that last year Dom Maklerski BZ WBK conducted ten sales offers on the primary and secondary markets.

In 2009, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych kept its second position with an over 11% market share. Last year, the company again recorded very good management results, often the best in Poland, and offered a new investment program ‘My Future’ to its customers.

It is worth noting that other companies from Bank Zachodni WBK Group, including leasing and factoring companies, also defended their market positions in 2009.

The difficult past year confirmed the soundness of the diversification strategy which we started to implement in 2007. With its sustainable growth, focus on income streams and development of many business lines, today Bank Zachodni WBK is one of the safest universal banks operating on the Polish market. What is more, the strategy executed in the difficult macroeconomic environment taught our organisation how to be flexible and how to leverage market niches. This is an invaluable asset that we will benefit from in the years to come.

Last year, like no other, proved that the good business strategy, consistency in its execution, cost discipline, and first of all professionally prepared management team at all levels and engaged employees are the great asset of Bank Zachodni WBK. I would like to thank all the employees for the very good performance in this exceptionally difficult period and to emphasise the responsibility for the bank, for their colleagues by participating jointly in the savings programme. I would also like to indicate that Bank Zachodni WBK would not have recorded such good results in 2009 if there had not been such a good co-operation between the Management Board and the Supervisory Board.

M. Morawiecki

Mateusz Morawiecki
President of the Management Board

Assessment of the Bank Zachodni WBK Group's Operations in 2009

Bank Zachodni WBK S.A.

Macroeconomic Environment in 2009

Economic Growth

After the recession that hit the world's major economies (GDP fall for 4 – 5 quarters in the euro-zone and the USA), the economy rebounded in the third quarter of 2009 on the back of fiscal and monetary stimulus packages. The serious economic downturn abroad had a strong adverse impact on the Polish economy.

Economic growth in Poland decelerated sharply, but the decline was less severe than expected at the beginning of the year. Furthermore, according to the preliminary data of the Polish Central Statistical Office (GUS), GDP growth in Poland of 1.7% y-o-y made it the only EU country recording positive growth in 2009. Also, the structure of GDP growth points to the relatively strong consumption demand and a moderate fall in investments. Notwithstanding the relatively strong performance of the Polish economy, there remains a possibility of a second wave of the global crisis, which is the key risk factor affecting the mid-term economic growth outlook for Poland.

Labour Market and Consumption

Private consumption growth weakened (to 2.3% in 2009 compared with 5.9% in 2008) due to negative changes in the labour market. As a result of a decrease in employment and the marked reduction in the average wage growth, the wage bill growth slowed substantially. On the other hand, in 2009 social security benefits were increased in line with inflation.

Investments

According to the tentative data of the GUS, the growth in gross fixed investments in 2009 was –0.3%, which was much above the pessimistic forecasts from the start of the year. The growth in investments was slightly below zero only in the second and the third quarter. At the same time, the investment growth in the fourth quarter was positive at 1.6% y-o-y. This was associated with the strong activity in public investments supported by the EU funds, which amply compensated for the weak investment activity in the private sector.

Inflation

After CPI inflation decreased to 2.8% y-o-y, it was gradually rising in the subsequent months due to significant increases in the prices of fuel and energy as well as effect of the significant weakening of the zloty observed until February 2009. Consequently, the CPI inflation increased to 4% y-o-y in April and then started to fall. Still, until August, the CPI inflation stayed above the upper limit of allowed fluctuations around the central bank target (3.5%).

The last months of the year brought a decline of the CPI inflation below this level and a rebound to 3.5% y-o-y in December, amid a decrease in the annual growth rate of energy prices and an increase in fuel prices. The impact of the significant zloty depreciation on inflation in the first half of the year was partly offset by the strong deceleration in economic growth, while the zloty recovery in the second half of the year supported lower prices growth. The substantial weakening of the internal demand and reduction of the tensions in the labour market acted towards weakening of the inflationary pressures.

Interest Rates

In 2009, the Monetary Policy Council reduced the main interest rates four times (all rate cuts in the first half of the year), by a total of 1.5 pp. The monetary policy easing was a response to substantial deterioration in economic growth prospects coupled with favourable mid-term inflation outlook. The substantial reduction in the central bank interest rates was followed by a decline in WIBOR rates – by 2.2 pp and 1.9 pp for 3-month and 12-month periods respectively. However, the WIBOR rates did not reflect the real cost of money, as there was almost no liquid market in 2009. The MPC also decided to reduce the reserve requirement rate by 50 bps to 3% in order to increase liquidity in the banking system and revive credit activity. The high short-term overliquidity of the banking sector resulted in significant decline of the O/N and T/N rates, which stayed below the reference rate.

Exchange Rates

The first months of 2009 saw a significant weakening of the zloty, triggered by a surge in risk aversion in international financial markets and investors' negative view of the markets in Central and Eastern Europe, resulting from serious problems of some countries in the region. However, towards the end of the first quarter the zloty began to recover as risk appetite returned to global markets and foreign investors showed more interest in buying assets in the CEE region partly due to support of the financial stability of the countries in the region by international institutions. Since then the zloty has been on a gradually appreciating trend although volatility remains fairly high.

The gradual appreciation of the euro versus the dollar was accompanied by a decline in the USD/PLN rate. However, the dollar substantially recovered in the international markets towards the end of the year.

Financial Performance of the BZ WBK Group in 2008

In 2009, the Bank Zachodni WBK Group was implementing its strategy for the years 2009 – 2011, striving to be distinctive in the market by its customer proposition and service quality and taking actions to improve its brand image and awareness.

The Group flexibly responded to the challenging environment, taking appropriate measures to sustain its deposit base and ensure security of its credit portfolio. Efforts were taken to reduce costs and mitigate risks in all areas of activity.

Profit and Loss Account

Despite the difficult macroeconomic conditions, the income of Bank Zachodni WBK Group for the 12 months of 2009 increased by 2% y-o-y.

Excluding the gains on disposal of equity investments (PLN 3.6 m in 2009 and PLN 66.2 m in 2008), the consolidated income increased by 3.6%.

With the implementation of further savings projects, optimisation of procurement processes and tight monitoring of cost efficiency, in 2009 the Group's cost base decreased by 2.2% y-o-y, including 6.4% reduction of administrative expenses.

In 2009 the cost of credit risk increased as a result of deteriorating financial standing of borrowers in the difficult macroeconomic environment.

In 2009, the Bank Zachodni WBK Group posted a profit-before-tax of PLN 1,163 m, a decrease of 3.9% on 2008. The profit-after-tax attributable to the shareholders of Bank Zachodni WBK S.A. was PLN 886 m and was higher by PLN 3.6% y-o-y.

Income

In 2009, the income of Bank Zachodni WBK Group was PLN 3,312m and up 2% y-o-y.

Net interest income amounted to PLN 1,563.2 m, down 4.4% y-o-y. The decrease was caused by the negative impact of deposits which in 2009 were usually priced higher than the official interbank rates. This reflects the intense price competition that has been a feature of the deposits market since September 2008.

Further downward pressure on deposit margins was caused by a series of interest rate cuts which commenced in November 2008 and continued until June 2009. The higher costs of raising deposits were partly offset by increased margins on lending.

Net commission income amounted to PLN 1,315.5 m and decreased by 4.2% y-o-y mainly due to the sharp downturn in the capital markets which persisted until March 2009 and investors' uncertainty about continuation of the growth trends observed in the equity market in the subsequent months. These sentiments led to a decrease in the level of the Group's asset management and mutual fund fees by 36% y-o-y.

While the brokerage fees in the secondary equity market increased, the fees in the primary equity market declined, which adversely affected the growth of the total brokerage fees (–7%).

Income from FX fees decreased by 3.6% mainly due to appreciably lower FX activity in the market place but also due to revision of customer limits and general tightening of the bank's policy in this area.

Other business lines reported substantial increases in their net income figures. Credit fees increased significantly, partly due to alignment of the bank's pricing policy to the changing external environment.

Net commission income from e-business and payments increased by 15.4%. Two product lines from this area grew particularly strongly: "services to third-party financial institutions" and "debit cards". Account and cash transactions fees increased by 7.8%, mainly driven by personal accounts which generated a higher level of income following acquisition of new business and modification of selected items of the schedule of fees and charges of Bank Zachodni WBK S.A.

Dividend income of PLN 96.6 m increased by 37.4% y-o-y mainly as a result of the dividends paid by the Aviva companies included in the bank' s equity investment portfolio This change was mainly influenced by the dividend allocated to the bank by the Aviva Group companies, i.e. Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. In 2009, these entities disbursed PLN 88.7 m in dividends to the bank as compared to PLN 64.7 m last year.

Net trading income and revaluation amounted to PLN 270.3 m, up by 411.9% y-o-y. The movement in this line was most strongly affected by the wholesale FX Swaps transacted, among others, as part of the management of the EUR- and CHF-denominated credit portfolio.

Costs

Total costs of Bank Zachodni WBK Group amounted to PLN 1,644.8 m and were lower by 2.2% y-o-y.

In 2009, staff costs amounted to PLN 889.3 y-o-y, down 0.8% y-o-y due to reduction of the average employment in the Group by 122 FTEs, stronger leave utilisation discipline and limitation of training costs. At the same time, higher provisions were raised for staff bonuses for the excellent performance in 2009.

The Group's other administrative expenses decreased by 6.4% to PLN 609 m. This decrease was mainly driven by reduced advertising and marketing spend on account of the limited promotional campaigns and the lower consultancy costs.

The slower development of the BZ WBK Branch Network led to a substantial reduction of the branch fit-out costs.

In 2009, depreciation / amortisation totalled PLN 123.5 m and increased by 15.1% y-o-y as a result of expansion and upgrade of the bank's branch network.

Balance Sheet

As at 31 December 2009, total assets of Bank Zachodni WBK Group amounted to PLN 54,054 m and were 5.9% down on 31 December 2008.

Credit Facilities

In 2009, strong credit delivery to personal customers was paralleled by a decrease in loans and advances to public sector customers and finance lease receivables.

In effect, at the end of December 2009, gross loans and advances to customers decreased by 0.9% y-o-y to PLN 35,710.4 m.

In 2009, loans and advances to personal customers increased by 15.1% to PLN 10,632.4 m thanks to the attractive credit proposition and effective sales campaigns.

The strongest growth in this portfolio was recorded in cash loans (+19.6%) and home mortgages, which increased by 11.2% to PLN 6,062.5 m.

Compared with 2008, loans and advances to business and public sector customers amounted to PLN 22,348.6 m, falling by 4.4% y-o-y as a result of the reduced business activity of companies, pro-active approach of the Group to sectoral risk and revision of its risk assessment methods to reflect the new economic conditions.

At the end of December 2009, the impaired loans accounted for 5.5% of the gross portfolio versus 2.9% recorded 12 months before. The provision cover ratio for the impaired loans was 39.1% compared with 55% as at 31 December 2008, reflecting the higher share of relatively well-collateralized property loans in the total non-performing loan-book.

The impairment level has been driven by the deteriorating macroeconomic environment which is reflected in the sharp drop in GDP and growth in unemployment. Slowdown has affected most sectors of the Polish economy, resulting in the lower ability of businesses and individuals to meet their liabilities.

Deposits

Deposits from customers, which represent 76.3% of the Group's total equity and liabilities are the primary source of funding of the Group's lending business.

Compared with the end of the previous year, customer deposits decreased by 3.7% to PLN 41,222.9 m as at 31 December 2009. Balances in the current accounts amounted to PLN 17,441.7 m (+4.3% y-o-y), while term deposits amounted to PLN 23,267.5 m (–9.5% y-o-y).

The lower deposits from customers result from the decrease in the deposits from business and public sectors companies. In 2009, businesses suffered from tighter liquidity and had to resort to a greater extent to cash deposit balances to fund their ordinary activities and investments.

Concurrently, the Group's deposits from retail customers increased by 5.7% to PLN 25,613.7 m, which is attributable to the bank's diversified deposit offer for this segment, both with regard to current accounts and term deposits.

Share Price of Bank Zachodni WBK S.A.

In 2009, the global economy was in recession and the adverse conditions in the equity market continued to prevail. Starting from February, the world's stock indices were gradually rising. The observed increases were correlated with an improvement in the Index of Leading Indicators, growth of commodity prices and the higher risk appetite among international investors.

After many months of declines and the record lows recorded on 18 February 2009, a strong growing trend began on the Warsaw Stock Exchange.

Throughout 2009, the WIG index increased by 46.9%, WIG 20 by 33.5% and WIG Banking by 33.7%. The price of Bank Zachodni WBK S.A. shares, which are a part of these indices, increased by 32.3% from PLN 110.80 on 31 December 2008 to PLN 190.00 on 31 December 2009.

Rating

Bank Zachodni WBK S.A. has a credit rating agreement with Fitch Ratings Ltd.

At the end of 2009, Bank Zachodni WBK S.A. had the following rating: Long-Term Issuer Default Rating: BBB+; Short-Term Rating: F2; Individual Rating: C; Support Rating: 3; outlook for maintenance of the Long-Term and Short-Term Rating: negative.

Reduction of the Long-term IDR, the Short-Term IDR, the Support Rating and the rating outlook results from revised assessment of the bank's controlling shareholder (AIB) and reflects its lower ability to provide potential support to its subsidiaries. The AIB's Individual Rating was changed in 2009 from "B" to "C" and then to "D" due to the fall of its asset quality given the deteriorating macroeconomic conditions and the negative outlook for further economic development of the Republic of Ireland.

Internal Control System

As required by the Statutes, the bank operates an internal control system, supporting the decision-making processes and contributing to efficient operation of the bank, reliability of financial reporting and compliance with the internal and external regulations.

The bank's internal control system is adjusted to the bank's organisational structure and risk management system as well as the size and complexity of the bank's business. The system includes all units across the bank as well as its subsidiaries.

Internal control and risk management systems are structured into three lines of defence. The first line ensures compliance with procedures and response to any identified deficiencies or shortcomings. It underlies reviews of procedures and effectiveness of controls across the organizational structure.

The second line are specialist functions which assist the management in risk management and identification as well as assessment of the first line controls.

The third line is the Internal Audit Area which provides an independent and objective examination and assurance on first and second tier controls as well as the management of the bank, including the risk related to the bank's business. The Audit Committee of the Supervisory Board exercises oversight over the Internal Audit Area. The Audit Committee approves the annual audit plan and is regularly updated on audit results and progress of management actions.

This way the Management Board and Supervisory Board receive regular and detailed information on compliance with internal and external regulations, identification of deficiencies and errors and remedial actions, completeness and correctness of accounting procedures as well as adequacy, effectiveness and security of the IT system. Deficiencies found in the course of internal controls are used to improve the existing processes and security solutions as well as to amend internal processes and regulations.

Risk Management System

Bank Zachodni WBK S.A. has an integrated risk management structure ensuring that all risks with material impact on the bank's operations are identified, measured, monitored and controlled. In the Board's opinion this structure is appropriately matched to the Bank's size and risk profile.

In BZ WBK S.A. the responsibility for managing the different risk types has been delegated to the individual organisational units, which are supported in this role by the relevant Committees. The strategic direction is set by the Risk Management Committee (RMC), which supervises the work of the other Committees responsible for risk management.

One of the main elements of risk management in the bank is the level of acceptable risk in the daily operations. This risk level is expressed in the form of limits set out in the "Risk Appetite Statement" approved by the Management Board and the Supervisory Board. The bank's risk appetite is kept adjusted to the current market environment.

The bank has methodologies and processes in place for identification and evaluation of risks to determine their potential impact on the bank's operations now and in the foreseeable future. The identified risks are managed through a suite of policies and best practices to keep risk at an acceptable level. The bank uses risk evaluation techniques tuned to the different types and materiality of risks, including:

- customer / facility grading – for credit risk;
- VaR methodology – for market risk;
- operational risk self-assessment methodology.

As part of an enterprise-wide risk assessment exercise, comprehensive risk reviews are held on a regular basis, looking at key risks (including key legal and regulatory risks) and material risks. The output of the key risks review is an aggregated list of at least top 5 risks of the BZ WBK Group. The compliance risk management process includes identification, valuation and monitoring of the legal and regulatory risks to ensure compliance. This is achieved, on the one hand, by giving opinions on products, procedures and initiatives, and on the other hand, by sample-based testing the effectiveness of controls. The material risks review is an integral element of the internal capital adequacy assessment process (ICAAP) in the bank. In 2009, the risk identification and assessment processes were compliant with the bank's policies. Exceptions to the policies were approved by the relevant Committees.

The comprehensive structure of the risk management in the bank is augmented by a clear system for reporting on the size and types of risks and risk limit excesses. The reporting system includes the key management levels. Periodic reports on risk assessment and evaluation of the mitigating actions taken by the Management Board are submitted to the Supervisory Board.

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Report of the Management Board on Bank Zachodni WBK Group Performance in 2009

2009

Bank Zachodni WBK S.A.

Contents

I. Overview of the Group's Performance

Below is a summary of the financial performance of Bank Zachodni WBK Group in 2009 and the external and internal factors underlying it.

Financial Highlights

- **Total income** increased by 1% y-o-y to PLN 3,289.1 m.
- **Total costs** decreased by 2.2% y-o-y to PLN 1,644.8 m, of which the staff and administrative expenses reduced by 3.2% y-o-y to PLN 1,498.3 m.
- **Profit-before-tax** was PLN 1,163 m and down 3.9% y-o-y.
- **Profit-after-tax attributable to the Bank Zachodni WBK shareholders** was PLN 886.2 m and up 3.6% y-o-y.
- **Capital adequacy ratio** at 12.97% (10.74% as at 31 December 2008).
- **Return on Equity** at 17.5% (20.8% as at 31 December 2008).
- **Cost to income** ratio improved to 50% (51.6% for 2008).
- **Net impairment losses on loans and advances** amounted to PLN 481 m compared with PLN 364.6 m in 2008.
- **NPL ratio** increased to 5.5% (2.9% as at 31 December 2008), while the ratio of impairment losses to the average credit volumes was 1.31% (1.23% as at 31 December 2008).
- **Loans to deposits ratio** of 83.9% as at 31 December 2009 compared with 82.1% as at 31 December 2008.

Key Factors Affecting the Group's Profit and Activity in 2009

Business Factors

- Stable level of credit volumes compared with the end of December 2008 as a result of the increase in cash loans (+19.6% y-o-y) and home mortgages (+11.2% y-o-y) with a concurrent decrease in loans to institutional customers (–4.4% y-o-y) and lease receivables (-8.5% y-o-y).
- Decline in deposits from customers (–3.7% y-o-y) as the decrease in institutional deposits (–16% y-o-y) outpaced the growth of personal deposits (+5.7% y-o-y). Excluding several high-value short-term deposits held by institutional customers as at 31 December 2008 that did not roll over in 2009, the deposits from institutional customers decreased slightly (–1.1% y-o-y) while total customer deposit base expanded (+3% y-o-y).
- Increase in the number of users of BZWBK24 electronic banking (+21% y-o-y) and Moja Firma Plus package (+20% y-o-y).
- Rapid expansion of the debit cards base (+20% y-o-y) due to the broad product offering and linked services.
- Increase in the value of assets of mutual funds and private portfolios by 26% as a result of reversal of the adverse trends in the equity market in March 2009.
- Deterioration of the financial standing of some borrowers in the difficult macroeconomic environment.
- Continued tightening of lending criteria since Q4 2008 and execution of risk mitigation strategies.
- Strict cost discipline reflected in the reduced staff and other administrative expenses.

External Factors

- Notable deceleration of economic growth in Poland in the first half of 2009 triggered by global financial and economic crisis. Gradual improvement of the economic activity in Poland and symptoms of recovery in the main global economies in the second half of 2009.
- Decrease in industrial production in Poland and weaker performance of companies at the beginning of the year with gradual recovery in the subsequent quarters.
- Slight decrease in fixed investments (–0.3% y-o-y) as infrastructural projects were financed from the EU funds.
- Sudden decline in foreign trade transactions, with the level of trade deficit limited as the fall in imports outpaced the fall in exports.
- Slower credit delivery with lower lending to businesses and weaker personal loan growth (some recovery observed only at the year-end).
- Adverse trends in the labour market (reduced employment and lower wage bill growth), but not as negative as previously expected (decline in employment slowed towards the year-end).
- Marked increase in share prices on the Warsaw Stock Exchange after a sharp decline in 2008 and early 2009.
- Gradual reduction in deposit pricing costs (although still suffering appreciable negative margin) and stabilisation in the interbank market.
- After a significant weakening of the zloty in January and February, high FX rate volatility in the subsequent months, with a tendency to zloty appreciation.
- Reduction of the main interest rates by the Monetary Policy Council and their stabilisation at historically low level (reference rate at 3.5%) in the second half of the year.
- Moderate fall in house prices in major cities. Signs of recovery in demand and an increase in the number of transactions in the second half of the year.
- Weakening in private consumption growth, however not too rapid due to moderate scale of layoffs and improving perception of the labour market.

II. Basic Information

1. History and Profile of Bank Zachodni WBK S.A.

Background

Bank Zachodni WBK S.A. (BZ WBK S.A.) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The new Wrocław-based entity was entered into the business register in the National Court Registry on 13 June 2001 and on 23 June 2001 it debuted on the Warsaw Stock Exchange.

Both predecessors of Bank Zachodni WBK S.A. were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of the AIB Group under control of the same investor, i.e. AIB European Investments Ltd. from Dublin, which is a subsidiary of the Allied Irish Banks, p.l.c. (AIB). After the merger, the AIB Group became owner of a 70.5% stake in Bank Zachodni WBK. The shareholding declined to 70.4% following an increase in the share capital on 10 July 2009.

Scope of Activities

Bank Zachodni WBK S.A. is a universal bank which provides a full range of services for personal customers, SMEs and large companies. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current/personal accounts to provide their users with a precisely defined, tailored and comprehensive service. The financial services of Bank Zachodni WBK S.A. also include trade finance and transactions in the capital, FX and money markets as well as in derivatives. The bank's own product range is complemented by specialist products offered by its connected companies, including: Dom Maklerski BZ WBK S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o., BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. In co-operation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

Distribution Network

As at 31 December 2009, Bank Zachodni WBK S.A. operated through 512 outlets, which is the third largest branch network in Poland. As a result of the rapid expansion of the branch network in 2007–2008, the bank's branches are present in all the provinces of Poland.

High net worth individuals can also use the comprehensive investment service from the Private Banking offices in Warsaw, Poznań and Wrocław.

For customers looking for basic, inexpensive and fast service, Bank Zachodni WBK S.A. operates a network of 89 agency outlets under the brand of "Bank Zachodni WBK Partner" located in small towns and residential districts of big cities.

Business customers are serviced through 15 Business Banking Centres located across all key markets in Poland. Corporate customers are serviced through the Corporate Business Centres in Warsaw, Poznań and Wrocław.

Through its modern Telephone and Electronic Sales Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, offers over-the-phone access to transactions and standard products, and renders after-sales service.

Bank Zachodni WBK S.A. offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to their accounts and products via the Internet, phone or mobile. Thanks to technologies, the bank ensures the highest security of electronic services.

2. Share Capital, Ownership Structure and Share Price

Ownership Structure of Share Capital

Shareholder	Number of Shares Held		% in the Share Capital		Number of Votes at AGM		Voting Power at AGM	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
AIB European Investments Ltd.	51,413,790	51,413,790	70.4%	70.5%	51,413,790	51,413,790	70.4%	70.5%
Other	21,662,223	21,546,494	29.6%	29.5%	21,662,223	21,546,494	29.6%	29.5%
Total	**73,076,013**	**72,960,284**	**100%**	**100%**	**73,076,013**	**72,960,284**	**100%**	**100%**

As at 31 December 2008, the share capital of Bank Zachodni WBK S.A. amounted to PLN 729,602,840 and was divided into 72,960,284 ordinary bearer shares with a nominal value of PLN 10 each.

On 10 July 2009, the share capital was increased to 73,076,013 shares, reflecting take-up of H series shares issued under the 1st BZ WBK Share Incentive Scheme (by force of resolution of General Meeting of Shareholders of 4 July 2006) by the eligible employees.

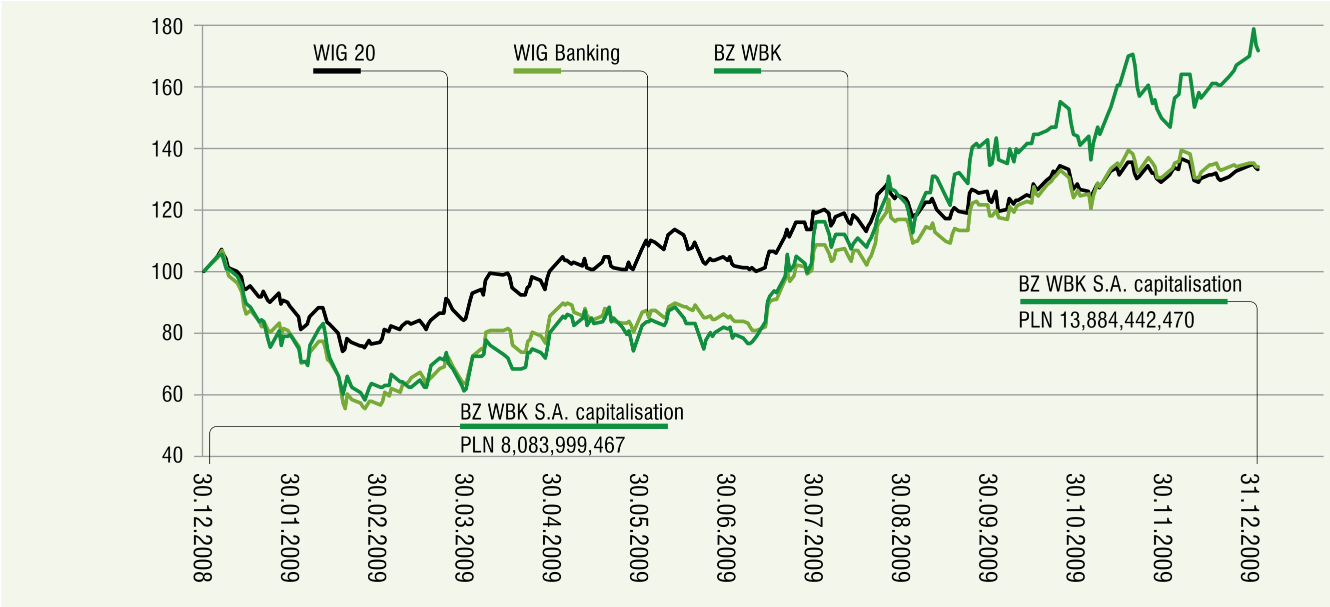
According to the information held by the bank's Management Board, as at 26 February 2010 (i.e. the date of Annual Report 2009 sign-off), the shareholder having a minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., a wholly-owned subsidiary of Allied Irish Banks p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK S.A. is 70.4%. The remaining shares are in free float.

As at the date of approving Annual Report 2009, the Management Board of Bank Zachodni WBK S.A. was not aware of any agreements that in the future might lead to changes in the current ownership structure.

Share Price

In 2009, the global economy was in recession and created quite a difficult environment for the equity market. However, starting from February 2009 the world stock indices were gradually rising, reflecting an improvement in the capital market environment and stabilisation of the financial sector. The

BZ WBK S.A. Share Quotations and Indices
31.12.2008 = 100



Bank Zachodni WBK S.A.

observed increases were correlated with an improvement in the Leading Indicators, growth of commodity prices and the higher risk appetite among international investors.

After many months of continued downward trend and hitting a low point on 18 February 2009, the Warsaw Stock Exchange saw a dynamic upward rise. During 2009 the WIG index increased by 46.9%, WIG20 by 33.5% and WIG Banking index by 33.7%. The price of Bank Zachodni WBK shares, which is included in these indices, increased by 71.5% from PLN 110.80 on 31 December 2008 to PLN 190.00 on 31 December 2009.

3. Composition of Bank Zachodni WBK Group

Subordinated Undertakings

Bank Zachodni WBK forms a Group with the following nine subsidiaries which are fully consolidated in accordance with IAS 27. These are:

1) BZ WBK AIB Asset Management S.A.
2) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.
3) BZ WBK Inwestycje Sp. z o.o.
4) BZ WBK Faktor Sp. z o.o. – subsidiary of BZ WBK Finanse Sp. z o.o.
5) BZ WBK Finanse Sp. z o.o.
6) BZ WBK Finanse & Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.
7) BZ WBK Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.
8) BZ WBK Nieruchomości S.A.
9) Dom Maklerski BZ WBK S.A.

The entities connected with the bank are chiefly financial institutions which conduct specialised activities in securities brokerage, leasing, assets/funds management, factoring and trading in equity securities.

Compared with the end of December 2008, the Group includes an additional company – BZ WBK Finanse Sp. z o.o., formed by the bank on 18 December 2008 and registered on 14 January 2009. Bank Zachodni WBK acquired 100% stake in the company's share capital. The new entity is a holding company set up to centralise management of the bank's subsidiaries involved in provision of services to business customers, i.e. BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. oraz BZ WBK Faktor Sp. z o.o. (see Chapter IV, Section "Investment Banking" and Chapter XI., Section "Changes to the Management Organisation" for more details).

Joint Ventures and Associated Undertakings

In the consolidated financial statements of Bank Zachodni WBK Group for the period ending 31 December 2009, the following companies are accounted for using the equity method in accordance with IAS 28 and 31:

Joint Ventures:

1) BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
2) BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A.

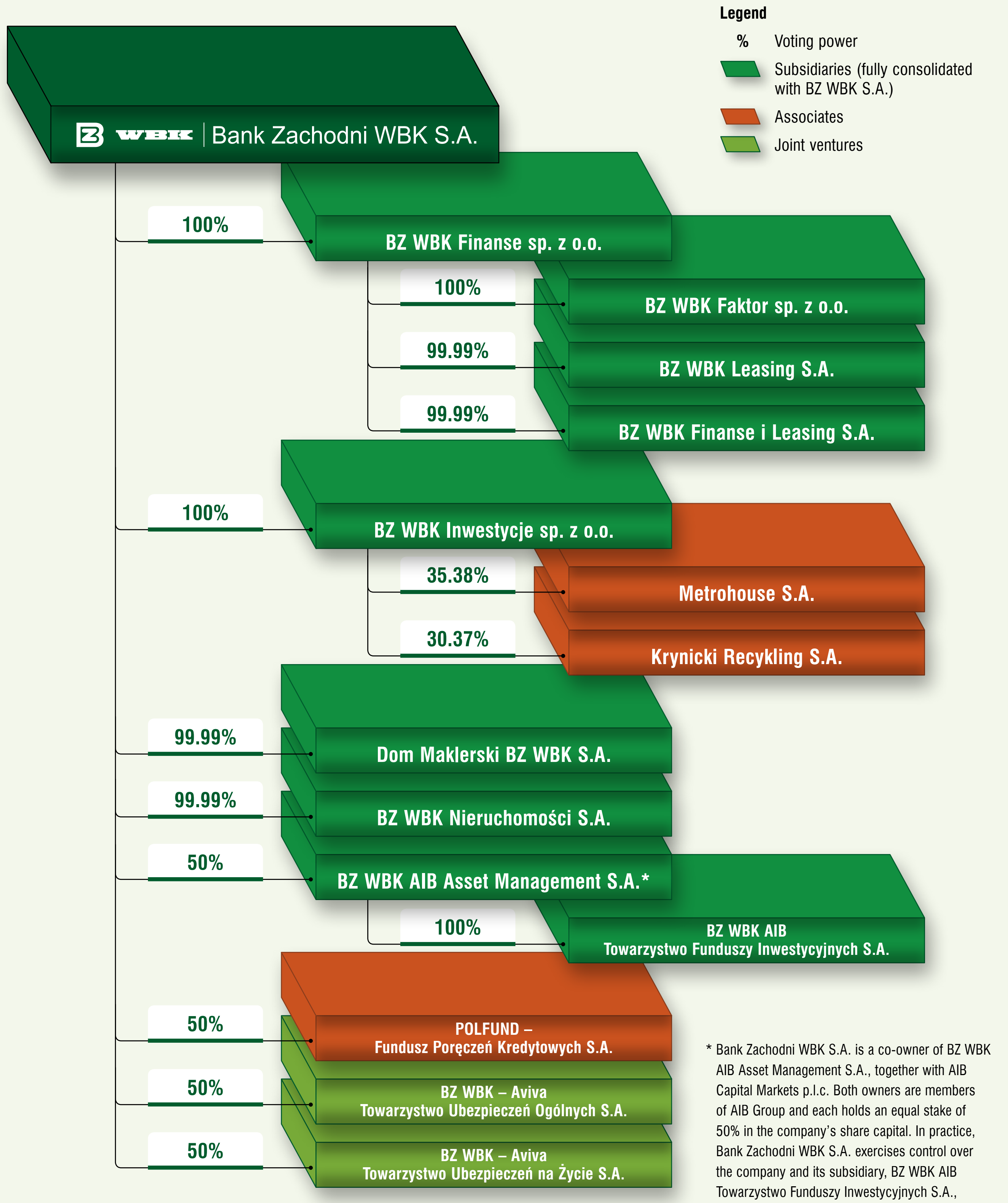
Associated Undertakings:

1) Krynicki Recykling S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2) Metrohouse S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
3) POLFUND – Fundusz Poręczeń Kredytowych S.A.

In addition to the joint ventures and POLFUND – Fundusz Poręczeń Kredytowych S.A., which is the bank's investment of long standing, the equity method approach is also used to account for Metrohouse S.A. and Krynicki Recykling S.A., the associates of BZ WBK Inwestycje Sp. z o.o. (bank's subsidiary). Both companies are classified as associates as the bank has a significant impact on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of "pre-IPO" investments.

As compared with the end of 2008, the list of associated undertakings has been extended by Krynicki Recykling S.A. In December 2008, BZ WBK Inwestycje Sp. z o.o. acquired 3.1 m newly issued shares of the company, representing 30.37% of the share capital. The capital increase was registered on 2 February 2009.

Organisational Chart of Bank Zachodni WBK Group



* Bank Zachodni WBK S.A. is a co-owner of BZ WBK AIB Asset Management S.A., together with AIB Capital Markets p.l.c. Both owners are members of AIB Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., because through its agency the ultimate parent (AIB) pursues its policy in Poland. Consequently, the company is treated as a subsidiary undertaking.

4. Other Equity Investments

As at 31 December 2009, Bank Zachodni WBK Group owned a shareholding higher than 5% in the following entities:

No.	Company	Share in the Share Capital	Voting Power at ATM
1.	Krajowa Izba Rozliczeniowa S.A.	11.48%	11.48%
2.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.	10%	10%
3.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10%	10%
4.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10%	10%
5.	Centrum Klima S.A.	9.91%	9.91%
6.	ARKA BZ WBK Fundusz Rynku Nieruchomości 2 Specjalistyczny FIZ	6.48%	–
7.	Gorzowski Rynek Hurtowy S.A.	5.70%	5.70%
8.	AWSA Holland II B.V.	5.44%	5.44%
9.	Biuro Informacji Kredytowej S.A.	5.14%	5.14%
10.	NFI Magna Polonia S.A.	5.06%	5.06%

III. Macroeconomic Environment in 2009

Economic Growth

After the recession that hit the world's major economies (GDP fall for 4 – 5 quarters in the euro-zone and the USA), the economy rebounded in the third quarter of 2009 due to fiscal and monetary stimulus packages. The serious economic downturn abroad had a strong adverse impact on the Polish economy. The economic growth in Poland decelerated strongly, but the decline was much smaller than in highly-developed countries and less severe than expected at the beginning of the year. According to the preliminary data of the Polish Central Statistical Office (GUS), the GDP growth in Poland slowed down to 1.7% y-o-y, which was the only positive figure among the other EU countries.

The figures for the whole of 2009 and the resulting estimates for the fourth quarter of 2009 (3% growth y-o-y) confirmed that the Polish economy is on a recovery path. Also, the structure of the GDP growth points to the relatively strong consumption demand and a minimal fall in investments. These are historical figures, though, and they in no way reduce the likelihood of a second wave of the global crisis, which is the key risk factor affecting the mid-term economic growth outlook for Poland.

Labour Market and Consumption

Private consumption weakened (to 2.3% y-o-y in 2009 compared with 5.9% y-o-y in 2008) due to negative changes in the labour market. As a result of a decrease in employment and the marked reduction in the average wage growth, the wage bill growth slowed substantially. On the other hand, social security benefits increased in 2009. In addition, the disposable income of households was positively affected by the changes in Personal Income Tax (PIT) and Value Added Tax (VAT).

Investments

According to the preliminary data of the GUS, the growth in gross fixed investments in 2009 was –0.3%, which was much above the pessimistic forecasts from the start of the year. The growth in investments was slightly below zero only in the second and the third quarter. At the same time, the bank's estimates indicate that the investment growth in the fourth quarter was positive at 1.5% y-o-y. This is associated with the strong activity in public investments supported by the EU funds, which amply compensated for the weak investment activity in the private sector.

Foreign Trade

2009 saw a rapid decline in foreign trade turnover. Based on the preliminary NBP data, the value of exports in euro fell by ca. 17% y-o-y while imports shrank by nearly 26%. The domestic exports was supported by the weak zloty. In zloty terms, exports increased almost by 2% y-o-y (+10.5% in the fourth quarter), while imports fell by 8.2% (–2.8% in the fourth quarter). The weaker domestic demand led to a deep fall in imports, ensuring a positive contribution of the net exports to the GDP growth (ca. 2.6% in 2009). The deeper fall in imports than in exports helped to reduce Poland's deficit in foreign trade and the balance of payments. The cumulated current account deficit relative to the GDP decreased to 1.5% at the year-end, compared with 5.1% in December 2008.

Inflation

After CPI inflation decreased to 2.8% y-o-y in January 2009, it was gradually rising in the subsequent months due to significant increases in the prices of fuel and energy and as a result of the significant weakening of the zloty observed until February 2009. Consequently, the CPI inflation increased to 4% y-o-y in April and then started to fall. Still, until August, the CPI inflation stayed above the upper limit of allowed fluctuations around the central bank target (3.5%). The last months of the year brought a decline of the CPI inflation below this level and a rebound to 3.5% y-o-y in December, amid a decrease in the annual growth rate of energy prices and an increase in the annual growth rate of fuel prices. The impact of the significant zloty depreciation on inflation in the first half of the year was partly offset by the strong deceleration in economic growth, while the zloty recovery in the second half of the year supported lower prices growth. The substantial weakening of the internal demand and reduction of the tensions in the labour market acted towards weakening of the inflationary pressures.

Interest Rates

In 2009, the Monetary Policy Council (MPC) reduced the main interest rates four times (all rate cuts in the first half of the year), by a total of 1.5 pp. The monetary policy easing was a response to substantial deterioration in economic growth prospects coupled with favourable mid-term inflation outlook. The substantial reduction in the central bank interest rates was followed by a decline in WIBOR rates – by 2.2 pp for 1-month period and 1.9 pp for 3-month and 12-month periods. However, the WIBOR rates did not reflect the true cost of money as the inter-bank money market was hardly liquid in 2009 The MPC also decided to reduce the reserve requirement rate by 50 bps to 3% in order to increase liquidity in the banking system and revive credit activity. The high short-term overliquidity of the banking sector resulted in significant decline of the O/N and T/N rates, which stayed below the reference rate.

Exchange Rates

The first months of 2009 saw a significant weakening of the zloty, triggered by a surge in risk aversion in international financial markets and investors' negative view of the markets in the Central and Eastern Europe, resulting from serious problems of some countries in the region (Baltic states, Hungary, Ukraine). However, towards the end of the first quarter the zloty began to recover as the risk appetite returned to the global markets and the foreign investors showed more interest in buying assets in the CEE region due to support of the financial stability of the countries in the region by international institutions. Until August, the zloty remained relatively stable, with the EUR/PLN rate fluctuating in range of 4.06 – 4.30. The gradual appreciation of the euro versus the dollar was accompanied by a decline in the USD/PLN rate. The dollar substantially recovered in the international markets at the end of the year, though despite reduction in the risky asset positions the zloty did not suffer much.

IV. Business Development in 2009

1. Review of Key Business Development Directions of Bank Zachodni WBK Group

In 2009, Bank Zachodni WBK Group continued to implement its strategy for the years 2009 – 2011, striving to be distinctive in the market by its customer proposition, service quality and by taking actions to improve its brand image and awareness. At the same time, the Group flexibly responded to the challenging environment, taking appropriate measures to sustain its deposit base and ensure security of its credit portfolio. Efforts were taken to reduce costs and mitigate risks in all areas of activity.

The most important areas of the Group's activity in 2009 are summarized below:

- Acquiring deposits by offering attractively structured savings and investments products.
- Encouraging the customers with "business potential" to deepen their relationship with the bank through individual contacts with advisors, CRM campaigns and other sales and promotional initiatives.
- Continuing extension of the range of personal accounts, current accounts and other products and services to better align the bank's proposition to the diverse customer needs.
- Amending the retail and business lending policy to maintain a high quality of credit exposures.
- Focusing credit delivery on active and loyal customers (sales campaigns/preferential prices).
- Tightening debt monitoring as part of credit risk management.
- Expanding the existing Business Banking Centres to bring the bank closer to a wider group of businesses and establish a quality relationship with them.
- Developing further the quality and number of key delivery channels and integrating them closer.
- Improving functionality and security features of e-banking and supporting development of safe internet transactions, contactless/prepaid cards and other innovative solutions.
- Enhancing continuously customer service quality, the bank's operating efficiency and streamlining procedures for customers.
- Controlling tightly operating costs, renegotiating contracts with suppliers and implementing gradually savings initiatives.

2. Business Development of Bank Zachodni WBK S.A.

2.1. Segmentation and Customer Relationship Management (CRM)

In Bank Zachodni WBK S.A. segmentation combines two approaches: income-based and socio-demographic one. The bank's retail segments include among others young customers (aged 13 – 30), active customers above 50 years of age, Prestige and VIP customers, while the business segments are as follows: micro, small, business and corporate (see Chapter XI, "Changes to the Organisation of Management" for more details). Against the background of the volatile social and economic situation, the bank analyses customers' propensity to buy and reviews its segmentation approach on a regular basis.

The bank's CRM practices are based on segmentation of the customer base and deploy two service models responding to different customer requirements for banking products and services.

The customers who use sophisticated products and expect customised service are approached proactively by the bank in order to better understand their needs and strengthen the relationship. Direct contact with a dedicated advisor allows for providing a tailored service, satisfaction of diverse needs and establishment of a relationship based on loyalty and trust.

Customers who require standardised products and services and focus mainly on time and effectiveness are serviced through electronic channels or the branch network in accordance with the highest quality standards.

The bank contacts both groups of customers through sales campaigns, using all available communications channels to enhance effectiveness of such initiatives. The number of customers who leave or reduce their business with the bank is tracked on an ongoing basis and actions are taken to minimise the attrition rate.

Proactive contact with customers, quality service and sales campaigns are supported by the IT infrastructure which is aligned with the information requirements resulting from segmentation and CRM.

In 2009, Bank Zachodni WBK S.A. focused on the strategy for the years 2009 – 2011 which aims at strengthening the bank's image as a dependable financial institution and on fostering the loyalty of its customers. Based on its experience, the bank developed and implemented "CRM Rules" which specify types and frequency of contacting retail and business customers via the main delivery channels (branches, Telephone and Electronic Sales Centre) during sales, information and service campaigns.

2.2. Retail Banking

Personal Loans

Bank Zachodni WBK S.A. offers personal customers a credit product range that is both comprehensive and competitively priced. The mortgage lending offer includes a home mortgage and equity release. Customers seeking current expense funding are offered cash loans (including loans secured with liquid assets), credit cards and overdrafts. The product proposition also consists of car loans, loans for the purchase of shares on the primary market and brokerage loans.

In 2009, amid deteriorating macroeconomic environment and growing credit risk, Bank Zachodni WBK S.A. aligned its consumer finance policy and proposition. The lending focus was on the existing customers and respective sales efforts were effectively supported with incentives for customers who actively used their current accounts and other facilities.

Predictable and stable policy of the bank translated into a growth of mortgage sales above the market rate. Due to the attractive customer proposition and sales strategies, cash loan sales increased considerably and so did the entire cash loan-book. More active use of credit cards was reflected in higher receivables under this business line.

Mortgage Loans
Due to the substantial volatility of the currency market and the high cost of acquiring funds from the money market, in March 2009 the bank ceased mortgage lending in foreign currencies (CHF, EUR, USD, GBP).

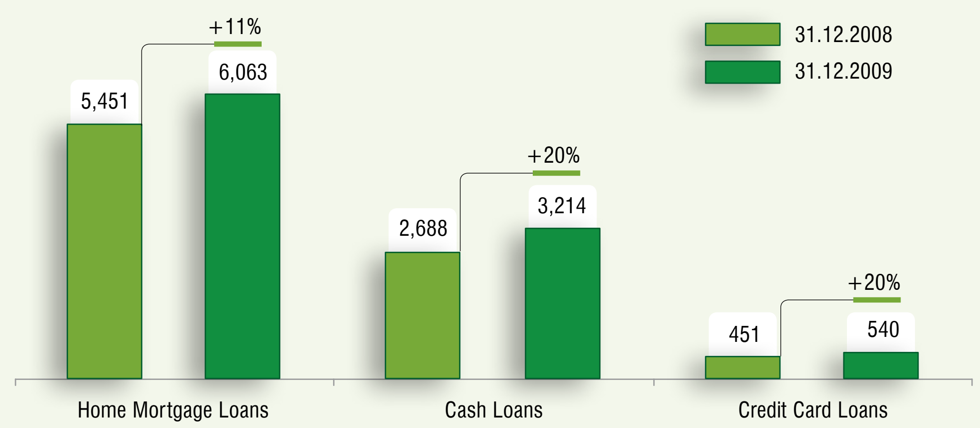
In 2009, the bank decided to join the government's programme of subsidised housing loans "Rodzina na swoim" ("Family in their First Home"). The programme aims at facilitating access to home mortgage loans for families (for the acquisition of apartments/houses) and at alleviating the consequences of the crisis in the residential construction industry. The new preferential loan has been delivered since September 2009 under the agreement with Bank Gospodarstwa Krajowego signed on 21 August 2009.

As a result of a revision of the bank's mortgage pricing policy, effective from 16 September 2009 a new pricing grid was implemented which differentiates prices quoted to individual customers dependent on the scope and quality of their relationship with the bank. Individual pricing provides for a number of incentives (including a promotional margin at 1.35 pp) for customers who actively use their accounts and products offered by the bank. In addition, customers can choose to repay their mortgage loans at a fixed interest rate applicable for closed 5-year periods.

According to Expander's rating for Gazeta Wyborcza (14 September 2009), the mortgage loan offered by the bank was the most competitive in the Polish market. This information was leveraged during the advertising campaign at the turn of October and November 2009 ("Najtańszy kredyt mieszkaniowy" (Cheapest Mortgage Loan).

Cash Loans
In 2009, Bank Zachodni WBK S.A. was shaping its cash loan policy, pricing and sales methods to accommodate the changing market environment. The sales campaigns were mainly targeted at the internal customer base and were structured as tailored credit proposals. The bank was able to offer competitive cash loan prices with its flexible individual pricing process whereby the interest rate was adjusted to the borrower's individual risk profile. In addition, the maximum available loan amounts were increased under the pre-sanctioning processes, based on observation of cash flows in individual accounts. Also, a uniform 5% fee was applied to all customers and distribution channels. The bank's proposition was recognised as one of the most attractive in the market, which is confirmed by the cash loan rankings (e.g. Expander's ranking published in *Polska The Times* on 13 May 2009).

Gross Personal Loans
in PLN m



In December 2009, the bank's credit offer was enriched with the car loan facility. The main advantages of the product are fast turnaround time and no requirement to indicate the vehicle at the application stage.

Personal Accounts

In line with its retail strategy, Bank Zachodni WBK S.A. offers a wide array of current accounts to satisfy diverse needs of its customers. The retail proposition includes standard, prestige and "tailored" accounts for individual customer segments as well as a unique Moneyback account whose holders get back 1% of what they have paid with their Moneyback cards.

In May 2009, the range of the bank's personal accounts was expanded to include the Konto Aktywni 50+, an account designed for persons above 50 years of age who comprise an increasingly numerous and demanding customer segment. The key features of the account include an attractive maintenance fee, Visa Electron Aktywni+ card and a "medical assistance" package providing, among others, doctors' help in urgent cases and discounts in selected pharmacies of the "Dbam o zdrowie" chain.

Since November the bank has offered Konto na Obcasach ("High-heeled Account"). It is the first account in Poland designed specifically for women. The account comes with a number of additional benefits for its holders, including refund of payments made with the accompanying card, a specialist insurance package (medical, car and home assistance) and discounts with a number of partner companies of the bank. The product was designed in response to needs voiced by women and came top in the ranking of bank accounts with features attractive for women which was organised by Comperia.pl. This account was also recognised with prestigious "Laur Klienta 2010" award in the "Discovery of 2009" category.

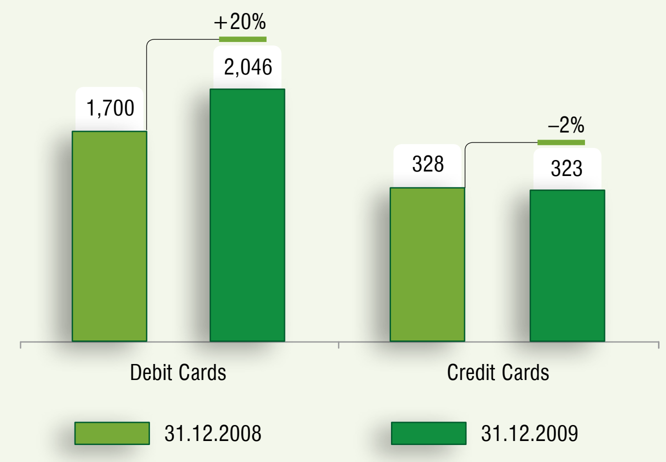
In 2009, Bank Zachodni WBK S.A. promoted the sale of its products and services to the Polish abroad by enabling the opening of USD and GBP accounts through e-applications. Other projects were also continued to improve remote availability of the bank's products and services to the customers staying abroad.

Since early 2009, the bank worked on solutions to facilitate transfer of personal accounts from other banks. In February 2009, procedures on notifying Tax Office and employers of changed account numbers were put in place. In October 2009, the bank was also first to lauch an e-Konwerter – a tool allowing customers to transfer beneficiaries of their payments to BZWBK24.

Payment Cards

The bank offers a wide array of credit, debit and pre-paid cards to meet the diverse needs of its customers. The bank issues payment cards of the two main organisations, i.e. Visa and MasterCard. The cards come with a chip to ensure the highest security of card transactions in accordance with the EMV standard (EuroPay, MasterCard, Visa). As a standard, cards linked to BZ WBK current accounts allow for cash-back service and secure on-line payments thanks to the 3D-Secure feature (transactions confirmed with a token or text messages).

Payment Cards
thousands



Debit Cards
In 2009, the bank upgraded its range of debit cards with three cards coming with newly opened accounts (two personal accounts and a savings account). They include the Maestro savings card attached to the "a la Lokata" Savings Account. The card was introduced as a feature that increases attractiveness of the bank's deposit offering and makes it distinctive in the Polish market. Another new product is the Visa Electron card "Aktywni 50+" coming with the personal account "Aktywni 50+" addressed to the persons above 50 years of age. The card provides its holders with extra benefits, including discounts in the "Dbam o zdrowie" pharmacy chain. The newest product is the "High-heeled" Visa card bundled with the "High-heeled Account", which facilitates contactless payments and provides a percentage of money back on all purchases.

In September 2009, Bank Zachodni WBK S.A. became the official partner of the PAYBACK Bonus Programme and introduced the MasterCard PAYBACK debit card. Card holders gain loyalty points on daily purchases (in store and online) that may be swapped for rewards under the multi-partner PAYBACK loyalty programme. The PAYBACK card is available in all distribution channels and it can be issued for any account offered by the bank.

Credit Cards
Having a rich and innovative credit cards proposition, in 2009 Bank Zachodni WBK S.A. focused on the issues connected with handling these instruments and activating credit card holders. Following the review of the personal lending policy, the bank raised the minimum requirements for the customers applying for a new card or card renewal. The functionality

of the BZWBK24 electronic banking system was upgraded to allow its users to manage their cards on their own, e.g. to activate their cards, set up or change the PIN, view the card blockade status or activate additional security features for on-line transactions using the 3D-Secure authentication technology.

In order to make the bank's credit card proposition more attractive for customers, the offer of Gold and Platinum cards was complemented with assistance (car, home and medical assistance in Poland), informational and concierge services.

Contactless Cards
The bank continued its strategy of development of contactless payments by increasing the volume of cards equipped with such a functionality. Debit cards, credit cards and pre-paid contactless cards issued by Bank Zachodni WBK S.A. operate in the PayPass technology and facilitate payments by simply waving the card in front of a secure reader. At the end of December 2009, the bank's customers held nearly 173 k contactless cards (including more than 120 k debit cards). The bank's efforts to expand its range of contactless cards and to promote contactless payments were recognised by the "Twój Styl" monthly which awarded the "Alicja 2008" prize to the bank in early 2009.

Pre-paid Cards
In 2009, the range of pre-paid cards was enhanced with the issue of cards with special graphics for seasonal occasions. Also, the bank introduced a pre-paid contactless card MasterCard PayPass and a pre-paid bearer card designed solely for making online payments.

The bank improved the sale of pre-paid cards in its branches and started distribution and after-sales service of the pre-paid cards through the Telephone and Electronic Sales Centre. Throughout the past year, the bank used its pre-paid cards in many sales and image-building campaigns.

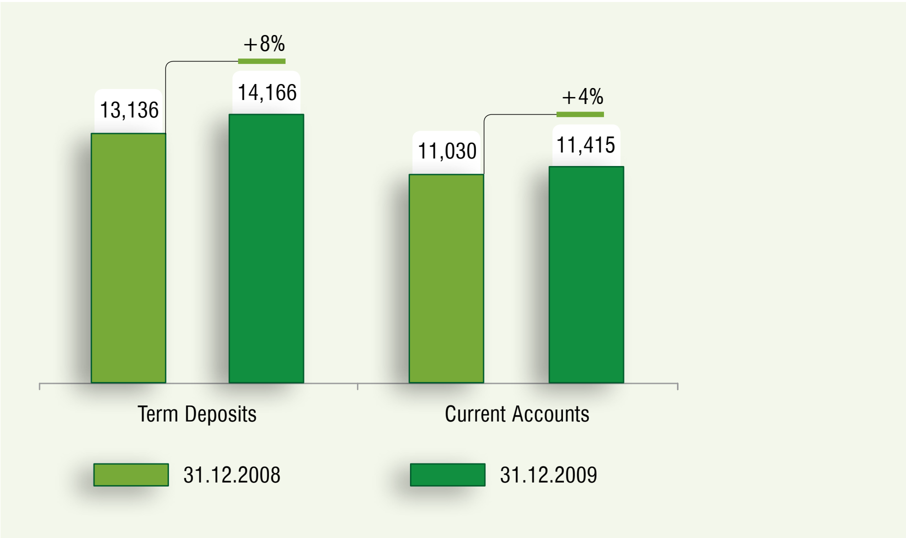
Deposit and Investment Products

The customers of Bank Zachodni WBK S.A. may diversify their savings in line with their individual preferences and investment objectives, being able to choose from a number of current and term deposits, savings accounts, mutual funds and structured products.

Deposit Products
In 2009, Bank Zachodni WBK S.A. was building its deposit base with the focus on term deposits in particular. In order to make its deposit offer more attractive and to gain new financial resources, the bank introduced several new products and launched wide-ranging marketing campaigns to support their sales.

9 February 2009 saw implementation of the "a la Lokata" Savings Account coming with Maestro savings card. Holders of the account enjoy an attractive interest rate and are free to use the funds without losing accrued interest. The account is available in all the sales channels: in branches, in the BZWBK24 Internet banking tool and via the on-line or phone-based e-application. The account is accompanied by the Maestro savings card which has all the features of a traditional Maestro debit card added to personal accounts.

Term Deposits and Current Accounts of Personal Customers
in PLN m



From 20 April to 19 June 2009, the bank was selling the "Account with a Lottery" – a 3-month deposit with the maximum interest rate of 5.5%. In addition to the attractive interest rate, the product offered an added value in the form of the chance to win the main lottery prize of PLN 2 m as well as additional prizes, including pre-paid cards and netbooks. The account with a lottery was supported by the campaign "Earn on your deposit and win PLN 2,000,000", including a series of TV commercials featuring the well-known actor Danny DeVito.

Another new product is the "Anti-Crisis Deposit" launched on 27 April 2009 for retail customers. This is a 12-month, non-renewable, attractively priced deposit with the deposit amount from PLN 3,000 to PLN 20,000, coming with an insurance against the loss of income source.

In early August 2009, the bank's deposit offer was expanded to include a new product "Easily Earning Deposit". This is a 4-month automatically renewable deposit that can be terminated before maturity without full loss of interest. The Easy Earning Deposit has become one of the most popular deposit products of Bank Zachodni WBK.

In the wake of initiatives delivered in 2009, the bank registered an appreciable y-o-y growth in term deposits from personal customers and kept the balance in current accounts at a similar level. This was achieved in spite of a fierce price competition on the Polish deposit market throughout most of 2009 and a strong growth trend on the Warsaw Stock Exchange which started in March.

Structured Products
For customers seeking profitable and safe investment instruments, in 2009, the bank introduced new structured products. These instruments ensure 100% capital protection at maturity and provide additional profit potential based on various investment strategies. The main items were as follows:

- the seventh issue of the Investment Policy;
- BZ WBK Platinium bonds;
- BZ WBK Platinium+ bonds;
- BZ WBK Nowa Era bonds;
- two issues of BZ WBK Infrastruktura+ bonds;
- three issues of WIG20 Profit bonds;
- TOP5 Profit bonds.

Apart from large-scale issues of structured products, the bank made special offers to VIP customers, which were available in the Personal Banking network via VIP Advisors. These products combined features of a traditional deposit and investment in the FX market.

Bank Zachodni WBK S.A. is one of the leaders of the Polish structured product market, in terms of the volume of sales to retail customers.

Mutual Funds
In 2009, the bank continued distribution of the open-end mutual funds Arka BZ WBK (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.), including the funds specialising in specific geographic markets and industries, such as Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIO (Arka CCE Equity Fund), Arka BZ WBK Rozwoju Nowej Europy FIO (Arka New Europe Development Fund) and Arka BZ WBK Energii FIO (Arka Energy Fund). The bank also launched sales of a new investment programme called "Moja Przyszłość" ("My Future") which offers long-term regular investments into all Arka funds in accordance with the investment strategy chosen by the client. In addition, a newly started InPlus BZ WBK Investment Programme was made available to customers. This is a new product developed in co-operation with BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A. that combines life assurance features with investments in 21 insurance equity funds with different risk and profitability profiles.

Advisory Programme

Throughout 2009, Bank Zachodni WBK S.A. worked on the Advisory Programme in order to develop and implement an advisory model for personal customer service with respect to savings and investment products. This initiative will be supported by an innovative IT system for analysis and evaluation of customer profiles and development of tailored asset portfolios. The new system will come with advanced analytical functionalities for the advisors. The application to support the investment advisory model will be fully integrated with the branch IT platform, in line with the general concept of a standardized and user-friendly IT environment in the branches. The advisors will undergo proper training to be able to render high quality customer service and use the system to its full potential. The bank intends to make the advisory service available to its best customers in 2010, in selected branches and organizational units.

Insurance Products

The bancassurance line was further developed throughout 2009. The bancassurance joint venture companies established in 2008 (i.e. BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.) worked with the bank on the development of modern insurance products, insurance-investment products and hedging instruments, and gradually extended their product offer. Other efforts covered effective distribution of products and development of the staff skills in the insurance area.

The Investment Policy prepared by the bank jointly with BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. was offered for subscription in late January/early February. The bank has also been the first Polish financial organisation to introduce a deposit combined with an unemployment insurance policy. A new investment-and-insurance product (InPlus BZ WBK) was brought to the market in August, which facilitates investments in a number of various funds (for more details on these products, see the "Deposit and Investment Product" section above). November saw the launch of a special insurance package addressed specifically to female customers, bundled with the "High-heeled account". This policy includes women's cancer cover as well as a comprehensive assistance package (health insurance, service package and assistance hotline for women). The "Payment Protection" insurance policy was introduced in December to provide a comprehensive cover against the risk of unemployment, temporary disability and a hospital treatment.

Loans for Micro, Small and Other Companies

Retail Banking Division of Bank Zachodni WBK S.A. is responsible for servicing the segment of micro and small companies, i.e. enterprises with an annual turnover up to PLN 30 m and a credit exposure up to PLN 3 m.

A comprehensive loan offer from Bank Zachodni WBK S.A. meets the current and long-term business financing requirements from micro, small and larger companies. Available facilities include overdrafts, working capital loans, merchant loans, revolving loans, investment loans, co-financing of EU projects, factoring and leasing. The item which differentiates the bank in the market is the universal Business Express loan extended to micro, small and business enterprises (SME sector) within 24 hours from submission of a complete application. This facility may be allocated to any business purpose. The bank's competitive edge is based on prompt and simplified credit delivery process in respect of borrowers whose total exposure with the bank does not exceed PLN 200k. The borrowers may also obtain an additional security cover in the form of a credit guarantee from Polfund S.A. which maintains a working relationship with the bank.

In 2009, the bank's credit delivery focused on periodic sales campaigns targeted at the existing business customers. Tailored credit offers were prepared on the basis of account history analysis and prospective borrowers were notified of the sanctioned pre-limit. This procedure enabled the customers to make an effective draw-down within 24 hours from placing a credit application.

Current Accounts, Deposits and Account-Related Products for Micro, Small and Other Companies

Current Accounts

On 1 March 2009, Bank Zachodni WBK S.A. introduced three Business Packages (Minimum, Optimum and Maximum) into its offer targeted at business customers. The available account options differ in terms of the account maintenance fee and transaction processing charges. Each package includes a current account, Visa Business Electron payment card and Internet services. With this solution, the Bank can better align the products and prices to the customer's requirements and scale of business. The main advantages of these packages are: constant access to funds in the account, possibility to process transactions 24h/7 (via Moja Fima Plus and BZWBK24 e-banking platforms) and assistance from the customer advisor.

The bank has also prepared a new offer for non-governmental organisations. It includes preferential maintenance terms for the current account, placement of transfer orders as well as account lodgments and withdrawals.

The bank launched a dedicated sales-and-information hotline for prospective and current customers from the small and micro company segment, supported by the Telephone and Electronic Sales Centre (T&ESC). The customers may also use the new channel to gain information as well as open current accounts (as part of the Business Package offer) via e-Wniosek. Under this procedure, the account agreement is signed in the branch or at the customer's site. In line with the strategy of enhancing the cross-channel integration, T&ESC will be acquiring product and service applications from prospective business customers and refer these clients to dedicated specialists in branches.

Account-Related Products and Services

As regards cards for business customers, the bank focused on the growth of sales. The delivered initiatives included a mailing campaign targeted at current account holders without a debit card, promoting the Visa Business Electron card.

In 2009, the bank extended the scope of additional services provided to business customers in cooperation with external partners. Apart from web-based accounting and hosting services (provision of servers, development of internet portals, etc.), customers were offered remote access to the Internet, special prices for mobile phone subscription and hand-sets, car leasing products and the option to purchase notebooks with an installed operating system and ensured maintenance service.

Moreover, Bank Zachodni WBK S.A. launched a community portal www.superfirmy.pl where the business customers may share knowledge and experience. Another objective was to promote the bank's solutions, products and services addressed to enterprises.

Deposits

In 2009, the bank introduced Business Impet term deposits for business customers (available both in the branches and via the Internet). Apart from standard term deposits (Business Impet and short-term deposits) denominated in PLN and FX, customers may also avail of negotiable term deposits where the interest rate depends on the amount and maturity of the product.

Training Initiatives

The bank's initiatives delivered under the corporate responsibility policy include EU co-financed educational programmes for small and micro enterprises. In 2009, Bank Zachodni WBK S.A. finalized the first edition of the programmes in the Pomorskie province and launched a consecutive one in the Kujawsko-Pomorskie province. Both consists of a series of workshops on topics in the area of economics, finance and law and will cover a total of 720 enterprises.

2.3. Business and Corporate Banking

Business Banking

In April 2009, a network of Business Banking Centres was established from the former structures with a purpose to pursue the bank's comprehensive services strategy in respect of business customers with an annual turnover between PLN 30 m and PLN 150 m and credit exposure below PLN 15 m. According to the adopted operating model, the centres are designed to manage the relationship with eligible customers supported by specialists from a variety of the bank's business lines. This approach ensures high service quality through direct interaction between the advisor and the customer, and the fast decision-making process enabled by the substantial credit discretions vested in the centres. It is the key feature of the Bank Zachodni WBK S.A. Business Banking Centres that the credit decision makers and the staff selling leasing or factoring facilities are based locally.

The Business Banking Centres offer diversified financial solutions, including working capital and project finance as well as operational support at any business activity stage. In addition to loans, guarantees, factoring and leasing products, the business customers may also avail of deposit and investment products (including overnight and negotiable deposits), trade finance and treasury transactions. With the transactional banking tools (BZWBK24 or Moja Firma Plus) as well as the alternative PC-banking Minibank24, they also have access to the solutions which facilitate mass transfers, standing orders, direct debits/credits and electronic identification of receivables.

Apart from day-to-day operating activity, most of 2009 was devoted to organisation and development of the Banking Centres, business re-orientation and consolidation of portfolios as a result of modified segmentation criteria. Also, marketing actions were launched to make the existing and new customers aware of the bank's new structure and business opportunities.

Corporate Banking

The services offered to corporate customers include a wide array of credit facilities ranging from working capital to long-term asset financing to meet general expansion needs, acquisition (leveraged buy-outs) and project finance. The bank also provides a broad range of deposit, Treasury and cash management products, including FX and interest rate management products, international trade finance, cash pooling, mass payments, electronic banking and others. In liaison with its subsidiaries, the bank also offers specialised services, including brokerage, equity and asset management services as well as leasing and factoring. In addition, the Bank Zachodni WBK S.A. branch network offers special incentive packages for staff of corporate customers.

The bank's corporate lending strategy is to actively support business development of the existing customers and to establish relations with new customers who have a strong market position and robust business strategy. Due to the deteriorating macroeconomic situation, in 2009 the bank operated a conservative credit policy focusing on providing finance to its existing, well-performing business customers and supporting the safest projects. With such an approach, the bank was able to maintain the good quality of its credit portfolio.

2.4. Investment Banking

Advisory Services

In 2009, Bank Zachodni WBK S.A., in liaison with Dom Maklerski BZ WBK S.A., acted as an advisor in the following initiatives:

- secondary public offering of series G shares of PBG S.A. with a value of PLN 190 m through an increase of share capital;
- private placement of the shares of Tesgas S.A. with a value of PLN 9 m through an increase of share capital (shares to be traded at the alternative stock exchange market NewConnect).

Also, together with Dom Maklerski BZ WBK S.A. – the bank became an advisor for Polish Railways (in a syndicate with McKinsey & Company and the law firm Weil Gotshal & Manges) in the process of restructure and privatisation of PKP Cargo, a railway carrier.

The bank also rendered analytical and advisory services on public offerings, mergers and acquisitions, and provided financial advice to:

- Nafta Polska S.A. (as part of a syndicate of advisors with Raiffeisen Investment AG, Raiffeisen Investment Polska and Lazard & Co. Limited) in the sale of shares of Ciech S.A., Zakłady Azotowe S.A. and ZAK S.A.;
- Petrobaltic S.A. – valuation of the group of companies for the purpose of contribution by the State Treasury of a 30% shareholding in Petrobaltic S.A. to Lotos S.A.

Arrangement of Debt Securities Issues

In 2009, Bank Zachodni WBK S.A. arranged the issue of non-treasury securities for 9 entities with a total value of PLN 405.6 m. These issues were taken up by the entities indicated by the issuers. At the request of a corporate client, PLN 14 m worth of bonds were issued as part of the issue programme arranged by the bank with a maximum value of PLN 15 m.

In 2009, the total value of the agreements for the issue of non-Treasury securities amounted to PLN 205.5 m.

Equity Portfolio Management

In order to increase share capital in BZ WBK Finanse Sp. z o.o., in February 2009 the bank contributed to the company all its holdings in the shares of BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o., while in March all its shareholdings in BZ WBK Finanse & Leasing S.A. The capital increase was registered by the court in May 2009.

In March 2009, the bank sold all its 100,800 shares in MTS-CeTO S.A. The transaction generated a profit of PLN 0.3 m.

In May 2009, the bank acquired 122 registered ordinary shares of the new issue (series F) of Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. (renamed to Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. on 1 June 2009) with a nominal share value of PLN 2,000 and the issue price of PLN 20,000. Furthermore, in June 2009 – under the new issue of shares of Aviva TUO S.A. – the bank made a subscription for 123 registered shares of series H and paid them up. The nominal value per share was PLN 2,000 with the issue price at PLN 20,000. The share capital increase was registered by the District Court in the National Court Register (KRS) in the third quarter of 2009. The bank's stake in the company's share capital remained unchanged at 10%.

In June, the bank sold all its 2,797 shares in MasterCard Inc., achieving a profit of PLN 1.5 m.

In September 2009, Bank Zachodni WBK S.A. sold its 19,142 VISA Inc. shares for USD 70.735 per share. The profit from the transaction was PLN 1.5 m.

2.5. Treasury

Despite the challenging external environment, 2009 witnessed continued strong Treasury performance, particularly on wholesale markets.

Wholesale markets activity reported very strong gains, primarily through strategic interest rate positions taken in anticipation of lowering PLN interest rates. The continued reduction in interest rates has supported the strong accrual from these positions. In addition, proprietary trading activities have performed very well, producing exceptional and consistent returns from interest rate and FX trading activity in what were quite volatile markets.

The bank's Treasury Services business held up robustly despite the downturn in economic activity and the impact this had on the client base. Appropriate and prudent fair value adjustments have been made for contracts with clients who experienced difficulties in the earlier part of 2009 and since the end of Q2 the bank has seen a steady improvement in the client portfolio, supported by a more stable and stronger zloty and a gradual improvement in the trading outlook for many clients. Towards the end of 2009, the Treasury Services business was reorganised so as to be more closely aligned to the structure of the Business Banking activity. This is believed to support an enhanced service approach to the existing client base and to optimise the bank's ability to attract business from new clients.

Treasury has responsibility for the day-to-day funding and liquidity management of the Group Balance Sheet. Conditions, particularly in FX funding eased somewhat in the second half-year from what were extremely difficult conditions in the first quarter. However, market conditions remain somewhat fragile and therefore there continues to be a concentrated focus on managing the balance sheet conservatively in this period. As is evident in a customer loan/deposit ratio of 84% at the year-end and the holding of a large portfolio of high quality Polish Government Bonds, the bank continues to maintain a conservative liquidity and funding position that provides sufficient contingency against a liquidity shock.

2.6. Electronic Services to Financial Institutions

Bank Zachodni WBK S.A. is one of the biggest service providers for banks and financial institutions with regard to payments, cash processing, card issuance/handling and ATM management. Using its own experience, the bank enhances its products and functionalities to suit the requirements of its customers. The bank proposes and implements innovative solutions, including the technologies that meet the requirements of MasterCard, Visa and SEPA standards. The bank's partners are offered a modern IT infrastructure and a real-time access to transaction data as well as the high quality and security of stripe and chip cards, confirmed by the certifications obtained from payment organisations.

As a result of the successful acquisition activities, the bank has gradually expanded its card and ATM services to financial institutions. In 2009, agreements were signed with new partners for the provision of access to the bank' s ATM network and card services, including services for contactless cards. In addition, the bank implemented a new service – intermediation in card purchases for the institutions co-operating with Bank Zachodni WBK S.A. which aims to optimise the costs involved.

At the end of December 2009, Bank Zachodni WBK S.A. maintained business relations with more than 20 banks and financial institutions, handling 3.7 m of third party cards and a network of approximately 1,300 ATMs of third party institutions.

2.7. International Settlements

Payment Services

International Payment Orders

In March 2009, Bank Zachodni WBK S.A. expanded its product range with urgent and express payment orders in PLN. Currently, fast transfers can be made in EUR, USD, GBP and PLN.

In July 2009, the bank joined SEPA (Single Euro Payments Area), the paneuropean system that allows it to receive payments in favour of its own customers and those of third party banks for whom the bank acts as an intermediary via the domestic Euroelixir system. As in the case of standard payment orders, Bank Zachodni WBK S.A. does not charge fees for SEPA payments received to the credit of its customers' accounts, which makes the bank distinctive against competitors.

To meet the needs of other banks and its own customers who send EUR payments in large numbers, the bank implemented a solution that will allow the dispatch of SEPA payments through SFT (Secure File Transfer) using similar rules to those governing the settlement of Mass Direct Debits. Projects were also launched to support outgoing SEPA payments in electronic channels (BZWBK24 and Minibank24) and the bank's branch network.

With constant improvement of the clearing processes, the payment messages generated by the bank have been for many years characterised by high quality, which reduces the related costs. The efficient organisation of the payment handling process and the high quality of customer service is best proven by the bank being placed among the institutions that comply with the ISO 9001-2000 standard for international payment orders. This is additionally confirmed by the regular awards received from the key EUR and USD correspondents for the high STP (Straight Through Processing) rate of its SWIFT messages.

Western Union

The bank continues to provide Wester Union transfer services through its branch network or through subagents. At the end of 2009, the bank co-operated with 43 agents who operated a total of 109 outlets.

In October a special web site was launched (www.westernunion.bzwbk.pl) to promote Bank Zachodni WBK S.A. as the Western Union agent.

In December 2009, the users of the Western Union transfers were offered a loyalty programme with a pre-paid card dedicated to the Western Union customers.

Cash Lodgements to the Accounts in Bank Zachodni WBK S.A.

The bank uses a network of foreign agents (in the UK, Ireland and Holland) to accept and send cash transfers to PLN accounts in Poland.

In May 2009, the bank implemented the Transcash service, i.e. cheap transfers from the UK to Poland. By means of Transcash, customers may send funds from the British post offices to a PLN or FX account in Bank Zachodni WBK S.A. using special forms ordered via the contact centre (Infolinia) and obtained by post.

Trade Finance

Bank Zachodni WBK S.A. offers a wide range of products for the settlement and funding of international trade transactions. The bank also has an extensive network of correspondent banks, which ensures smooth and cost-effective completion of transactions. The bank's pricing offer remains competitive, particularly with regard to documentary transactions and settlement of international cheques.

The constant improvement and innovation of transaction processing helps to maintain high level of customer satisfaction. The bank's dedication to the highest service standards is confirmed by the certified Management System (ISO 9001:2000), covering documentary transactions and cheques.

Due to the global economic crisis, in 2009 the value of documentary transactions decreased by 22%. Despite the adverse external environment, an increase was noted in the value of exports collections and the non-recourse cheques cashed by 44% and 31%, respectively.

3. Development of Distribution Channels in Bank Zachodni WBK S.A.

Traditional and Specialised Channels of Distribution

Branch Network

In 2009, Bank Zachodni WBK S.A. launched 11 branches, closed 4 outlets and moved 7 others to their new locations. Consequently, on 31 December 2009 the bank's branch network consisted of 512 branches and was the third biggest in Poland.

As a result of the rapid expansion of the bank's branch network in 2007 – 2008, it spans nationwide with the heaviest concentration of branches in the Poznań Region, the Lower and Upper Silesia, the Warsaw Region and other major cities in Poland. Last year, the major development activity focused on Warsaw, Kraków and Łódź. Projects are underway to open several new branches in 2010.

In 2009, more than twenty branches were modernised to improve customer service standards and create dedicated services areas for selected customer groups. Efforts were also continued to upgrade the infrastructure, including the implementation of new solutions aimed at the cash service optimisation.

Last year the bank completed the first two stages of the strategic programme New Branch Front-End which is implemented across the branch network. The programme aims to provide the staff at branches with an integrated IT platform that will replace the several existing systems and will improve customer service. The New Front End will support CRM, sales, product service, scoring and many other processes. The first two stages covered the functionality connected with customer information quality and SME lending.

Integration of Mobile Sales with the Branch Network

As part of the Multi-Channel Integration project, in 2009 the Financial Advisors from the Mobile Sales structures were allocated to co-operation with the Branch Network and became involved in the branch sales processes.

Mobile Banking services are still mainly addressed to the external customers acquired through individual and group meetings. The Financial Advisors also manage customer requests received via the bank's website. Such sales are closed in the branch, which then becomes responsible for further relations with the customer. In 2009, the range of products available in the Mobile Sales channel was expanded, and now includes: cash loan, credit card, personal account, overdraft, savings account, business packages and SME finance.

At the end of December 2009, the bank offered services through 200 Financial Advisors.

Private Banking

Private Banking is a channel that focuses on high net worth individuals. Private Banking offices operate in Warsaw, Poznań and Wrocław. Customers are serviced by two-person specialist teams, frequently outside of the bank premises. The channel specialises in the sale of savings and investment products. A key feature in the bank's investment offering are structured products of the bank and other financial institutions addressed to selected customers. Another key product is an umbrella of Luxembourg funds which allow affluent customers to invest into closed-end funds whose pricing compares favourably with the proposition available in Poland. The range of available products also includes tailor-made investment and financial solutions. The Private Banking customers can use a dedicated IT platform with passive access to their investment portfolio.

Personal Banking

Other affluent customers are referred to the Personal Banking channel. In 2009, Bank Zachodni WBK S.A. introduced a new Personal Banking model to provide tailored service – within the branch structure – to the possibly widest population of VIP customers. The number of VIP advisors was increased and their responsibilities were expanded to include the outlets reporting to the branches in which they are employed. In addition, the incentive scheme and the management information system have been upgraded to improve the work of the VIP advisors with regard to service quality and relationship building. The range of products addressed to the VIP customers has been expanded and individual investment solutions were introduced to allow customers to diversify the risks attaching to their savings.

Business & Corporate Banking Centres

At the beginning of 2009, the bank restructured and expanded its business service model.

The number of Business Banking Centres increased to 15 units located in the key economic centres of Poland (compared with 8 Business Centres as at 31 December 2008). Their role is to provide a comprehensive service to business customers, offering them efficient credit delivery through highly qualified and skilled personnel.

Corporate customers are managed by dedicated Corporate Business Centres in Warsaw, Poznań and Wrocław. The Warsaw Centre also has departments responsible for preparation of customised structured finance.

Both the Business Banking Centres and Corporate Business Centres operate under the bank's Customer Relationship Management model, whereby a corporate customer's designated relationship manager controls the credit process and has overall responsibility for managing other areas of the relationship.

Electronic Distribution Channels

BZWBK24

The BZWBK24 electronic banking system which gradually evolves into a multi-functional "virtual branch" has become increasingly important as a delivery channel. Its functionality includes opening of savings accounts and deposits, buying Arka fund units, obtaining information on the credit limits available under the simplified procedure as well as the possibility to top up GSM mobiles and actively support debit cards.

The bank ensures the highest security of electronic services by having transactions authorized through the text message (smsKod) or token while access to BZWBK24 Internet is safeguarded by a masked password. Besides, customers can monitor the IP addresses that are used for logging onto BZWBK24 and secure their Internet-based transactions with the 3-D Secure technology (confirming payments by means of smsKod or token).

In January 2009, the bank implemented the framework agreement called "Electronic Services Agreement", which allowed the BZWBK24 users to enter into online contracts for selected banking products without having to visit a branch. This solution is the basis of the automatic sales process in the new BZWBK24 electronic banking application available to users since October 2009. The new version of the application offers a "buy by click" functionality (no need to sign and return banking documents), facilitates personal data management and provides customers with information on credit cards, loan repayment schedules and other items. The bank has also refreshed the look of the application, made it more ergonomic and secure, and optimised the order placing process.

The new application is an important communication platform between the bank and customers. It allows the bank to direct personalised messages to the users, initiate cross-sell proposals and encourage customers to strengthen their relationship with the bank. In 2009, the bank used the tools available under BZWBK24 service in the campaigns aimed to promote loans for selected customer groups, protect the bank's deposit base and activate customers to make card and electronic payments or top up their mobiles.

Telephone and Electronic Sales Centre

The Telephone and Electronic Sales Centre (CSTiE) is responsible for direct sales, primarily through active sales campaigns with CRM and cross-selling objectives. In 2009, the campaigns focused on credit cards, cash loans, personal overdrafts, personal accounts, insurance and products for SMEs. Products were offered via the contact centre line and on-line. During customer service, cross-selling and up-selling opportunities were sought. Product sale initiated by the CSTiE or through the customer's online application is closed in a Bank Zachodni WBK S.A. branch chosen by the customer, or via courier.

To expand direct banking, 2009 saw implementation of the initiatives that optimised the sales process in the customer-facing environment. New tools were put in place (e.g. SMS channel and chat) to increase the activity of the existing customers and to acquire new ones.

ATMs

Bank Zachodni WBK S.A. also has a wide-ranging network of ATMs in convenient and most frequented locations. As at 31 December 2009, the ATM network of Bank Zachodni WBK S.A. comprised 1,042 machines, i.e. 38 more than 12 months before. All the machines complied with the technical requirements of the EMV (Europay, MasterCard, Visa) standard for microchip cards.

August 2009 saw implementation of the Dynamic Currency Converter in the entire Bank Zachodni WBK S.A. ATM network. With this innovative solution funds withdrawn by third party banks' customers from GBP, EUR or USD accounts are immediately converted into PLN with an indication of the exchange rate and debit amount.

In September 2009, the ATMs were equipped with the latest software to support implementation of new services and improve security of the transactions. All the machines had the RKL (Remote Key Loading) service implemented to eliminate the manual loading of ATM encryption keys. This ensures remote and easy replacement of keys, increases security and reduces workload. In addition, 350 anti-skimming devices were installed, and a number of ATM bunkers were equipped with centrally-managed combination locks. Audits conducted last year confirmed the quality certificates awarded to the bank for its ATM network.

External Distribution Channels

Bank Zachodni WBK Partner – Agency Outlets Network

At the end of December 2009, the bank's agency network consisted of 89 outlets compared with the 56 outlets operating a year before. To enhance the profile of this network and to improve its market position, the bank's Management Board decided to give its own brand support and rename it to "Bank Zachodni WBK Partner" (previously "Minibank"). The rebranding process started in November 2008 and was completed in April 2009 across the network.

The agency outlets provide customers with an increasing range of banking products and services. In 2009, their customer proposition was expanded to include the standard cash loan, retail deposits, credit cards, personal accounts (BZWBK24, BZWBK24 Prestige, Account<30, Moneyback Account, Active 50+, High-Heeled Account) and electronic banking services. The agents also accept cash lodgements (including Western Union transfers) and act as intermediaries in the sale of home and business loans. The pace of development of the agency outlets is going to be maintained.

4. Business Development of the Subsidiaries of Bank Zachodni WBK S.A.

Dom Maklerski BZ WBK S.A.

In January and February 2009 share prices suffered severe cuts followed by sudden increases in March, which continued until the year-end. In this volatile environment, the total annual stock trading increased by 7.2% y-o-y.

The stock trading by Dom Maklerski BZ WBK S.A. (BZ WBK Brokerage House) followed the market trend, increasing by 7.1% y-o-y to PLN 39.1 bn. With this performance the company maintained its 11% market share and advanced to the second position in Poland.

In the secondary market, the company arranged placements of Pekao shares belonging to LOT (offer worth PLN 127 m), and shares of Bank Zachodni WBK S.A. (offer worth PLN 170 m) and Cersanit (offer worth PLN 45 m) belonging to the State Treasury.

In the futures market, which is the second most important stock market in Poland, Dom Maklerski BZ WBK S.A. acted as an agent for concluding 3,355 k transactions. This is an 18% increase y-o-y, which secures the company the third position in Poland and a market share of 12.5% (+0.85 pp y-o-y). The growth is attributable, among others, to a more attractive offer and pricing.

Last year, Dom Maklerski BZ WBK S.A. offered its customers a number of new structured bonds: Platinium, Platinium+, Nowa Era, Infrastruktura+, Nowa Infrastruktura+, WIG20 Profit, WIG20 Profit 2, WIG20 Profit3 oraz TOP 5 Profit. The total value of bonds sold in 2009 was PLN 320 m. In addition, the brokerage house carried out 3 public offers of shares (PBG, Kopex, Tesgas) in the primary market as the arranger (acquiring PLN 356 m) and participated in 4 syndicated share offers (Aplisens, Delko, Bogdanka, PGE) in the secondary market of (acquiring PLN 110 m). Dom Maklerski BZ WBK S.A. also procured subscriptions for 16 offers of shares with subscription rights (of which the most important was PKO BP offer with PLN 92 m raised).

In 2009, the brokerage house upheld its top position as an issuers' liquidity trader (50 companies) and came second as a market maker (41 companies). In terms of turnover value, Dom Maklerski BZ WBK S.A. ranked third (fourth in 2008) as a market maker in the equity market and fourth in the futures market (the same position as in 2008).

In 2009, Dom Maklerski BZ WBK S.A. processed over 97% of the retail customers trading on the equity and 99% on the futures market of the Warsaw Stock Exchange via remote channels, mainly the Internet and phone.

According to Forbes' ranking (10/2009) of brokerage houses, based on a survey of mutual funds corporations and open pension funds, Dom Maklerski BZ WBK S.A. was second in terms of the quality of service for business customers.

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

March 2009 saw reversal of the downward trend in the world's stock markets and, after 15 months, brought the first increase in the value of assets managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK AIB Mutual Fund Corporation). The situation was gradually improving over the subsequent months and at the end of December 2009 net assets under management totalled PLN 10,497.6 m, an increase of 25.3% y-o-y. This volume of assets secured the company the second position in the Polish mutual funds market with a share of 11.2% (11.3% at the end of December 2008).

In 2009, customers were mainly interested in equity funds, particularly Arka BZ WBK Akcji FIO (Arka Equity Fund), which attracted more than 50% of the funds invested by customers into Arka and Lukas funds in that period. Last year also saw a change in the structure of assets. The contribution of equity, balanced and stable growth funds to total net assets increased to 81% from 71% in 2008.

On 17 August 2009, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. started a new investment programme called "My Future", which offers long-term regular investments into all Arka funds in accordance with the investment strategy chosen by the client. The product replaced the "Secure Pension" programme.

In co-operation with Wola Info, the company implemented the Eden Bis system, which is used for importing and verifying the customer data received from the transfer agent. The system also has a reporting and order simulation module. Live implementation took place in April 2009. With its extensive analytical functions, the tool helps the company improve its customer service quality.

Like in the previous years, in 2009, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. achieved excellent results in asset management, often coming first in the mutual fund rankings published by e.g. Gazeta Giełdy Parkiet and Gazeta Prawna. In the 2009 summary ranking of asset management professionals and mutual funds, Puls Biznesu (7 January 2010) gave the first position to the manager of Arka BZ WBK Środkowej i Wschodniej Europy FIO (CEE Equity Fund) with an increase in value over the year of 86.8% and BZ WBK Rozwoju Nowej Europy FIO (New Europe Development Fund) was recognized as the best mutual fund with a 91% increase in value over the year.

BZ WBK AIB Asset Management S.A.

As at 31 December 2009, the value of the assets in the private portfolios managed by BZ WBK AIB Asset Management was PLN 1,939.6 m, an increase of 31% y-o-y. The changes in the asset volume and structure reflect developments in the capital markets. Compared with the portfolio structure at end of December 2008, there was a material increase in the share of equity-based investments and concurrent decrease in the contribution of stable growth portfolios.

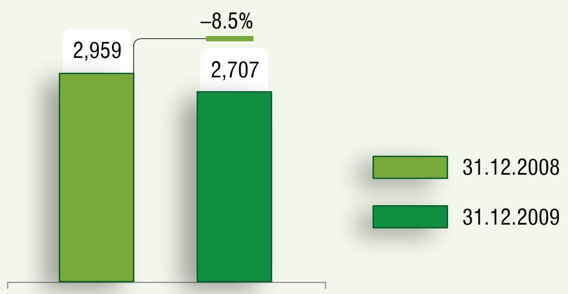
BZ WBK Inwestycje Sp. z o.o.

In 2009, the company kept building its proprietary trading portfolio and searching for investors interested in buying its shareholdings.

On 6 January 2009, Centrum Klima S.A. made a debut on the Warsaw Stock Exchange. The company was second in the history of WSE to change markets and move from the alternative NewConnect to the WSE main floor. This move was in line with the company's development strategy.

On 9 February 2009, the Management Board of Krynicki Recykling S.A., waste glass recycler, announced that the Regional Court in Olsztyn registered the increase in the company's share capital through the issue of 3,076,852 ordinary bearer shares, series D. The shares were acquired by BZ WBK

Gross financial lease receivables of the BZ WBK Group
in PLN m



Inwestycje S.A.. In effect, the subsidiary of Bank Zachodni WBK S.A. became a significant shareholder of Krynicki Recykling S.A. with a stake of 30.37%. The investment is a part of the process of building the pre-IPO investments portfolio, which now includes the shares of Centrum Klima S.A. (producer and distributor of air conditioning and ventilation equipment) and Metrohouse S.A. (real estate agency).

BZ WBK Finanse Sp. z o.o.

In December 2008, the bank established a new subsidiary named BZ WBK Finanse Sp. z o.o. and acquired 100% stake in it. This is a holding company designed to centrally manage the bank's subsidiaries active in the business banking segment, namely: BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o.

In the first quarter of 2009, the bank increased the share capital in its subsidiary BZ WBK Finanse Sp. z o.o. The new stock was paid up by contributing to the company all the bank's holdings in the shares of BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o. The transfer of ownership of these shares results from reorganisation of the management processes within the Group.

BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A.

The leasing companies of Bank Zachodni WBK, namely BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A., offer a wide range of fixed asset funding facilities. With capital support from the bank, they are able to cope with various challenges related to project finance.

The companies operate within their specialist areas. The main focus of BZ WBK Finanse & Leasing S.A. is on the lease of machines and equipment, real estate, computers and office equipment to businesses. This is complemented with an offer targeted at selected professions. BZ WBK Leasing S.A. leases vehicles to business and personal customers.

The offering comes with a wide array of insurance products offered in liaison with the leading insurers. In 2009, it was expanded with new insurance products from Towarzystwo Ubezpieczeń Wzajemnych Concordia Wielkopolska S.A. and Towarzystwo Ubezpieczeń na Życie Cardif Polska S.A.

In September 2009, BZ WBK Finanse & Leasing S.A. and Bank Zachodni WBK S.A. expanded their product range with Hi-Tech Leasing, an innovative product in Poland that allows corporate clients to finance specialist IT equipment and state-of-the-art technology. Hi-Tech Leasing is offered in co-operation with Commonwealth Bank of Australia/Equigroup.

In response to the deteriorating market, in 2009 the leasing companies focused on improving sales via the existing channels (130 Leasing Advisors in 68 Regional Offices and intermediary of more than 500 Bank Zachodni WBK S.A. branches) and raising the quality of service. Risk assessment procedures and processes were enhanced with a view to ensuring better security of transactions.

Bank Zachodni WBK S.A. leasing companies claimed sixth position in the market for the overall sales in 2009 (based on the data of the Polish Leasing Association). The net value of leased assets amounted to PLN 1,319.2 m, a decrease by 27% y-o-y amid the leasing market decline by 30% y-o-y. 2009 saw a slowdown in sales of vehicles and machinery & equipment accompanied by a substantial increase in property leasing (+48% y-o-y). This performance reflects the prevailing macroeconomic trends and their negative impact on investments in Poland.

BZ WBK Faktor Sp. z o.o.

BZ WBK Faktor Sp. z o.o. provides recourse and non-recourse factoring, export factoring and reverse factoring in domestic and international trade. Since May 2009 the company has been using the new Ebi Faktor system in its day-to-day operations.

The economic slowdown reduced the growth of the Polish factoring market by ca. 9%, and a similar decrease in turnover was observed by BZ WBK Faktor Sp. z o.o. The total value of receivables purchased by the company was PLN 1,659.4 m, a 7% decrease y-o-y. Exposure in respect of finance provided was PLN 239.5 m, a decrease by 23% y-o-y. Lower turnover was attributable to weaker domestic demand and poor financial standing of companies.

5. Service Quality Improvement

Customer Excellence

Last year, Bank Zachodni WBK Group continued its Customer Excellence programme, whose objective is to become distinctive in the banking market and to maintain competitive edge in terms of service quality.

The programme was developed based on customer expectations and feedback from customer satisfaction surveys. Its objective is to exceed customer expectations in the areas that are critical to loyalty-building. The programme included 4 groups of objectives for 2009 ensuring the highest standards of direct customer service, i.e. reducing wait times, simplifying delivery of the key products, and giving special treatment to long-standing customers. These objectives involve several dozens of corrective and improvement initiatives whose progress has been monitored by a steering committee.

"Service Standards+: Be Ready to Go the Extra Mile"

In the period from April to June 2009, the new "Service Standards+" were implemented in the bank's branch network and in its subsidiaries. The idea behind these standards is encapsulated in the very strap-line "Be Ready to Go the Extra Mile". The standards promote personal commitment in dealing with customers, giving more than expected and managing customer experience in difficult situations. Random sample of branches undergoes a monthly mystery shopping with feedback provided to individual staff members.

Customer Satisfaction Index

In 2009, Bank Zachodni WBK S.A. recorded the highest Customer Satisfaction Index (CSI) in its history. The global CSI, including all the measured quality attributes, amounted to 89.2%, which is higher than the CSI achieved by the bank's competitors under the same methodology. At the same time, the bank exceeded its CSI-based targets for all the areas covered by the Customer Excellence Programme. The most spectacular score was recorded in face-to-face customer service with the branch index coming in at 91.2%.

Position in Rankings

In 2009, the service quality of Bank Zachodni WBK S.A. was highly rated in independent external rankings (see Chapter X "Awards and Recognitions" for more details).

V. Human Resources and Corporate Values

1. Human Resources Management

Human Resources

As at 31 December 2009, the number of FTEs in Bank Zachodni WBK Group was 9,453 and lower by 768 y-o-y. This comes in the wake of the Management Board decision to freeze employment and not to fill in natural vacancies. The decision was driven by the sharp slowdown in economic environment and the need to align the resources (much expanded as a result of the dynamic growth in 2007 – 2008) to the new market conditions. Regardless of the economic climate, the lower y-o-y employment was also related to the continued centralization of certain functions and processes as well as IT changes progressed in Bank Zachodni WBK Group.

HR Initiatives

In 2009, Bank Zachodni WBK Group focused on reduction of staff costs, keeping high HR management standards and supporting staff relations and team spirit in compliance with corporate values.

The senior management of the bank was committed to ensure maximum protection of jobs and minimise redundancies. With this mindset, a number of tailored solutions were implemented to curb staff costs, including: reduction of working hours, career breaks and unpaid leaves. These were applied dependent on staff preferences and capacities of individual organisational units and brought appreciable staff cost savings without having to resort to more significant staff reductions.

The agenda of the management in 2009 gave high priority to initiatives aimed to keep staff motivated and engaged, and also to maintain quality two-way communication to make employees well aware of the impact of the prevalent situation on the Group and increase their sense of participation in the affairs of the organisation. With a view to ensuring high quality of management at all levels, newly promoted managers across the organisation went through dedicated training to prepare them for their new roles including, among others, staff support and development processes.

The Group continues its Performance Management Process (PMP), based on objectives set in three performance areas: business focus, customer focus and people focus. The process includes individual objectives performance monitoring and assessment. Due to regular performance reviews, the staff understand their role in the overall strategy and receive support and feedback. Based on the analysis of strengths and weaknesses of the PMP process, at the beginning of 2009 new IT tools were implemented to facilitate it.

Training

The bank places a great emphasis on the improvement of staff knowledge and skills. Training courses are organised in response to the business needs and in keeping with the bank's strategic priorities. Compliance with the strategic and training objectives is ensured through the central planning and co-ordination of training, a process actively supported by the branch banking and other business units. The integrated training plan facilitates the logistics and monitoring of training quality and costs.

In 2009, most of the training projects were addressed to the branch banking staff with frequent use of e-learning (90% of all trainings). Training for branches covered the following topics: flagship products, sales techniques, SME lending, hands-on training for the users of the New Front End in the branches. The bank also supported the professional development of BZ WBK Partner staff through induction programmes as well as training on products and sales techniques.

In 2009, the bank launched two training projects co-financed by the European Social Fund, aimed at the customer service improvement. Both initiatives ("BZ WBK Advisor – towards professional excellence" and "Professional sale – development for the sales staff and customer service staff in BZ WBK") are scheduled for the years 2009 – 2010 and target the Branch Banking employees.

The bank continued to invest in the development of management skills of its leaders by pursuing such programmes as Talent Management (selected branch directors) and Leaders of the Future (top performers with leadership potential). In line with its leadership development strategy, the bank also carried out programmes addressed to the management at particular levels, e.g. Development Programme for Microbranch Managers, Programme for Newly Appointed Managers.

The total number of participants in the development programmes held in 2009 exceeded 130 k and was 54% higher than in 2008. Training costs were reduced by 61% y-o-y due to the wider use of e-learning system and internal resources (e.g. bank experts) in the training process.

Performance Share Programme

Every year from 2006 through to 2008, Bank Zachodni WBK S.A. launched a 3-year incentive scheme for the key employees of Bank Zachodni WBK Group, allowing them to purchase the bank's shares on preferential terms, subject to achievement of performance targets in the years covered by the scheme.

The incentive schemes have been designed to motivate the key employees of the bank and its subsidiaries to continue their efforts, inspire strong dedication to the organisation's strategic objectives and thus to ensure high competitiveness and financial efficiency of Bank Zachodni WBK Group in the long-term perspective as well as to bring benefit to the shareholders.

The first two editions of the Performance Share Programme entitled its participants (max. 100 employees) to buy bonds with pre-emptive rights and in the next stage to take up – at nominal prices – the bank's shares issued as part of the conditional increase of the share capital. Performance Programme no. 3 is targeted at maximum 600 managers. The candidates signed "Participation Agreement" defining the number of shares and the conditions for their acquisition at the nominal value. Under all incentive schemes, the shares vest subject to achievement of a minimum compounded EPS growth over the 3 years of each scheme's duration (2006 – 2008, 2007 – 2009, 2008 – 2010).

On 21 April 2009, the Supervisory Board of Bank Zachodni WBK S.A. passed a resolution stipulating that conditions for the first Incentive Scheme of 2006 were met. In May 2009, subscription of H series shares issued by the bank under resolution of the General Meeting of Shareholders of 4 April 2009 on the conditional increase of share capital was completed. In total, 115,729 shares were allocated to 86 employees. On 10 July 2009, the H series shares were registered with the National Depository of Securities.

The long term programme is monitored to ensure if any of the employees might have lost their participant status. As of 31 December 2009, the number of shares vested under the 2nd and 3rd edition of the Programme was 341,701 compared with 361,200 a year before.

2. Corporate Values

Code of Business Ethics

Bank Zachodni WBK Group follows the Code of Business Ethics, which sets out the general standards of behaviour which underpin the Group's corporate culture.

According to the Code, in all aspects of its activities, the Group will comply with the business ethics requirements, conform with the law and act in accordance with the best corporate governance and risk management models. The Group seeks to create a climate of trust in its dealings with customers, employees, shareholders and other stakeholders, promoting such values as integrity, professionalism, prudence and competence. The perception of being a dependable organisation is seen as a pre-requisite for further development and success, but the Group also has the ambition to be recognised for being engaging and pioneering. As a responsible corporate citizen, the Group supports corporate-giving and sponsorship programmes.

The Code of Business Ethics is supported by detailed policies and procedures which are regularly reviewed and updated. In 2009, stricter regulations were introduced with a view to preventing the conflicts of interest.

Corporate Culture

The Group attaches a great importance to compliance with the law, internal regulations and best practice in all aspects of its activities.

The Group constantly seeks to reinforce the professional and ethical behaviour of its employees. Training on business ethics is mandatory for all new entrants. Also, an ongoing Compliance and Business Ethics training programme (COMeT) addressed to all employees from the Group has been continued. The programme is designed to raise awareness of the staff and to encourage proper behaviours should they be faced with a conflict of interest, suspected fraud or situations which may raise ethical dilemmas. Throughout 2009, employees of the Group were required to participate in further training (e-learning) on ethical issues, fraud prevention, personal data protection and best practice in bancassurance.

3. Corporate Responsibility

As per the declaration in the Code of Business Ethics, the bank is involved in the matters of local communities by participating in various social programmes

One of the areas which Bank Zachodni WBK S.A. is committed to is promotion of entrepreneurship. Bank Zachodni WBK S.A. co-operates with the Fundacja Polska Przedsiębiorcza (Entrepreneurial Poland Foundation) and the National Bank of Poland organising conferences, workshops and seminars for young and active people from selected academic centres. The co-operation is a part of the "Polish Entrepreneurship Days" programme, which seeks to encourage business initiatives and entrepreneurship in Poland. In 2009, the cities covered by the programme included Poznań, Białystok, Słupsk and Toruń.

In 2009, Bank Zachodni WBK S.A. started an educational project called "Your Modern Firm" targeted at the owners and employees of micro and small companies from the Kujawsko-Pomorskie and Pomorskie Provinces (for more details see Chapter IV, section "Current Accounts and Other Products for Micro, Small and Other Companies").

In collaboration with the Civil Development Foundation, the bank helps disseminate economic knowledge through comic books selected in a competition procedure. Based on the works received through the competition, an anthology of comic books was created, which was then used to devise lessons on entrepreneurship for primary and secondary schools.

Corporate responsibility manifests itself through social consultations. In 2009, a cycle of meetings were organised between Bank Zachodni WBK S.A. employees and the Friends of Integration Association. The consultations led to starting a pilot project whereby 57 branches will be audited by the association's experts in terms of their accessibility to the disabled. Bank Zachodni WBK S.A. also issued 40 thousand Internet cards coming with the "Integration Magazine". The card holders can make on-line payments without having an account with Bank Zachodni WBK S.A.. A part of the interchange fee earned by the bank is donated to the association. As part of the social consultations, the bank also developed a banking proposition dedicated to non-governmental organizations.

Charity programmes are carried out by the Bank Zachodni WBK Foundation with the main focus on projects dedicated to children from destitute families. In the first half of 2009, the foundation initiated an educational subsidy programme for destitute children. The bank subsidised such initiatives as computer training, language courses, educational tours, training for volunteers working with children. 200 organisations, schools and local day-care centres across Poland benefited from the programme. Financial support was also provided to employees and their relatives who suffered major accidents.

The foundation granted scholarships to and promoted gifted students from destitute families. Music scholarship holders took part in the concert "Young Talents" as part of the international festival, "Pearl of Baroque", and Chopin concerts during Warsaw Fashion Street. Science scholarship winners were invited to an international project in the Institute of Physical Chemistry at the Polish Academy of Science.

In July 2009, Bank Zachodni WBK S.A. started the "Orlik Academy" in Warsaw. This is a programme designed to find 6 – 8-year old children gifted in sports and offer them participation in a professional football school for 12 months. In 2009, the Orlik Academy programme was run as a pilot in the four provinces: Dolnośląskie, Łódzkie, Mazowieckie and Pomorskie. The programme is led together with the Polish Association of Former Footballers, including Dariusz Dziekanowski. The Ministry of Sport and Tourism became a patron of the programme.

Bank Zachodni WBK S.A. has been supporting football in Poland for several years, notably as a sponsor of the Polish national team. The bank also provides organisational and financial assistance (purchase of equipment) to the local youth clubs.

In the summer of 2009, the bank arranged a series of free music concerts under the name "Rest with Chopin" in six Polish cities. The concerts started in Warsaw and were performed, among others, by the artists sponsored by Bank Zachodni WBK S.A.. This gave them an opportunity to make a public appearance among recognised pianists. This is an example of how the bank's sponsoring and corporate-giving activity can be combined. All the concerts provided an excellent opportunity to strengthen or build the awareness of the bank's brand and proposition. The concerts attracted audiences from a wide area and all the concert cities represented new markets for the bank

VI. Financial Situation

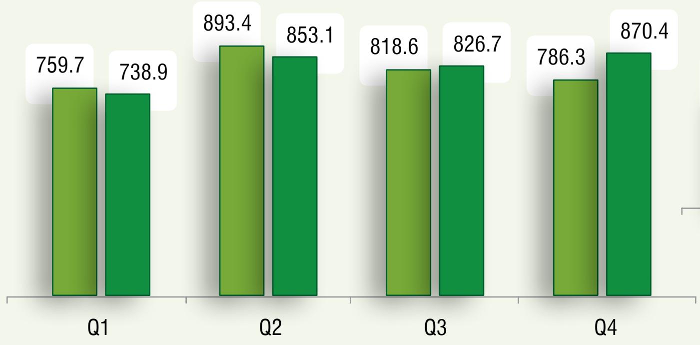
1. Profit and Loss Account

The table below presents major developments in key categories of the profit and loss account of the Bank Zachodni WBK Group in 2009 compared with the previous year.

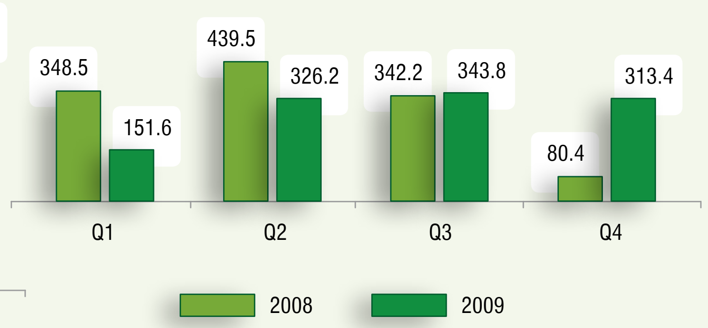
PLN m

Condensed Profit and Loss Account	2009	2008	Change
Total income	3,289.1	3,258.0	+1.0%
Total costs	(1,644.8)	(1,682.1)	–2.2%
Impairment losses on loans and advances	(481.0)	(364.6)	+31.9%
Loss attributable to the entities accounted for using equity method	(0.3)	(0.7)	–57.1%
Profit-before-tax	**1,163.0**	**1,210.6**	**–3,9%**
Tax	(222.8)	(256.3)	–13,1%
Net profit for the period	**940.2**	**954.3**	**–1.5%**
– Net profit attributable to shareholders of the parent	*886.2*	*855.4*	*+3.6%*
– Net profit attributable to minority shareholders	*54.0*	*98.9*	*–45.4%*

Total income of the BZ WBK Group
in the individual quarters of 2008 and 2009
PLN m



Profit-before-tax of the BZ WBK Group
in the individual quarters of 2008 and 2009
PLN m



Despite the accumulation of the adverse developments in the macroeconomic environment, the income of Bank Zachodni WBK Group for the 12 months of 2009 increased by 1% y-o-y. Excluding the gains on the sale of the bank's equity investments (PLN 3.6 m in 2009 compared with PLN 66 m in 2008), total consolidated income increased by 2.9% y-o-y.

The income earned reflects the diversification of the income streams and enhancement of the Group's sales potential in the previous years as well as the effective strategy and strong business activity of the Group in the individual product areas in 2009.

With the implementation of further savings projects, optimisation of procurement processes and tight monitoring of cost efficiency in each business area, in 2009 the Group's cost base decreased by 2.2% y-o-y, including 6.4% reduction of administrative expenses.

However, the cost of credit risk increased as a result of deteriorating financial standing of borrowers in the difficult macroeconomic environment.

In effect, Bank Zachodni WBK Group posted a profit-before-tax of PLN 1,163 m, a decrease of 3.9% y-o-y on 2008. The profit-after-tax attributable to the shareholders of Bank Zachodni WBK S.A. was PLN 886.2 m and 3.6% higher y-o-y.

Income

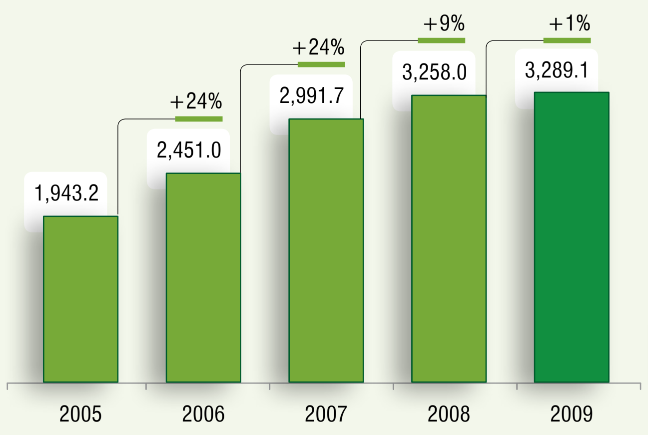
In 2009, the total income of Bank Zachodni WBK Group was PLN 3,289.1 m and 1% up y-o-y. The main constituents of the total income were as follows:

PLN m

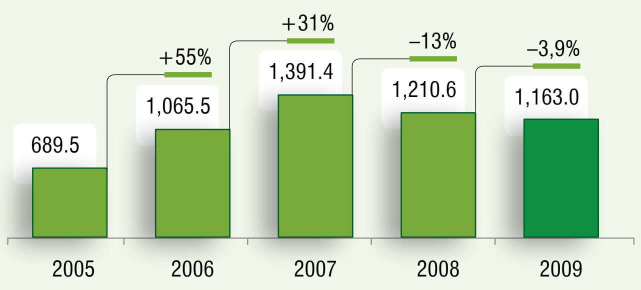
Total Income	2009	2008	Change
Net interest income	1,563.2	1,635.1	–4.4%
Net commission income	1,315.5	1,373.8	–4.2%
Dividend income	96.6	70.3	+37.4%
Net trading income and revaluation	270.3	52.8	+411.9%
Other income*	43.5	126.0	–65.5%
Total	**3,289.1**	**3,258.0**	**+1.0%**

* other income includes: 1) profit on disposal of subsidiaries and associates; 2) profit on other financial instruments; 3) other operating income

Total income of the BZ WBK Group in the years 2005–2009
PLN m



Profit-before-tax of the BZ WBK Group in the years 2005–2009
PLN m



Net Interest Income

Net interest income amounted to PLN 1,563.2 m and decreased by 4.4% y-o-y despite the favourable changes in the Group's balance sheet structure resulting from the growth of the personal deposit and credit base. The decrease was caused by the negative impact of deposits which in 2009 were usually priced above the inter-bank rates. This in turn reflects the sharp price competition that has been a feature of the deposits market since September 2008. Further downward pressure on deposit margins was caused by a series of interest rate cuts which commenced in November 2008 and continued until June 2009. The higher costs of raising deposits were partly offset by increased credit margins.

Taking into account other interest-related income from FX Swaps and Basis Swaps (PLN 215.4 m for 2009 and PLN 91.2 m in the corresponding period), which are disclosed under "net trading income and revaluation", the underlying net interest income increased by 3% y-o-y.

Net Commission Income

PLN m

Net Commission Income	2009	2008	Change
Direct banking*	273.1	236.7	+15.4%
Account maintenance and cash transactions	250.7	232.5	+7.8%
Mutual fund distribution and asset management	236.5	366.0	–35.4%
FX fees	226.5	235.0	–3.6%
Credit fees**	153.5	108.3	+41.7%
Brokerage fees	98.5	106.2	–7.3%
Insurance (bancassurance) fees	75.6	72.1	+4.9%
Other***	1.1	17.0	–
Total	**1,315.5**	**1,373.8**	**–4.2%**

* includes fees for foreign and mass payments, Western Union transfers and trade finance, debit cards, services for third parties as well as other electronic/telecommunications services

** includes selected fees related mainly to lending, leasing and factoring activities which are not amortised to interest income (e.g. credit cards, overdrafts)

*** other net income includes, among others, fees for distribution of structured products

Net commission income amounted to PLN 1,315.5 m and decreased by 4.2% y-o-y mainly due to the sharp downturn in the capital markets which persisted until March 2009 and investors' uncertainty about continuation of the growth trends observed in the equity market in the subsequent months. These sentiments led to a decrease in the level of the Group's asset management and mutual fund fees (–35.4% y-o-y).

While the brokerage fees in the secondary equity market increased, the fees in the primary equity market declined, which adversely affected the growth of the total brokerage fees (–7.3% y-o-y).

The income from FX fees decreased by 3.6% y-o-y due to the tightening of FX exposure limits and significantly reduced business and corporate customer FX activity in the market place.

Other business lines reported substantial increases in their net income figures. Credit fees increased by 41.7% y-o-y, mainly due to alignment of the bank's pricing policy to the changing external environment. This growth was also aided by the falling credit intermediation costs as a result of modification of the Mobile Sales structures. The net commission income from e-business and payments was 15.4% higher y-o-y on account of strong growth of two product lines from this area: "services to third-party financial institutions" and "debit cards". The account maintenance and cash transactions fees increased by 7.8% y-o-y, driven by personal accounts which generated a higher level of income following acquisition of new customers and modification of selected items of the schedule of fees and charges of Bank Zachodni WBK S.A. Despite the rising sale of insurance products, the bancassurance line was higher only by 4.9% y-o-y. The figure was impacted by the Group's decision to make a provision for the expected reimbursement of insurance premiums to customers, which is primarily related to the early repayment of loans.

Dividend Income

Dividend income of PLN 96.6 m increased by 37.4% y-o-y mainly as a result of the dividends paid by the Aviva companies included in the bank' s equity investment portfolio (Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.). In 2009, these entities disbursed PLN 88.7 m in dividends to the bank as compared to PLN 64.7 m a year before.

Net Trading Income and Revaluation

Net trading income and revaluation amounted to PLN 270.3 m, up by 411.9% y-o-y. The movement in this line was most strongly affected by the wholesale FX Swaps transacted, among others, as part of the management of the EUR- and CHF-denominated credit portfolio. In addition to income from FX Swap transactions, this line discloses income from the Basis Swap transactions. Both items can be treated as interest-like income and in 2009 they added up to PLN 215.4 m versus PLN 91.2 m in the comparable period. Net trading income and revaluation also includes a write-down of derivative instruments related to counterparty risk, totalling PLN 28.8 m. In 2008, the corresponding write-down amounted to PLN 81 m. The heading also contains PLN 38 m representing the positive fair value adjustment to Cross Currency Swaps based on the revised estimate of such instruments which was prompted by a substantial increase in market spreads observed since 2008 year-end. The mark-to-market valuation of these derivatives will continue to revert to zero on a case-by-case basis over their remaining life. There was no such adjustment in 2008.

Other Income

Other income totalled PLN 43.5 m and was 65.5% lower y-o-y due to large once-off items recognised in the comparable period in the equity market, such as profit on the disposal of the shareholding in Mastercard Inc. (PLN 22.4 m) and Commercial Union PTE BPH CU WBK S.A. (PLN 20.6 m) as well as the income from the transactions connected with Visa Inc. (PLN 23.2 m). In addition, the income for 2008 was characterised by higher revenues from the sale of services, including IT services to the AIB Group.

Impairment

After the 12 months of 2009, the loan impairment charge to the profit and loss account was PLN 481 m compared with PLN 364.6 m in the corresponding period.

PLN m

Impairment Losses on Loans and Advances	2009	2008
Impairment recognised on incurred and reported losses (individual and collective)	(438.7)	(192.3)
Impairment recognised on incurred but not reported losses (IBNR)	(56.3)	(176.1)
Recovered debts	17.5	10.2
Impairment recognised on off-balance sheet items	(3.5)	(6.4)
Total	**(481.0)**	**(364.6)**

The impairment level has been driven by the deteriorating macroeconomic environment. Slowdown has affected most sectors of the Polish economy, resulting in the reduced ability of businesses to meet their liabilities. Developments in the macroeconomic environment also adversely affected the labour market and thus impaired debt repayment capacity within the personal customer segment.

Under the individual approach, credit exposures are reviewed quarterly whereas under the collective approach impairment charges are updated on a monthly basis. This procedure ensures timely and adequate recognition of individual and collective impairment provisions, including IBNR. Every effort is made to reduce the risks identified and pursue effective restructure/recovery of impaired debts.

Costs

Total costs of Bank Zachodni WBK Group amounted to PLN 1,644.8 m and were lower by 2.2% y-o-y as a result of the HR policy and intensified implementation of administrative, technological and procedural measures aimed to reduce the Group's costs. This is also due to the development of cost-saving mindset among employees.

PLN m

Total Costs	2009	2008	Change
Staff and other administrative expenses, including:	(1,498.3)	(1,547.2)	–3.2%
– staff expenses	*(889.3)*	*(896.4)*	*–0.8%*
– other administrative expenses	*(609.0)*	*(650.8)*	*–6.4%*
Depreciation/amortisation	(123.5)	(107.3)	+15.1%
Other operating costs	(23.0)	(27.6)	–16.7%
Total	**(1,644.8)**	**(1,682.1)**	**–2.2%**

Staff costs decreased by 0.8% y-o-y to PLN 889.3 m, primarily due to reduction in the average employment in the Group by 122 FTEs y-o-y. Training costs were also appreciably reduced by limiting training courses to those that were critical to the Group's business and by placing heavy reliance on e-learning and internal training resources, including in-house experts. The effects of the savings initiatives were partly absorbed by the higher accruals for staff bonuses for the performance in 2009.

The Group's other administrative expenses decreased by 6.4% y-o-y to PLN 609 m. This change was most apparent in the reduced advertising and marketing spend and reflected the smaller scale of promotional campaigns held in 2009. Savings were also achieved in consultancy costs which went down with completion of projects requiring third party expert support. The slower development of the Bank Zachodni WBK S.A. branch network led to a substantial reduction of the branch fit-out costs. In addition, efforts were increased to rationalise the cost base. Following a review of the existing policies, procedures, processes and contracts, a number of cost-saving initiatives were implemented and non-cost effective processes were improved.

After the four quarters of 2009, depreciation was PLN 123.5 m and 15.1% higher y-o-y due to the increase in the value of fixed assets as a result of expansion and upgrade of the bank's branch network.

2. Financial Position

Assets

As at 31 December 2009, total assets of Bank Zachodni WBK Group amounted to PLN 54,058.4 m and were 5.9% down on 31 December 2008. The value and structure of the Group's financial position is determined by the bank (parent) which accounts for 96.1% of the consolidated total assets.

The table below presents major developments in key categories of the consolidated assets of the Bank Zachodni WBK Group at the end of December 2009 versus the end of December 2008.

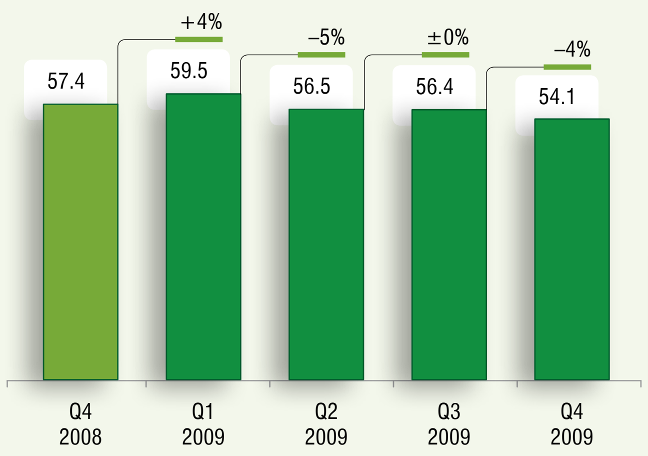
PLN m

Assets	31.12.2009	Structure 31.12.2009	31.12.2008	Structure 31.12.2008	Change
Loans and advances to customers*	34,570.7	64.0%	35,137.2	61.2%	–1.6%
Investment securities	13,292.6	24.6%	12,916.0	22.5%	+2.9%
Cash and operations with the central bank	2,660.7	4.9%	3,178.1	5.5%	–16.3%
Financial assets held for trading	1,342.6	2.5%	3,224.9	5.6%	–58.4%
Loans and advances to banks	663.0	1.2%	1,364.5	2.4%	–51.4%
Fixed and intangible assets	777.8	1.4%	811.4	1.4%	–4.1%
Other assets	751.0	1.4%	801.0	1.4%	–6.2%
Total	**54,058.4**	**100.0%**	**57,433.1**	**100.0%**	**–5.9%**

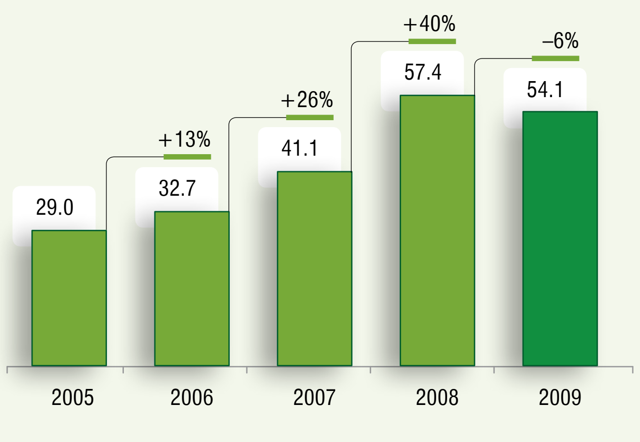
* net of impairment losses

The downward movement in total assets throughout 2009 was mainly affected by the "financial assets held for trading", which decreased by 58.4% y-o-y due to a strategic reduction in the volumes of FX derivative business traded and the maturity of a significant number of transactions that were not replaced. The reduction in the "loans and advances to banks"(–51.4% y-o-y) was a reflection of the prudent liquidity management of the Group balance sheet and the increased demand for State Treasury debt securities. The Group's investments into Treasury bonds were only partly reflected in the increase in "investment securities" (+2.9% y-o-y) due to the decision by the NBP Management Board which permitted early redemption of the NBP bonds with a nominal value of PLN 573 m at the beginning of 2009. The decrease in the "cash and operations with the central bBank" (–16.3% y-o-y) is, among other things, a sign of stabilisation of the liquidity position of the banking sector after the disruptions occurring late in 2008. "Net loans and advances to customers" decreased by 1.6% y-o-y driven by loans to institutional customers (business and public sector customers).

Total assets of the BZ WBK Group
from 31.12.2008 to 30.12.2009 quarter by quarter
PLN bn

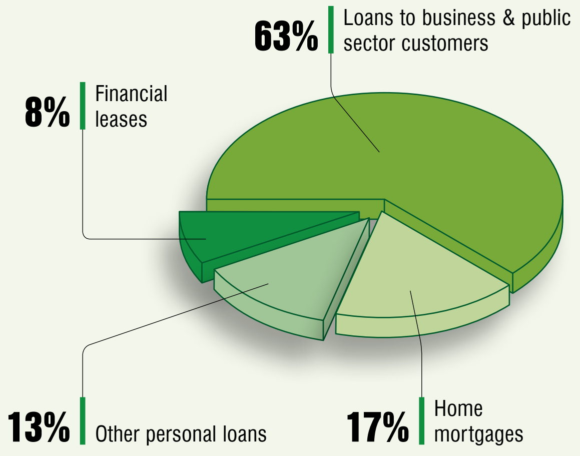


Total assets of the BZ WBK Group
in the years 2005 – 2009
PLN bn

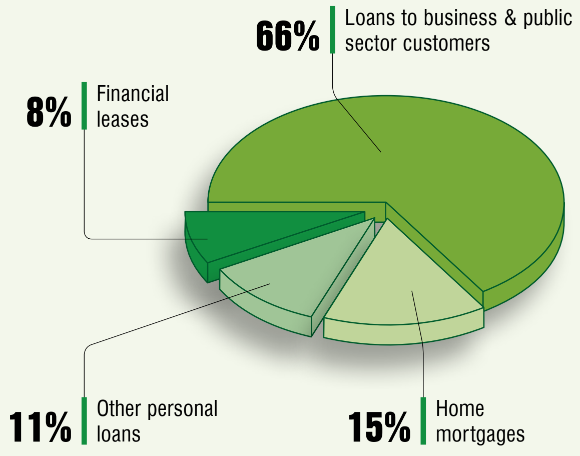


Structure of Loans and Advances to Customers of BZ WBK Group

as at 31.12.2009



as at 31.12.2008



Credit Portfolio

PLN m

Gross Loans and Advances to Customers	31.12.2009	31.12.2008	Change
Loans and advances to business and public sector customers	22,348.6	23,374.7	–4.4%
Loans and advances to personal customers	10,632.4	9,239.6	+15.1%
Finance lease receivables	2,706.5	2,959.0	–8.5%
Other*	22.9	453.1	–94.9%
Total	**35,710.4**	**36,026.5**	**–0.9%**

* other receivables include reverse-repo transactions (PLN 10.1 m as of 31.12.2009 vs. PLN 441.8 m as of 31.12.2008)

In 2009, the strong credit delivery to personal customers was offset by a decrease in loans and advances to business and public sector customers, and the decline in finance lease receivables. In effect, at the end of December 2009, gross loans and advances to customers decreased by 0.9% y-o-y to PLN 35,710.4 m.

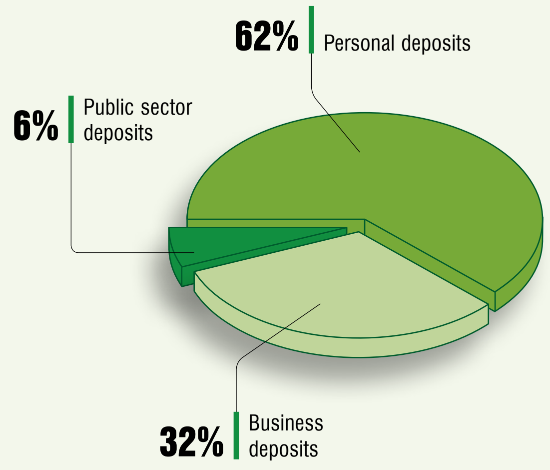
In 2009, the loans and advances to personal customers increased by 15.1% to PLN 10,632.4 m due to the attractive credit proposition and effective sales campaigns. The strongest growth in this portfolio was recorded in cash loans (+19.6% y-o-y), which amounted to PLN 3,214.4 m, while home mortgages increased by 11.2% y-o-y to PLN 6,062.5 m.

Loans and advances to business and public sector customers decreased by 4.4% y-o-y to PLN 22,348.6 m. Included in this loan-book are property loans which amounted to PLN 11,490 m as at end December 2009 and remained stable y-o-y. The decline in total loans and advances to institutional customers was a result of the reduced business activity of companies, pro-active approach of the Group to the sectoral risk and revision of its risk assessment methods to reflect the new economic realities. These conditions also affected the financial leasing portfolio which fell by 8.5% y-o-y to PLN 2,706.5 m.

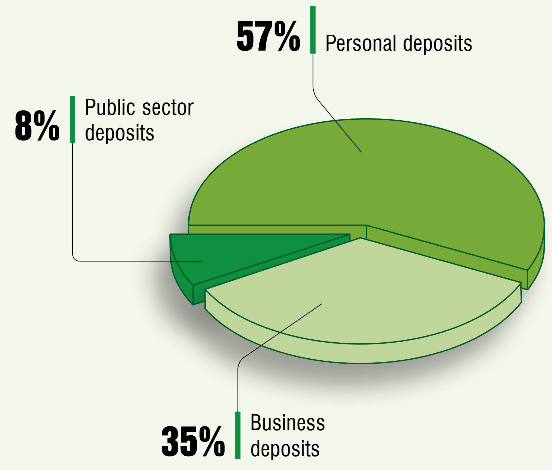
At the end of December 2009, the impaired loans accounted for 5.5% of the gross portfolio versus 2.9% recorded 12 months before. The provision cover ratio for the impaired loans was 39.1% compared with 55% as at 31 December 2008, reflecting the higher share of well-collateralized property loans in the total non-performing loan-book.

Structure of Deposits from Customers of BZ WBK Group

as at 31.12.2009



as at 31.12.2008



Equity and liabilities

The table below presents major developments in key categories of the consolidated equity and liabilities of the Bank Zachodni WBK Group at the end of December 2009 versus December 2008.

PLN m

Equity and Liabilities	31.12.2009	Structure 31.12.2009	31.12.2008	Structure 31.12.2008	Change
Deposits from customers	41,222.9	76.3%	42,810.7	74.5%	–3.7%
Deposits from banks	3,830.8	7.1%	4,095.5	7.1%	–6.5%
Amounts owed to the central bank	1,519.2	2.8%	1,242.6	2.2%	+22.3%
Financial liabilities held for trading	733.9	1.4%	3,153.9	5.5%	–76.7%
Other liabilities	696.0	1.2%	918.0	1.6%	–24.2%
Total equity	6,055.6	11.2%	5,212.4	9.1%	+16.2%
Total	**54,058.4**	**100.0%**	**57,433.1**	**100.0%**	**–5.9%**

On the liabilities side, a significant decrease was noted in the "financial liabilities held for trading" (–76.7% y-o-y) as a result of a strategic reduction in the volumes of FX derivative business traded and the maturity of a significant number of transactions that were not replaced. The "deposits from banks" also decreased (–6.5% y-o-y) with repayment of loans drawn by leasing companies to finance their core activities. The "deposits from customers" decreased by 3.7% y-o-y. Adjusting, however, for large short-term deposits held by institutional customers at the end of 2008 and not rolled-over on maturity, the Group's deposit base increased by 3% y-o-y.

As at 31 December 2008, the "other liabilities" included the Group's debt securities in issue of PLN 153.9 m, which reduced to nil in 2009 due to the redemption of the matured bonds issued by the leasing subsidiaries. Compared with the end of 2008, a 22.3% increase was noted in the "amounts owed to the central bank" driven by the reverse repo transactions. The Group's "total equity" increased by 16.2% y-o-y in the wake of the decision made by the General Meeting of Shareholders of 21 April 2009 on allocating the entire profit earned by Bank Zachodni WBK S.A. for 2008 to reserve funds and general reserve.

Deposit Base

PLN m

Deposits from Customers	31.12.2009	31.12.2008	Change
Deposits from retail customers	25,613.7	24,239.1	+5.7%
Deposits from business and public sector customers*	15,609.2	18,571.6	–16.0%
Total	**41,222.9**	**42,810.7**	**–3.7%**

* Deposits from business and public sector as at 31 December 2008 include PLN 2,786 m of short-term deposits which were not rolled-over on maturity.

Deposits from customers, which represent 76.3% of the Group's total equity and liabilities are the primary source of funding of the Group's lending business. Compared with the end of the previous year, customer deposits decreased by 3.7% to PLN 41,222.9 m as at 31 December 2009. This value comprises the funds deposited in current accounts (PLN 17,441.7 m, up 4.3% y-o-y), term deposits (PLN 23,267.5 m, down 9.5% y-o-y) and other liabilities.

Excluding a number of high-value short-term deposits held by business and public sector customers at the end of 2008 (PLN 2,786 m in total), which – in accordance with the Group's expectations – were not rolled over on their respective maturities, the deposits from both sectors decreased by 1.1% y-o-y to PLN 15,609.2 m, while the total customer deposit base grew by 3% y-o-y. In 2009, businesses suffered from a tighter liquidity and had to resort to a greater extent to cash inflows and balances in banking accounts to fund their regular activities and investments.

Concurrently, the Group's deposits from retail customers increased by 5.7% to PLN 25,613.7 m, which is attributable to the bank's attractive deposit offer for this segment, both with regard to current accounts and term deposits.

3. Key Financial Ratios

Selected Financial Ratios	31.12.2009	31.12.2008
Total costs/Total income	50.0%	51.6%
Net interest income/Total income	47.5%	50.2%
Net interest margin*	3.34%	3.90%
Net commission income/Total income	40.0%	42.2%
Customer deposits/ Total equity & liabilities	76.3%	74.5%
Customer loans/Total assets	64.0%	61.2%
Customer loans/Customer deposits	83.9%	82.1%
NPL ratio	5.5%	2.9%
NPL coverage ratio	39.1%	55.0%
Impairment losses on loans and advances / Average loans	1.31%	1.23%
ROE**	17.5%	20.8%
ROA***	1.6%	1.7%
Capital adequacy ratio	12.97%	10.74%
Book value per share (in PLN)	82.87	71.44
Earnings per share (PLN)	12.13	11.72

The following were used in computations:
* Net interest margin includes interest-related income on FX Swaps and Basis Swaps.
** Net profit attributable to shareholders of Bank Zachodni WBK S.A. for the 12-month period and equity as at the end of the reporting period, net of current year's profit and non-controlling interests;
*** Net profit attributable to shareholders of the parent for the 12-month period and average assets derived from the two comparative periods.

4. Interest Rates on Loans and Deposits

In principle, in 2009 Bank Zachodni WBK S.A. continued its policy to offer interest rates corresponding to inter-bank interest rates and risk attaching to individual transaction/customer. However, with limited supply in wholesale inter-bank markets, the demand for retail and business deposits increased considerably which was reflected in substantially higher deposit interest rates offered by competitive banks. This had a major impact on the relation between interest rates offered by Bank Zachodni WBK S.A. versus the inter-bank market and the National Bank of Poland. While in 2008 interest rates on deposits were close to or below the inter-bank market, in 2009 they were above that threshold for the majority of deposits.

Development of the credit risk assessment models permitted diversification of credit pricing for the majority of credit facilities. Currently, the credit margin reflects both the cost of risk and funding. In the case of sizable transactions, a tailored pricing and risk assessment process is used. A portfolio-based approach is applied to retail exposures so that the similar prices are applied to customers with similar risk profiles.

5. Bank Zachodni WBK S.A. Rating

Bank Zachodni WBK has a bilateral credit rating agreement with Fitch Ratings Ltd.

In 2009, the agency released three rating announcements on the bank which are summarised below along with the 2008 rating:

Fich Ratings Announcements on BZ WBK S.A. Rating	Rating as of 25.09.2009*	Rating as of 13.02.2009	Rating as of 15.01.2009	Rating as of 17.07.2008**
Long-term Issuer Default Rating	BBB+	BBB+	BBB+	A+
Short-term Issuer Default Rating	F2	F2	F2	F1
Long-term and Short-term Rating Outlook	negative	negative	stable	negative
Individual Rating	C	C	C	C
Support Rating	3	3	2	1

* valid as at 31 Dec 2009 ** valid as at 31 Dec 2008

Reduction of the Long-term IDR, Short-term IDR, Support Rating and Rating Outlook results from lower rating of the bank's controlling shareholder (AIB) and reflects its lower ability to provide potential support to its subsidiaries. The AIB's individual rating was changed in 2009 from "B" to "C" and "D" due to the fall of its asset quality as a result of the deteriorating macroeconomic conditions and the negative outlook for further economic development in the Republic of Ireland.

The Long-term IDR, Short-term IDR and Individual Rating of Bank Zachodni WBK S.A. are now based on the stand-alone strength of the bank and reflect its strong market position, solid balance sheet, profitability and liquidity as well as adequate capitalisation. The support rating reflects the moderate likelihood of potential support from the Polish government. The negative rating outlook is indicative of the less favourable macroeconomic environment and its negative impact on operating margin, NPL level, cost of risk and the provision coverage of the NPL portfolio.

Bank Zachodni WBK S.A.

VII. Future Growth Prospects

1. Strategic Directions for 2009 – 2011

The Vision of Bank Zachodni WBK Group: The 3rd Largest Institution in Poland

Bank Zachodni WBK Group intends to strengthen its position in the financial market, as a universal organisation which offers a full array of financial services in the retail, business and investment banking segment. The visions of Bank Zachodni WBK Group assumes the following:
- growth of the share in specific market segments;
- high prestige and awareness of bank brand, based on attractive offers;
- customer proposition that is distinctive by its competitiveness and service quality;
- strong and stable financial base for the development of credit delivery operations, including the adequate level of liquidity and a strong capital position;
- numerous and diversified sources of income in three basic segments: retail banking, business banking and investment banking area;
- efficient risk management as required by stakeholders;
- shareholders satisfied with the volume and sustainability of generated profits.

Bank Zachodni WBK Group aspires to leverage off its extended delivery network (third biggest in Poland) to achieve 10% share in the banking sector and a higher position in terms of assets, equity and number of customers.

Strategic Priorities for 2009 – 2011

Key priorities of Bank Zachodni WBK Group include generating high and sustainable profits from diversified income sources, growth of the market share and consistent development of a strong national brand.

The global financial crisis and spreading recession have changed the prospects for macroeconomic development in Poland, shifting a sharper focus to the following key objectives:
- strengthening the Group's capital base and maintaining appropriate capital adequacy ratio;
- active management of credit, operational and market risk;
- further diversification of income sources and search for new ones;
- diversification of the deposit base;
- credit/deposit ratio maintained at the level securing adequate liquidity;
- active management of costs and low cost/income ratio;
- maximum leverage of the potential generated by 2007 and 2008 investments;
- expanding the capacity of the organisation to respond to customer needs and market demands;
- continued embedding of "compliance culture".

Brand Image: A Dependable Nationwide Bank Giving More to Its Customers than Its Competitors

The Bank Zachodni WBK S.A. image will combine advantages of a large and secure financial organization with the distinguishing features of young dynamic banks which fight for their market share by presenting attractive offers. Thanks to expansion of the branch network and brand communication the bank will be recognised as a national brand.

Customers will see Bank Zachodni WBK Group as a large nationwide organization, which:
- provides more value to the customer compared to other financial institutions and strives to outperform its market competitors;
- guarantees financial stability and protection of funds;
- offers products which are easy to understand and use;
- stands out in the market, with its modern and innovative solutions.

Corporate Values

Bank Zachodni WBK Group focuses on providing value to its customers through increased focus on:
- building the relationship based on trust and ethical values;
- performance focus;
- professional and timely delivery of tasks;
- readiness to learn;
- demonstrating respect for work and sense of ownership for the actions taken;
- ethical conduct, compliance with law, internal regulations and best practice.

The organisational culture of the Group is based on engaged, qualified and motivated staff. It also promotes teamwork, as well as continuous professional and personal development with due respect for individual employee needs and the demands of their family life. The Group always maintains the strictest ethical standards in its operational activity.

Customer Acquisition and Retention

Retail Banking: A Distinctive Service for Demanding Customers

The retail segment will focus on the acquisition of customers entering the banking market: young customers (mainly students and university graduates) and persons who are starting business. The Group will also acquire active customers from other sections of the retail segment. An excellent bank account offer will be among the main tools used to attract these customers.

The Group will also mobilise its resources to strengthen loyalty of the existing customers and increase the scope and value of its customer relations. To this effect, the Group will use its IT capability, CRM and customer information systems to ensure above-average quality of service, and will offer a wide scope of savings, credit and settlement products. It will also strengthen its leadership position on innovative savings products market, based on deposits, investment and insurance products.

Selected retail customers, e.g. from VIP or Private Banking segment, will be offered top-quality service. Such service will involve the offering of innovative and tailored savings and credit products, as well as the assistance provided by expert advisors.

Retail customers will be serviced by a nationwide network of Bank Zachodni WBK S.A. branches. Supplementary service will be available from Partner outlets, a call centre, Internet, mobile agents and other distribution channels.

The priority of the Group is to integrate the distribution channels so that its customers can choose and fully avail of such method of contact with the bank that works best for them. The integration means wider access to products and processes as well as standardized customer information in all distribution channels.

Business and Corporate Banking: Diversified Business and Development of Corporate and Business Centres

Business customers will be serviced by a nationwide network of Business Banking Centres operating in all major cities. Strategic corporate customers will be serviced by dedicated units in Warsaw, Poznań and Wrocław. All business customers will be serviced by professional advisors, on an individual basis. Bank Zachodni WBK Group will pursue two strategic objectives: business diversification and take-over of the entire relationship with business customers by business advisors. Diversification will be achieved in three dimensions:
- diversification of the loan portfolio by industry;
- diversification of the income streams geographically;
- diversification of income streams by products, in particular by increasing revenues from non-credit products.

Such diversification involves extension of the offer, further improvement of processes and continued building of the competences of business customer advisors in order to provide more effective customer service.

Investment Banking: Maintained Financial Performance and New Income Sources

In the time of economic slowdown, Bank Zachodni WBK Group focuses on probing new income sources, continued strengthening of the prestige of the brand, raising the service quality, attaining competitive investment performance and expanding the share in individual capital market segments (mutual funds, asset management, brokerage service) as well as on growing business in other lines such as advisory services, M&A (Mergers and Acquisitions) and LBOs (Leveraged Buy-outs).

Operational Efficiency and Cost Savings: A Leaner Organisation and Faster Changes

Bank Zachodni WBK Group will continue its cost optimisation initiatives, in particular it will:
- streamline the operating processes and customer service processes;
- centralize and automate control and back-office processes in the branches;
- seize any opportunity to reduce costs, through the implementation of savings programs, more efficient management, monitoring of contracts with key suppliers, utilization of advanced IT technologies, etc.

2. Business Growth Environment Expected in 2010

The following factors are expected to impact the financial performance and operations of Bank Zachodni WBK Group in 2010:

- Gradual economic recovery in the world, including Poland's key trading partners, which will lead to an improvement in Polish exports and investment activity, stimulating the demand for credit and other banking products.
- The increasing unemployment will continue to have an adverse impact on personal loans portfolio.
- The uncertainty around the global economic revival with concerns that the downturn trend might reappear as governments and central banks gradually withdraw from stimulus policies.
- The new Monetary Policy Council is unlikely to change the basic interest rates of the National Bank of Poland throughout most of the year given the falling inflation and uncertainty about the further developments in the global and Polish economy (interest rate increases possible towards the end of 2010).
- Gradual reduction of the central bank actions supporting liquidity of the Polish banking sector.
- Continued significant volatility in the global financial markets, constraining investors' interest in mutual funds accompanied by a moderate increase in deposits due to the improvement in the performance of companies and despite the still difficult financial position of households.
- Moderate appreciation of the zloty against the main foreign currencies as a result of relatively good assessment of the Polish economy and the gradual rebuilding of the risk appetite in the global financial markets.
- Gradual increase in demand for properties and home loans given the improved outlook for the economy and the labour market.

VIII. Risk Management

1. Risk Management Structure

The main objective of risk management in Bank Zachodni WBK Group is to ensure effective operations to support development within the approved risk parameters. Risk management practice is in keeping with the industry benchmark and Basel II guidance, and covers operational risk as well as the three main financial risk areas: credit risk, market risk and liquidity risk.

Risk is managed within the predetermined acceptable risk level, which is reflected in the internal limit system. The applicable risk management policies govern the process of identifying, measuring and reporting the risk level and the process of setting limits for individual risks on a regular basis. The bank modifies and expands its risk management procedures on a regular basis, taking into account changes of market conditions, product offer, regulatory environment and evolving best sectoral practice in the sector.

The Bank Zachodni WBK S.A. Management Board, which is responsible for shaping and implementing the risk management structure, sets up committees, which are directly accountable for developing risk management methods and monitoring risk levels in specific areas. The activities of these committees are supervised by Bank Zachodni WBK S.A. Risk Management Committee which defines the risk management strategy in Bank Zachodni WBK Group, in particular identifies key risks, specifies the acceptable risk levels and methods of their measurement, controlling, monitoring and reporting. The following Committees report to Risk Management Committee: Credit Policy Forum, Credit Committee, Provisions Committee, ORMCo, Market Risk Committee, Assets and Liabilities Management Committee (ALCO/ICAAP Forum), Equity Investment and Underwriting Committee, Interbank Limits Committee, Disclosure Committee, Deposit Working Group and Private Banking Investment Committee.

2. Credit Risk Management

Credit Policy

In its lending activity Bank Zachodni WBK Group focuses on a balanced growth of a high quality profitable loan-book and on customer satisfaction.

High quality credit exposure is ensured by applying principles of loan sanctioning and monitoring, which mitigate the credit risk.

The Group's credit policy is composed of a set of principles and guidelines, which constitute credit policies and procedures introduced by Management Board resolutions, ordinances of Management Board Members and ordinances of the Chairman of Credit Policy Forum, and guidance communicated internally in response to changes in the business environment.

The bank's lending manuals set out credit delivery and collateral management processes in retail, SME, business and corporate banking areas.

The business lending policy sets a direction for lending and conditions under which the bank would finance specific groups of customers. The policy governs, inter alia, financing of specific segments, lending purposes and mitigation of acceptable risk.

Internal limits are crucial components of the bank lending policy. They facilitate monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies.

Each lending regulation is reviewed at least once a year in order to ensure it is topical and complies with other internal procedures and laws.

Discretionary limits applied across the bank are governed by the guidelines on "Discretionary Limits in Bank Zachodni WBK S.A.". The guidelines define roles and responsibilities of individual units and staff members involved in the credit delivery process.

The bank's lending policies and procedures, credit grading and risk assessment systems are subject to approval of the Credit Policy Forum, which is chaired by the Chief Credit Officer.

The lending activity of the leasing subsidiaries, i.e. BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A., is modelled on the bank's lending policies. The leasing companies use the bank's scoring/ rating tools and carry out portfolio monitoring in accordance with the bank's regulations. BZ WBK Faktor Sp. z o.o., a factoring company, has its internal regulations, which reflect the specific nature of the credit risk in that business and are consistent with the bank's standards and policies.

The "Risk Appetite Statement" as approved by the Risk Management Committee and the Supervisory Board, is the fundamental document which defines the credit risk profile of the Group. The document sets out strategic limits and their acceptable levels within business operations of the bank and the Group.

Credit Risk Management

Credit Risk

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities as a consequence of the borrower's worsening credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

The Group's credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan portfolio.

The Group's credit risk management involves actions taken as a result of the on-going analysis of the macroeconomic environment and the internal review of the particular credit portfolios. The advanced credit risk assessment tools allow quick remedial action to be taken in response to the first signals of changes in the portfolio quality or structure. In 2009, due to the economic slowdown, the Group tightened its already conservative lending policies and implemented new risk assessment models, adjusting the credit management process to the volatile market conditions. The high quality of the credit portfolio confirms that these actions have been effective.

Credit Grading

Intensive work has been undertaken for further development of the credit risk assessment tools to conform to the Basel requirements and International Accounting Standards/International Financial Reporting Standards IAS/IFRS. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, income-producing real estates, cash loans, credit cards and personal overdrafts.

In 2009, new risk assessment models were implemented for credit cards and cash loans to incorporate customers' behavioural features established on the basis of data available from BIK (the National Credit Bureau), and a new SME model for external customers.

The Group runs a systematic monitoring of credit grading pursuant to the rules described in the lending manuals. In 2009, the monitoring was intensified and adjusted to the current situation. Additionally, for selected models automated process of credit grade verification is carried out based on the number of days past due or behavioural features analysis. Credit grade may also be verified at subsequent sanctions.

Calculation of Impairment

In Bank Zachodni WBK S.A. and its subsidiaries, impairment charges are recognised in accordance with the (IAS/IFRS). The charges reflect credit impairment which is recognised if there is an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39).

Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses).

The bank compares the assumptions and parameters used for impairment calculations with the actual situation every year. The comparison includes changes of economic conditions, amendments to bank credit policies and recovery process. The process provides assurance that impairment charges are recognized correctly. The responsibility for ensuring an adequate level of charges rests with the Provisions Committee.

Credit Risk Stress Testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on the bank's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process provides also management information about adequacy of agreed limits and internal capital allocation.

Return on Risk

The Group continues to develop and improve risk based methods of pricing loans, allocating capital and measuring returns. Currently, for all significant portfolios, risk assessment models based on EVA are being implemented.

Credit Decision Making Process

The credit decision-making process as part of the risk management policy is based upon Individual Discretionary Credit Limits vested in credit officers, commensurate with their knowledge and experience relating to particular activities (retail, business and corporate banking). Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management and top executives.

Bank Zachodni WBK Group continually strives to ensure best quality credit services to meet the borrowers' expectations and relevant risk policy standards. To this end, the credit risk approval function has been separated from the sales function. Credit decision making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and reporting managers.

In order to ensure better risk management, the bank implemented scoring techniques for retail customers, SME and home loans. The scoring systems are continuously refined to enhance the quality of risk management and the decision-making process.

Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and the Quality Assurance Department, which are independent of the risk-taking units.

3. Market Risk and Liquidity Risk Management

The key objective of the Bank Zachodni WBK Group market risk policy is to reduce the impact of interest and FX rates volatility on the Group's profitability and market value, increase income within the strictly defined risk limits and ensure the Group's liquidity.

The market risk associated with the Group's operations stems mainly from services provided to customers and related debt instruments, FX and equity transactions.

Market Risk

The Risk Management Committee approves strategies and policies on market risk management and limits that define the maximum acceptable exposure to individual risk types, in accordance with the Risk Appetite Statement.

The Management Board makes its strategic decisions on the basis of recommendations put forward by the ALCO Committee or the Market Risk Committee. The Management Board delegated the direct supervision of market risk management to the two above-mentioned Committees.

The direct market risk management is centralised within the Treasury Division, except for the risk arising from changes in the price of equity instruments, which is managed by the staff of Dom Maklerski BZ WBK S.A.

Identification and Assessment of Market Risk

Qualified staff, using appropriate systems and controls, identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers it to the Treasury Division. The Treasury Division then executes relevant transactions (e.g. in the inter-bank market, in securities, derivatives, etc.) in order to maintain the risk at an acceptable level.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO. Risk limits are periodically reviewed to align them with the bank's strategy and current objectives.

Interest rate and FX risks are monitored using the Value at Risk (VaR) methodology which is a standard industry tool for the measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The Group applies the VaR methodology to both the trading and banking portfolio.

Liquidity Risk

Liquidity risk is the risk that the Group fails to meet its contingent and non-contingent commitments made to its customers and contractors.

The Group's liquidity policy is to counter-balance the expected outflows with expected inflows and/or sale of liquid assets (mainly debt securities) to resist any extraordinary or crisis situations triggered by internal factors (e.g. sudden increase in the value of facilities drawn under the sanctioned credit lines) or external ones (e.g. material liquidity contraction on the inter-bank market). The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

In order to manage liquidity in a challenging economic environment in 2009, Bank Zachodni WBK Group focused on keeping its loan-to-deposit ratio at a safe level and on maintaining a significant level of unencumbered liquid assets to provide an appropriate liquidity buffer (mainly government debt securities). Actions taken by the Group to keep customer deposits at an appropriate level through marketing campaigns and tailored product offer ensured high stability of customer deposits (the main source of funding for Bank Zachodni WBK S.A.) despite fierce competition among banks.

Liquidity Risk Management

ALCO has overall responsibility for the supervision of liquidity risk on behalf of the Management Board. ALCO makes recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management.

Also, direct liquidity management is centralised within the Treasury Division in order to keep the risk within the set limits. Compliance with the limits is measured and monitored on a daily basis by qualified staff, who are independent of risk-generating units and the managing unit.

Liquidity risk reports and results of stress tests are regularly reviewed by the senior management and by ALCO.

Bank Zachodni WBK Group has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan is updated on a regular basis.

Identification and Assessment of Liquidity Risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports and regulatory reports. Regular liquidity measurement reports are supported by stress test results.

According to the Group's policy, the bank should have funds sufficient to cover outflows expected over one-month time horizon in full. The liquidity position over a longer time horizon and the level of easily marketable assets are monitored as well.

In 2009, the bank's funds significantly exceeded the level required to cover the expected outflows.

At the same time, the bank complied with Resolution no. 386/2008 of the Polish Financial Supervision Authority (KNF) on liquidity management, in respect of, inter alia, liquidity monitoring, measurement and reporting.

The bank met the regulatory quantitative requirements for liquidity throughout 2009. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

4. Operational Risk Management

According to the definition agreed by the Basel Committee on Banking Supervision, operational risk is the risk of loss resulting from external factors or inadequacy or failure of internal processes, human resources and systems.

Operational risk is inherent in all the Group's business processes, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Group is fully responsible for identification and management of the operational risks pertaining to its operations. The objective of the operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Bank Zachodni WBK Group applies "Operational Risk Management Policy" and "Operational Risk Management Framework". In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) created by the Management Board sets the strategic direction for operational risk activities, in relation to, inter alia, BCM, information security and fraud prevention. ORMCo is a forum for official discussions on operational risk and it determines and monitors operational risk management objectives and sets priorities with regard to high risks. The effects of this work are reported to the Management Board.

To ensure adequate risk management and identification of the key threats, the following processes are employed:

- Identification and assessment of operational risk
  In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks in terms of their likelihood and impact, and describe the existing controls. The risks with high residual rating have proper action plans developed with progress against them reviewed quarterly by ORMCo.
- Reporting on operational incidents and lessons learned
  Each organizational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are taken.
- Analysis of risk indicators
  Risk indicators are financial and operational indicators which depict the risk level present in Bank Zachodni WBK Group and provide early warning of emerging threats and operational losses.
- Business continuity management (BCM)
  Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.
- Regular reporting to the Risk Management Committee and Supervisory Board
  Operational risk reports include, inter alia: operational risk incidents, risk indicators, operational risk self-assessment.
- Insurance
  The bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Professional Indemnity.

5. Legal and Regulatory Risk Management

According to the guidelines of the Basel Committee, legal and regulatory risk is the risk of sanctions imposed by supervision authorities, significant financial loss or reputation damage which the Group may be exposed to whenever the regulations, standards and codes of conduct applicable to the Group's business operations are breached.

Identification and Assessment of Risk

Accountabilities of the Compliance Area include ensuring compliance with legal and regulatory requirements applicable to business operation, including prevention of money laundering, protection of confidential information and protection of personal data. Tasks of identifying, interpreting and propagating knowledge of other legal and regulatory requirements across the Group were assigned to units having competence in such areas.

The HR Management Division is responsible for compliance with the labour law, the Finance Division is responsible for compliance with the tax law, and the Finance and Risk Management Divisions are responsible for compliance with prudential regulations.

The Compliance Area coordinates the semi-annual process of assessing key legal and regulatory risks in Bank Zachodni WBK Group. The process includes estimating risk weights, potential impact of risk on business and effectiveness of controls, which are in place to mitigate the risks. Legal and regulatory risk reviews focus on threats to which the Group may be exposed to over the coming three years, including risks associated with implementation of new regulations, enhanced controls carried out by supervision authorities (so called regulators) and increased requirements of the shareholders.

The risks to which Bank Zachodni WBK Group is exposed are discussed by the Risk Management Committee and the Audit Committee of the Supervisory Board. As regards the above-mentioned process, the Compliance Area, in liaison with business units, uses the risk management model to identify, assess and control key non-compliance risks at the level of individual units. The identified legal and regulatory risks are included in operational risk self-assessment of the units.

Risk Management and Controls

The policy for ensuring compliance with legal and regulatory requirements was adopted by the Bank Management Board and, subsequently, approved by the Supervisory Board. Under the policy, the Compliance Area has been established and vested with appropriate powers, as a unit which supports senior managers in effective management of non-compliance risk. Key compliance risks are reviewed by the Audit Area every six months to get assurance that the risks are managed appropriately.

The Bank Risk Management Committee is responsible for ensuring compliance with regulatory requirements and approves principles of internal control and the compliance policy framework, ensuring that the Compliance Area is independent of business units and has adequate resources.

The Compliance Area is responsible, in particular, for:

- independent identification, assessment and monitoring of the non-compliance risk to which the Group is exposed to;
- advising and reporting to the Risk Management Committee, the Bank Management Board and the Audit Committee of the Supervisory Board in respect of effectiveness of compliance with legal and regulatory requirements which fall within its remit;
- providing the management and staff with guidance on the non-compliance risk and non-compliance risk management policies and procedures;
- monitoring, at the request of specialist units, of high non-compliance risks in respect of legal and regulatory requirements which are not related to the business profile, i.e. in respect of tax law, commercial law, labour law, environment protection law and health and safety at work regulations.

In Bank Zachodni WBK Group, the legal and regulatory risk management is coordinated by the Compliance Area, which reports to the Management Board Member in charge of the Legal and Compliance Division. To the extent permissible by law, the Area coordinates and supervises the process of managing the non-compliance risk by compliance units of the subsidiaries.

6. Capital Management

Introduction

It is the policy of Bank Zachodni WBK Group to maintain capital at a level appropriate to the type and scale of its business and the risk it is exposed to, in accordance with the applicable Banking Law and regulations of the Polish Financial Supervision Authority, which transposed the New Capital Accord of the Basel Committee on Banking Supervision (Basel II) to the Polish law.

The New Basel Capital Accord revised the approach to measurement of the minimum regulatory capital requirement (Pillar 1) and introduced measurement of internal capital (Pillar 2), where in-house models are applied by banks in day-to-day risk management.

The Management Board is accountable for capital management, calculation and maintenance processes, including assessment of capital adequacy in different economic conditions. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The Bank Management Board delegated the day-to-day capital management to ALCO/ICAAP Forum. The Committee assesses capital adequacy, including capital adequacy under stressed scenarios, on an ongoing basis. Also, the Committee monitors the capital level and initiates transactions which affect the capital held (recommending, e.g. the dividend pay-out level). ALCO/ICAAP Forum defines the capital policy, principles of capital management, principles of capital adequacy assessment both in the bank and the Group, reviews and approves capital plans, and sets out principles of capital allocation to individual business segments when assessing their profitability.

Capital Policy

Solvency ratio, which is the ratio of capital requirements for individual risks to total capital, after obligatory deductions recognised in accordance with the Banking Law and resolutions of the Polish Financial Supervision Authority, is one of the key measures used by Bank Zachodni WBK S.A. to manage capital. Under the Banking Law, the minimum capital adequacy ratio is 8% at both the bank and Group level.

Under the Bank Zachodni WBK S.A. capital management policy, the target minimum solvency ratio is 10% at both the bank and Group level.

At the same time, the Tier 1 capital ratio (which is the ratio of core equity capital to risk-weighted assets for credit, market and operational risks) may not be lower than 8% for both the bank and the Group (additional requirement may be also applied as part of Supervisory Review and Evaluation Process in Pillar 2).

Solvency Ratio

Pillar 1 risks and capital required for such risks are assessed quantitatively. The bank uses regulatory approaches to the measurement of these risks. In 2009 and 2008, with regard to:

- credit risk – the bank used the standardised approach for all portfolios;
- operational risk – the bank used the standardised approach;
- market risk – the bank used the basic measurement methods.

The capital requirement for individual risks is aggregated directly to determine the overall capital requirement (Pillar 1).

The table below shows rates used to calculate the solvency ratio for the Group as of 31 December 2009 and 31 December 2008.

PLN m

	31.12.2009	31.12.2008
Total capital requirement	3,332.4	3,532.9
Capital and funds after deductions	5,402.2	4,743.6
Solvency ratio	12.97%	10.74%

Until the end of 2008, regulations of the Banking Supervisory Commission (KNB) applied. The regulations were binding for 2008 year-end financial statements.

Internal Capital

The bank defines internal capital as the capital required to safeguard the bank against the impact of major unexpected losses which may jeopardise the bank's solvency.

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process, the bank is required to estimate, allocate and maintain the required level of internal capital to ensure secure conduct of its banking business, taking into account the bank's risk profile set out in the Risk Appetite Statement.

The key objective of the ICAAP is to create a link between the risk profile, risk management, risk mitigation and internal capital level. The bank has an appropriate process in place to assess all the key elements of capital planning and management (including aggregation of capital for different risk types). The process ensures that the bank's capital will be sufficient to cover all the particular risks. The internal capital estimation process is adjusted to the type, scale and complexity of the bank's business.

The current approach is to aggregate the capital for Pillar 1 risks and then to add the estimated capital for actual and potential Pillar 2 risks. Quantitative risk measurement methods are applied where feasible and practicable. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

IX. Corporate Governance

1. Compliance with Best Practice

In 2009, Bank Zachodni WBK S.A. complied with all the corporate governance rules contained in the document "Best Practice in Public Companies" which was implemented by the Warsaw Stock Exchange Board on 4 July 2007 (Resolution no. 12/1170/2007) and became effective from 1 January 2008. The practices were transposed to the bank's regulations by virtue of Management Board resolution no. 87/2007 of 5 December 2007 and Supervisory Board resolution no. 1/2008 of 22 January 2008. The practices are available from the bank's website ("Investor Relations" section).

The bank's corporate documents, including the Statutes, General Meeting Regulations and the Terms of Reference of the Management Board and the Supervisory Board fully comply with the existing version of the "Best Practice". Compliance with the best practice and external relations standards are supported by the bank's internal procedures which specify the roles of individual units in this regard.

In the previous years, the bank adhered to the rules set out in the "Best Practice in Public Companies 2005" (in the years 2005 – 2007) and the "Best Practice in Public Companies in 2002" (in the years 2002 – 2004).

2. Equity Securities Issued by the Bank

Significant Shareholding

According to the information held by the bank's Management Board, at the sign-off date of Annual Report 2009 of Bank Zachodni WBK Group (26 February 2010), the only significant shareholder of the bank was Dublin-based AIB European Investments Ltd. (see Chapter II, part 2 "Share Capital, Ownership Structure and Share Price" for more details).

Rights and Restrictions Attaching to the Issuer's Securities

Bank Zachodni WBK S.A. did not issue any securities that would give its holders any special control rights or would limit their equity rights. Likewise, there are no restrictions on the transfer of title to the issuer's shares.

3. Governing Bodies

General Meeting of Shareholders

General Meeting of Bank Zachodni WBK S.A. Shareholders is held as provided for in the Commercial Companies Code of 15 September 2000, Bank Zachodni WBK S.A. Statutes and Bank Zachodni WBK S.A. General Meeting Regulations (GM Regulations). The Statutes as well as the GM Regulations are available at the bank's website.

General Meeting takes decisions on issues within its remit, as defined by the Commercial Companies Code, Banking Law and the bank's Statutes.

Shareholders' Rights

Shareholders' rights and the way they are exercised are provided for in the bank's GM Regulations and pursue the Commercial Companies Code.

The Last Annual General Meeting of Shareholders

The Annual General Meeting of BZ WBK Shareholders (AGM) held on 21 April 2009, approved the 2008 financial statements submitted by the Management Board and the Supervisory Board, resolved on distribution of the net profit and dividend payment and granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year. The AGM approved changes to the bank's Statutes and adopted its consolidated version. The changes resulted from the need to adjust the Statutes to the existing operations of the bank and the powers of its executive directors. The amended Statutes also reinforce independence of the internal audit by extending the Supervisory Board's oversight of the bank's internal control system, in accordance with the Banking Law and the Resolution of the Polish Financial Supervision Authority no. 383/2008 of 17 December 2008. The changes to the bank's Statutes were approved by the Polish Financial Supervision Authority and recorded in the National Court Registry on 13 May 2009.

Method of Changing the Statutes

Bank Zachodni WBK S.A. changes its Statutes in a way prescribed by the applicable law.

Composition of the Supervisory Board

As at 31 December 2009, the composition of the Bank Zachodni WBK Supervisory Board was as follows:

Role		Composition as at 31.12.2009
Chairman of the Supervisory Board:	1.	Aleksander Szwarc
Members of the Supervisory Board:	2.	Gerry Byrne
	3.	Waldemar Frąckowiak
	4.	Aleksander Galos
	5.	Maeliosa OhOgartaigh
	6.	John Power
	7.	Jacek Ślotała

The persons listed above were appointed by the AGM of 18 April 2008 for a new 3-year term of office. The original composition included James O'Leary, who stepped down from the Supervisory Board on 21 April 2009.

Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK S.A. operates particularly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available at the bank's website.

The Supervisory Board exercises on-going supervision over all the aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Resolutions are voted upon in a secret ballot in the cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board also in a secret ballot. The Supervisory Board meetings are held as needed, however at least 3 times in any financial year. The Supervisory Board Members convene at the same time in a single location or in different locations communicating via telephone or video links.

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. The following Supervisory Board committees operate in the bank: Social Responsibility Committee, Remuneration and Nominations Committee and Audit Committee.

Composition of Supervisory Board Committees as at 31 December 2009:

Supervisory Board Committee		Role	Composition
Social Responsibility Committee	1.	Chairman	Gerry Byrne
	2.	Member	Jacek Ślotała
Remuneration and Nominations Committee	1.	Chairman	Gerry Byrne
	2.	Members:	Aleksander Szwarc
	3.		Jacek Ślotała
Audit Committee	1.	Chairman	John Power
	2.	Members:	Waldemar Frąckowiak
	3.		Aleksander Galos
	4.		Maeliosa OhOgartaigh

The Social Responsibility Committee supervises the efforts aimed to achieve the desired perception and awareness of the bank's brand. It also monitors the bank's CSR policy as well as the budget for marketing, promotion and corporate giving.

The Remuneration and Nominations Committee develops succession plans for the Management Board, recommends Management Board members and performs annual reviews of their remuneration. The Committee reviews and monitors the policies and practices governing the remuneration system in the bank and its subsidiaries.

The Audit Committee supervises the bank's financial reporting, risk management and internal control processes and monitors independence of chartered auditor. The Audit Committee was composed mostly of independent Supervisory Board members.

As at 31 December 2009, the following members of the Supervisory Board held an independent status: Waldemar Frąckowiak, Aleksander Galos, John Power, Aleksander Szwarc and Jacek Ślotała.

The annual Reports on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's Reports on Examination of the Bank's and the Group's Annual Report along with the assessment of their operations are published in current reports which convey the resolutions passed by the AGMs. As of the date of the sign-off of Annual Report 2009, such information was last published in the current report no. 10/2009 on AGM held on 21 April 2009 and concerned the operations of the bank, Bank Zachodni WBK Group and Supervisory Board in 2008.

Composition of the Management Board

As at 31 December 2009, the composition of the Bank Zachodni WBK S.A. Management Board was as follows:

Role		Composition as at 31.12.2009
President of the Management Board:	1.	Mateusz Morawiecki
Members of the Management Board:	2.	Paul Barry
	3.	Andrzej Burliga
	4.	Declan Flynn
	5.	Justyn Konieczny
	6.	Janusz Krawczyk
	7.	Jacek Marcinowski
	8.	Michael McCarthy
	9.	Marcin Prell
	10.	Mirosław Skiba
	11.	Feliks Szyszkowiak

The persons listed above were appointed by the Supervisory Board on 21 April 2009 for a joint 3-year term of office.

Compared with 31 December 2008, one new member joined the Management Board. On 16 December 2008, the Bank Zachodni WBK S.A. Supervisory Board nominated Michael McCarthy as Management Board Member in charge of the newly created Business and Corporate Banking Division effective from 1 February 2009.

Appointment and Removal of Executives

The members of the Bank Zachodni WBK S.A. Management Board are appointed and removed in accordance with the Commercial Companies Code, the Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board members should be Polish citizens. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK S.A. Management Board manages and represents the bank. The Management Board has all powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board. Permanent committees operative in the bank include: Risk Management Committee, Credit Committee, Provisions Committee, Credit Policy Forum, Assets and Liabilities Management Committee, Operational Risk Management Committee, Market Risk Management Committee, Interbank Limits Committee, Value Management Committee, Deposit Working Group.

Management Board members acting severally do not have any specific powers. They cannot take decisions on issuing or redeeming shares.

Role of the Management Board

The Management Board operations are primarily governed by the Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

According to the bank's Statutes, the following individuals are authorized to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (prokurent), or two commercial representatives acting jointly. Representatives authorized to act severally or jointly with any of the persons listed in letter b) or with another authorized representative can be appointed.

The Management Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Secret ballot is held in the cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board also in a secret ballot. The Management Board meetings are held as needed. The Management Board Members convene at the same time in a single location or in different locations communicating via telephone or video links.

Other Management Board and Supervisory Board Information

Remuneration of the Supervisory and Management Board Members

Information on the remuneration of the Bank Zachodni WBK S.A. Supervisory and Management Board members for 2009 and the comparable period is presented in Note 46 to the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2009".

Agreements Between Bank Zachodni WBK S.A. and its Executive Directors

The Bank Zachodni WBK S.A. Management Board members signed agreements prohibiting competition after termination of their role on the Management Board. A Management Board member who is not appointed for a new term of office or is removed from the Management Board is entitled to a once-off severance pay. The severance pay does not apply if the Management Board member accepts a new job role in the bank.

Shares in Possession of the Supervisory and Management Board Members

As at the date of Annual Report 2009 of Bank Zachodni WBK Group, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK S.A.. Changes in shareholdings held by Supervisory Members:

Member of the Supervisory Board	No. of BZ WBK shares	
	31.12.2009	31.12.2008
Waldemar Frąckowiak	–	278
Other Members	–	–

Under the 1st BZ WBK Share Incentive Scheme, launched in 2006, Members of the Management Board were allocated 23,084 out of 115,729 of H series shares issued as part of the conditional increase of the share capital (the shares were registered by the National Depository of Securities/Krajowy Depozyt Papierów Wartościowych S.A. on 10 July 2009). On top of that, the Management Board members have a conditional right to acquire shares under the 2nd and 3rd Incentive Scheme. Below are shares and rights held by the Management Board Members as of 31 December 2009.

Member of the Supervisory Board	31.12.2009		31.12.2008	
	No. of BZ WBK S.A. shares	Rights	No. of BZ WBK S.A. shares	Rights
Mateusz Morawiecki	3,591	9,961	–	13,552
Paul Barry	–	–	–	–
Andrzej Burliga	1,606	4,417	–	6,023
Declan Flynn	–	–	–	–
Justyn Konieczny	3,591	7,847	–	11,438
Janusz Krawczyk	3,397	6,661	–	10,058
Jacek Marcinowski	3,397	6,661	–	10,058
Michael McCarthy	–	–	–	–
Marcin Prell	2,530	6,661	–	9,191
Mirosław Skiba	1,575	2,813	–	4,388
Feliks Szyszkowiak	3,438	6,661	–	10,058
Total	**23,125**	**51,682**	**–**	**74,766**

Bank Zachodni WBK S.A.

4. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports the decision-making processes and contributes to efficient operation of the organisation, reliability of financial reporting and compliance with the internal and external regulations. The internal control system is adjusted to the organisational structure and risk management system and includes the Business Support Centre, branches and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. The Supervisory Board has oversight over implementation of the internal control system and evaluates its adequacy and effectiveness.

Financial data preparation for the purpose of statutory reporting is automated and based on the consolidated General Ledger and Data Warehouse. Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. A set of specialist controls is also applicable to the data processing for the financial reporting purposes. Any manual corrections or management overrides are under strict control.

The bank follows any legal and regulatory changes related to reporting in the law and updates in accounting rules and disclosures. The bank, through its representatives sitting on supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

The financial statements are formally approved by the Disclosure Committee which is responsible for ensuring that the data are true and compliant with law. The Disclosure Committee recommends the financial statements to the Management Board for ratification.

In addition, the effectiveness of controls is assessed annually as part of the certification process for compliance with Sarbanes-Oxley Act.

Internal Control Compliant with the Sarbanes-Oxley Act

Bank Zachodni WBK S.A. as a subsidiary of the AIB Group must fulfil the requirements arising from the Sarbanes-Oxley (SOX) Act insofar as it relates to the Group. This regulation introduced strict rules with respect to exercising internal control over the company's financial reporting. As part of AIB Group SOX certification for 2009, Bank Zachodni WBK S.A. Management has confirmed that no events have occurred in Bank Zachodni WBK Group which could materially impact relevant processes or effectiveness of internal controls over the financial reporting.

Selection of Auditor

In accordance with §32 point 10 of the Statutes of Bank Zachodni WBK S.A. and the industry practice, on 24 June 2009 the bank's Supervisory Board passed a resolution appointing KPMG Audyt Sp. z o.o. as an auditor to review the bank's stand-alone and consolidated financial statements for 2009 and to audit the full accounts for 2009. KPMG Audyt Sp. z o.o. audited the bank's financial statements for the prior years and through other KPMG companies provided consulting services permitted by law and the bank's internal regulations, in a manner that ensured impartiality and independence of the auditor.

Remuneration of Auditor

The table below shows the remuneration paid to KPMG Audyt Sp. z o.o. for its audit/review of the financial statements of Bank Zachodni WBK Group under the relevant agreements:

PLN k

Remuneration of KPMG Audyt Sp. z o.o.	Reporting Year ended on 31.12.2009	Reporting Year ended on 31.12.2008
Audit fees in respect of the parent bank*	1,019	1,158
Audit fees in respect of the subsidiaries	451	474
Audit fees related to the assurance services, including the review of the parent bank**	360	563
Total	**1,830**	**2,195**

* based on the Agreement on Audit of Financial Statement and Group Report of 15 December 2009
** based on the Agreement on Review of Financial Statement and Group Report of 25 June 2009

X. Awards and Recognitions

In 2009, Bank Zachodni WBK S.A. and its subsidiaries received a number of awards. The key ones are presented below.

Awards for Bank Zachodni WBK S.A.	
Second position in the ranking of accuracy of projections	The economists of Bank Zachodni WBK S.A. came second in the ranking of accuracy of macroeconomic forecasts for 2008 published by the stock newspaper Parkiet (January 2009).
The best managed company in the financial sector	The stock exchange newspaper Parkiet awarded the Bull and Bear statuettes to the leaders of capital markets. The award for the "best managed company in the financial sector" went to Bank Zachodni WBK S.A..
Award in the competition "Mother Friendly Company"	In February 2009, Bank Zachodni WBK S.A. received one of the three main awards in the nation-wide competition "Mother Friendly Company".
"Service Quality" accolade	In the prestigious ranking of Newsweek (March 2009) Bank Zachodni WBK S.A. was given the "Service Quality" accolade for taking the third position in the "banks, finance and insurance" sector. Quality assessment was based on observation and feedback from consumers.
Highly trusted bank	On 25 March 2009, the Rzeczpospolita daily published a ranking showing the banks that customers trust most. 33% of the respondents said they trusted Bank Zachodni WBK S.A. as a depositor. The bank took the third position in the ranking after PKO BP and Pekao S.A.
"Alicja 2008" award	For the fourth time, Bank Zachodni WBK S.A. received the "Alicja" award presented by the Twój Styl monthly to financial institutions for their most interesting and innovative products and services that are both favourable and safe for customers – in this case, the award was given for the contactless card.
One of the most-valued companies in Poland	In April 2009, Newsweek Poland and the consulting firm A.T. Kearney placed Bank Zachodni WBK S.A. in the thirteenth position among the most-valued Polish companies (and third among banks).
One of the top three banks for SMEs	In a survey conducted by the INDICATOR Marketing Research Institute and the Warsaw Institute of Banking, Bank Zachodni WBK S.A. was indicated as the third most popular bank among small and medium-sized enterprises (Rzeczpospolita, 5 May 2009).
"Partner of the Year" title	The judging panel of the 4th Electronic Economy Congress awarded Bank Zachodni WBK S.A. with the "Partner of the Year" title (May 2009) for its contribution to building the electronic economy and information society in Poland (contactless and pre-paid cards, 3D Secure service)
"Support Leader" title	Help Desk Institute Poland awarded the bank's Department of IT Service Support and Development with the title "Support Leader 2008" (June 2009) in the category "Project of the Year". The recognised project was "Optimisation and improvement of BZ WBK S.A. business through consolidation of IT services".
"HR Management Leader"	Bank Zachodni WBK S.A. was recognised in the 10th edition of the Poland-wide competition "HR Management Leader" for "promoting equal opportunities" (June 2009). The recognition was accorded to the bank for a number of projects which create the company's image as a learning organisation, supporting expecting and new mothers and encouraging staff innovation.
Senior-Friendly Bank	In the Newsweek's ranking "Friendly Bank" (September 2009), Bank Zachodni WBK S.A. was awarded for its second position in the category "Senior-Friendly Bank". In the general category of friendly banks, the bank ranked 5th out of 23 banks. This is the highest position among its peers.
"Customer Friendly Firm"	The bank received another accolade "Customer Friendly Firm" (October 2009) as a result of the positive assessment of its customer service in a three-stage certification procedure that covered: quality management policy, knowledge of the quality procedures among the front-line staff and customer satisfaction.
Responsible companies ranking – employee relations	In the ranking of "responsible companies" organised by the Responsible Business Forum, PriceWaterhouseCoopers and Gazeta Prawna, Bank Zachodni WBK S.A. achieved the 23rd position in the overall category and the 4th in the category "Banking and Insurance". As the only financial institution the bank scored top in the category "Employee Relations".
"Effie Awards"	Bank Zachodni WBK S.A. (together with Universal McCann Media House) received the highest award in the category "Financial Services" and a silver statuette for its cash loan campaign featuring John Cleese in a competition organized by the Marketing Communications Association and Management Department of the Warsaw University (October 2009).
Bank Keeping Close to Customers	In the ranking of the Gazeta Prawna daily (December 2009), Bank Zachodni WBK came first in the category "Friendly Website".

Awards for Bank Zachodni WBK S.A.	
"Innovative card of 2009"	The internet card of Bank Zachodni WBK was awarded at the conference "Central European Electronic Card – Warsaw" as the innovative card of 2009" (December 2009).
Oracle Innovation Awards	As the only Polish company, Bank Zachodni WBK received the Oracle Innovation Award in the category of system integration (December 2009). The award goes to the international companies that are distinctive by their innovative approach to system integration using Oracle products.

Awards for Dom Maklerski BZ WBK S.A.	
The highest share in the NewConnect market trading	At the meeting titled "2008 – Investment Companies and the Stock Market: Success in Difficult Conditions" held on 19 February 2009, the Warsaw Stock Exchange awarded Dom Maklerski BZ WBK S.A. for its biggest share in the NewConnect market trading in 2008, exclusive of market-making activity.
The best brokerage house in Poland	Dom Maklerski BZ WBK S.A. came top in the ranking of brokerage houses in Poland in 2008 on account if its good performance and profit growth in the equity and futures market.
The best website	Dom Maklerski BZ WBK S.A. received the first position in the ranking of websites of stockbroking companies, published by Gazeta Prawna (on 30 January 2009). It is one more time that Dom Maklerski BZ WBK S.A. topped the ranking (previous editions ran on 25 February 2008 and 25 September 2008).
High quality of service for institutional customers	According to Forbes' ranking (10/2009) of brokerage houses based on a survey of mutual funds corporations and open pension funds, Dom Maklerski BZ WBK S.A. was second in terms of the quality of service for institutional customers.

Awards for BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	
Top positions in rankings	BZ WBK AIB Towarzystwo funduszy Inwestycyjnych S.A. topped the ranking of the best mutual funds in Poland in the first half of 2009 (Gazeta Prawna, 3 July 2009). Seven funds managed by the company were among leaders in their respective categories.
Best fund and fund manager in 2009	The manager of Arka BZ WBK Środkowej i Wschodniej Europy FIO (CEE Equity Fund) was recognised as the best asset management professional in 2009 (the fund recorded a y-o-y increase in value of 86.8%). Arka BZ WBK Rozwoju Nowej Europy FIO (New Europe Development Fund) became the best fund of the year with a y-o-y increase in value of 91% (Puls Biznesu, 7 January 2010).

XI. Other Events and Supplementary Information

1. Changes to the Management Organisation

Business Support Centre of Bank Zachodni WBK S.A.

Business & Corporate Banking Division

Following the adoption of new rules of business customer segmentation, early in 2009 the bank commenced the process of implementing changes to its business functions. On 1 February 2009, the Business and Corporate Division was established with a responsibility for managing the relations with the companies that meet the following criteria:

- business customers, i.e. companies with a turnover from PLN 30 m to 150 m and credit exposure up to PLN 15 m;
- corporate customers, i.e. companies with a turnover higher than PLN 150 m and credit exposure greater than PLN 15 m.

The Business Banking Centres took over the relationship with all the business customers while the Corporate Business Centres retained responsibility for corporate customers.

Retail Banking Division

Following the separation of the Corporate and Business Banking Division, the Customer Relationship and Sales Division was transformed into the Retail Banking Division. Its structures include, among others, the Small Enterprise Department responsible for the support of companies with an annual turnover up to PLN 30 m and a credit exposure up to PLN 3 m.

In May 2009, the Direct Banking Area, which was previously outside of the divisional structure, was merged with the Retail Banking Division. The Direct Banking Area is responsible for the card and ATM business, and for development of distribution channels such as: phone banking, electronic banking, intermediaries, BZWBK24 and mobile advisors. The merger aims to enhance the capacity of the two units to develop the bank's offering and sales across all distribution channels.

Branch Network Management Structure

As part of reorganization of the branch network management structures (initiated in 2008) further modifications were prepared and implemented to make the management more efficient and improve the operating processes. On 1 October 2009, the number of regions was reduced from 12 to 10. Their administrative boundaries and branch reporting lines were accordingly adjusted.

Management Structure for Subsidiaries Servicing Business Customers

BZ WBK Faktor Sp. z o.o.

BZ WBK Finanse Sp. z o.o. was created on 18 December 2008 and registered on 14 January 2009. It was established to manage the following subsidiaries of Bank Zachodni WBK S.A.: BZ WBK Finanse i Leasing S.A., BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o. It also supports the above-mentioned companies in the planning and delivery of purchases from external suppliers.

2. Strategic IT Programmes

At the end of 2008, Bank Zachodni WBK Group revised its action plans for upcoming years in view of the global economic crisis. A Strategic Programme Portfolio was developed, including projects considered as vital for the delivery of the bank's business objectives.

The Strategic Programme Portfolio for 2009 covered the following initiatives:

- **New Front End** – creation of a new integrated branch environment based on business processes, specifically: development of automated sale processes within a single application, improvement of the data density and quality, optimization of processes; two out of the three programme stages have been delivered.
- **Loan Factory** – creation of a central unit to provide end-to-end operating support for the credit delivery process; effective separation of operating and decision-making functions in the credit delivery process; centralisation, standardisation and further automation of tasks in order to improve process quality; the programme is underway.
- **Securities Centre** – centralisation and optimisation of the establishment and management of collateral by the Securities Centre; improvement of respective processes in all business lines across the Bank Zachodni WBK Group; consecutive deployments are planned for 2010–2011.
- **Parasol** – establishment of insurance companies (BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A.) with all of the required functions and structures, including the IT infrastructure interfaced with the bank; most implementations have been completed.
- **BZ WBK Partner** – further development of the partner branch network; introduction of deposits and loans into the product offer; development of the platform to support the operating activity of BZ WBK Partner; some of these projects have been finalized while others are underway.
- **Direct Banking** – extension of the product offer in DBB channels addressed to private and business customers, changes to the bank's website (new layout and more user-friendly navigation), including the launch of a new version of the BZWBK24 transactional portal; most of the products were implemented in 2009.
- **Arrears Management Future** – customisation and optimisation of the collection and recovery process in line with the "Best in Class" model; improvement of the efficiency of the customer communication process by means of new tools; introduction of MIS reports and operating reports to track the key ratios in the collection and recovery process; project has been put in place.
- **Branch without Back Office –** the project complements initiatives progressed as part of the new Front End and Loan Factory programmes; aimed to simplify, optimize and centralize the branch operations as well as reduce workload and operating costs in the branches; most of them are scheduled for 2010.

3. Capital Expenditure

In 2009, Bank Zachodni WBK Group focused on completion of the investments started in the previous years. The capital expenditure throughout the year amounted to PLN 90.9 m (PLN 255.8 m in 2008).

Apart from the above-listed "strategic IT programmes", the key initiatives also covered the improvement of ATM security as well as enhancement of stability, reliability and security of bank systems, which included implementation of the Payment Card Industry security standard designed to ensure better protection of card holders (payment card numbers are now stored, sent and displayed on the screen in an encrypted format). Also, investments were made into increased production of contactless cards.

The remaining capital expenditures were connected with development of the bank's delivery channels. 11 new branches were launched, more than twenty outlets were modernised and 7 others were moved to their new locations. The bank also started to install in branches new devices to optimise the cash desk service. In April 2009, the process of rebranding Bank Zachodni WBK S.A. agency outlets network from "Minibank" to "Bank Zachodni WBK Partner" was brought to completion.

4. Supplementary information

Deposits by Geographies

PLN m

Ref.	Province	Deposits from Customers 31.12.2009	Deposits from Customers 31.12.2008
Bank Zachodni WBK S.A.			
1.	Dolnośląskie	9,805.4	9,744.6
2.	Kujawsko-Pomorskie	1,392.6	1,238.8
3.	Lubelskie	160.4	172.6
4.	Lubuskie	1,985.4	2,030.2
5.	Łódzkie	849.7	858.4
6.	Małopolskie	1,159.7	983.2
7.	Mazowieckie	5,657.7	6,388.3
8.	Opolskie	1,359.8	1,336.4
9.	Podkarpackie	173.6	149.6
10.	Podlaskie	255.2	246.8
11.	Pomorskie	1,904.9	1,940.8
12.	Śląskie	1,656.6	1,666.9
13.	Świętokrzyskie	324.8	327.4
14.	Warmińsko-Mazurskie	213.8	211.0
15.	Wielkopolskie	11,660.9	11,365.5
16.	Zachodniopomorskie	1,551.7	1,607.5
	Non-allocated	1,150.0	3,113.9
Subsidiaries			
	Total	**993.7**	**532.0**
Bank Zachodni WBK Group			
	Intercompany	–1,033.0	–1,103.2
	Total	**41,222.9**	**42,810.7**

Garnishee Orders and Value of Collateral

The table below shows the number and value of the garnishee orders issued by Bank Zachodni WBK S.A. in 2009 compared to 2008.

PLN m

Facility	2009 Volume	2009 Value	2008 Volume	2008 Value
Cash loans and overdrafts	24,073	188.9	11,975	81.0
Credit cards	12,699	44.7	5,521	15.6
Business loans	476	394.0	172	22.5
Mortgage loans	53	18.3	63	6.7
Total	**37,301**	**645.9**	**17,731**	**125.8**

As at 31 December 2009, the value of collateral on customer's accounts or assets amounted to PLN 30,520.2 m compared with PLN 31,120.2 m as at 31 December 2008.

Transactions with Connected Entities

Transactions between the bank and its subsidiaries are banking operations carried out on the arms length basis as part of the ordinary business and represent mainly loans, deposits and guarantees.

As at 31 December 2009, total exposure originating from loans to subsidiaries (mainly BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o., Dom Maklerski BZ WBK S.A.) was PLN 1,121.8 m versus PLN 852.8 m as at 31 December 2008. Guarantees to subsidiaries (BZ WBK Finanse & Leasing S.A., BZ WBK Leasing S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.) totalled PLN 254.8 m versus PLN 50,3 m as at 31 December 2008.

As at 31 December 2009, the deposits held by all the subsidiaries with Bank Zachodni WBK totalled PLN 1,033.0 m versus PLN 1,103.2 m a year before.

The intercompany items have been eliminated from the consolidated accounts.

Guarantees

As at 31 December 2009, guarantees sanctioned by Bank Zachodni WBK Group amounted to PLN 876.2 m as compared with PLN 901.7 m a year before.

Bank Zachodni WBK S.A. guarantees obligations arising from customers' operating activities. These are: payment guarantees, performance bonds, warranty bonds, bid bonds, loan repayment guarantees and customs guarantees. In accordance with the Bank Zachodni WBK S.A. Regulations for provision of non-consumer credit services, the bank provides civil law guarantees (mainly: loan repayment guarantees, guarantees of payments for goods or services, advance payment guarantees, performance bonds, customs guarantees) as well as guarantees under Bills of Exchange Law (mainly: loan repayment guarantees, guarantees of payment for goods or services).

The process and information required in the case of guarantees are similar to the lending process. Relevant regulations are contained in the SME Lending Manual and the Corporate & Business Lending Manual.

Selected Off-Balance Sheet Items

Commitments and Derivatives

Guarantees and commitments of Bank Zachodni WBK Group and nominal amounts of derivative transactions are as follows:

PLN m

Guarantees and Commitments	31.12.2009	31.12.2008
Financial commitments:	**6,345.1**	**9,528.8**
– credit lines	5,442.5	8,406.9
– credit cards	845.5	879.9
– other	57.1	242.0
Guarantees	**876.2**	**901.7**
Total	**7,221.3**	**10,430.5**

PLN m

Derivatives by Nominals	31.12.2009	31.12.2008
Derivatives – Forward (hedging)	1,773.7	2,704.7
Derivatives – Forward (trading)	50,171.0	139,222.6
Current FX transactions	1,119.6	957.3
Trading in equities	47.9	0.9
Total	**53,112.2**	**142,885.5**

Operating Leases

Bank Zachodni WBK Group leases offices in compliance with operating lease agreements. Total payments of all the non-cancellable operating leases (including land perpetual usufruct) are as below:

PLN m

Lease Payments by Maturity	31.12.2009	31.12.2008
up to 1 year	142.3	119.3
1 – 5 years	456.5	374.4
over 5 years	325.9	311.1
Total	**924.7**	**804.8**

Significant Court Proceedings

As at 31 December 2009, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity.

The value of all litigations totalled PLN 247.9 m which is ca. 4.1% of the Group's equity as at end December 2009 (compared to PLN 251.6 m as at 31 December 2008 which is ca. 4.8% of the Group's equity). This amount includes PLN 48 m claimed by the Group, PLN 71.9 m in claims against the Group and PLN 128 m of the Group's receivables due to bankruptcy or arrangement cases.

XII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Consolidated Financial Statements of Bank Zachodni WBK Group for 2009 were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the Group's development, achievements and position (including the underlying risks) in 2009.

Selection of Auditor

The auditing firm responsible for reviewing the consolidated financial statements of Bank Zachodni WBK Group for 2009 was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

Corporate Governance

In 2009, Bank Zachodni WBK S.A. duly complied with the corporate governance rules contained in the document „Best Practice in Public Companies" adopted by the Warsaw Stock Exchange Supervisory Board on 4 July 2007. No corporate governance breaches were reported.

Date	Name & surname	Role	Signature
26.02.2010	Mateusz Morawiecki	President of the Board	
26.02.2010	Paul Barry	Member of the Board	
26.02.2010	Andrzej Burliga	Member of the Board	
26.02.2010	Declan Flynn	Member of the Board	
26.02.2010	Justyn Konieczny	Member of the Board	
26.02.2010	Janusz Krawczyk	Member of the Board	
26.02.2010	Jacek Marcinowski	Member of the Board	
26.02.2010	Michael McCarthy	Member of the Board	
26.02.2010	Marcin Prell	Member of the Board	
26.02.2010	Mirosław Skiba	Member of the Board	
26.02.2010	Feliks Szyszkowiak	Member of the Board	

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Consolidated Financial Statements of Bank Zachodni WBK Group for 2009

Bank Zachodni WBK S.A.

TRANSLATION

Bank Zachodni WBK Group

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2009

The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 15 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the consolidated financial statements
for the finacial year ended
31 December 2009

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

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Zachodni WBK S.A.

We have audited the accompanying consolidated financial statements of Bank Zachodni WBK Group seated in Wrocław, Rynek 9/11, 50-950 Wrocław ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, with total assets and total liabilities and equity of PLN 54,058,360 thousand, the consolidated income statement for the year then ended with a profit for the period of PLN 940,156 thousand and the consolidated statement of comprehensive income for the year then ended with a total comprehensive income of PLN 1,028,427 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 843,113 thousand, the consolidated statement of cash flows for the year then ended with an increase in cash amounting to PLN 238,746 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management of the parent entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act") and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

TRANSLATION

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Bank Zachodni WBK Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the consolidated financial statements.

Signed on the Polish original

....
On behalf of KPMG Audyt Sp. z o. o.
ul. Chłodna 51, 00-867 Warsaw
Stacy Ligas
Director

Signed on the Polish original

....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 796
Bogdan Dębicki, Director

1 March 2010
Warsaw, Poland

TRANSLATION

Bank Zachodni WBK Group

Report supplementing the auditor's opinion on the consolidated financial statements Financial Year ended 31 December 2009

The report supplementing the auditor's opinion
contains 15 pages
Report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2009

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

Contents

Bank Zachodni WBK Group
Report supplementing the opinion on the consolidated financial statements
for the financial year ended 31 December 2009
TRANSLATION

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Zachodni WBK Group

1.1.2 Registered office of the Parent Company of the Group

Rynek 9/11
50-950 Wrocław

1.1.3 Registration of the Parent Company in the National Court Register

Registration court:	District Court in Wrocław, VI Commercial Department of the National Court Register
Date:	27 April 2001
Registration number:	KRS 0000008723

1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office

NIP number:	896-000-56-73
REGON:	930041341

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2009, the following companies were consolidated by the Group:

Parent Company:

- Bank Zachodni WBK S.A.

Subsidiaries consolidated on the full consolidation basis:

- Dom Maklerski BZ WBK S.A.,
- BZ WBK Finanse Sp. z o.o.,
- BZ WBK Finanse & Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ WBK Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ Faktor Sp. z o.o. – subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ WBK AIB Asset Management S.A.,
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.,
- BZ WBK Inwestycje Sp. z o.o.,
- BZ WBK Nieruchomości S.A.

Joint ventures consolidated on the equity method basis:

- BZWBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.,
- BZWBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

Associates consolidated on the equity method basis:

- POLFUND – Fundusz Poręczeń Kredytowych S.A.,
- Metrohouse S.A.,
- Krynicki Recykling S.A.

The following subsidiary was consolidated for the first time during the year ended 31 December 2009, as a result of the Parent Company acquiring a controlling interest:

- BZ WBK Finanse Sp. z o.o – subject to consolidation for the period from 14 January 2009 to 31 December 2009.

The following associate was consolidated on the equity method basis for the first time during the year ended 31 December 2009, as a result of acquiring a significant share:

- Krynicki Recykling S.A. – subject to consolidation for the period from 2 February 2009 to 31 December 2009.

1.3 Auditor information

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.4 Legal status

1.4.1 Share capital

The Parent Company seated in Wrocław was established in result of Bank Zachodni S.A. and Wielkopolski Bank Kredytowy S.A. merger on 13 June 2001 for an indefinite period on the basis of Commission for Banking Supervision's resolution no. 30/KNB/01 from 7 March 2001

The share capital of the Parent Company amounted to PLN 730,760,130 as at 31 December 2009 divided into 73,076,013 ordinary shares with a nominal value of PLN 10 each.

On 10 July 2009 the increase of the Parent Company's share capital by PLN 1,157,290 was registered in result of vesting of the first edition incentive scheme introduced in 2006.

.

As at 31 December 2009, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN '000	Percentage of share capital (%)
AIB European Investments Limited	51 413 790	70,4%	514 138	70,4%
Others	21 662 223	29,6%	216 622	29,6%
	73 076 013	**100,0%**	**730 760**	**100,0%**

1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2009, the Management Board of the Parent Company comprised the following members:

- Mateusz Morawiecki – President of the Management Bard;
- Paul Barry – Member of the Management Board;
- Andrzej Burliga – Member of the Management Board;
- Declan Flynn – Member of the Management Board;
- Justyn Konieczny – Member of the Management Board;
- Janusz Krawczyk – Member of the Management Board;
- Jacek Marcinowski – Member of the Management Board;
- Michael McCarthy – Member of the Management Board.
- Marcin Prell – Member of the Management Board;
- Mirosław Skiba – Member of the Management Board;
- Feliks Szyszkowiak – Member of the Management Board;

Changes to the composition of the Parent Company's Management Board over the past 12 months were as follows:

- On 16 December 2008 Mr. Michael McCarthy was appointed to take up position as the Management Board Member in charge of Business Banking Division with effect on 1 February 2009.

1.4.3 Scope of activities

The business activities listed in the Parent Company's Statute include the following:

- receiving and maintaining current and term deposits, including accepting and placing cash deposits in domestic and foreign banks,
- maintaining other bank accounts,
- granting loans,
- granting and confirming guarantees and letters of credit,
- issuing banking securities,

- performing cash settlements,
- issue of electronic money instrument,
- granting cash advances,
- performing cheque and bill of exchange operations,
- issuing payment cards and processing card operations,
- performing term financial operations,
- trading in receivables,
- safekeeping of goods and securities as well as providing access to safe deposit-boxes,
- agency services in making money transfers and settlements in foreign currency payments,
- granting civil law guarantees,
- performing operations related to the issue of securities,
- acting as the representative of bond holders,
- purchase and sale of foreign exchange values.

Additionally the Parent Company is illegible to perform the following activities:

- acquiring shares, rights from shares and participations of another corporate entity and contributions to limited partnerships or limited joint stock partnerships, or units and investment certificates in investment funds; making contributions to limited liability companies within the limits specified by the Banking Law,
- incurring liabilities related to the issue of securities,
- trading in securities on Bank's own account or on other parties' account,
- exchanging debts for debtor's assets,
- acquiring and disposing of real estates and debts secured by a mortgage,
- providing consultancy and advisory services in relation to financial matters,
- providing certification services in line with regulations on an electronic signature, excluding qualified certificates,
- providing other financial services,
- selling pension funds,
- acting as a depositary under the definition of organization and functioning of pension funds act,
- acting as a depositary under the definition of investment funds act,
- insurance brokerage and acting as sales agent of leasing, factoring, forfeiting and franchising products,
- providing financial services, connected to using IT technology, to subsidiaries,
- providing services connected with keeping a register of investment funds participants,
- providing services connected with keeping a register of pension funds participants,
- bookkeeping services for investment and pension funds.

Additionally the Parent Company may perform the above activities on the instruction of another entity if these activities are performed by the instructing entity. In accordance with the Parent Company's strategy, it may also cooperate with the domestic, foreign and international banks and financial institutions and perform services of transportation of goods.

The business activities of subsidiaries within the Group, according to their Statutes, include the following:

- acting as an agent in securities trading,

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- leasing,
- assets/funds management,
- distribution of banking and insurance products,
- trading in shares of other entities,
- factoring services.

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2008 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 21 April 2009.

The closing balances as at 31 December 2008 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 27 April 2009 and were published in Monitor Polski B No. 1211 on 28 July 2009.

1.6 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Zachodni WBK S.A. seated in Wrocław, Rynek 9/11, 50-950 Wrocław and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2009, with total assets and total liabilities and equity of PLN 54,058,360 thousand, the consolidated income statement for the year then ended with a profit for the period of PLN 940,156 thousand and the consolidated statement of comprehensive income for the year then ended with a total comprehensive income of PLN 1,028,427 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 843,113 thousand, the consolidated statement of cash flows for the year then ended with an increase in cash amounting to PLN 238,746 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Meeting, dated 17 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 15 December 2009, concluded on the basis of the resolution of Supervisory Board of Bank Zachodni WBK S.A. dated 24 June 2009 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office and Branches during the period from 5 October 2009 to 26 February 2010.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Management of the Parent Company and members of the Supervisory Board are obliged to ensure that the consolidated financial statements and the Report of Managements Board on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Our responsibility is to express an opinion and to prepare a supplementing report on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o. o.

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1.7 Information on audits of the financial statements of the consolidated companies

1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2009 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski BZ WBK S.A.	KPMG Audyt Sp. z o.o.	31 December 2009	Unqualified
BZ WBK Finanse Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2009	Audit in progress
BZ WBK Finanse & Leasing S.A.	KPMG Audyt Sp. z o.o.	31 December 2009	Unqualified
BZ WBK Leasing S.A.	KPMG Audyt Sp. z o.o.	31 December 2009	Unqualified
BZ WBK Faktor Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2009	Unqualified
BZ WBK AIB Asset Management S.A.	KPMG Audyt Sp. z o.o.	31 December 2009	Unqualified
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	KPMG Audyt Sp. z o.o.	31 December 2009	Unqualified
BZ WBK Inwestycje Sp. z o.o.	KPMG Audyt Sp. z o.o.	31 December 2009	Audit in progress
BZ WBK Nieruchomości S.A.	KPMG Audyt Sp. z o.o.	31 December 2009	Audit in progress

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2009 PLN '000	% of total assets	31.12.2008 PLN '000	% of total assets
Cash and balances with central banks	2 660 658,0	4,9	3 178 107,0	5,5
Loans and advances to banks	663 027,0	1,2	1 364 543,0	2,4
Financial assets held for trading	1 342 620,0	2,5	3 224 867,0	5,6
Hedging derivatives	10 801,0	0,0	347,0	-
Loans and advances to customers	34 570 697,0	64,0	35 137 202,0	61,2
Investment securities	13 292 572,0	24,6	12 916 041,0	22,5
Investment in associates and joint ventures	81 887,0	0,2	72 221,0	0,1
Intangible assets	181 620,0	0,3	173 934,0	0,3
Property, plant & equipment	596 154,0	1,1	637 486,0	1,1
Current income tax due	43 373,0	0,1	-	-
Net deferred tax assets	273 751,0	0,5	210 495,0	0,4
Other assets	341 200,0	0,6	517 826,0	0,9
TOTAL ASSETS	**54 058 360**	**100,0**	**57 433 069**	**100,0**

EQUITY AND LIABILITIES	31.12.2009 PLN '000	% of total equity and liabilities	31.12.2008 PLN '000	% of total equity and liabilities
Liabilities				
Deposits from central bank	1 519 208	2,8	1 242 574	2,2
Deposits from banks	3 830 776	7,1	4 095 477	7,1
Hedging derivatives	32 933	0,1	68 562	0,1
Financial liabilities held for trading	733 861	1,4	3 153 932	5,5
Deposits from customers	41 222 871	76,2	42 810 727	74,5
Debt securities in issue	-	-	153 918	0,3
Current income tax liabilities	-	-	13 638	0,0
Current tax liabilities	663 157	1,2	681 800	1,2
Total liabilities	48 002 806	88,8	52 220 628	90,9
Equity				
Share capital	730 760	1,4	729 603	1,3
Other reserve funds	3 566 999	6,6	2 716 687	4,7
Revaluation reserve	422 005	0,8	335 507	0,6
Retained earnings	341 260	0,6	335 326	0,6
Profit of the current period	886 192	1,6	855 446	1,5
Parent company equity	5 947 216	11,0	4 972 569	8,7
Non-controlling interests in equity	108 338	0,2	239 872	0,4
Total equity	6 055 554	11,2	5 212 441	9,1
TOTAL EQUITY AND LIABILITIES	**54 058 360**	**100,0**	**57 433 069**	**100,0**

2.1.2. Consolidated income statement

	1.01.2009 - 31.12.2009 PLN '000	1.01.2008 - 31.12.2008 PLN '000
Interest and similar income	3 226 088	3 232 124
Interest expense and similar charges	(1 662 897)	(1 597 019)
Net interest income	**1 563 191**	**1 635 105**
Fee and commission income	1 535 565	1 606 669
Fee and commission expense	(220 101)	(232 854)
Net fee and commission income	**1 315 464**	**1 373 815**
Dividend income	96 592	70 306
Net trading income and revaluation	270 256	52 802
Gains (losses) from other financial securities	(6 085)	58 152
Net loss on sale of subsidiaries and associates	-	(196)
Other operating income	49 702	67 999
Impairment losses on loans and advances	(481 034)	(364 551)
Bank's staff, operating expenses and management costs	(1 498 316)	(1 547 174)
Depreciation/amortisation	(123 473)	(107 331)
Other operating expenses	(22 975)	(27 570)
Operating profit	**1 163 322**	**1 211 357**
Share in net profits of entities accounted for by the equity method	(334)	(777)
Profit before tax	**1 162 988**	**1 210 580**
Corporate income tax	(222 832)	(256 294)
PROFIT FOR THE PERIOD	**940 156**	**954 286**
of which:		
attributable to Company's equity holders	886 192	855 446
attributable to non-controlling interests	53 964	98 840
Net earnings per share (PLN/share)		
Basic earnings per share	12,13	11,72
Diluted earnings per share	12,08	11,68

2.1.3 Consolidated statement of comprehensive income

	1.01.2009 - 31.12.2009 PLN '000	1.01.2008 - 31.12.2008 PLN '000
Profit for the period	**940 156**	**954 286**
Other comprehensive income:		
Available for sale financial assets valuation	61 681	(5 313)
Cash flow hedges valuation	26 590	(24 673)
Other comprehensive income for the period, net of income tax	**88 271**	**(29 986)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 028 427**	**924 300**
Attributable to:		
Company's equity holders	972 690	829 000
Non-controlling interests	55 737	95 300

2.2 Selected financial ratios

	2009	2008	2007
Total assets (PLN '000)	54 058 360	57 433 069	41 135 197
Profit before tax (PLN '000)	1 162 988	1 210 580	1 391 444
Profit for the period (PLN '000)	940 156	954 286	1 110 677
Shareholders' equity (PLN '000)*	5 115 398	4 258 155	3 485 262
Return on equity	18,4%	22,4%	31,9%
Capital adequacy ratio	13,0%	10,7%	13,3%
Net receivables to total assets	65,2%	63,6%	64,5%
Income generating assets to total assets	97,3%	97,3%	96,8%
Interest bearing liabilities to total liabilities	87,5%	89,6%	86,5%

** excluding current-year profit of the period*

2.3 Interpretation of selected financial ratios

In comparison to prior year total assets decreased by PLN 3,374,709 thousand (decrease by 5.9%). The major decrease was related to financial assets held for trading (decrease by PLN 1,882,247 thousand or 58.4%) and loans and advances to customers (decrease by PLN 566,505 thousand or 1.6%). In liabilities the main decrease concerned deposits from customers (decrease by PLN 1,587,856 thousand or 3.7%) and financial liabilities held for trading (decrease by PLN 2,420,071 thousand or 76.7%).

Profit before tax of the Group decreased by PLN 47,592 thousand, i.e. 3.9% in comparison to prior year and amounted to PLN 1,162,988 thousand. It was impacted mainly by changes in net interest income, net fee and commission income, net trading income and revaluation and impairment losses on loans and advances. Net interest income decreased by PLN 71,914 thousand (4.4%), net fee and commission income decreased by PLN 58,351 thousand (4.2%), impairment losses on loans and advances increased by PLN 116,483 thousand (32.0%) and net trading income and revaluation increased by PLN 217,454 thousand (411.8%).

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Zachodni WBK Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Consolidation of equity and calculation of minority interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the minority shareholders' share in the subsidiaries' equity as at the end of the reporting period.

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

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The consolidation eliminations were based on the accounting records of Bank Zachodni WBK S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.6 Compliance with banking regulations

Base on our audit we have not identified any significant deviations in the Parent Company's compliance with the banking regulatory norm pertaining among other to loan concentration, obligatory reserve and capital adequacy ratio.

3.7 Audit materiality

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free of material misstatements.

3.8 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. The notes to the consolidated financial statements should be read in conjunction with the consolidated financial statements taken as a whole.

3.9 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the consolidated financial statements.

3.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2009, we have issued an unqualified opinion.

Signed on the Polish original
....
On behalf of KPMG Audyt Sp. z o. o.
ul. Chłodna 51, 00-867 Warsaw
Stacy Ligas
Director

Signed on the Polish original
....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 796
Bogdan Dębicki, Director

1 March 2010
Warsaw, Poland

Contents

In thousands of PLN

Consolidated Income Statement

For reporting period:		01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Interest and similar income		3,226,088	3,232,124
Interest expense and similar charges		(1,662,897)	(1,597,019)
Net interest income	Note 5	**1,563,191**	**1,635,105**
Fee and commission income		1,535,565	1,606,669
Fee and commission expense		(220,101)	(232,854)
Net fee and commission income	Note 6	**1,315,464**	**1,373,815**
Dividend income	Note 7	96,592	70,306
Net trading income and revaluation	Note 8	270,256	52,802
Gains (losses) from other financial securities	Note 9	(6,085)	58,152
Net loss on sale of subsidiaries and associates	Note 10	–	(196)
Other operating income	Note 11	49,702	67,999
Impairment losses on loans and advances	Note 12	(481,034)	(364,551)
Operating expenses incl.:		(1,644,764)	(1,682,075)
Bank's staff, operating expenses and management costs	Note 13, 14	*(1,498,316)*	*(1,547,174)*
Depreciation/amortisation		*(123,473)*	*(107,331)*
Other operating expenses	Note 15	*(22,975)*	*(27,570)*
Operating profit		**1,163,322**	**1,211,357**
Share in net profits (loss) of entities accounted for by the equity method		(334)	(777)
Profit before tax		**1,162,988**	**1,210,580**
Corporate income tax	Note 16	(222,832)	(256,294)
Profit for the period		**940,156**	**954,286**
of which:			
attributable to Company's equity holders		886,192	855,446
attributable to non-controlling interests		53,964	98,840
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		12.13	11.72
Diluted earnings per share		12.08	11.68

Consolidated Statement of Comprehensive Income

For reporting period:	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit for the period	**940,156**	**954,286**
Other comprehensive income:		
Available for sale financial assets valuation	61,681	(5,313)
Cash flow hedges valuation	26,590	(24,673)
Other comprehensive income for the period, net of income tax	**88,271**	**(29,986)**
Total comprehensive income for the period	**1,028,427**	**924,300**
Attributable to:	1,028,427	924,300
company's equity holders	972,690	829,000
non-controlling interests	55,737	95,300

Notes presented on pages 96 – 166 constitute an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

as at:		31.12.2009	31.12.2008
ASSETS			
Cash and balances with central banks	Note 18	2,660,658	3,178,107
Loans and advances to banks	Note 19	663,027	1,364,543
Financial assets held for trading	Note 20	1,342,620	3,224,867
Hedging derivatives	Note 21	10,801	347
Loans and advances to customers	Note 22	34,570,697	35,137,202
Investment securities	Note 23, 24	13,292,572	12,916,041
Investments in associates and joint ventures	Note 25	81,887	72,221
Intangible assets	Note 26	181,620	173,934
Property, plant and equipment	Note 27	596,154	637,486
Current income tax due		43,373	–
Net deferred tax assets	Note 28	273,751	210,495
Other assets	Note 29	341,200	517,826
Total assets		**54,058,360**	**57,433,069**
LIABILITIES			
Deposits from central bank	Note 30	1,519,208	1,242,574
Deposits from banks	Note 31	3,830,776	4,095,477
Hedging derivatives	Note 21	32,933	68,562
Financial liabilities held for trading	Note 20	733,861	3,153,932
Deposits from customers	Note 32	41,222,871	42,810,727
Debt securities in issue	Note 33	–	153,918
Current income tax liabilities		–	13,638
Other liabilities	Note 34	663,157	681,800
Total liabilities		**48,002,806**	**52,220,628**
Equity			
Parent company equity		5,947,216	4,972,569
Share capital	Note 35	730,760	729,603
Other reserve funds	Note 36	3,566,999	2,716,687
Revaluation reserve	Note 37	422,005	335,507
Retained earnings		341,260	335,326
Profit of the current period		886,192	855,446
Non-controlling interests in equity		108,338	239,872
Total equity		**6,055,554**	**5,212,441**
Total equity and liabilities		**54,058,360**	**57,433,069**

Notes presented on pages 96 – 166 constitute an integral part of these Consolidated Financial Statements.

Bank Zachodni WBK S.A.

In thousands of PLN

Movements on Consolidated Equity

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests	Total
Opening balance as at 31.12.2008	**729,603**	**2,716,687**	**335,507**	**1,190,772**	**239,872**	**5,212,441**
Total comprehensive income	–	–	86,498	886,192	55,737	1,028,427
Share issue related to vesting the share incentive scheme	1,157	–	–	–	–	1,157
Share scheme charge	–	1,547	–	–	–	1,547
Dividend relating to 2008	–	–	–	–	(187,271)	(187,271)
Transfer to other capital	–	848,765	–	(848,765)	–	–
Other	–	–	–	(747)	–	(747)
As at 31.12.2009	**730,760**	**3,566,999**	**422,005**	**1,227,452**	**108,338**	**6,055,554**

As at the end of the period revaluation reserve in the amount of PLN 422,005 k comprises of debt securities and equity shares classified as available for sale of PLN 4,962 k and PLN 415,125 k respectively and additionally cash flow hedge activities of PLN 1,918 k.

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests	Total
Opening balance as at 31.12.2007	**729,603**	**2,061,578**	**362,963**	**1,206,622**	**235,174**	**4,595,940**
Total comprehensive income	–	–	(27,456)	856,456	95,300	924,300
Share scheme charge	–	1,734	–	–	–	1,734
Dividend relating to 2007	–	–	–	(218,881)	(90,155)	(309,036)
Transfer to other capital	–	653,816	–	(653,816)	–	–
Other	–	(441)	–	391	(447)	(497)
As at 31.12.2008	**729,603**	**2,716,687**	**335,507**	**1,190,772**	**239,872**	**5,212,441**

As at the end of the period revaluation reserve in the amount of PLN 335,507 k comprises of debt securities and equity shares classified as available for sale of PLN (49,638) k and PLN 409,818 k respectively and additionally cash flow hedge activities of PLN (24,673) k.

Notes presented on pages 96 – 166 constitute an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

for the period	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit before tax	**1,162,988**	**1,210,580**
Total adjustments:	**(952,800)**	**1,648,419**
Share in net profits (losses) of entities accounted for by the equity method	334	777
Depreciation	123,473	107,331
Impairment losses	(233)	3,465
Gains (losses) on exchange differences	(6,339)	60,420
Interests and similar charges	74,090	23,338
Dividend received	(96,592)	(70,306)
(Profit) loss from investing activities	4,147	(60,229)
Change in provisions	24,078	(66,804)
Change in trading portfolio financial instruments	(284,798)	311,834
Change in loans and advances to banks	(553)	18,920
Change in loans and advances to customers	572,829	(11,299,918)
Change in deposits from banks	578,396	362,219
Change in deposits from customers	(1,792,608)	13,094,802
Change in liabilities arising from debt securities in issue	(3,736)	(99,510)
Change in other assets and liabilities	235,010	(405,323)
Paid income tax	(381,098)	(333,749)
Other adjustments	800	1,152
Net cash flow from operating activities	**210,188**	**2,858,999**
Inflows	**4,674,429**	**2,441,177**
Sale of shares or interests in subsidiaries, associates and joint ventures	–	3,021
Sale/maturity of investment securities	4,575,394	2,350,787
Sale of intangible assets and property, plant and equipment	2,433	17,053
Dividends received	96,592	70,306
Proceeds from other investments	10	10
Outflows	**(3,825,266)**	**(5,040,584)**
Purchase of subsidiaries, associates and joint ventures	(10,000)	(38,131)
Purchase of investment securities	(3,722,853)	(4,745,050)
Purchase of intangible assets and property, plant and equipment	(90,849)	(255,758)
Other investments	(1,564)	(1,645)
Net cash flow from investing activities	**849,163**	**(2,599,407)**
Inflows	**442,447**	**974,792**
Drawing of long-term loans	441,290	974,792
Proceeds from issuing shares	1,157	–
Outflows	**(1,263,052)**	**(933,619)**
Repayment of long-term loans	(821,359)	(384,445)
Debt securities buy out	(150,182)	(99,533)
Dividends and other payments to shareholders	(187,271)	(309,036)
Other financing outflows	(104,240)	(140,605)
Net cash flow from financing activities	**(820,605)**	**41,173**
Total net cash flow	**238,746**	**300,765**
Cash at the beginning of the accounting period	**5,318,344**	**5,017,579**
Cash at the end of the accounting period	**5,557,090**	**5,318,344**

Notes presented on pages 96 – 166 constitute an integral part of these Consolidated Financial Statements.

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Additional Notes to Consolidated Financial Statements

1. General information about issuer

Bank Zachodni WBK S.A. is a bank seated in Poland, 50-950 Wrocław, Rynek 9/11, TIN 896-000-56-73, National Official Business Register number (REGON) 930041341, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry under 0000008723 number.

The consolidated financial statements of Bank Zachodni WBK S.A. include the bank's stand alone financial statements as well as financial statements of its subsidiaries, share of net assets of associated entities and joint ventures (all entities together called Group).

The direct parent of Bank Zachodni WBK S.A. is AIB European Investments Ltd. from Dublin (a subsidiary of Allied Irish Banks plc). The bank's ultimate parent company is Allied Irish Banks plc.

BZ WBK Group offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, it offers also the following services:
- intermediation in trading in securities,
- leasing,
- factoring,
- asset/fund management,
- insurance services,
- trading in stocks and shares of commercial companies.

Bank Zachodni WBK Group consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100.00	–
2.	BZ WBK Faktor Sp. z o.o.	Warsaw	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	100.00
3.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100.00	100.00
4.	Dom Maklerski BZ WBK S.A.	Poznań	99.99	99.99
5.	BZ WBK Finanse & Leasing S.A.	Poznań	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99
6.	BZ WBK Leasing S.A.	Poznań	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99
7.	BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99
8.	BZ WBK AIB Asset Management S.A.*	Poznań	50.00	50.00
9.	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.

* In case of BZ WBK AIB Asset Management S.A., the bank is a co-owner of the company together with AIB Capital Markets plc. Both owners of BZ WBK AIB Asset Management S.A. are members of Allied Irish Banks Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., because through its agency the ultimate parent (Allied Irish Banks) pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

Associates:

	Associates	Registered office	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	POLFUND – Fundusz Poręczeń Kredytowych S.A.	Szczecin	50.00	50.00
2.	Metrohouse S.A.*	Warsaw	35.38	35.38
3.	Krynicki Recykling S.A.*	Warsaw	30.37	–

* Metrohouse S.A. and Krynicki Recycling S.A are the associates of BZ WBK Inwestycje Sp. z o.o.

In 2009 BZ WBK Inwestycje Sp. z o.o. (bank's subsidiary) acquired 3,077 k newly issued shares of Krynicki Recykling S.A. (capital increase registered on 2 February 2009), representing 30.37% of the share capital. Krynicki Recycling S.A. is classified as an associate entity and accounted for using the equity method.

Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

Additional information about acquisitions is available in note 48.

Joint ventures:

	Joint ventures	Registered office	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	50.00	50.00
2.	BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	50.00	50.00

In 1H 2008 Bank Zachodni WBK S.A. in cooperation with Aviva International Insurance Ltd. formed two jointly controlled entities: BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. The parent companies have 50% share in both joint ventures' share capital and agreed to share the influence. The main business of the new entities is providing insurance services for the clients of the bank.

Compared with the end of 2008, the Group includes an additional company – BZ WBK Finanse Sp. z o.o., formed by the bank on 18 December 2008 and registered on 13 January 2009. Bank Zachodni WBK S.A. acquired 100% stake in the company's share capital. The new entity is a holding company set up to centralise management of the bank's subsidiaries involved in provision of specialised services to business customers, i.e. BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o.

2. Basis of preparation of the financial statements

Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2009 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with other requirements of existing legislation.

Changes in accounting policies

Since January 2009 the Group has changed the accounting policy concerning the recognition or derecognition from financial statements of purchase or sale of financial asset using the trade date accounting rather than the settlement date.

Since January 2009 the Group has applied changes to IAS 1 "Presentation of Financial Statements'' by presenting consolidated statement of comprehensive income.

Since January 2009 the Group has been presenting segmental information in accordance with the requirements of IFRS 8. The change has been applied retrospectively and any effect on financial data is described in a section "Comparability with results of previous periods".

Comparability with results of previous periods

To ensure comparability, the following significant changes were made to the presentation of financial data compared to 2008 in:

a) consolidated income statement:
   - change of presentation of income from FX forward transactions – currently in "Net trading income and revaluation" while previously the amount of PLN 15,855 k was classified as "Net fee and commission income",

b) consolidated statement of financial position:
   - According to IAS 28 adjustments of equity made by the bank's associate – POLFUND – Fundusz Poręczeń Kredytowych S.A. were applied consistently in consolidated statement of financial position of BZ WBK Group. In comparable period as at 31.12.2008 "Retained earnings" were increased by PLN 20,250 k, "Net deferred tax assets" were decreased by PLN 4,750 k, "Investments in associates and joint ventures" were increased by PLN 25,000 k,
   - As a result of changes in the interpretation of IAS 12, the presentation of deferred tax assets and liabilities was changed. Since June 2009 the assets and liabilities have been presented as a net value. The change is reflected also in comparable period therefore the total assets in the consolidated statement of financial position decreased in the amount of PLN 425,254 k as at 31.12.2008,
   - As at 31.12.2008 there was no regular way purchase or sale of financial assets,

c) consolidated statement of cash flows:
   - As a result of changes in the interpretation of IAS 7, the definition of cash components was revised and applied. Since January 2009 cash components have included other liquid financial assets with maturity up to 3 months. The details of reclassification are presented in the table below.

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Cash components:		31.12.2008 Before revision	31.12.2008 After revision	31.12.2007 Before revision	31.12.2007 After revision
Deposits in other banks, current account	(1)	20,355	1,355,817	26,571	2,549,232
Cash and current accounts in central bank		3,178,107	3,178,107	2,206,265	2,206,265
Debt securities held for trading	(2)	–	168,618	–	53,447
Debt securities available for sale	(3)	–	615,802	–	208,635
Total		**3,198,462**	**5,318,344**	**2,232,836**	**5,017,579**

The changes were made to appropriate items of the statement of cash flows, i.e.:
1) Change in loans and advances to banks,
2) Change in trading portfolio financial instruments,
3) Purchase of investment securities.

d) As a result of adoption of IFRS 8, which replaced IAS 14, segmental information was restated in order to conform to the requirements of this standard and the reportable segments are consistent with those identified by management accounting. A change is reflected also by the restated financial statements of a comparable period.

New standards and interpretations or changes to existing standards or interpretations that are not yet effective and have not been early implemented

Standard or interpretation	Description of changes	Effective from	Impact on the Group
Amendments to IAS 39 Financial Instruments: *Recognition and Measurement*	Amendments provide for the application of hedge accounting in respect of inflation component of financial instruments and options used as hedging instruments.	1 January 2010	Amendments to IAS 39 will not have a material impact on the financial statement.
Amendments to IFRS 2 *Share-based Payment* (pending EU approval)	Amendments to IFRS 2 specify financial reporting if a cash-settled share-based payment is undertaken. The definitions of share-based payment and share-based payment agreement have been amended. The scope of IFRS 2 has been amended. Guidance on financial reporting of group share-based payment transactions have been included.	1 January 2010	Amendments to IFRS 2 will not have a material impact on the financial statement.
IAS 39 *Financial Instruments*	The issued amendments are related to cash flow hedges. According to the amendments, profit or loss on cash flow hedges should be reclassified from equity to profit or loss relative to the period cash flow hedges affect profit or loss.	1 January 2010	Amendments will not have a material impact on the financial statement.
IAS 39 *Financial Instruments*	According to the amendments, the prepayment option is deemed to be an embedded derivative that is closely related to the financial instrument where prepayment is up to the present value of lost interest for the remaining term of the contract.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	According to the amendments, the disclosures of non-current assets or groups of assets held for sale are limited to disclosures defined in IFRS 5.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS 9 *Financial Instruments*	Changes in classification and measurement – the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value.	1 January 2013	The Group has not completed its analysis of changes.
IAS 32 *Financial Instruments: Presentation*	The amendment pertains to the classification of rights issue.	1 January 2011	The Group has not completed its analysis of the changes.
IFRIC 18 *Transfer of Assets from Customers*	The interpretation provides guidance on how to account for transfers of assets and cash from customers to acquire or construct an item of property.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRIC 17 *Distribution of Non-cash Assets to Owners*	This interpretation provides guidance on how to account for the distribution of non-cash assets to owners.	1 January 2010	Amendments will not have a material impact on the financial statement.

Standard or interpretation	Description of changes	Effective from	Impact on the Group
IFRS 3 *Business Combinations*	The updated IFRS 3 sets out rules and requirements relating to financial recognition and measurement of individual components (acquired assets and liabilities, non-controlling interest and goodwill) by the acquirer.	1 January 2010	The amended IFRS has no impact on the financial statement.
IAS 27 *Consolidated and Separate Financial Statements*	Amendments to IAS 27 define when companies are required to prepare consolidated financial statements, how parent companies should recognise changes in their ownership interest in subsidiaries and how losses of a subsidiary are allocated to controlling and non-controlling interest.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with IAS 39.41. The above described equity instruments shall be measured at the fair value and the difference between the carrying amount of the financial liability extinguished and the initial measurement of the equity instruments issued should be recognized in profit or loss	1 January 2011	The Group has not completed its analysis of changes.

Basis of preparation

The financial statements are presented in PLN, rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial instruments measured at fair value through profit and loss account, and available-for-sale financial assets, except those for which a reliable measure of fair value is not available. Other financial assets and financial liabilities (including loans and advances) are recognized at amortised cost using the effective interest rate less impairment or purchase price less impairment.

The Group measures fixed assets held for sale at the lower of its carrying amount and fair value less cost to sell.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

Accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Main estimates and judgments made by the Group

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZ WBK Group is exposed and other external factors such as legal and regulatory requirements. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision made in BZ WBK Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in BZ WBK Group; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability. IBNR (Incurred But Not Reported) provisions are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio. Estimates of loss take into account the following key factors:

- PD – Probability of default, based on historical observations together with EP is considered to be the best indicator of existing but not directly identifiable impairment,
- LGD – Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default,
- EAD – exposure at default,

- EP – Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Group,
- CCF – Credit Conversion Factor for the bank's contingent commitments (conversion of off-balance sheet items into on-balance sheet exposure).

The rating systems have been internally developed and are continually being enhanced, e.g. externally benchmarked to help underpin the aforementioned factors which determine the estimates of expected loss.

Write-down due to impairment of non-financial assets
The value of the fixed-assets of the Group is reviewed as at the end of the reporting period to specify whether there are reasons for write-down due to impairment. If there are such reasons, the recoverable value of assets should be determined.

In case of goodwill and intangible assets not yet available for use, recoverable value is determined at the end of each reporting period.

Impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

For other receivables the impairment amount is recognised considering the expected recoverable amounts, and for long term other receivables discounting is applied.

Asset held for sale are recorded at the lower of carrying amount and estimated fair value less estimated costs to sell.

Fair value of financial instruments
Some of the Group's financial instruments are carried at fair value, including all derivatives, other financial assets at fair value through profit or loss and financial investments available for sale. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. The calculation of fair value for any financial instrument may require an adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used).

Other accounting estimates and judgements
Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis.

Provisions for legal claims have been estimated considering the expected loss arising on individual cases.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises which are controlled by BZ WBK S.A.. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the bank, directly or indirectly through subsidiaries, has more than half of the voting power of an entity. Control also exists when the parent owns half or less of the voting power of an entity when there is:
(a) power over more than half of the voting rights by virtue of an agreement with other investors;
(b) power to govern the financial and operating policies of the entity under a statute or an agreement;
(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Purchase method of accounting

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. However, during the reporting period there was no such acquisition as mentioned above.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

Associates

Associates are those entities in which the Group has significant influence, but are not subsidiaries, neither joint ventures.

They are recognised in line with the equity method in consolidated financial statements.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statements.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated at the foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on retranslation of available for sale equity instruments, which are recognised in the other comprehensive income.

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:
- financial assets or financial liabilities at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

Financial asset or financial liability at fair value through profit or loss

This is a financial asset or liability that meets either of the following conditions.
(a) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
  (i) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
  (ii) it is 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;
  (iii) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
(b) Upon initial recognition it is designated by the Group as at fair value through profit or loss. As at the balance sheet date the Group doesn't hold this category of financial instrument.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the intention and ability to hold to maturity. If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be tainted and reclassified as available for sale and for a two year period the Group would not utilise the held to maturity classification.

Loans and receivables

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

Loans and receivables comprise loans and advances to banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market and receivables due to reverse repo transactions. Loans and receivables also include finance lease receivables of Leasing Companies and Faktor.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:
(a) loans and receivables,
(b) held-to-maturity investments or
(c) financial assets at fair value through profit or loss.

Other financial liabilities

Financial liabilities include financial liabilities not classified as those valued at fair value through profit and loss account. Those liabilities are valued at amortised cost and comprise: deposits from banks, deposits from customers, liabilities due to reverse repo transactions, borrowings and debt securities in issue.

Recognition

The Group recognises a financial asset or a financial liability on its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Lease receivables of leasing companies are accounted for as of the date from which the lessee is entitled to exercise its rights to use the leased asset. Other agreements where the leased assets have not yet been made available to the lessee are recognised in contingent liabilities.

A regular way purchase or sale of a financial asset are recognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.

Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

Derecognition

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

A regular way purchase or sale of a financial asset are derecognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled or expires.

Measurement

When a financial asset or financial liability is recognised initially, it is measured at fair value plus (in the case of a financial asset or financial liability not classified at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets.

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:
(a) loans and receivables which shall be measured at amortised cost using the effective interest method;
(b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;
(c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for:
(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value,
(b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

Lease payment receivables of Leasing Companies are accounted for in statements of financial position at an amount equal to the net investment in the lease. Receivables are measured at amortised cost using the effective interest rate.

A calculation based on the effective interest rate is made monthly on the basis of inflows and expenses arising from the lease agreement.

Financial assets and financial liabilities that are designated as hedged items are subject to measurement under hedge accounting requirements.

Reclassification

A financial asset classified as available for sale may be reclassified out of this category if it meets the definition of loans and receivables and if the group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The fair value of the financial asset on the date of the reclassification becomes its new cost or new amortised cost.

For a financial asset which has a fixed maturity, gain or loss recognised in equity until the date of the reclassification is amortised and recognised in the statement of comprehensive income over the period remaining until maturity. Any difference between the new amortised cost and the amount of impairment is amortised over the period remaining until maturity of the financial instrument. Amortisation is based on the effective interest rate.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows:
- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised directly in other comprehensive income, until the financial asset is derecognised, at which time the comprehensive income previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

The fair values of quoted financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the Group establishes fair value by using valuation techniques which include recent arms length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where a fair value cannot be reliably estimated, unquoted instruments that do not have a quoted market price in an active market are measured at cost and periodically reviewed for impairment.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when there is:
(a) a legally enforceable right to set off the recognised amounts
(b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase transactions

The Group also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.

Securities sold subject to repurchase agreements ("repos") are not derecognised at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements ("reverse repos") are not recognised at the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the profit and loss account.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and recognised at fair value.

Hedge accounting

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The Group also documents, at inception and on ongoing basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

The Group uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from operational, financing and investment activities.

The Group discontinues hedge accounting when:
(a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
(b) the derivative expires, or is sold, terminated, or exercised;
(c) the hedged item matures or is sold, or repaid.

Fair value hedge

This is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at amortised cost is an available-for-sale financial asset.

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:
(a) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and
(b) could affect profit or loss.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

Interest income and expenses from cash flow hedge instruments are recognised in profit or loss as net interest income.

Impairment of financial assets

Assets carried at amortised cost – loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets, or off-balance sheet commitments are impaired. A financial asset or a group of financial assets, or contingent commitments are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    (i) adverse changes in the payment status of borrowers in the group, or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced through identification of a provision. The amount of the loss shall be recognised in profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The Group periodically reviews its loan portfolio to check whether there is any objective evidence that a financial asset or group of financial assets are impaired.

The analysis of impairment is carried out:

- with reference to individual credit exposures representing significant reporting items (those covered by commercial, property or local government and SME rating classifications) – individual approach,
- with reference to the portfolio of credit exposures which individually are not significant – collective approach.

With regard to impairment, the review of individual loan exposures is carried out once a quarter or more often, if needed. Impairment of individual loan exposures is based on the amount of prospective receivables (defined as the current value of expected cash flows discounted by the effective interest rate). Impairment for the portfolio, which is assessed jointly, is verified monthly. The bank carries out validation (so called "back tests" of parameters which are used to calculate provisions under collective approach, on the basis of historical observations, at least once a year.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the Group are not included in a collective assessment of impairment.

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group's credit risk evaluation or the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

In the case of credit exposures for which no indications of impairment were identified, the Group carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR – Incurred But Not Reported), which is estimated on the basis of the historical loss experience for loans with a similar risk profile, on the basis of estimated period between the occurrence of impairment and the identification as well as evidencing loss, and on the basis of historical data adjustments, as described above.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non-recoverable is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of costs associated with provisions for loan impairment. Impairment calculation methods are standardised across the Group.

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in the other comprehensive income shall be removed from that line and recognised in profit or loss. The amount of the cumulative loss that is removed from the other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

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

Held-to-maturity investments

If there is objective evidence of impairment of the held-to-maturity investments carried at amortised cost, the impairment loss is the difference between the balance sheet value of the asset and the present value of estimated future cash flows discounted using the original effective interest rate (i.e. the effective interest rate at the date of initial recognition). If the investment is a variable rate instrument, the discount rate used for estimation of impairment is the present effective interest rate set under the particular contract. The balance sheet value of the asset is reduced by recognising the applicable provisions as a loss.

Contingent liabilities

The Group creates provisions for impairment risk-bearing irrevocable conditional liabilities (irrevocable credit lines, financial guarantees, Letter of Credits, etc). The value of the provision is determined as a difference between the estimated amount of available conditional exposure and the current value of expected future cash flows under this exposure.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Leased assets

Leases for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

The Group recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each asset. The estimated useful lives are as follows:

- buildings 40 years
- structures 22 years
- plant and equipment 3–14 years
- vehicles 4 years

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Fixed assets held for sale

On the initial date of classification of non-current assets as assets held-for-sale, the Group measures them at the lower of the carrying amount and fair value less cost to sell.

Any initial or subsequent write-down of assets held-for-sale to fair value less cost to sell are recognised in the profit and loss account.

Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and total impairment losses.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of particular intangible assets. The estimated useful lives are from 3 to 5 years. Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Other items of the statement of financial position

Other trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

Other liabilities

Liabilities, other than financial liabilities, are stated at cost.

Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Statute. Equity also includes retained earnings and prior year losses carried forward.

Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.

Supplementary capital is created from profit allocations and share issue premiums.

Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.

The result of valuation of profit sharing scheme is included in reserve capital (IFRS 2.53). The revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax.

The revaluation reserve is not distributable.

Apart from equity, minority capital is also recognised in Group capital.

On derecognition of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the profit and loss account.

The net financial result for the accounting year is the profit disclosed in the profit and loss account of the current year adjusted by the corporate income tax charge.

Dividends

Dividends for a particular year, which have been declared and approved by the General Meeting of Shareholders but not paid at the at the end of the reporting period are recognised as dividend liabilities in “other liabilities” item.

Employee benefits

Short-term service benefits

The Group’s short-term employment benefits which include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

Long-term service benefits

The Group’s net obligation in respect of long-term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the Collective Labour Agreement and terms of individual employee contracts as well as the accrual for disability pension bonus is estimated using actuarial valuation methods. The valuation of those accruals is updated at least once a year.

Profit Sharing Scheme

BZ WBK Group has recognized in the consolidated statement of financial position a liability resulting from a profit sharing scheme granted to employees of selected subsidiaries in accordance with other long term employee benefits as described in IAS 19. The scheme, formally based on issue of shares that are purchased by entitled employees of subsidiaries, has characteristics of a long term profit sharing scheme (not share based payments), as all shares issued under the scheme are subjected to a conditional obligation to dispose shares at a price different from the fair value of shares. Resulting from the classification of the scheme BZ WBK Group recognized a liability in its statement of financial position in an amount of estimated present value of expected future pay-outs considering a relevant service period in correspondence with employee related expenses.

Share based payments

BZ WBK Group operates a share based compensation plan. For share options after 7 November 2002 (IFRS 2.53), the fair value of the employee services received is measured by reference to the fair value of awards granted on the day of the grant. The cost of the employee services received in exchange for awards granted is recognized in the income statement over the period during which the employees become unconditionally entitled to the share based payments, which is the vesting period. The amount expensed is determined by reference to the fair value of awards granted. The fair value of awards granted is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors. The Group assesses probability of the programme vesting, which affects the value of the programme in cost reported for the reporting period.

Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms relate to market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services so that ultimately, the amount recognized in the income statement reflects the number of vested awards. The expense related to share based payments is credited to the shareholder’s equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for contingent items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Net interest income

Interest income and expenses for all financial instruments is recognised in the income statement at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net value of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

In case impairment is recognized for a financial asset, interest income is accrued based on the carrying amount of receivable (this is the value reduced by revaluation charge) with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

Net commission income

Fees and commissions settled under effective interest rate are listed above. Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are brought in a straight-line method to the profit and loss account.

Other fees and charges, which are not settled according to effective interest rate, are taken to profit and loss account in accordance with accrual method. Net commission income from FX transactions in the branch network includes elements of revaluation.

Net trading income and revaluation

Net trading income and revaluation includes profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest costs and income related to such instruments are also included in the trading result.

Dividend income

Dividends are taken to the profit and loss account at the moment of acquiring rights to them.

Profit on disposal of subsidiaries, associates and joint ventures

Profit on the sale of interests in subsidiaries is the difference between the net asset value and sale price.

Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and sale price.

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activities of the Group. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their values arising from the statement of financial position. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Segmental reporting

Operational activity of the BZ WBK Group has been divided into five segments: Retail Banking, Business Banking, Investment Banking, Treasury and Centre. They were identified based on customers and product types.

Income and costs assigned to a given segment are generated on the sale of products and services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for the Group and may be assigned to a given segment either directly or based on reasonable assumptions. Settlements among business segments apply to payments for delivered services and include:

- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are based on individual rates agreed between segments for specific services or agreements concerning the breakdown of total income and/or cost.

Assets and liabilities of a given segment used in their operational activity may be assigned to the segment directly or on a reasonable basis.

Retail Banking

Retail Banking segment includes products and services targeted at personal customers as well as small and micro companies.

In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and micro companies the segment additionally provides services such as cash management, leasing, factoring, trade finance and guarantees.

Business Banking

Business Banking segment covers products and activities targeted at business entities, local governments and the public sector. In addition to banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees.

Investment Banking

Investment Banking segment includes such activities as underwriting financing via issue of securities, financial advisory services, brokerage services provided by the Brokerage House and asset management services within investment funds and private portfolios.

Treasury

Treasury involves the management of interest rate, currency and liquidity risks. The income is generated on currency and inter-bank transactions, including derivative instruments and debt securities transactions.

Centre

The segment covers central operations, financing of other Groups' segments activity as well as other income and/or costs that cannot be reasonably assigned to one of the defined segments.

The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes are consistent with the accounting policy applied in Bank Zachodni WBK Group. Thereby there are no discrepancies between the valuation of segments' profit or loss, assets or liabilities, presented to the Management Board and the valuation of these components for the Group, included in the consolidated financial statement.

In thousands of PLN

Consolidated income statement (by business segment)

31.12.2009	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Interest and similar income	**1,037,130**	**521,536**	**26,444**	**(63,028)**	**41,109**	**1,563,191**
incl. internal transactions	–	(49,121)	48,521	–	600	–
Other income	**832,222**	**86,309**	**302,374**	**344,016**	**64,416**	**1,629,337**
incl. internal transactions	103,714	33,442	(65,764)	(74,350)	2,958	–
Dividend income	**–**	**–**	**96,592**	**–**	**–**	**96,592**
Operating costs	**(1,121,480)**	**(185,678)**	**(141,331)**	**(39,056)**	**(33,746)**	**(1,521,291)**
incl. internal transactions	7,161	(46,148)	(5,254)	23,262	20,979	–
Depreciation/Amortisation	**(98,837)**	**(11,612)**	**(9,001)**	**(2,933)**	**(1,090)**	**(123,473)**
Impairment losses on loans and advances	**(337,127)**	**(146,238)**	**2,331**	**–**	**–**	**(481,034)**
Share in net profits of entities accounted for by the equity method	**(837)**	**–**	**503**	**–**	**–**	**(334)**
Profit before tax	**311,071**	**264,317**	**277,912**	**238,999**	**70,689**	**1,162,988**
Corporate income tax						(222,832)
Profit of the period attributable to non-controlling interests						(53,964)
Profit for the period						**886,192**

Consolidated statement of financial position (by business segment)

31.12.2009	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	15,420,209	19,070,131	67,467	–	12,890	34,570,697
Investments in associates and joint ventures	31,277	–	50,610	–	–	81,887
Other assets	7,006,518	4,355,138	1,102,630	5,827,535	1,113,955	19,405,776
Total assets	**22,458,004**	**23,425,269**	**1,220,707**	**5,827,535**	**1,126,845**	**54,058,360**
Deposits from customers	31,919,150	8,514,438	765,983	23,300	–	41,222,871
Other liabilities and equity	1,973,310	5,312,389	336,544	4,687,553	525,693	12,835,489
Total liabilities	**33,892,460**	**13,826,827**	**1,102,527**	**4,710,853**	**525,693**	**54,058,360**

Consolidated income statement (by business segment)

31.12.2008	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Interest and similar income	**1,019,453**	**468,912**	**26,237**	**70,742**	**49,761**	**1,635,105**
incl. internal transactions	–	(48,401)	74,632	–	(26,231)	–
Other income	**827,077**	**82,811**	**485,088**	**121,647**	**35,949**	**1,552,572**
incl. internal transactions	139,020	28,179	(96,280)	(73,298)	2,379	–
Dividend income	**–**	**–**	**70,306**	**–**	**–**	**70,306**
Operating costs	**(1,177,224)**	**(188,741)**	**(164,057)**	**(35,851)**	**(8,871)**	**(1,574,744)**
incl. internal transactions	13,742	(53,038)	(5,321)	21,766	22,851	–
Depreciation/Amortisation	**(86,271)**	**(9,099)**	**(8,338)**	**(2,960)**	**(663)**	**(107,331)**
Impairment losses on loans and advances	**(139,214)**	**(225,353)**	**15**	**–**	**1**	**(364,551)**
Share in net profits of entities accounted for by the equity method	**(1,417)**	**–**	**640**	**–**	**–**	**(777)**
Profit before tax	**442,404**	**128,530**	**409,891**	**153,578**	**76,177**	**1,210,580**
Corporate income tax						(256,294)
Profit of the period attributable to non-controlling interests						(98,840)
Profit for the period						**855,446**

Consolidated statement of financial position (by business segment)

31.12.2008	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	14,290,054	20,341,916	66,294	427,572	11,366	35,137,202
Investments in associates and joint ventures	32,114	–	40,107	–	–	72,221
Other assets	7,044,761	3,933,785	999,896	8,938,084	1,307,120	22,223,646
Total assets	**21,366,929**	**24,275,701**	**1,106,297**	**9,365,656**	**1,318,486**	**57,433,069**
Deposits from customers	32,349,169	9,921,340	505,609	34,609	–	42,810,727
Other liabilities and equity	1,851,389	5,318,425	282,319	5,967,034	1,203,175	14,622,342
Total liabilities	**34,200,558**	**15,239,765**	**787,928**	**6,001,643**	**1,203,175**	**57,433,069**

4. Risk management

BZ WBK Group assumes a variety of risks in its ordinary business activities. These include credit risk, market risk, liquidity risk and operational risk. The role of risk management is to ensure that BZ WBK continues to take risk in a controlled way in order to enhance shareholder value. BZ WBK's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits continually. BZ WBK continues to modify and enhance its risk management practices to reflect changes in Market, products, regulatory environment and evolving best practice.

Primary responsibility for risk management establishment and framework lies with the Management Board (MB). MB formally approves the overall business strategies and policies, reviews Group's financial performance, risk management activities and controls. MB has established committees, which are responsible for risk developing and monitoring in their specified areas. Overall strategy for risk management in BZ WBK Group is set by Risk Management Committee, which activities include: identification of key risks, defining acceptable risk level and methods for risk measurement, controlling, monitoring and reporting. Risk Management Committee supervises activities of other risk managing committees in BZ WBK: the Credit

Policy Forum, Credit Committee, the Provisions Committee, Asset and Liabilities Committee (ALCO), Operational Risk Management Committee (ORMCo) and Market Risk Management Committee.

Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee.

Operating risk

BZ WBK Group adopted the definition of operational risk from the Basel Banking Supervision Committee which states that an operational risk is exposure to losses resulting from inadequate internal processes or systems, human errors or external factors.

Operational risk is inherent in almost all the Group's business activities, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Group is fully responsible for identification and management of the operational risks pertaining to its operations. The objective of the operational risk management is to minimise the likelihood of unexpected adverse events.

Bank Zachodni WBK Group operates the 'Operational Risk Management Policy' and the 'Rules of Operational Risk Management'. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) appointed by the Management Board set the strategic direction for operational risk activities, including in the area of BCM, information security and fraud prevention. ORMCo is a forum for official discussions on operational risk, determines and monitors operational risk management objectives and sets priorities with regard to high risks. The effects of this work are reported to the Management Board.

To ensure adequate risk management and identification of the key threats, the following processes are employed:

- Identification and estimation of operational risk
  In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks for their likelihood and consequences, and describe the existing controls. As part of the self-assessment review, potential threats to the bank's business are identified. The risks with high residual rating have proper action plans developed on which progress is reviewed quarterly by ORMCo.
- Reporting on operational incidents and lessons learned
  Each organizational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are actioned. The lessons learned process is a tool aimed to reinforce and facilitate operational risk management; it ensures also that decisive steps are taken if operational incidents materialize.
- Analysis of risk indicators
  Risk indicators are financial and operational indicators which depict the risk level present in Bank Zachodni WBK Group, and provide early warning of emerging threats and operational losses.
- Business continuity management
  Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. The plans also provide for absence of staff. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.
- Regular reporting to the Risk Management Committee and Supervisory Board
  Operational risk issues are reported to the Risk Management Committee and Supervisory Board, including: operational risk incidents, risk indicators, operational risk self-assessment.
- Insurance
  The bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Officers & Directors.

Bank Zachodni WBK S.A. and its subsidiaries co-operate closely with the AIB Group in the area of development and implementation of strategies and policies for operational risk management, selection and launch of supporting instruments, and ensuring compliance with the requirements of the New Capital Accord.

Credit risk

Bank Zachodni WBK S.A.'s credit activities focus on growing a high quality loan-book with a good yield and customer satisfaction.

Credit risk is defined as the possibility of suffering a loss as a result of the borrower's failure to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

Credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book.

Continued pro-active credit risk management is recognised as key to the Group's performance in the volatile markets and deteriorating economic growth conditions. During 2009 the Group has taken the following actions:

- active management of property loan portfolio, orientated at strict monitoring of existing exposures and balancing the share of property loans in the total credit portfolio,
- significantly reduced new FX lendings
- continuously verifying its approach to credit risk management by adopting methods of risk assessments to new parameters and tightening existing credit policies.

The high quality of the credit portfolio confirms that these actions have been effective.

Credit Policy Forum

To manage the credit risk effectively, Bank Zachodni WBK Group established the Credit Policy Forum whose key role is to provide and approve the best sectoral practice, analyses, credit policies as well as grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio, addressed for the bank's branch network and Business Support Centre units directly responsible for business development and support.

Credit Policies

Credit policies contain guidelines for the identification and assessment of areas where specific types of risks manifest themselves and also provide the methods of limiting those risks to a level acceptable to the bank (e.g. FX risk in the case of foreign currency loans).

At the same time, credit policies are subject to periodical reviews aimed to bring these guidelines up to date with the bank's current needs.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the Basel requirements and IAS/IFRS.

These efforts are accomplished based on AIB Group expertise and best practices, as well as in close liaison with external, internationally recognized advisors.

Currently the Group uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs, housing loans, income-generating real estate, cash loans, credit cards and retail overdrafts.

In 2009, new risk assessment models were implemented for credit cards and cash loans to incorporate customers' behavioural features prepared against data available from BIK (Credit Information Office). 2009 also saw a new model implemented for SME customers.

The Group runs a systematic verification of credit grading pursuant to the rules described in the Credit Manuals. In 2009, the monitoring was intensified and adjusted to the current situation. Additionally, for selected models automated process of credit grade verification is carried out based on the number of overdue days or behavioral features analysis. Credit grade may also be verified at subsequent credit asessments.

Calculation of Impairment

In Bank Zachodni WBK S.A. and its subsidiaries, charges updating impairment are recognised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The charges reflect credit impairment which is recognised if the bank presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidence of impairment was defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39), which were described in the section on accounting policies concerning valuation of assets carried at amortised cost.

The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and exposures of incurred but not reported losses).

The Group systematically compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to bank credit policies and recovery process. The process provides assurance that impairments are recognized correctly. The responsibility for adequate level of charges rests with the Provisions Committee.

Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on bank's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Return on Risk

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Currently for all significant portfolios risk valuation models based on EVA (Economic Value Added) are being implemented.

Credit Decision Making Process

The credit decision-making process as part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities (retail banking, corporate banking and SMEs). Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management and top executives of Bank Zachodni WBK S.A.

In thousands of PLN

The Group continually strives to ensure best quality credit service to meet the borrowers' expectations and relevant risk policy standards. To this end, the credit risk approval function has been separated from the sales function. Credit decision making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and reporting managers.

In order to ensure better risk management, the bank implemented scoring techniques for retail customers, SMEs and home mortgages. The scoring systems are continuously refined to enhance the quality of risk management and the decision-making process.

Credit Reviews

The Group performs regular reviews to the quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and Quality Assurance Department which are a function independent of risk-taking units.

Credit risk concentration

Bank Zachodni WBK Group adheres to the standards provided for in the banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2009, pursuant to art. 71 of the banking Law Act, the maximum limits for the bank totalled:

- PLN 1,080,437 k (20% of Group's own funds) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 1,350,546 k (25% of Group's own funds) in other cases.

The policy pursued by the Group aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect, which are set out in the Large Exposures Policy. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.

The analysis of the Group's exposures in terms of sector concentrations, carried out at the end of December 2009, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

As at 31 December 2009, the Group had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 2 entities which accounted for 29.1% of own funds (against the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK Group (performing loans) as at 31.12.2009 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
68	REAL ESTATE SERVICES	861,629	840,677	20,952
68	REAL ESTATE SERVICES	708,252	639,764	68,488
41	CONSTRUCTION	421,171	238,261	182,910
68	REAL ESTATE SERVICES	360,892	315,464	45,428
68	REAL ESTATE SERVICES	358,652	279,780	78,872
41	CONSTRUCTION	357,888	301,617	56,271
68	REAL ESTATE SERVICES	335,301	307,938	27,363
41	CONSTRUCTION	313,954	311,915	2,039
68	REAL ESTATE SERVICES	309,509	231,893	77,616
68	REAL ESTATE SERVICES	303,746	229,323	74,423
68	REAL ESTATE SERVICES	276,241	260,741	15,500
68	REAL ESTATE SERVICES	275,335	241,254	34,081
41	CONSTRUCTION	264,952	230,384	34,568
68	REAL ESTATE SERVICES	255,881	225,842	30,039
41	CONSTRUCTION	233,742	233,742	–
16	PRODUCTION	210,108	112,755	97,353
43	SPECIALISED CONSTRUCTION	207,160	67,433	139,727
41	CONSTRUCTION	203,038	202,781	257
63	INFORMATION	201,129	174,026	27,103
84	ADMINISTRATION	200,000	–	200,000
	Total gross exposure	**6,658,580**	**5,445,590**	**1,212,990**

The Group's credit risk management depends on internal ratings that, for presentational purposes, are grouped by classes.

The tables below present Group's exposure to credit risk.

Credit Exposures by classes

The table below presents breakdown of BZ WBK Group's financial instruments into classes which correspond to different levels of impairment. There are separate percentage levels for unimpaired portfolio (both for the past-due and non-past due) and for impaired portfolio (identical for individually and collectively impaired).

Provision cover	Loans and advances to customers		Loans and advances to banks		Investment securities		Financial assets held for trading*	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Individually impaired								
up to 50%	709,928	305,165						
50%–70%	133,609	96,352						
70%–85%	15,903	26,284						
over 85%	83,929	170,799		5,969				
Gross amount	**943,369**	**598,600**	**–**	**5,969**	**–**	**–**	**–**	**–**
Allowance for impairment	(307,410)	(299,339)		(5,969)				
Net amount	**635,959**	**299,261**	**–**	**–**	**–**	**–**	**–**	**–**
Collectively impaired								
up to 50%	563,703	147,395						
50%–70%	120,197	73,444						
70%–85%	212,527	109,216						
over 85%	117,627	108,522						
Gross amount	**1,014,054**	**438,577**	**–**	**–**	**–**	**–**	**–**	**–**
Allowance for impairment	(458,700)	(271,774)						
Net amount	**555,354**	**166,803**	**–**	**–**	**–**	**–**	**–**	**–**
Not impaired portfolio (past-due and non-past due)								
up to 0.10%	8,379,136	7,873,787	663,027	1,364,543	13,292,572	12,916,041	1,342,620	3,224,867
0.10%– 0.30%	8,365,331	9,678,028						
0.30%– 0.65%	5,163,227	6,999,737						
over 0.65%	11,763,337	9,930,962						
Gross amount	**33,671,031**	**34,482,514**	**663,027**	**1,364,543**	**13,292,572**	**12,916,041**	**1,342,620**	**3,224,867**
Allowance for impairment	(373,566)	(318,170)					–	
Net amount	**33,297,465**	**34,164,344**	**663,027**	**1,364,543**	**13,292,572**	**12,916,041**	**1,342,620**	**3,224,867**
Other receivables	**81,919**	**506,794**	**–**	**–**	**–**	**–**	**–**	**–**
Off-balance sheet exposures								
Financing granted	6,345,103	9,528,754						
Guarantees	876,197	901,717						
Nominal value of derivatives – purchased							36,882,698	115,462,834
Off-balance sheet exposure-total	**7,221,300**	**10,430,471**	**–**	**–**	**–**	**–**	**36,882,698**	**115,462,834**

* the value of financial assets held for trading includes adjustment of the fair value as described in Note 20.

In thousands of PLN

IBNR portfolio

	Loans and advances to customers	
	31.12.2009	31.12.2008
Non-past due	**32,294,289**	**33,175,381**
Past-due	**1,376,742**	**1,307,133**
1–30 days	1,048,180	1,068,200
31–60 days	243,283	180,260
61–90 days	81,813	55,101
>90 days	3,466	3,572
Gross amount	**33,671,031**	**34,482,514**

Portfolio of loans with incurred but not reported losses (IBNR) included loans that in the past had renegotiated terms of agreements. For the current reporting period it was PLN 568,055 k and PLN 104,019 k as at 31.12.2008.

Allowances for impairment by classes

	Provision cover	Loans and advances to customers		Loans and advances to banks	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008
Individual allowances for impairment					
	up to 50%	(132,917)	(51,924)		
	50%–70%	(79,295)	(56,840)		
	70%–85%	(12,692)	(20,942)		
	over 85%	(82,506)	(169,633)		(5,969)
Total individual allowances for impairment		**(307,410)**	**(299,339)**	**–**	**(5,969)**
Collective allowances for impairment					
	up to 50%	(112,501)	(33,345)		
	50%–70%	(70,547)	(44,336)		
	70%–85%	(163,156)	(87,211)		
	over 85%	(112,496)	(106,882)		
Total collective allowances for impairment		**(458,700)**	**(271,774)**	**–**	**–**
IBNR					
	up to 0.10%	(5,643)	(4,346)		
	0.10%–0.30%	(14,177)	(19,795)		
	0.30%–0.65%	(22,274)	(32,718)		
	over 0.65%	(331,472)	(261,311)		
Total IBNR		**(373,566)**	**(318,170)**	**–**	**–**
Total allowances for impairment		**(1,139,676)**	**(889,283)**	**–**	**(5,969)**

As at 31 December 2008, as a result of significant changes in the economic environment, the Group has made adjustments to the level of incurred but not reported losses, which are still largely in place as at 31 December 2009.

Collateral

The tables below present different forms of collaterals that can be used against loans and advances to customers from non-banking sector.

Individual customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; deposit mortgage;

Business customers

Type of loan	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; deposit mortgage;

In managing its receivables, BZ WBK Group carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle the Group aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Group's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Industry concentration

The credit policy of Bank Zachodni WBK Group envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2009, the highest concentration level was recorded in the "property " sector (20% of the BZ WBK Group exposure), "production" (13%) and "construction" (13%).

Groups of PKD by industries:

	Industry	Exposure	
		31.12.2009	31.12.2008*
	Property	7,235,227	6,912,714
	Production	4,689,363	5,366,549
	Construction	4,811,392	4,937,385
	Distribution	3,833,393	4,122,842
	Transportation	777,504	1,084,463
	Agriculture	811,084	933,419
	Financial sector	649,046	877,210
	Energy	382,949	358,023
	Other industries	1,760,346	1,612,444
A	**Total Business Loans**	**24,950,304**	**26,205,049**
B	**Retail (including mortgage loans)**	**10,678,150**	**9,314,642**
A+B	**BZ WBK Group portfolio**	**35,628,454**	**35,519,691**
C	**Other receivables (commercial bonds, reverse repo)**	**81,919**	**506,794**
A+B+C	**Total BZ WBK Group**	**35,710,373**	**36,026,485**

* 2008 data changed as a result of change in presentation data in carrying value

In thousands of PLN

Market risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).

General principles of market risk management

The key objective of the market risk policy pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

Market risk activities and strategies are directly supervised by ALCO which also recommends policies and strategies to the Management Board for approval. BZ WBK's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. The key risk limits are set in relation to the capital base level which can be used to cover potential losses. Measurement and limits setting methodologies are described below. Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group.

Interest rate and FX risks incurred in other divisions are transferred on to Treasury Division where qualified personnel using the appropriate systems and controls manage them centrally.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the Group, a special debt securities portfolio was established funded by a pool of net interest rate insensitive liabilities. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO. Treasury Division as a unit managing BZ WBK's centralized market risk exposure has responsibility for the funding and liquidity management as well as executing deals on behalf of ALCO.

For the above reason the market risk policies include the operational Treasury limit set by the bank Director in charge of Treasury Division. This limit is established in accordance with Treasury business strategy and approved at AIB Group level.

Additionally, in order to curtail losses on the trading portfolio, a stop-loss limit is in place, which allows trading positions to be closed in the event of losses exceeding the stated limit. Within the Treasury Division, there is a dedicated market risk control unit responsible to ensure that the risk measurement methodologies used are appropriate for the risk being taken and that risk monitoring and control procedures are in place.

Market risk generated by equity instruments – which exists in Brokerage House' portfolio – (shares, stock exchange indices) is managed by the BZ WBK Brokerage House and supervised by Market Risk Committee.

Measurement methods

BZ WBK Group uses several risk measures to assets market risk exposure : Value at Risk (VaR), sensitivity measures and stress testing.

VaR is determined as a difference between the market value of positions calculated using the current market prices/rates and the market values based on "worst case" movements in market rates. VaR is calculated separately for interest rate, FX and price risk of equity instruments portfolio.

The limitations of VaR measurements are well known (among others VaR does not provide prediction of the maximum worst case losses, predicts future based on historical data, assumes static exposure over holding period). They stem from the need to make assumptions about the spread of likely future price and rate movements. BZ WBK supplements its VaR methodology with sensitivity measures, which present how much the value of position could change for a given change in rates/prices. The sensitivity is measured at product, currency, desk and economic intent (trading, banking, hedging) levels. These measures can also be used to decide on hedging activities. A decision can be taken to close out positions when the level of sensitivity combined with the likelihood of a rate or price change exposes BZ WBK to too high a potential loss in value. VaR and sensitivities measures provide estimates of probable maximum loss in normal market conditions. Stress tests are used to supplement these measures by estimating possible losses that may occur under extreme market conditions.

Interest rate risk

The risk is that changes in interest rate will have adverse effects on earnings and on the value of BZ WBK's assets and liabilities. The main source of interest rate risk are transactions entered in the bank's corporate centres or branches and transactions entered in the money market by the Treasury Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/commercial bonds, or the bank's borrowings in the interbank market. However all positions which generate a repricing risk are transferred by way of a system of internal contracts to the Treasury Division. Then the bank's dealers are responsible for investing surplus funds in relevant instruments in order to ensure a risk and reward balance for the interest rates affecting the bank's statement of financial position and instruments portfolio.

The bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the repriced assets and liabilities the companies enter into standard placements or derivative transactions with the bank, which – from the transaction date – manages this risk under a limit approved by the Management Board.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of Treasury. VaR is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst-case profitability curve, which is based on a volatility of interest rates at a 99% confidence level for a three-year interest rate history. Volatility is based on a one-month position maintenance period. VaR is set both for the trading portfolio and the banking portfolio. The measurement excludes the securities portfolio managed by ALCO and used to hedge against the structural balance sheet risk. A stop-loss limit framework is also used to manage the risk of loss from positions that are subject to mark-to-market accounting. Stress tests are used to supplement above measures by estimating possible losses that may occur under extreme market conditions. These are based on current sensitivity reports and sets of assumed extreme 1 day and 1 month rates movements reported over the last 7 years.

The table below presents risk levels in 2009 and 2008 (both measures assume 1 month holding time horizon):

Interest Rate Risk	Value at Risk		Stress Scenario	
1 month holding period	2009	2008	2009	2008
Average	30,520	20,995	137,162	142,177
High	39,996	28,596	185,874	177,608
Low	17,563	12,698	82,710	101,898
31st December	**36,458**	**20,059**	**142,906**	**102,707**

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 61,623 k (EUR 15,000 k) at the end of 2009.

Interest rate risk management is centralised to enhance its effectiveness, while maintaining segregation of risk measurement and risk control functions.

In managing interest rate risk, a distinction is made between trading and banking/investment activity. The trading book includes securities and derivatives that are held for trading purposes in Treasury. These are revalued daily at market prices and any changes in value are recognised in the profit and loss account. BZ WBK's banking book consists of branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

The tables below present the sensitivity of trading and banking portfolios at the end of December 2009 and comparable period:

Interest Rate Risk	Sensitivity 31.12.2009		
Parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0–3m	(10)	(53)	(63)
3m–1Y	(3)	77	74
1Y–5Y	(28)	(501)	(529)
over 5Y	5	(24)	(19)
Total	**(36)**	**(501)**	**(537)**

Interest Rate Risk	Sensitivity 31.12.2008		
Parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0–3m	12	30	42
3m–1Y	5	(71)	(66)
1Y–5Y	(25)	(280)	(305)
over 5Y	2	(15)	(13)
Total	**(6)**	**(336)**	**(342)**

The structural balance sheet risk is defined as the bank's sensitivity to income volatility in its non-trading activity arising from movements in interest rates. Interest rate volatility affects the bank's income from the investment of capital and from free current account balances (net interest rate insensitive liabilities (NIRIL)). The key objective of such approach is to smooth level of Net Interest Income over time.

The supervision role over that risk is also an ALCO responsibility. The level of such risk is closely monitored and actively managed through separate assets portfolios (NIRIL Portfolios): capital NIRIL (funding of capital over the fixed assets) and business NIRIL (funding of non interest bearing liabilities). The NIRIL Portfolios consist of safe and liquid assets, which are also treated as liquidity reserve. The decision maker role in relation to those portfolios is taken by ALCO and Treasury executes such decisions.

The following tables present interest rate sensitivities of each NIRIL portfolio at the end of 2009 and 2008:

Interest Rate Risk	Sensitivity 31.12.2009		
Parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0–3m	(9)	(7)	(16)
3m–1Y	(42)	(29)	(71)
1Y–5Y	(911)	(557)	(1,468)
over 5Y	–	(871)	(871)
Total	**(962)**	**(1,464)**	**(2,426)**

Interest Rate Risk	Sensitivity 31.12.C2008		
Parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0–3m	–	–	–
3m–1Y	(52)	(26)	(78)
1Y–5Y	(1,036)	(590)	(1,626)
over 5Y	–	(471)	(471)
Total	**(1,088)**	**(1,087)**	**(2,175)**

In thousands of PLN

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the Value at Risk based on the total open FX position of the bank. VaR is determined by means of a statistical modelling process. VAR is the potential loss on open FX positions at a 99% confidence level where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3-year history of exchange rates. Stress tests are used to supplement the above measure by estimating possible losses that may occur under extreme market conditions. These are based on current FX exposure and assumed extreme rates movements scenarios over the last 3 years (calculations are provided for 1 day and 10 days holding periods).

A stop-loss limit framework is also used to manage the risk of loss from trading position.

According to its policy the Group does not maintain open positions in FX options. Transactions concluded with clients are at the same time closed in the interbank market, thus the Group is not exposed to market risk. As a result of recent high volatility of FX rates, individual clients' exposures have been analysed, stress-tests have been made both for inter-bank and commercial counter-parties. Having analysed exposures and the financial standing of clients, the bank has made fair value adjustments of particular exposures against the credit risk of potential default in settlement.

Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

The table below presents risk levels in 2009 and 2008 (data for both measures are scaled to 1 month holding period to make it comparable):

FX Risk	Value at Risk		Stress Scenario	
1 month holding period:	2009	2008	2009	2008
Average	2,030	897	13,186	4,370
High	4,440	3,240	27,182	14,706
Low	435	160	3,388	842
31st December	**2,163**	**886**	**14,725**	**6,228**

Stress test average value increase resulting from reflection of extreme FX market movements noted in September 2008 after Lehman bankruptcy in tests conducted in 4Q 2008 and 2009.

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 6,158 k (EUR 1,500 k) at the end of December 2009. Until October 2009 the operational limit was PLN 4,067 k (EUR 990 k). It was increased due to a revision of the bank's strategy. Excesses above the limit have been rectified and reported to relevant bank's units.

FX risk management is centralised for maximum effectiveness, while maintaining segregation of risk measurement and risk control functions.

The tables below present currency breakdown of selected consolidated balance sheet items as at 31.12.2009 and 31.12.2008.

31.12.2009	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central bank	2,486,441	101,876	4,785	67,556	2,660,658
Loans and advances to banks	178,321	372,346	26,909	85,451	663,027
Loans and advances to customers	22,438,451	9,245,367	2,282,271	604,608	34,570,697
Investment securities	12,695,810	442,185	–	154,577	13,292,572
Selected assets	**37,799,023**	**10,161,774**	**2,313,965**	**912,192**	**51,186,954**
LIABILITIES					
Deposits from central bank	1,519,208	–	–	–	1,519,208
Deposits from banks	1,990,851	1,494,813	34,828	310,284	3,830,776
Deposits from customers	37,162,348	3,001,781	31,295	1,027,447	41,222,871
Selected liabilities	**40,672,407**	**4,496,594**	**66,123**	**1,337,731**	**46,572,855**

In 2009 the Group reduced FX credit activity but the resulting FX gap changed insignificantly. Those positions were closed by the off-balance sheet transactions i.e. cross-currency forward and swap in order to secure financing these positions and to eliminate impact of exchange rates on the Group's financial statements.

31.12.2008	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central bank	2,798,697	256,638	7,954	114,818	3,178,107
Loans and advances to banks	1,086,308	135,771	2,982	139,482	1,364,543
Loans and advances to customers	22,834,828	9,086,764	2,425,021	790,589	35,137,202
Investment securities	12,177,768	655,240	–	83,033	12,916,041
Selected assets	**38,897,601**	**10,134,413**	**2,435,957**	**1,127,922**	**52,595,893**
LIABILITIES					
Deposits from central banks	1,242,574	–	–	–	1,242,574
Deposits from banks	1,928,298	1,949,447	56,040	161,692	4,095,477
Deposits from customers	38,608,995	2,945,022	41,642	1,215,068	42,810,727
Debt securities in issue	153,918	–	–	–	153,918
Selected liabilities	**41,933,785**	**4,894,469**	**97,682**	**1,376,760**	**48,302,696**

Price risk of equity instruments portfolio

The entity responsible for equity price risk management is BZ WBK Brokerage House (BH). The source of this risk are transactions conducted on BH own account via stock exchanges and MS CTO (shares, futures).

This risk is measured based on industry standard Value at Risk. In October 2008, the variance-covariance risk assessment method was substituted by the historical analysis method, in which Value at Risk is determined by the distribution of 250 historical changes in the current portfolio value. Variability is defined as a respective percentile of the distribution. The advantage of the new method is a more precise measurement of risk, taking into account the spread between particular forward positions in the portfolio. The historical method is supplemented by the stress tests.

The process of managing the market risk in BH is supervised by the newly formed BZ WBK Group Market Risk Committee chaired by the bank's president. The Committee's responsibilities include allocation of the VaR limit to BH and approval of changes in the risk measurement methodology and in the risk management process.

The table below presents risk levels in 2009 and comparable period:

Equity Risk	Value at Risk		Stress Scenario	
1 month holding period:	2009	2008*	2009	2008*
Average	1,030	1,172	2,144	2,076
High	5,168	3,217	12,282	6,784
Low	49	43	63	55
31st December	**630**	**143**	**696**	**544**

* values calculated by using the new method of risk measurement (historical analysis)

BH operates within an operational limit that has been increased up to PLN 5,000 k in 2009. Once off excess above the VaR limit has been rectified and reported to relevant bank's units.

Liquidity Risk

Liquidity risk is defined as a risk of failure to meet all conditional and unconditional obligations towards customers and counter parties.

Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

- ensure availability of funds to meet claims arising from asset commitments and liability demands, both current and future, at an economic price;
- manage the structural mismatch on the balance sheet;
- set a scale of liquidity risk appetite in the form of various internal limits;
- ensure proper organization of the liquidity management process across BZ WBK Group;
- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by BZ WBK Group in the liquidity management process is that all outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments, settlements of transactions should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the bank's operations. The key categories of Qualified Liquid Assets (QLA) recognized in BZ WBK are: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.

In thousands of PLN

In addition, the policy's aim is to ensure an adequate structure of funding the growing scale of BZ WBK business by maintaining the medium-term and long-term liquidity ratios at a pre-defined level. Therefore, apart from the limits defined above, a set of observation ratios is monitored on a daily basis (i.e. loan/deposit ratio, wholesale dependency ratio). As for long-term liquidity, internal controls are supported by a regulatory limit, pursuant to which the capital and stable sources of financing must fully cover the value of the credit portfolio and non-liquid assets (e.g. fixed assets)

Management and Reporting

ALCO has overall responsibility for the supervision of liquidity risk and advises the Management Board on appropriate strategies and policies for strategic liquidity management.

Management of liquidity is centralised in the Treasury Division, while the liquidity risk control assessment is run independently from risk sources.

Each subsidiary is fully responsible for the process of maintaining liquidity. However, in order to manage their short and long term liquidity, subsidiaries use current and term accounts (if required) opened at the parent. This means that the companies' entire cash flow is routed through the bank. Short and long-term financing of the companies' operations (particularly in case of leasing companies) is closely supervised by the parent company. BZ WBK supports the subsidiaries in long-term transactions.

The Group has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

Risk Assessment

Liquidity is calculated by a modified liquidity gap, which is determined separately for PLN and FX positions. According to the Liquidity Policy, the reported contractual positions are subject to various modifications based on statistical behaviour of deposit and credit base, possibility of selling or establishing pledge over State Treasury securities under repo transactions or NBP Lombard loan, possibility of rolling over transactions on the inter-bank market. The actual liquidity gap is used to determine liquidity ratios, i.e. relationship between the projected consolidated outflows and inflows in a given period. The Liquidity Policy sets minimum values of ratios for periods of up to one week and one month. The ratios are set both for PLN & FX. In case of shortage of PLN or FX, PLN or FX surplus may be converted accordingly to cover the shortages. However, the value of such conversion is limited by the assessed current capacity of the wholesale market.

At the same time, liquidity is measured in accordance with Resolution no. 386/2008 of KNF (Polish Financial Supervision Authority) on liquidity standards applying to banks.
In 2009, liquidity stress tests that are also used to measure long-term liquidity were extended.

Risk Assessment

Liquidity profile as at 31.12.2009 and 31.12.2008:

31.12.2009	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	2,660,658	–	–	–	–	–	–	2,660,658
Loans and advances to bank	653,748	–	–	9,278	1	–	–	663,027
Financial assets held for trading	487,904	136,629	282,993	182,229	115,203	90,995	46,667	1,342,620
Loans and advances to customers	2,465,765	2,259,389	8,203,478	9,083,657	5,159,576	8,538,508	(1,139,676)	34,570,697
Investment securities	49,876	1,743,454	1,589,738	4,479,935	2,771,513	1,992,640	665,416	13,292,572
Other items	–	–	–	–	–	–	1,528,786	1,528,786
Long position	**6,317,951**	**4,139,472**	**10,076,209**	**13,755,099**	**8,046,293**	**10,622,143**	**1,101,193**	**54,058,360**
Deposits from central bank and banks	2,268,025	1,108,071	1,594,365	357,253	12,286	9,984	–	5,349,984
Financial liabilities held for trading	52,811	109,628	341,767	110,481	60,952	58,222	–	733,861
Deposits from customers	27,157,382	8,182,487	4,732,946	1,033,820	113,948	2,288	–	41,222,871
Other items	–	–	–	–	–	–	6,751,644	6,751,644
Short position	**29,478,218**	**9,400,186**	**6,669,078**	**1,501,554**	**187,186**	**70,494**	**6,751,644**	**54,058,360**
Gap – balance sheet	**(23,160,267)**	**(5,260,714)**	**3,407,131**	**12,253,545**	**7,859,107**	**10,551,649**	**(5,650,451)**	
Contingent liabilities-sanctioned								
Financing related	473,643	633,233	3,741,833	863,509	123,898	522,896	(13,909)	6,345,103
Guarantees	39,914	102,024	222,681	463,236	45,178	4,808	(1,644)	876,197
Derivatives settled in gross terms								
Inflows	4,857,751	2,001,095	3,168,144	572,313	702,425	902,592	–	12,204,320
Outflows	4,807,501	2,012,709	3,267,617	572,498	658,082	902,350	–	12,220,757
Gap – off-balance sheet	**(463,307)**	**(746,871)**	**(4,063,987)**	**(1,326,930)**	**(124,733)**	**(527,462)**	**15,553**	

31.12.2008	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	3,178,107	–	–	–	–	–	–	3,178,107
Loans and advances to bank	1,214,633	141,342	–	8,568	–	–		1,364,543
Financial assets held for trading	396,879	580,752	1,589,727	408,857	106,242	139,768	2,642	3,224,867
Loans and advances to customers	2,022,186	2,369,861	7,818,786	9,408,624	5,037,030	9,369,998	(889,283)	35,137,202
Investment securities	15,956	599,846	2,604,010	3,441,705	4,080,804	1,518,129	655,591	12,916,041
Other items	–	–	–	–	–	–	1,612,309	1,612,309
Long position	**6,827,761**	**3,691,801**	**12,012,523**	**13,267,754**	**9,224,076**	**11,027,895**	**1,381,259**	**57,433,069**
Deposits from central bank and banks	2,036,229	1,318,739	526,526	1,338,669	107,914	9,974	–	5,338,051
Financial liabilities held for trading	739,379	569,451	1,153,673	515,704	92,033	83,692	–	3,153,932
Deposits from customers	30,705,400	8,841,754	2,682,976	433,786	146,799	12	–	42,810,727
Debt securities in issue	–	69,142	84,974	–	–	–	(198)	153,918
Other items	–	–	–	–	–	–	5,976,441	5,976,441
Short position	**33,481,008**	**10,799,086**	**4,448,149**	**2,288,159**	**346,746**	**93,678**	**5,976,243**	**57,433,069**
Gap – balance sheet	**(26,653,247)**	**(7,107,285)**	**7,564,374**	**10,979,595**	**8,877,330**	**10,934,217**	**(4,594,984)**	
Contingent liabilities-sanctioned								
Financing related	286,259	665,912	3,736,426	2,870,291	649,283	1,330,152	(9,569)	9,528,754
Guarantees	63,263	120,909	263,998	312,785	137,475	5,694	(2,407)	901,717
Derivatives settled in gross terms								
Inflows	6,825,726	3,473,051	5,673,685	1,254,096	44,325	215,983	–	17,486,866
Outflows	7,076,843	3,601,837	5,783,481	1,411,690	38,059	191,366	–	18,103,276
Gap – off-balance sheet	**(600,639)**	**(915,607)**	**(4,110,220)**	**(3,340,670)**	**(780,492)**	**(1,311,229)**	**11,976**	

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Management report of the Treasury Division on anticipated inflows, outflows and possessed liquid/qualified liquid assets:

Liquidity Risk	<1T	<1M	>1M
31.12.2009			
Liquid Assets	11,023,232	–	1,931,412
Treasury Inflows	2,098,604	3,797,865	7,163,425
Other Inflows	1,451,558	593,711	33,840,436
Treasury Outflows	(3,247,340)	(3,782,486)	(9,292,350)
Other Outflows	(3,441,017)	(317,267)	(41,819,783)
Gap	**7,885,037**	**291,823**	**(8,176,860)**
Cumulated Gap	**7,885,037**	**8,176,860**	**–**

Liquidity Risk	<1T	<1M	>1M
31.12.2008			
Liquid Assets	11,382,962	566,552	1,300,540
Treasury Inflows	2,476,074	6,961,845	12,223,334
Other Inflows	629,768	249,314	36,286,296
Treasury Outflows	(2,263,818)	(7,564,051)	(14,016,408)
Other Outflows	(5,284,241)	(516,776)	(42,431,390)
Gap	**6,940,744**	**(303,117)**	**(6,637,627)**
Cumulated Gap	**6,940,744**	**6,637,627**	**–**

At the end of 2009 there was an increase in the duration of retail deposits, which was reflected in the contractual gap. Level of liquid assets was not significantly changed y/y.

In 2009 and 2008 all the regulatory measures have been kept at the required levels.

Derivative transactions connected with market risks

The Group enters into derivative transactions for trading purposes and to mitigate/hedge against market risks. These transactions predominantly carry interest rate and FX risk, albeit the bank also enters into derivative transactions to fund FX assets, thus mitigating liquidity risk.

Individual types of transactions are characterised below:

FX transactions

The Group enters into FX forwards and swaps with customers and in the interbank market. The transactions are used for trading purposes or for liquidity management.

FX options are concluded with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

Interest transactions

The Group enters into the following interest rate transactions:

- Interest Rate Swaps – IRS
- Cross-currency Interest Rate Swaps – CIRS
- Forward Rate Agreements – FRA
- Interest rate option CAP type

IRSs transactions are concluded on the inter-bank market as well as with bank's clients. IRSs are used to hedge/cancel open interest rate positions, but are also used for trading purposes.

The Group uses CIRSs instruments primarily for liquidity management – they ensure medium-term funding for the bank's FX assets.

FRAs are to protect the Group against a future decline in interest rates. This instrument is also used for speculative reasons in anticipation of interest rate changes. Primarily FRAs are used in trading portfolio.

The bank concludes CAP option contracts with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

Capital Management

Introduction

It is the policy of the bank Zachodni WBK Group to maintain equity at a level appropriate to the size and type of its business and the risk it is exposed to, in compliance with the Polish Banking Law and regulations issued by the Polish Financial Supervision Authority (KNF) which transpose the New Capital Accord of the Basel Committee (Basel II) into Polish law.

Basel II revised the approach to measurement of the minimum regulatory capital requirement (Pillar 1) and introduced measurement of internal capital (Pillar 2) where in-house models are applied by banks in day-to-day risk management. Internal capital is more sensitive to risk and should be subject to

prudent and detailed review to facilitate correct measurement. Calculation of internal capital is an integral part of the bank management.

In addition, the level of capital maintained by the Group is determined by ultimate external ratings and results of stress tests of individual material risks.

The Management Board is accountable for capital management, calculation and maintenance processes, including assessment of capital adequacy vis a vis different economic conditions and evaluations of stress tests results and their impact on internal capital and capital adequacy. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The Management Board delegated on-going capital management to ICAAP/ALCO Forum. This body is responsible for tracking the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The ALCO/ICAAP Forum is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the bank and the Group. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank in accordance with the applicable law and the bank's Statutes.

Capital Policy

The solvency ratio which shows the relation between capital requirement for particular risks to the bank's total capital, after mandatory deductions, recognised in keeping with the banking Law and the requirements of the Polish Financial Supervision Authority, is one of the basic measures used for capital management in Bank Zachodni WBK S.A.. Under the banking Law, solvency ratio may not be lower than 8%, both at the bank and the Group level.

The bank's capital management policy envisages the target solvency ratio at 10% both for the bank and the Group.

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 8% both for the bank and the Group (an additional requirement may be also applied here, as part of SREP process of Pillar 2).

Solvency Ratio

The risks under Pillar 1 and the minimum capital required for such risks are assessed in a quantitative method. The bank uses regulatory approaches to the measurement of these risks, applying precisely defined rules and parameters to calculate the capital requirement needed to cover the risks. In 2009 and 2008, with regard to:

a) credit risk – the bank used the standardised approach for all portfolios;
b) operational risk – the bank used the standardised approach;
c) market risk – the bank used the basic measurement methods.

The capital requirement for individual risks is aggregated directly to determine the overall capital requirement (Pillar 1).

The tables below show capital requirement for the Group as of 31 December 2009 and 31 December 2008.

		31.12.2009	31.12.2008
I	**Total Capital requirement (Ia+Ib+Ic+Id)**	**3,332,447**	**3,532,896**
	Incl.:		
Ia	– due to credit risk	2,834,737	3,001,689
Ib	– due to market risk	17,720	20,830
Ic	– due to settlement/counterparty risk	41,983	116,691
Id	– due to operational risk	438,007	393,686
II	Total own funds	5,652,078	4,886,845
III	Reductions	249,895	143,276
IV	**Own funds after reductions (II+III)**	**5,402,183**	**4,743,569**
V	**CAD [IV/(I×12.5)]**	**12.97%**	**10.74%**

Internal Capital

The bank defines internal capital as the capital required to safeguard the bank against the impact of major unexpected losses which may jeopardise the bank's solvency.

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process the bank is required to estimate (determine), allocate and maintain the required level of internal capital to ensure secure conduct of its banking business, taking into account the bank's risk profile set out in the Risk Appetite Statement.

The key objective of the ICAAP is to create a link between the risk profile, risk management, risk mitigation and internal capital level. The bank has an appropriate process in place to assess all the key elements of capital planning and management (including aggregation of capital for different risk types). The process ensures that the bank's capital will be sufficient to cover all the particular risks. The internal capital estimation process is adjusted to the type, scale and complexity of the bank's business.

In thousands of PLN

The current approach is to aggregate the capital for Pillar 1 risks and then to add the estimated capital for all the other Pillar 2 risks that the bank is or may be exposed to. Quantitative risk measurement methods are applied where feasible and practicable. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

Legal & compliance risk

Legal & regulatory (compliance) risk is defined – in line with the Basel Committee recommendation and the definition adopted by the strategic shareholder – as risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by BZ WBK as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk Identification & Assessment

Within BZ WBK Group several bodies have been assigned to manage legal & regulatory (compliance) risk.

The scope of the Compliance Area responsibilities relates to "conduct of business'" compliance obligations, including anti-money laundering, protection of sensitive information and personal data. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas.

All issues regarding compliance with employment law is assigned to HR Management Division, taxation law to Financial Division and prudential regulation to Financial Division & Risk Management Division in respective aspects.

Every six months, the BZ WBK Compliance Area coordinates assessment process of the key legal & compliance risks. During the process, risks and their potential impact on the business are assessed, and effectiveness of appropriate controls that may be applied to mitigate these risks is evaluated. Legal & regulatory (compliance) risk reviews take into account any risks the Group may be exposed to within the following three years, including upstream risks in the form of new regulations, increased regulatory scrutiny and increasing demand of the stakeholders.

Risks that BZ WBK Group may be exposed to are discussed by the Risk Management Committee & Audit Committee. The Compliance Area supports and validates this approach by operating a risk framework model that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. The identified legal & regulatory risks are then incorporated in operational risk Self Assessment Risks Templates (SART's) prepared by the units.

Risk management and mitigation

The bank's Management Board adopted a policy statement on compliance with legal & regulatory obligations which was then approved by the Supervisory Board. The policy mandates the Compliance Area and ensures it's sufficient independence to support management in effective compliance risk management. Every six months, the Audit Committee reviews key compliance risks to assess the extent to which they are being managed effectively.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence & sufficient resources of the Compliance Area. The Compliance Area major responsibilities include:

- Independent identification, assessment and monitoring of compliance risk BZ WBK Group is exposed to;
- Providing advice and reporting to the Risk Management Committee, bank's Management Board & Audit Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope;
- Providing advice and guidance to management and staff on compliance risks within its scope and on appropriate policies and procedures to mitigate these risks; and
- Providing a monitoring capability for 'non-conduct of business' compliance risks in areas of taxation law, company law, employment law, environmental law, and health and safety law on a risk prioritised basis.

Legal & regulatory (compliance) risk management is coordinated by the Compliance Area reporting to the Management Board Member in charge of Legal & Compliance Division. The Area coordinates and supervises the process of compliance risk management with subsidiary compliance units pursuant to the applicable law.

Risk monitoring & reporting

The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by dedicated Risk & Compliance Monitoring Office, the AML Office and Compliance Officers in indicated units and capital market subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. The monitoring is focused particularly on processes but may also refer to particular organizational units. The annual monitoring plan, accepted by the Audit Committee, is reviewed on a regular basis and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Compliance Area. The implementation of these action plans is monitored by the Compliance Area.

5. Net interest income

	01.01–31.12.2009	01.01–31.12.2008
Interest and similar income		
Loans and advances to enterprises	1,286,163	1,403,175
Loans and advances to individuals of which:	919,215	745,966
Mortgage loans	*278,119*	*299,277*
Debt securities incl.:	739,254	602,740
Investment portfolio held to maturity	*376,940*	*90,252*
Investment portfolio available for sale	*316,303*	*487,932*
Trading portfolio	*46,011*	*24,556*
Leasing agreements	192,085	226,053
Loans and advances to banks	71,880	174,861
Other from public sector	18,860	32,296
Reverse repo transactions	14,951	42,907
Interest recorded on hedging IRS	(16,320)	4,126
Total	**3,226,088**	**3,232,124**
Interest expense and similar charges		
Deposits from individuals	(976,496)	(798,347)
Deposits from enterprises	(375,410)	(401,981)
Repo transactions	(131,037)	(107,823)
Public sector	(94,693)	(98,338)
Deposits from banks	(82,433)	(174,809)
Debt securities in issue	(2,828)	(15,721)
Total	**(1,662,897)**	**(1,597,019)**
Net interest income	**1,563,191**	**1,635,105**

As at 31 December 2009 net interest income includes interest on impaired loans of PLN 92,356 k (as at 31.12.2008 – PLN 58,117 k).

Bank Zachodni WBK S.A.

In thousands of PLN

6. Net fee and commission income

	01.01–31.12.2009	01.01–31.12.2008
Fee and commission income		
eBusiness & payments	370,585	313,145
Current accounts and money transfer	250,732	232,504
Asset management fees	277,283	429,135
Foreign exchange commissions	226,534	235,014
Brokerage commissions	123,076	126,932
Credit commissions (including factoring)	101,429	80,643
Insurance commissions	75,586	74,737
Credit cards	68,250	54,733
Off-balance sheet guarantee commissions	11,767	12,550
Other distribution-related fee	10,296	20,190
Distribution fees due to asset management	8,662	15,846
Issue arrangement	6,147	8,557
Finance lease commissions	3,729	800
Other commissions	1,489	1,883
Total	**1,535,565**	**1,606,669**
Fee and commission expense		
eBusiness & payments	(97,450)	(76,470)
Distribution fees	(32,423)	(53,147)
Brokerage commissions	(24,558)	(20,704)
Commissions paid to credit agents	(17,708)	(25,829)
Asset management fees and other costs	(17,048)	(25,816)
Credit cards	(7,084)	(8,054)
Finance lease commissions	(6,860)	(6,593)
Insurance commissions	–	(2,640)
Other	(16,970)	(13,601)
Total	**(220,101)**	**(232,854)**
Net commission income	**1,315,464**	**1,373,815**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 185,175 k (31.12..2008: PLN 148,726 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (31,652) k (31.12.2008: PLN (40,476) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

7. Dividend income

Dividend income	01.01–31.12.2009	01.01–31.12.2008
Dividends from investment portfolio entities	94,271	68,249
Dividends from trading portfolio entities	2,321	2,057
Total	**96,592**	**70,306**

8. Net trading income and revaluation

Net trading income and revaluation	01.01–31.12.2009	01.01–31.12.2008
Profit on interbank FX transactions	151,481	59,177
Profit/(loss) on derivative instruments	73,951	(40,875)
Other FX related income	31,274	22,993
Profit on market maker activity	11,046	9,298
Profit on debt instruments	2,504	2,209
Total	**270,256**	**52,802**

Net trading income and revaluation includes value adjustments of derivatives resulting from counterparty risk in the amount of PLN (28,843) k (as at 31.12.2008 – PLN (80,996) k).
In 2009, Bank Zachodni WBK S.A. revised its estimate of fair value of Cross Currency Swaps on account of substantial increase in market spreads observed since 2008 year-end. The total fair value adjustment to these derivatives was PLN 37,989 k in the reporting period. These instruments are a source of funding and it is the bank's intention to hold them until maturity. Their mark-to-market valuation will revert to zero on a case by case basis over their remaining life.
In the comparable period there were no such adjustments.

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01–31.12.2009	01.01–31.12.2008
Profit on equity shares	3,561	67,196
Loss on debt securities	(7,223)	(11,735)
Charge due to impairment losses	–	(110)
Total profit (losses) on financial instruments	**(3,662)**	**55,351**
Change in fair value of hedging instruments	17,443	(34,388)
Change in fair value of underlying hedged positions	(19,866)	37,189
Total profit (losses) on hedging and hedged instruments	**(2,423)**	**2,801**
Total	**(6,085)**	**58,152**

10. Net (loss)/gains on sale of subsidiaries and associates

Net (loss)/gains on sale of subsidiaries and associates	01.01–31.12.2009	01.01–31.12.2008
Sale of subsidiaries	–	520
Sale of associates	–	(716)
Total	**–**	**(196)**

Additional information about acquisitions and disposals of investments is available in note 48.

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11. Other operating income

Other operating income	01.01–31.12.2009	01.01–31.12.2008
Income on sale of services	13,425	32,926
Release of provision for legal cases and other assets	12,959	9,440
Reimbursements of BGF charges	5,826	1,657
Recovery of other receivables	3,981	2,610
Insurance indemnity received	2,280	1,957
Settlements of stock-exchange dealings	1,315	1,366
Settlements of leasing agreements	1,070	470
Financing premium from EBRD	960	1,351
Bailiff reimbursement	825	860
Other	7,061	15,362
Total	**49,702**	**67,999**

12. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01–31.12.2009	01.01–31.12.2008
Collective and individual impairment charge	(438,698)	(192,276)
Incurred but not reported losses charge	(56,297)	(176,061)
Recoveries of loans previously written off	17,458	10,205
Off balance sheet credit related items	(3,497)	(6,419)
Total	**(481,034)**	**(364,551)**

13. Employee costs

Employee costs	01.01–31.12.2009	01.01–31.12.2008
Salaries and bonuses	(747,164)	(735,771)
Salary related costs	(113,200)	(104,310)
Staff benefits costs	(20,782)	(21,208)
Professional trainings	(9,474)	(24,062)
Retirement fund, holiday provisions and other employee-related costs	1,282	(11,041)
Total	**(889,338)**	**(896,392)**

14. General and administrative expenses

General and administrative expenses	01.01–31.12.2009	01.01–31.12.2008
Maintenance and rentals of premises	(199,243)	(159,423)
IT systems costs	(88,395)	(89,943)
Marketing and representation	(73,618)	(105,275)
Postal and telecommunication costs	(53,349)	(54,402)
Car, transport expenses, carriage of cash	(30,782)	(31,922)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(26,369)	(16,429)
Other external services	(25,625)	(33,848)
Stationery, cards, cheques etc.	(19,192)	(24,841)
Consulting fees	(18,734)	(37,617)
Data transmission	(16,760)	(16,825)
Sundry taxes	(16,171)	(18,069)
KIR, SWIFT settlements	(12,583)	(11,776)
Security costs	(12,324)	(12,511)
Costs of repairs	(5,672)	(18,095)
Other	(10,161)	(19,806)
Total	**(608,978)**	**(650,782)**

15. Other operating expenses

Other operating expenses	01.01–31.12.2009	01.01–31.12.2008
Charge of provisions for legal cases and other assets	(5,156)	(5,482)
Debt recovery costs	(2,739)	(1,540)
Donation paid	(1,564)	(1,645)
Costs of legal proceedings	(1,443)	(1,066)
Costs of purchased services	(1,255)	(283)
Losses from past-due receivables	(1,156)	(1,106)
Paid compensations, penalties and fines	(999)	(1,536)
Other	(8,663)	(14,912)
Total	**(22,975)**	**(27,570)**

16. Corporate income tax

Income tax charge	01.01–31.12.2009	01.01–31.12.2008
Current tax charge	(306,791)	(298,358)
Deferred tax charge	83,959	42,064
Total	**(222,832)**	**(256,294)**

In thousands of PLN

Corporate total tax charge information	01.01–31.12.2009	01.01–31.12.2008
Profit before tax	1,162,988	1,210,580
Tax rate	19%	19%
Tax calculated at the tax rate	(220,968)	(230,010)
Non tax-deductible expenses	(6,392)	(12,464)
Loss on sale of receivables	(11,872)	(6,958)
Non-taxable income (dividends)	17,867	397
Other:		
– write-offs on receivables	(2,049)	(1,128)
– other non tax-deductible costs	–	(4,494)
– other	582	(1,637)
Total income tax expense	**(222,832)**	**(256,294)**

Deferred tax recognised directly in equity	31.12.2009	31.12.2008
As at 31 December the amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	(96,995)	(97,298)
Relating to debt securities available-for-sale	(1,166)	13,604
Relating to cash flow hedging activity	(450)	5,787
Total	**(98,611)**	**(77,907)**

17. Earning per share

Earning per share	01.01–31.12.2009	01.01–31.12.2008
Profit attributable to ordinary shares	886,192	855,446
Weighted average number of ordinary shares	73,076,013	72,960,284
Basic earnings per share (PLN)	**12.13**	**11.72**
Profit attributable to ordinary shares	886,192	855,446
Weighted average number of ordinary shares	73,076,013	72,960,284
Weighted average number of potential ordinary shares	309,001	298,400
Diluted earnings per share (PLN)	**12.08**	**11.68**

18. Cash and balances with central banks

Cash and balances with central banks	31.12.2009	31.12.2008
Current accounts in central banks	1,697,190	2,004,861
Cash	963,465	1,173,243
Equivalents of cash	3	3
Total	**2,660,658**	**3,178,107**

The parent entity of BZ WBK Group holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as 3% of the monthly average balance of the customer deposits reduced by the equivalent of EUR 500 k. In 2008 this reserve was calculated as 3.5% of the monthly average balance of the customer deposits.

19. Loans and advances to banks

Loans and advances to banks	31.12.2009	31.12.2008
Loans and advances	596,793	831,331
Reverse-repo transactions	–	518,826
Current accounts	66,234	20,355
Gross receivables	**663,027**	**1,370,512**
Impairment write down	–	(5,969)
Total	**663,027**	**1,364,543**

Movements in impairment losses on receivables from banks	31.12.2009	31.12.2008
Balance at 1 January	(5,969)	(5,969)
Write off	5,969	–
Balance at the end of the period	**–**	**(5,969)**

Fair value of loans and advances to banks is preseted in note 40.

20. Financial assets and liabilities held for trading

The fair value of derivative financial instruments is determined using market quotations, discounted cash flow models and options valuation models, as appropriate.

Option contracts are stated at fair value using the market quotations or the option valuation models, as appropriate.

Financial assets and liabilities held for trading	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**707,795**	**733,861**	**2,353,619**	**3,153,932**
Interest rate transactions	**289,497**	**304,699**	**906,590**	**884,101**
Options	–	–	8	8
IRS	281,105	295,221	664,182	637,919
FRA	8,392	9,478	242,400	246,174
Currency derivatives	**418,298**	**429,162**	**1,447,029**	**2,269,831**
CIRS	128,700	289,168	63,259	410,610
Forward	58,527	29,198	352,024	210,347
FX Swap	165,554	46,239	683,470	1,259,958
Spot	1,003	1,325	4,182	3,787
Options	64,514	63,232	344,094	385,129
Debt and equity securities	**634,825**	**–**	**871,248**	**–**
Debt securities	587,097	–	868,605	–
Government securities:	187,369	–	868,583	–
– bills	71,808	–	549,120	–
– bonds	115,561	–	319,463	–
Central bank securities:	399,728	–	–	–
– bills	399,728	–	–	–
Other securities:	–	–	22	–
– bonds	–	–	22	–
Equity securities:	47,728	–	2,643	–
– listed	47,728	–	2,643	–
Total financial assets/liabilities	**1,342,620**	**733,861**	**3,224,867**	**3,153,932**

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In 2009, Bank Zachodni WBK S.A. revised its estimate of fair value of Cross Currency Swaps on account of substantial increase in market spreads observed since 2008 year-end. The total fair value adjustment to these derivatives was PLN 37,989 k in the reporting period. These instruments are a source of funding and it is the bank's intention to hold them until maturity. Their mark-to-market valuation will revert to zero on a case by case basis over their remaining life.

In the comparable period there were no such adjustments.

Financial assets and liabilities held for trading – trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (109,839) k.

Interest income from debt instruments and other fixed rate instruments is disclosed under "interest income".

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the consolidated income statement.

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. At 31.12.2009 and in comparable periods there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

The table below presents off-balance sheet derivatives' nominal values.

	Derivatives' nominal values	31.12.2009	31.12.2008
1.	**Term derivatives (hedging)**	**1,773,682**	**2,704,674**
a)	Single-currency interest rate swaps	573,682	1,854,674
b)	Macro cash flow hedge	1,200,000	850,000
2.	**Term derivatives (trading)**	**50,171,003**	**139,222,595**
a)	Interest rate operations	22,490,837	91,494,888
–	Single-currency IRS	18,480,996	47,134,667
–	FRA – purchased amounts	4,000,000	44,350,000
–	Options	9,841	10,221
b)	FX operations	27,680,166	47,727,707
–	FX swap – purchased amounts	7,219,044	14,425,872
–	FX swap – sold amounts	7,094,264	14,983,627
–	Forward – purchased amounts	1,345,501	3,696,166
–	Forward – sold amounts	1,309,044	3,538,979
–	Double-currency interest rate swaps – purchased amounts	4,216,324	2,500,262
–	Double-currency interest rate swaps – sold amounts	4,393,303	2,849,197
–	FX options – purchased	1,051,343	2,866,802
–	FX options – sold	1,051,343	2,866,802
3.	**Currency transactions – spot**	**1,119,621**	**957,290**
	spot – purchased	559,649	478,844
	spot – sold	559,972	478,446
4.	**Transactions on equity instruments**	**47,938**	**928**
	Futures	47,938	928
	Total	**53,112,244**	**142,885,487**

In case of single-currency transactions (IRS, FRA, forward, non-FX options) – only purchased amounts are presented.

21. Hedging derivatives

Hedging derivatives	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	1,325	6,982	347	31,700
IRS hedging cash flow	9,476	25,951	–	36,862
Total hedging derivatives	**10,801**	**32,933**	**347**	**68,562**

22. Loans and advances to customers

Loans and advances to customers	31.12.2009	31.12.2008
Loans and advances to enterprises	22,265,448	23,289,013
Loans and advances to individuals, of which:	10,632,415	9,239,641
Home mortgage loans	*6,062,546*	*5,450,515*
Finance lease receivables	2,706,516	2,959,037
Loans and advances to public sector	83,106	85,668
Reverse-repo transactions	10,083	441,783
Other	12,805	11,343
Gross receivables	**35,710,373**	**36,026,485**
Impairment losses in loans and advances to customers	(1,139,676)	(889,283)
Total	**34,570,697**	**35,137,202**

As at 31.12.2009 the fair value adjustment due to hedged risk on corporate loans was PLN 1,565 k (as at 31.12.2008 – PLN 1,607 k). Finance lease receivables are presented in additional note 44. Fair value of loans and advances to customers is presented in note 40.

Movements on impairment losses on loans and advances to customers	31.12.2009	31.12.2008
Individual and collective impairment		
As at the beginning of the period	(571,113)	(439,545)
Charge/write back of current period	(438,698)	(192,276)
Write off's	250,992	65,646
Transfer	(10,866)	480
Impact of exchange rate	3,575	(5,418)
Balance at the end of the period	**(766,110)**	**(571,113)**
IBNR		
As at the beginning of the period	(318,170)	(145,423)
Charge/write back of current period	(56,297)	(176,061)
Transfer	–	3,723
Impact of exchange rate	901	(409)
Balance at the end of the period	**(373,566)**	**(318,170)**
Total	**(1,139,676)**	**(889,283)**

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23. Investment securities available for sale

Investment securities available for sale	31.12.2009	31.12.2008
Available for sale investments – measured at fair value	**6,623,017**	**6,527,764**
Debt securities:	**5,957,601**	**5,872,173**
Government securities:	5,873,630	5,092,878
– bills	1,105,854	1,369,842
– bonds	4,767,776	3,723,036
Central bank securities:	–	599,731
– bonds	–	599,731
Commercial securities:	83,971	179,564
– bonds	83,971	179,564
Equity securities	**613,011**	**606,319**
– listed	24,151	22,014
– unlisted	588,860	584,305
Investment certificates	**52,405**	**49,272**
Total	**6,623,017**	**6,527,764**

As at 31.12.2009 fixed interest rate debt securities measured at fair value amount to PLN 5,208,458 k, variable interest rate securities amount to PLN 749,143 k.

As at 31.12.2008 fixed interest rate debt securities measured at fair value amount to PLN 4,244,739 k, variable interest rate securities amount to PLN 1,627,434 k.

As at 31.12.2009 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN (1,510) k (as at 31.12.2008: PLN 27,300 k).

As at 31 December 2009, the bank reviewed the fair value of its unlisted available-for-sale financial instruments. The review did not reveal any material changes in the disclosed carrying amounts of the instruments. Fair value of the investments into the companies from the Aviva Polska Group was determined for two key investments. Valuation was conducted using the multiplier valuation method (Price/Book Value, P/E) as well as dividend discount model. The remaining non-listed equity instruments are measured at fair value as no active market exists for such instruments and their fair value cannot be reliably established.

Fair value of "Investment securities available for sale" is presented in note 40.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2009	**5,872,173**	**655,591**	**6,527,764**
Additions	4,341,806	6,457	4,348,263
Disposals (sale and maturity)	(4,275,978)	(6,105)	(4,282,083)
Fair value adjustment (AFS)	28,313	8,684	36,997
Movements on interest accrued	17,178	–	17,178
F/X differences	(25,891)	789	(25,102)
As at 31 December 2009	**5,957,601**	**665,416**	**6,623,017**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2008	**9,052,095**	**711,574**	**9,763,669**
Additions	5,127,467	32,649	5,160,116
Transfers	–	975	975
Disposals (sale and maturity)	(2,261,845)	(85,413)	(2,347,258)
Fair value adjustment (AFS)	78,801	(4,915)	73,886
Movements on interest accrued	134,149	–	134,149
Provision for impairment	–	(125)	(125)
F/X differences	148,079	846	148,925
Reclassification*	(6,406,573)	–	(6,406,573)
As at 31 December 2008	**5,872,173**	**655,591**	**6,527,764**

* In October 2008 the bank has changed classification of State Treasury bonds from the Available For Sale category into the Held To Maturity category. The carrying value of reclassified financial instruments amounted to PLN 6,406,573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the statement of financial position, in particular equity and non-interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

24. Financial assets held to maturity

Financial assets held to maturity	31.12.2009	31.12.2008
Government securities:	6,669,555	6,388,277
–bonds	6,669,555	6,388,277
Total	**6,669,555**	**6,388,277**

Fair value of "Financial assets held to maturity" is presented in note 40.

Movements on financial assets held to maturity	31.12.2009	31.12.2008
As at 1 January	**6,388,277**	**–**
Additions	553,616	–
Disposals (sale and maturity)	(300,361)	–
Reclassification*	–	6,406,573
Fair value amortisation	13,498	3,049
Movement on interest accrued	14,525	(21,345)
As at end of reporting period	**6,669,555**	**6,388,277**

* In October 2008 the bank has changed classification of State Treasury bonds from the Available For Sale category into the Held To Maturity category. Carrying value of reclassified financial instruments amounted to PLN 6,406,573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the statement of financial position, in particular equity and non-interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

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25. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2009	31.12.2008
Associates	50,610	40,107
Joint ventures	31,277	32,114
Total	**81,887**	**72,221**

Movements on investments in associates and joint ventures	31.12.2009	31.12.2008
As at 1 January	**72,221**	**37,128**
Share of profits/(losses)	(334)	(777)
Transfers	–	2,225
Sale/acquisition	10,000	33,645
As at the end of the period	**81,887**	**72,221**

Fair value of investments in associates and joint ventures is presented in note 40.

Details of sale/acquisition of associates and joint ventures are disclosed in note 48.

Investments in associates and joint ventures as at 31.12.2009

Name of entity	POLFUND – Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Metrohouse S.A.*	Krynicki Recykling S.A.**	Total
Registered office	Szczecin	Poznań	Poznań	Warsaw	Olsztyn	
Type of connection	associate	joint venture	joint venture	associate	associate	
Percent of holding**	50.00%	50.00%	50.00%	35.38%	30.37%	
Balance sheet value	36,373	12,872	18,405	4,084	10,153	**81,887**
Total assets	79,575	239,349	145,609	3,495	n/a	**468,028**
Own funds of entity, of which:	72,746	25,744	36,809	1,662	18,514	**155,475**
share capital	16,000	21,750	27,000	650	n/a	65,400
other own funds, of which:	56,746	3,994	9,809	1,012	n/a	71,561
from previous years	–	*(1,014)*	*(2,414)*	*(756)*	*n/a*	*(4,184)*
net profit (loss)	*1,827*	*(2,641)*	*3,205*	*188*	*836*	*3,415*
Liabilities of entity	6,829	213,605	108,800	1,833	n/a	**331,067**
Revenues	7,893	176,768	62,213	5,838	n/a	**252,712**
Costs	5,438	179,770	58,240	5,652	n/a	**249,100**

* financial highlights as at end of November 2009
** financial highlights as at end of September 2009
*** states percentage share of associates or joint ventures profits

Name of entity	Business
POLFUND – Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Metrohouse S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

Investments in associates and joint ventures as at 31.12.2008

Name of entity	POLFUND – Fundusz Poręczeń Kredytowych S.A.*	BZ WBK CU Towarzystwo Ubezpieczeń na Życie S.A.*	BZ WBK CU Towarzystwo Ubezpieczeń Ogólnych S.A.*	Metrohouse S.A.*	Total
Registered office	Szczecin	Poznań	Poznań	Warsaw	
Type of connection	associate	joint venture	joint venture	associate	
Percent of holding**	50.00%	50.00%	50.00%	35.38%	
Balance sheet value	35,964	17,082	15,032	4,143	**72,221**
Total assets	75,781	104,209	61,354	3,362	**244,706**
Own funds of entity, of which:	21,929	30,064	34,164	2,285	**88,442**
share capital	16,000	21,750	27,000	500	65,250
other own funds, of which:	5,929	8,314	7,164	1,785	23,192
from previous years	*2,638*	–	–	*(756)*	*1,882*
net profit (loss)	*2,817*	*1,049*	*(1,854)*	*(460)*	*1,552*
Liabilities of entity	53,852	74,145	27,190	1,077	**156,264**
Revenues	5,961	58,090	42,428	4,342	**110,821**
Costs	2,163	57,041	44,283	4,802	**108,289**

* financial highlights as at end of November 2008
** states percentage share of associates or joint ventures profits

Name of entity	Business
POLFUND – Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK CU Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK CU Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Metrohouse S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy

In thousands of PLN

26. Intangible assets

Intangible assets Year 2009	Licences, patents etc.	Other	Capital expenditures	Total
Gross value – beginning of the period	**551,999**	**8,032**	**93,634**	**653,665**
Additions from:				
– purchases	–	–	41,016	41,016
– intangible assets taken for use	60,725	–	–	60,725
Disposals from:				
– liquidation	(5,423)	–	–	(5,423)
– intangible assets taken for use	–	–	(60,725)	(60,725)
– transfers	–	–	(167)	(167)
Gross value – end of the period	**607,301**	**8,032**	**73,758**	**689,091**
Accumulated depreciation – beginning of the period	**(468,051)**	**(7,853)**	**(3,827)**	**(479,731)**
Additions/disposals from:				
– current year	(33,033)	(130)	–	(33,163)
– liquidation	1,596	–	3,827	5,423
Accumulated depreciation – end of the period	**(499,488)**	**(7,983)**	**–**	**(507,471)**
Balance sheet value				
Purchase value	607,301	8,032	73,758	689,091
Accumulated depreciation	(499,488)	(7,983)	–	(507,471)
As at 31 December 2009	**107,813**	**49**	**73,758**	**181,620**

Intangible assets Year 2008	Licences, patents etc.	Other	Capital expenditures	Total
Gross value – beginning of the period	**508,575**	**8,030**	**56,399**	**573,004**
Additions from:				
– purchases	–	–	87,182	87,182
– intangible assets taken for use	49,580	2	–	49,582
Disposals from:				
– liquidation	(6,153)	–	–	(6,153)
– intangible assets taken for use	–	–	(49,582)	(49,582)
– transfers	–	–	(365)	(365)
– other	(3)	–	–	(3)
Gross value – end of the period	**551,999**	**8,032**	**93,634**	**653,665**
Accumulated depreciation – beginning of the period	**(450,003)**	**(7,721)**	**–**	**(457,724)**
Additions/disposals from:				
– current year	(22,438)	(132)	–	(22,570)
– liquidation	4,389	–	–	4,389
– other	1	–	–	1
Write down/Reversal of impairment write down	–	–	(3,827)	(3,827)
Accumulated depreciation – end of the period	**(468,051)**	**(7,853)**	**(3,827)**	**(479,731)**
Balance sheet value				
Purchase value	551,999	8,032	93,634	653,665
Accumulated depreciation	(468,051)	(7,853)	(3,827)	(479,731)
As at 31 December 2008	**83,948**	**179**	**89,807**	**173,934**

27. Property, plant and equipment

Property, plant & equipment Year 2009	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	**612,534**	**311,930**	**48,279**	**291,540**	**80,141**	**1,344,424**
Additions from:						
– purchases	–	–	–	–	49,833	49,833
– leasing	–	–	2,188	–	–	2,188
– donation	–	1	–	–	–	1
– fixed assets taken for use	45,789	30,357		25,092	–	101,238
– transfers	–	–	756	–	74	830
Disposals from:						
– sale, liquidation, donation	(5,775)	(17,015)	(7,378)	(4,213)	(244)	(34,625)
– fixed assets taken for use	–	–	–	–	(101,238)	(101,238)
– transfers	–	–	(282)	–	–	(282)
Gross value at the end of the period	**652,548**	**325,273**	**43,563**	**312,419**	**28,566**	**1,362,369**
Accumulated depreciation at the beginning of the period	**(246,028)**	**(252,007)**	**(18,279)**	**(190,624)**	**–**	**(706,938)**
Additions/disposals from:						
– current year	(27,967)	(25,180)	(10,706)	(26,457)	–	(90,310)
– sale, liquidation, donation	4,016	16,890	6,870	3,933	–	31,709
– transfers	7	(7)	(707)	–	–	(707)
Write down/Reversal of impairment write down	–	–	–	31	–	31
Accumulated depreciation at the end of the period	**(269,972)**	**(260,304)**	**(22,822)**	**(213,117)**	**–**	**(766,215)**
Balance sheet value						
Purchase value	652,548	325,273	43,563	312,419	28,566	1,362,369
Accumulated depreciation	(269,972)	(260,304)	(22,822)	(213,117)	–	(766,215)
As at 31 December 2009	**382,576**	**64,969**	**20,741**	**99,302**	**28,566**	**596,154**

In thousands of PLN

Property, plant & equipment Year 2008	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	**572,424**	**291,697**	**37,337**	**254,089**	**55,556**	**1,211,103**
Additions from:						
– purchases	–	–	–	–	168,576	168,576
– leasing	–	–	20,998	–	–	20,998
– fixed assets taken for use	52,961	44,866	480	45,945	–	144,252
– transfers	–	21	219	267	371	878
Disposals from:						
– sale, liquidation, donation	(12,805)	(24,638)	(10,686)	(8,671)	(110)	(56,910)
– fixed assets taken for use	–	–	–	–	(144,252)	(144,252)
– transfers	–	(8)	–	–	–	(8)
– other	(46)	(8)	(69)	(90)	–	(213)
Gross value at the end of the period	**612,534**	**311,930**	**48,279**	**291,540**	**80,141**	**1,344,424**
Accumulated depreciation at the beginning of the period	**(225,716)**	**(250,493)**	**(17,194)**	**(174,474)**	**–**	**(667,877)**
Additions/disposals from:						
– current year	(24,323)	(25,640)	(9,936)	(24,862)	–	(84,761)
– sale, liquidation, donation	4,008	24,116	10,217	8,322	–	46,663
– transfers	–	4	(1,421)	(80)	–	(1,497)
– other	3	6	55	75	–	139
Write down/Reversal of impairment write down	–	–	–	395	–	395
Accumulated depreciation at the end of the period	**(246,028)**	**(252,007)**	**(18,279)**	**(190,624)**	**–**	**(706,938)**
Balance sheet value						
Purchase value	612,534	311,930	48,279	291,540	80,141	1,344,424
Accumulated depreciation	(246,028)	(252,007)	(18,279)	(190,624)	–	(706,938)
As at 31 December 2008	**366,506**	**59,923**	**30,000**	**100,916**	**80,141**	**637,486**

28. Net deferred tax assets

	31.12.2009	31.12.2008
Deferred tax assets		
Provisions for loans	200,861	150,113
Unrealized liabilities due to derivatives	100,051	283,261
Other provisions which are not yet taxable costs	67,610	62,307
Deferred income	59,518	45,255
Difference between balance sheet and taxable value of leasing portfolio	40,850	36,856
Unrealized interest on deposit and securities	31,851	32,738
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	–	7,399
Other	16,073	22,571
Total	**516,814**	**640,500**
Deferred tax liability		
Revaluation of financial instruments available for sale	(98,161)	(83,694)
Unrealised receivables on derivatives	(70,737)	(260,418)
Unrealised interests from loans, securities and interbank deposits	(45,035)	(55,356)
Provision due to application of investment relief	(2,778)	(2,967)
Cash flow hedges valuation	(450)	5,787
Other	(25,902)	(33,357)
Total	**(243,063)**	**(430,005)**
Net deferred tax assets	**273,751**	**210,495**

As at 31 December 2009 the calculation of deferred tax asset did not include purchased receivables of PLN 19,982 k and loans that will not be realised of PLN 39,833 k.

As at 31 December 2008 the calculation of deferred tax asset did not include purchased receivables of PLN 20,216 k and loans that will not be realised of PLN 41,698 k.

Movements on net deferred tax	31.12.2009	31.12.2008
As at beginning of the period	**210,495**	**161,160**
changes recognised in income statement	83,959	42,064
changes recognised in equity	(20,704)	7,271
As at end of the period	**273,750**	**210,495**

Temporary differences recognised in equity comprise deferred tax on available for sale securities and cash flow hedges.

Temporary differences recognised in the income statement comprise provision for impairment of loans and receivables and assets used in the course of business.

29. Other assets

Other assets	31.12.2009	31.12.2008
Sundry debtors	198,290	261,583
Settlements of stock exchange transactions	62,642	40,994
Interbank and interbranch settlements	41,998	175,679
Prepayments	35,168	36,108
Assets held for sale	2,502	2,502
Other	600	960
Total	**341,200**	**517,826**

Assets held for sale – BZ WBK Group

31 December 2009	Gross value	Amortisation	Carrying value
Land and buildings	4,224	(1,815)	2,409
Equipment	436	(343)	93
Total	**4,660**	**(2,158)**	**2,502**

There were no changes of assets held for sale in the comparable period.

30. Deposits from central bank

Deposits from central bank	31.12.2009	31.12.2008
Repo transactions	1,519,208	1,242,574
Total	**1,519,208**	**1,242,574**

Fair value of deposits from central banks is presented in note 40.

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31. Deposits from banks

Deposits from banks	31.12.2009	31.12.2008
Repo transactions	1,531,795	1,358,084
Loans from other banks	1,518,901	2,127,825
Term deposits	745,682	568,972
Current accounts	34,398	40,596
Total	**3,830,776**	**4,095,477**

As at 31.12.2009 fair value adjustment for hedged deposit totalled PLN (1,850) k (as at 31.12.2008 – PLN 5,289 k). Fair value of deposits from banks is presented in note 40.

32. Deposits from customers

Deposits from customers	31.12.2009	31.12.2008
Deposits from individuals	25,613,714	24,239,092
– term deposits	14,166,157	13,135,776
– current accounts	11,414,712	11,029,970
– repo transactions	–	1,927
– other	32,845	71,419
Deposits from enterprises	13,284,728	15,066,460
– term deposits	8,319,717	10,608,820
– current accounts	4,484,720	4,146,018
– credits	227,614	26,352
– repo transactions	–	1,827
– other	252,677	283,443
Deposits from public sector	2,324,429	3,505,175
– term deposits	781,613	1,958,735
– current accounts	1,542,259	1,545,909
– oher	557	531
Total	**41,222,871**	**42,810,727**

As at 31.12.2009 deposits held as collateral totaled PLN 165,796 k (31.12.2008 – PLN 232,239 k). Fair value of deposits from customers is presented in note 40.

33. Debt securities in issue

Debt securities in issue	Average coupon		Nominal value	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Bond 3 Y-3Z0209	–	WIBOR 1M + 0.44%	–	35,000
Bond 3 Y-3S0809	–	fixed; 4,9%	–	58,244
Bond 2-Y-2S0209	–	fixed; 5,0%	–	32,296
Bond 2-Y-2S0409	–	fixed; 5,0%	–	10,169
Bond 2-Y-2Z0809	–	WIBOR 6M	–	14,296
Total nominal value			**–**	**150,005**
Total carrying value			**–**	**153,918**

As at 31.12.2008 the nominal value was increased by interest of PLN 4,111 k, bond valuation of PLN (198) k related to hedging activities.

34. Other liabilities

Other liabilities	31.12.2009	31.12.2008
Provisions:	203,440	179,363
Employee provisions	*170,163*	*140,745*
Provisions for legal claims	*17,725*	*26,642*
Provisions for off balance sheet credit facilities	*15,552*	*11,976*
Interbank and interbranch settlements	133,380	131,255
Other deferred and suspended income	70,493	43,112
Accrued liabilities	70,471	85,218
Sundry creditors	67,260	148,637
Settlements of stock exchange transactions	65,408	41,056
Public and law settlements	40,446	35,880
Financial lease related settlements	12,251	16,431
Other liabilities	8	848
Total	**663,157**	**681,800**

The Group raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities result from past events and fund outflow is probable to satisfy them.

Employee related provisions and accruals consists of items outlined in note 51.

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Movements on provisions	31.12.2009	31.12.2008
As at the beginning of the period	**179,363**	**246,167**
Employee provisions and accruals	140,745	215,849
Provisions for legal claims	26,642	29,202
Provisions for off balance sheet credit facilities	11,976	1,116
Provision charge	**208,711**	**172,429**
Employee provisions and accruals	151,959	141,687
Provisions for legal claims	2,070	1,793
Provisions for off balance sheet credit facilities	54,682	28,949
Utilization	**(116,270)**	**(212,785)**
Employee provisions and accruals	(115,880)	(212,476)
Provisions for legal claims	(469)	(547)
Provisions for off balance sheet credit facilities	79	238
Write back	**(68,364)**	**(30,651)**
Employee provisions and accruals	(6,661)	(4,315)
Provisions for legal claims	(10,518)	(3,806)
Provisions for off balance sheet credit facilities	(51,185)	(22,530)
Transfer	**–**	**4,203**
Employee provisions and accruals	–	–
Provisions for legal claims	–	–
Provisions for off balance sheet credit facilities	–	4,203
As at the end of the period	**203,440**	**179,363**
Employee provisions and accruals	**170,163**	**140,745**
Provisions for legal claims	**17,725**	**26,642**
Provisions for off balance sheet credit facilities	**15,552**	**11,976**

35. Share capital

31.12.2009

Series/issue	Type of share	Type of preference	Limitation of rights to shares	Number of shares	Nominal value of series/issue
A	bearer	none	none	5,120,000	51,200
B	bearer	none	none	724,073	7,241
C	bearer	none	none	22,155,927	221,559
D	bearer	none	none	1,470,589	14,706
E	bearer	none	none	980,393	9,804
F	bearer	none	none	2,500,000	25,000
G	bearer	none	none	40,009,302	400,093
H	bearer	none	none	115,729	1,157
				73,076,013	**730,760**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholder having a minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., a wholly-owned subsidiary of Allied Irish Banks p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK S.A. is 70.4%. The remaining shares are in free float.

Increase of the bank's share capital by PLN 1,157 k results from vesting of the first edition of BZ WBK Incentive Scheme introduced in 2006. Details are presented in note 52.

31.12.2008

Series/issue	Type of share	Type of preference	Limitation of rights to shares	Number of shares	Nominal value of series/issue
A	bearer	none	none	5,120,000	51,200
B	bearer	none	none	724,073	7,241
C	bearer	none	none	22,155,927	221,559
D	bearer	none	none	1,470,589	14,706
E	bearer	none	none	980,393	9,804
F	bearer	none	none	2,500,000	25,000
G	bearer	none	none	40,009,302	400,093
				72,960,284	**729,603**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholder having a minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., a wholly-owned subsidiary of Allied Irish Bank p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK was 70.5%. The remaining shares are in free float.

36. Other reserve funds

Other reserve funds	31.12.2009	30.06.2008
General banking risk fund	649,810	529,810
Share premium	261,699	261,699
Other reserves	2,655,490	1,925,178
Total	**3,566,999**	**2,716,687**

Other reserve funds:

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the bank's supplementary capital.

As at 31.12.2009 other reserves consist of reserve capital of PLN 2,447,519 k (including share scheme charge of PLN 17,429 k) and supplementary capital PLN 207,971 k.

As at 31.12.2008 other reserves consist of reserve capital of PLN 1,725,080 k (including share scheme charge of PLN 15,882 k) and supplementary capital PLN 200,098 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2008 and 2009.

Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the bank's statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit of the current year to reserve capital should amount to at least 8% of profit after tax and are made until supplementary capital equals at least one third of the bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders. Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

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37. Revaluation reserve

Revaluation reserve	31.12.2009
As at 31 December 2008	335,507
Net change in available for sale investments, of which:	*69,813*
Increase:	*80,773*
– related to debt investments purchased before current reporting period	50,903
– related to equity investments purchased before current reporting period	6,801
– related to debt investments purchased/assigned in the period	23,069
Decrease:	*(10,960)*
– related to equity investments purchased/assigned in the period	(10,960)
Gross valuation related to cash flow hedge	32,827
Decrease in revaluation reserve related to sale of investments	4,562
Deferred tax adjustment	(20,704)
As at 31.12.2009	**422,005**

Revaluation reserve	31.12.2008
As at 31 December 2007	362,963
Net change in available for sale investments, of which:	*24,936*
Increase	*35,609*
– related to debt investments purchased before current reporting period	32,435
–net change in available for sale investments matured in the period	3,031
– transferred from associates	143
Decrease	*(10,673)*
– related to debt investments purchased/assigned in the period	(9,162)
– related to equity investments purchased before current reporting period	(1,483)
– related to equity investments purchased/assigned in the period	(28)
Gross valuation related to cash flow hedge	(30,460)
Decrease in revaluation reserve related to sale of investments	(29,203)
Deferred tax adjustment	7,271
As at 31.12.2008	**335,507**

The revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and is not distributable.

As at 31.12.2008 the revaluation reserve includes the difference between the fair value valuation and purchase price of financial assets reclassified during the reporting period from 'Available for sale' category to 'Held to maturity' (see note 24) of PLN (35,893) k and as at 31.12.2009 of PLN (22,396) k.

38. Hedge accounting

The Group applies hedge accounting in line with the risk management assumptions described in note 4 of the annual consolidated financial statements.

Fair value hedge

Hedging transactions are arranged using interest rate swaps. Their purpose is to mitigate the risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. BZ WBK Group applies fair value hedge accounting (in current and in comparable period), in relation to the following classes of financial instruments:

- Fixed rate loans denominated in foreign currency recognised as a financial asset,
- Fixed rate debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge.
- Fixed rate debt securities denominated in American dollars, forming a group of assets covered with an interest rate hedge.

The hedging items are measured at fair value. Hedged items are measured at amortised cost including fair value adjustment due to hedged risk.

The tables below contain details of individual groups of hedge transactions for 2009 and 2008:

31.12.2009	IRS hedging corporate loan	IRS hedging bonds
Nominal value of hedged position	PLN 39,670 k	PLN 534,012 k
Fair value adjustment of hedging instrument asset/(liability)	PLN (1,561) k	PLN 1,587 k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 1,565 k	PLN (1,510) k
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2018

31.12.2008	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position	PLN 287,674 k	PLN 1,567,000 k
Fair value adjustment of hedging instrument asset/(liability)	PLN (1,545) k	PLN (24,979) k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 1,607 k	PLN 27,300 k
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2017

In addition, BZ WBK subsidiaries – BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. – concluded IRS transactions with the bank with a view to hedging the fair value of their selected items of the statement of financial position. Details of these transactions are presented in the table below:

31.12.2009	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A
Nominal value of the hedged position	PLN 469,146 k	PLN 308,115 k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 2,302 k	PLN 1,415 k
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

31.12.2008	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A
Nominal value of the hedged position	PLN 469,919 k	PLN 298,244 K
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 2,922 k	PLN 2,323 k
Hedged risk	Movements in the fair value of the bond issue and loans arising from changes in market interest rates	
Period over which the instruments have an impact on the companies' results	up to 2009	up to 2009

In thousands of PLN

Cash flow hedging

Starting from 2008 BZ WBK Group applied portfolio cash flow hedging. Hedging transactions are constructed using interest rate swaps. Their purpose is to mitigate risk of cash flow volatility in hedged instruments stemming from changes in market interest rates. BZ WBK Group applies fair value hedge accounting in relation to PLN denominated, floating rate deposits, taking roll-over into consideration.

Hedged items are measured at amortised cost. The hedging items are measured at fair value. When hedge effectiveness conditions are met, change in fair value adjustment of hedging instruments is recognised in equity. As at 31 December 2009 the nominal value of hedging and hedged instruments amounted to PLN 1,200,000 k (31.12.2008 – PLN 850,000 k). Fair value changes of hedging instrument amounts to PLN 2,367 k (31.12.2008 – PLN (30,460) k). The same amount, net of tax, is reflected in consolidated revaluation reserve. Hedging instruments are contracted to the year 2015.

39. Sell-buy-back and buy-sell-back transactions

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at a predetermined price.

As at 31 December 2009, the consolidated statement of financial position, on liabilities side, contains treasury bills and bonds traded under sell-buy-back transactions amounting of PLN 3,051,003 k (PLN 2,604,412 k as at 31.12.2008).

A related item being the deposit representing obligations in respect of the repo transactions is held on the assets side of the consolidated statement of financial position and amounts to 3,218,246 k (PLN 2,655,853 k as at 31.12.2008).

As at 31.12.2009, in the consolidated statement of financial position, buy-sell-back transactions amount to PLN 10,083 k (31.12.2008 – PLN 960,609 k).

All risks and rewards related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the bank, as well as power to dispose them.

Financial instruments held as security for (reverse) repurchase agreements may be sold or repledged under standard agreements, the obligation to return these to the counterparty on maturity of the transaction.

As at 31.12.2009 there were no financial instruments that would be treated as security for the repo transactions whose maturity date is earlier or equal to the maturity date of the underlying transaction.

As at 31.12.2008 financial instruments with nominal value of PLN 10,000 k accepted as security have been repledged under subsequent repurchase transactions, which concluded before the maturity of the original transactions.

40. Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction other than in a forced or liquidation sale, and is best reflected by the market price, if available.

Below is a summary of the book values and fair values of the individual groups of assets and liabilities.

	31.12.2009		31.12.2008	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash and balances with the central bank	2,660,658	2,660,658	3,178,107	3,178,107
Loans and advances to banks	663,027	663,040	1,364,543	1,364,704
Financial assets held for trading	1,342,620	1,342,620	3,224,867	3,224,867
Hedging derivatives	10,801	10,801	347	347
Loans and advances to customers	34,570,697	34,194,648	35,137,202	34,400,683
Investment securities	13,292,572	13,373,812	12,916,041	12,974,506
Investments in associates and joint ventures	81,887	81,887	72,221	72,221
Equity and liabilities				
Deposits from central bank	1,519,208	1,519,208	1,242,574	1,242,574
Deposits from banks	3,830,776	3,830,769	4,095,477	4,095,029
Hedging derivatives	32,933	32,933	68,562	68,562
Financial liabilities held for trading	733,861	733,861	3,153,932	3,153,932
Deposits from customers	41,222,871	41,225,768	42,810,727	42,808,299
Debt securities in issue	–	–	153,918	153,918

Below is a summary of the key methods and assumptions used in the estimation of fair values of the financial instruments shown in the table above.

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

The Group has financial instruments which in accordance with the IFRS are not carried at fair value in the accounts. The fair value of such instruments is measured using the following methods and assumptions.

Loans and advances to banks: The fair value of deposits and placements is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency.

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction and changes in the level of margins and interest rates.

Financial assets not carried at fair value: The Group does not use fair valuation for the State Treasury bonds classified as instruments held to maturity or as equity securities of unlisted companies for which the fair value cannot be reliably established. In the statement of financial position, equity instruments are presented at cost less impairment. Debt instruments are measured at amortised cost.
In the case of held-to-maturity securities, for the purpose of this disclosure fair value is established on the basis of market quotations.

Investments in associates and joint ventures: The financial assets representing investments in associates and joint ventures are measured using the equity method. The Management Board of the parent company believes that this is the most accurate estimation of fair value of these instruments.

Deposits from banks and deposits from customers: Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.

In thousands of PLN

Debt securities in issue The securities are measured at amortised cost less adjustments in hedge accounting.

Financial assets and liabilities carried at fair value in the statement of financial position

As at 31.12.2009 and 31.12.2008 the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

Level I (active market quotations): debt, equity and derivative financial instruments which at the balance sheet date were measured using the prices quoted in the active market. The Group allocates to this level fixed-rate State Treasury bonds, treasury bills, Eurobonds of the German government, Eurobonds of the American government, shares of listed companies and WIG 20 futures.

Level II (the measurement methods based on market-derived parameters): This level includes all derivative instruments except FX forward contracts and FX options as well as debt securities measured using discounted cash flow models (except those securities for which the bank independently estimates the credit spread for the counterparty risk).
Level II includes the following derivatives: IRS, CIRS, FRA, FX SWAP.
Apart from these derivatives, level II also classifies variable-rate State Treasury bonds and variable rate NBP bonds. These bonds were measured using discounted cash flow models based on the discount curve derived from the market of fixed-rate treasury bonds.

Level III (measurement methods using material non-market parameters): The level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund; debt securities (commercial and municipal bonds) for which the bank independently estimates the credit spread for the counterparty risk, FX forward transactions and the options for which the bank independently estimates the credit spread for counterparty risk).
In 2009, the Group transferred IRS, CIRS and fx swap transactions with non-bank clients from II to III fair value Level due to the fact that the counter-party risk has been included in fair value measurement.

As at 31 December 2009 and in the comparable period the Group classified its financial instruments to the following fair value levels.

31.12.2009	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	580,848	376,146	385,626	1,342,620
Hedging derivatives	–	10,801	–	10,801
Financial investment assets – debt securities	5,208,456	665,174	83,971	5,957,601
Financial investment assets – equity securities	22,652	–	642,764	665,416
Total	**5,811,956**	**1,052,121**	**1,112,361**	**7,976,438**
Financial liabilities				
Financial liabilities held for trading	–	609,385	124,476	733,861
Hedging derivatives	–	32,933	–	32,933
Total	**–**	**642,318**	**124,476**	**766,794**

31.12.2008	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	816,970	1,711,779	696,118	3,224,867
Hedging derivatives	–	347	–	347
Financial investment assets – debt securities	4,244,739	1,447,870	179,564	5,872,173
Financial investment assets – equity securities	22,014	–	633,577	655,591
Total	**5,083,723**	**3,159,996**	**1,509,259**	**9,752,978**
Financial liabilities				
Financial liabilities held for trading	–	2,558,456	595,476	3,153,932
Hedging derivatives	–	68,562	–	68,562
Total	**–**	**2,627,018**	**595,476**	**3,222,494**

As at 31 December 2009 and in the comparable period there were no transfers between the first and the second fair value level.

Both in current and in the comparable reporting period, for fair value measurements in Level III, the Group did not change any of the inputs to reasonably possible alternative assumptions [IFRS 7.27B (e)].

In 2008 the Group reclassified T-bonds to held-to-maturity portfolio. As at 31 December 2008 fair value of those instruments amounted to PLN 6,482,636 k and the carrying value amounted to PLN 6,388,277 k.

As at 31 December 2009 fair value of those instruments amounted to PLN 6,750,795 k and the carrying value amounted to PLN 6,669,555 k.

The fair value gain that would be recognised if the financial asset had not been reclassified, amounts to PLN 58,465 k as at 31 December 2008 and PLN 58,844 k as at 31 December 2009.

As at 31 December 2008 gain on financial assets classified as held-to-maturity recognised in profit or loss amounted to PLN 90,252 k, whereas at 31 December 2009 amounted to PLN 376,940 k.

Gain on derivative financial instruments classified by the Group to the III Level and still kept in the portfolio as at the end of the reporting period amounted to PLN 160,508 k.

The tables below show reconciliation of changes in the balance of financial instruments whose fair value is established by means of the valuation methods using material non-market parameters.

Level III	Financial Assets			Financial liabilities
31.12.2009	Financial assets held for trading	Financial investment assets – debt securities	Financial investment assets – equity securities	Financial liabilities held for trading
Beginning of the period	**696,118**	**179,564**	**633,577**	**(595,476)**
Profits or losses	(6,895)	1,872	3,243	(3,712)
recognised in income statement	*(6,895)*	–	*337*	*(3,712)*
recognised in equity	–	*1,872*	*2,906*	–
Purchase	–	87,774	6,457	–
Sale	–	(56,075)	(513)	–
Matured	(566,182)	(129,164)		506,758
Transfer	262,585			(32,046)
At the period end	**385,626**	**83,971**	**642,764**	**(124,476)**

Level III	Financial Assets			Financial liabilities
31.12.2008	Financial assets held for trading	Financial investment assets – debt securities	Financial investment assets – equity securities	Financial liabilities held for trading
Beginning of the period	**73,850**	**252,935**	**685,436**	**(120,173)**
Profits or losses	634,113	(866)	(13,491)	(673,830)
recognised in income statement	*634,113*	–	–	*(673,830)*
recognised in equity	–	*(866)*	*(13,491)*	–
Purchase	–	6,906	24,750	–
Sale	–	–	(62,993)	–
Impairment	–	–	(125)	–
Matured	(11,845)	(79,411)		198,527
At the period end	**696,118**	**179,564**	**633,577**	**(595,476)**

In thousands of PLN

41. Contingent liabilities

Significant court proceedings

As at 31 December 2009 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 247,865 k, which is ca 4.09% of Group's equity. This amount includes PLN 47,990 k claimed by the Group, PLN 71,911 k in claims against the Group and PLN 127,964 k are Group's receivables due to bankruptcy or arrangement cases.

As at 31 December 2008 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 251,642 k, which is ca 4.83% of Group's equity. This amount includes PLN 58,249 k claimed by the Group, PLN 55,596 k in claims against the bank and PLN 137,797 k are Group's receivables due to bankruptcy or arrangement cases.

Provisions for legal claims are presented in note 34.

Contingent liabilities

The break-down of contingent liabilities into categories are presented below. The values of guarantees and letters of credit as set out in the table below represent the maximum possible loss that would be disclosed as at the balance sheet day if the customers did not meet any of their obligations.

Contingent liabilities – sanctioned	31.12.2009	31.12.2008
Liabilities sanctioned		
– financial	**6,345,103**	**9,528,754**
– credit lines	5,442,474	8,406,859
– credit cards debits	845,493	879,874
– term deposits with future commencement term	27,933	182,000
– import letters of credit	29,203	60,021
– guarantees	**876,197**	**901,717**
Total	**7,221,300**	**10,430,471**

42. Assets and liabilities pledged as collateral

A guaranteed protection fund established by Bank Zachodni WBK S.A. is collateralized by the debt securities.

Under the bank Guarantee Fund Act, the bank calculated this fund using 0.4% rate of the annual contribution base.

Accordingly, as at 31 December 2009 Bank Zachodni WBK S.A. pledged as collateral PLN 167,100 k of debt securities (PLN 150,561 k as at 31.12.2008).

In 2009 a deposit for PLN 239,958 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2008 it was PLN 182,306 k).

In 2009 another bank placed as collateral in BZ WBK a deposit for PLN 4,724 k.

Other assets pledged as collateral are disclosed in notes 39 and 32.

43. Trust activities

In 2008 and 2009 BZ WBK Group did not provide custodian services.

44. Finance and operating leases

Financial leases

Lease agreements where the Group acts as a lessor

Bank Zachodni WBK Group operates on the leasing market through two leasing companies who specialise in funding two different asset categories. BZ WBK Finance & Leasing focuses on lease of machines and equipment as well as computers and office equipment for businesses, while BZ WBK Leasing specialises in financing vehicles for businesses and personal customers.

The item "receivables from customers" contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables – maturity	31.12.2009	31.12.2008
less than 1 year	1,194,202	1,185,293
between 1 and 5 years	1,777,014	2,126,247
over 5 years	203,702	137,902
Total	**3,174,918**	**3,449,442**

Present value of minimum lease payments – maturity	31.12.2009	31.12.2008
less than 1 year	1,127,262	1,133,217
between 1 and 5 years	1,477,389	1,760,913
over 5 years	101,865	64,907
Total	**2,706,516**	**2,959,037**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2009	31.12.2008
Finance lease gross receivables	3,174,918	3,449,442
Unearned finance income	(468,402)	(490,405)
Impairment of finance lease receivables	(61,307)	(37,887)
Total	**2,645,209**	**2,921,150**

Lease agreements where the Group acts as a lessee

The BZ WBK Group companies also avail of lease arrangements as lessees, however as the leases are between related entities they were eliminated from the consolidated statement of financial position and profit and loss account.

Operating leases

The BZ WBK Group leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5–10 years. A small part of the offices is subleased outside the Group. In 2009 and 2008 rentals totalled PLN 139,483 k and PLN 100,273 k respectively. These payments are presented in the profit and loss account under "operating expenses".

The table below shows the total obligations under irrevocable operating lease agreements concluded by the bank (including the value of perpetual usufruct of land).

Payments – maturity	31.12.2009	31.12.2008
less than 1 year	142,291	119,302
between 1 and 5 years	456,484	374,372
over 5 years	325,885	311,110
Total	**924,660**	**804,784**

45. Consolidated statement of cash flows – additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2009	31.12.2008
Cash and current accounts in central bank	2,660,658	3,178,107
Debt investment financial instruments	1,793,330	615,802
Deposits in other banks, current account	653,748	1,355,817
Debt secutities held for trading	449,354	168,618
Total	**5,557,090**	**5,318,344**

BZ WBK S.A. holds other cash balances pledged as collateral, which are presented in note 32, that are not avaliable for use.

In thousands of PLN

46. Related party disclosures

The tables below present balances of intercompany transactions. They are effected between subsidiaries, associates, joint ventures and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process.

Transactions with associates and joint ventures	31.12.2009	31.12.2008
Assets	**842**	**1,014**
Loans and advances to customers	842	1,014
Liabilities	**90,352**	**121,191**
Deposits from clients	90,352	121,191
Income	**5,882**	**2,183**
Interest and similar income	62	41
Fee and commission income	5,663	2,084
Other operating income	157	58
Expenses	**8,340**	**6,620**
Interest expense and similar charges	6,199	5,073
Operating expenses incl.:	2,141	1,547
– bank's operating expenses and management costs	2,141	1,547

Transactions between entities of BZ WBK Group	31.12.2009	31.12.2008
Assets	**2,269,450**	**2,101,411**
Loans and advances to banks	1,050,201	1,128,384
Financial assets held for trading	6,145	335
Hedging derivatives	73,059	99,355
Loans and advances to customers	1,124,842	857,055
Investment securities	–	19
Other assets	15,203	16,263
Liabilities	**2,269,450**	**2,101,392**
Deposits from banks	1,121,781	852,810
Hedging derivatives	183	154
Financial liabilities held for trading	79,021	99,356
Deposits from clients	1,033,001	1,103,157
Debt securities in issue	–	180
Other liabilities	35,464	45,735
The difference on transaction between subsidiaries as at 31.12.2008 in the amount of PLN 19 k results from prepaid expenses which are recognized in profit and loss account.		
Income	**214,210**	**285,405**
Interest and similar income	88,534	122,987
Fee and commission income	102,280	146,952
Other operating income	8,994	7,973
Net trading income and revaluation	14,402	7,493
Expenses	**214,210**	**285,386**
Interest expense and similar charges	100,867	127,821
Fee and commission expense	102,300	146,852
Operating expenses incl.:	11,043	10,713
–bank's staff, operating expenses and management costs	*11,009*	*10,653*
–Other	*34*	*60*
Contingent liabilities	**3,222,998**	**1,211,568**
Sanctioned:	1,611,499	605,784
– financing-related	*1,356,686*	*555,510*
– guarantees	*254,813*	*50,274*
Received:	1,611,499	605,784
– financing-related	*1,356,686*	*555,510*
– guarantees	*254,813*	*50,274*
Derivatives' nominal values:	**3,487,320**	**2,674,910**
Cross-currency interest rate swaps – purchased	1,637,460	1,124,026
Cross-currency interest rate swaps – sold	1,791,175	1,305,961
Single-currency interest rate swaps	58,685	244,923

Transactions with the parent company (AIB Group)	31.12.2009	31.12.2008
Assets	**495,282**	**575,145**
Loans and advances to banks	376,170*	254,035**
Financial assets held for trading	117,274	187,878
Investment securities	–	129,164
Other assets	1,838	4,068
* incl.: deposits in the amount of PLN 376,075 k and current accounts of PLN 95 k. ** incl.: deposits in the amount of PLN 253,549 k and current accounts of PLN 486 k.		
Liabilities	**1,918,015**	**2,572,892**
Deposits from banks	1,631,612†	1,885,144††
Hedging derivatives	1,564	1,489
Financial liabilities held for trading	272,417	671,136
Other liabilities	12,422	15,123
† incl.: loans granted by AIB to BZ WBK subsidiaries in the amount of PLN 819,759 k, repo transactions of PLN 305,653 k and deposits of PLN 506,200 k. †† incl.: loans granted to by AIB BZ WBK subsidiaries in the amount of PLN 834,572 k, repo transactions of PLN 588,159 k and deposits of PLN 462,413 k.		
Income	**76,120**	**(312,479)**
Interest and similar income	4,375	19,057
Fee and commission income	1,042	33
Other operating income	2,951	17,206
Net trading income and revaluation	60,686	(340,410)
Gains/losses from other financial securities	7,066	(8,365)
Expenses	**62,822**	**98,464**
Interest expense and similar charges	30,405	67,912
Fee and commission expense	–	288
Other operating expenses incl.:	32,417	30,264
–bank's staff, operating expenses and management costs	32,417	30,264
Contingent liabilities	**44,319**	**188,563**
Sanctioned	7,419	165,000
– financing-related	7,419	165,000
Received	36,900	23,563
– financing-related	36,900	23,563
Derivatives' nominal values:	**11,062,622**	**13,161,424**
Cross-currency interest rate swaps – purchased	1,337,015	480,590
Cross-currency interest rate swaps – sold	1,402,642	590,082
Single-currency interest rate swaps	3,364,991	3,954,781
FRA	–	150,000
Options	9,841	10,221
FX swap – purchased amounts	1,961,714	2,441,470
FX swap – sold amounts	1,927,627	2,465,307
FX options – purchased	507,319	1,226,585
FX options – sold	547,364	1,761,203
Spot-purchased	2,055	39,224
Spot-sold	2,054	41,961

In November 2008 BZ WBK S.A. entered into several short-term buy-sell-back transactions with the following investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.:

- Arka BZ WBK Zrównoważony FIO,
- Arka BZ WBK Stabilnego Wzrostu FIO,
- Arka BZ WBK Ochrony Kapitału FIO,

As at 31.12.2008 balance of those transactions amounted to PLN 427,572 k and accrued interest amounted to PLN 3,216 k. They are collateralized with Government bonds. As at 31.12.2009 there were no such transactions.

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Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK S.A. Management and Supervisory Board Members

31.12.2009

Remuneration paid to the members of Bank Zachodni WBK S.A. Supervisory Board:

First and last name	Position	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	203.7
Waldemar Frąckowiak	Member of the Supervisory Board	163.7
Aleksander Galos	Member of the Supervisory Board	163.7
Jacek Ślotała	Member of the Supervisory Board	139.7
John Power	Member of the Supervisory Board	205.6
James O'Leary	Member of the Supervisory Board	53.7

Two Members of the Supervisory Board: Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated.

Remuneration and any additional benefits paid to the members of Bank Zachodni WBK S.A. Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2009–31.12.2009	1,217.74	324.20
Paul Barry*	Member of the Management Board	01.01.2009–31.12.2009	715.89	854.57
Andrzej Burliga	Member of the Management Board	01.01.2009–31.12.2009	622.87	73.57
Declan Flynn*	Member of the Management Board	01.01.2009–31.12.2009	947.35	642.63
Justyn Konieczny	Member of the Management Board	01.01.2009–31.12.2009	859.13	70.83
Janusz Krawczyk	Member of the Management Board	01.01.2009–31.12.2009	750.66	103.48
Jacek Marcinowski	Member of the Management Board	01.01.2009–31.12.2009	725.31	55.34
Michael McCarthy*	Member of the Management Board	01.02.2009–31.12.2009	989.60	782.00
Marcin Prell	Member of the Management Board	01.01.2009–31.12.2009	723.36	93.43
Mirosław Skiba	Member of the Management Board	01.01.2009–31.12.2009	562.55	132.75
Feliks Szyszkowiak	Member of the Management Board	01.01.2009–31.12.2009	739.32	122.22

* In respect of Messrs Barry, Flynn and McCarthy (on assignment to BZ WBK from Allied Irish Banks plc, Dublin, Ireland), whose terms of assignment cover payment of salaries in their home country currency. Furthermore, their terms of assignment include reimbursement of Allied Irish Banks plc's costs in respect of pension contributions, medical insurance cover, Allied Irish Banks plc profit sharing scheme and other benefits. Costs in respect of accommodation and school fees are also paid by BZ WBK in specific cases.

In 2009, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK S.A. received any remuneration from subsidiaries or associated entities.

Members of the Management Board have signed non-competition agreements which remain in force after they step down from their function.

If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the bank.

31.12.2008

Remuneration paid to the members of Bank Zachodni WBK S.A. Supervisory Board:

First and last name	Position	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	201.7
Waldemar Frąckowiak	Member of the Supervisory Board	177.2
Aleksander Galos	Member of the Supervisory Board	163.0
Jacek Ślotała	Member of the Supervisory Board	119.0
John Power	Member of the Supervisory Board	214.8
James O'Leary	Member of the Supervisory Board	93.6

Two Members of the Supervisory Board: Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated.

Remuneration and any additional benefits paid to the members of Bank Zachodni WBK S.A. Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2008–31.12.2008	1,214.64	638.10
Paul Barry*	Member of the Management Board	01.10.2008–31.12.2008	189.37	272.73
Andrzej Burliga	Member of the Management Board	01.01.2008–31.12.2008	566.47	59.56
Declan Flynn*	Member of the Management Board	01.01.2008–31.12.2008	995.91	792.85
Michał Gajewski	Member of the Management Board	01.01.2008–31.05.2008	415.29	29.02
Justyn Konieczny	Member of the Management Board	01.01.2008–31.12.2008	854.28	69.99
Janusz Krawczyk	Member of the Management Board	01.01.2008–31.12.2008	762.57	45.30
Jacek Marcinowski	Member of the Management Board	01.01.2008–31.12.2008	729.29	56.24
James Murphy*	Member of the Management Board	01.01.2008–30.09.2008	518.58	439.00
Marcin Prell	Member of the Management Board	01.01.2008–31.12.2008	729.02	70.83
Mirosław Skiba	Member of the Management Board	22.07.2008–31.12.2008	252.28	17.80
Feliks Szyszkowiak	Member of the Management Board	01.01.2008–31.12.2008	732.45	64.20

* In respect of Messrs Barry, Flynn and Murphy (on assignment to BZ WBK from Allied Irish Banks plc, Dublin, Ireland), whose terms of assignment cover payment of salaries in their home country currency. Furthermore, their terms of assignment include reimbursement of Allied Irish Banks plc's costs in respect of pension contributions, medical insurance cover, Allied Irish Banks plc profit sharing scheme and other benefits. Costs in respect of accommodation and school fees are also paid by BZ WBK in specific cases.

In 2008, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK S.A. received any remuneration from subsidiaries or associated entities.

If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the bank.

31.12.2009

Loans and advances made by the bank to the Members of the Management Board of BZ WBK S.A. and to their relatives were PLN 9,193 k. These facilities have been sanctioned on regular terms and conditions.

As of 31.12.2009, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 23 k.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

31.12.2008

Loans and advances made by the bank to the Members of the Management Board of BZ WBK S.A. and to their relatives were PLN 8,769 k. These facilities have been sanctioned on regular terms and conditions.

As of 31.12.2008, the total of finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 30 k.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

Profit sharing scheme

In 2006 selected subsidiaries of BZ WBK Group introduced a motivation scheme for their key management in a form of a long term profit sharing scheme classified as other long-term benefits in accordance with IAS 19. The formal framework of the scheme is based on an issue of shares that are purchased by entitled individuals.

In thousands of PLN Annual Report 2009 161

Considering underlying characteristics of the scheme it has been classified as a long term profit sharing scheme and recognized as a liability in the consolidated financial statements.

Shares issued under the scheme are deprived of voting rights, have significant limitations on disposal and are subject to conditional obligation to dispose shares at a price different from the fair value of shares.

In December 2009, the Group decided to change the incentive scheme model for a group of key employees. Under the new scheme the title to shares was replaced with a right of participation in profit linked to the profit growth.

For other participants, the award-winning principles remain unchanged.

The value of the liability resulting from the scheme as at 31 December 2009 amounted to PLN 14,344 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 12,304 k.

The value of the liability resulting from the scheme as at 31 December 2008 amounted to PLN 17,712 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 20,309 k.

Transactions with employees

31.12.2009

As of 31.12.2009, the total of loans and advances drawn by BZ WBK S.A. employees was PLN 565,923 k (including the debt of PLN 1,406 k shown in joint accounts) and PLN 33,812 k in the case of employees of BZ WBK subsidiaries and associates.

In the same period, the total of loans and advances drawn by BZ WBK S.A. employees from the Social Fund was PLN 15,542 k.

These facilities have been sanctioned on regular terms and conditions.

On current accounts and term deposits employees of the bank held balances of PLN 179,331 k, (of which joint current accounts – PLN 40,116 k). Amount relating to employees of subsidiaries and associates totaled PLN 20,090 k.

31.12.2008

As of 31.12.2008, the total of loans and advances drawn by BZ WBK S.A. employees was PLN 551,617 k (including the debt of PLN 1,154 k shown in joint accounts) and PLN 41,096 k in the case of employees of BZ WBK subsidiaries and associates.

In the same period, the total of loans and advances drawn by BZ WBK S.A. employees from the Social Fund was PLN 15,151 k.

These facilities have been sanctioned on regular terms and conditions.

On current accounts and term deposits employees of the bank held balances of PLN 191,443 k, (of which joined current accounts – PLN 37,720 k). Amount relating to employees of subsidiaries and associates totalled PLN 20,242 k.

47. Information of number and value of banking writs of executions

In 2009 Bank issued 37,301 banking writs of execution with total amount of PLN 645,942 k, of which:

- corporate loans – 476 cases of PLN 394,049 k
- cash loans and overdrafts – 24,073 cases of PLN 188,907 k
- credit cards – 12,699 cases of PLN 44,703 k
- mortgage loans – 53 cases of PLN 18,283 k

In 2008 Bank issued 17,731 banking writs of execution with total amount of PLN 125,800 k, of which:

- cash loans and overdrafts – 11,975 cases of PLN 81,001 k
- corporate loans – 172 cases of PLN 22,451 k
- credit cards – 5,521 cases of PLN 15,628 k
- mortgage loans – 63 cases of PLN 6,720 k

48. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions of investments in subsidiaries and associates in 2009 and 2008

Purchase of shares and registration of the bank's new subsidiary

On 14 January 2009 a new company BZ WBK Finanse Sp. z o.o. was registered.

The bank acquired in BZ WBK Finanse Sp. z o.o. 1,000 shares with the nominal value of PLN 50 each which accounts for 100% of the share capital and 100% of votes at the General Meeting. The bank acquired the shares for the total of PLN 50 k. The core business of the Company will be operating financial holdings.

The bank's purchase of the shares in BZ WBK Finanse Sp. z o.o. is a long-term investment and has been financed with the bank's own funds.

Additionally, an agreement was entered into by and between the bank and the registered subsidiary on transferring the ownership title to shares of the bank's selected Pursuant to the Agreement, the bank transferred onto BZ WBK Finanse the ownership title to:

1. 1,216,919 shares of BZ WBK Leasing S.A. with a total nominal value of PLN 121,691,900.00 representing 99.99% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the bank's books of PLN 61,257,096.09. The value of shares in the BZ WBK Finanse books will total PLN 61,257,096.09;
2. 100 shares of BZ WBK Faktor Sp. z o.o. with a total nominal value of PLN 50,000.00 representing 100% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the bank's books of PLN 6,200,073.20. The value of shares in the BZ WBK Finanse books will total PLN 6,200,073.20.
3. 504,999 shares of BZ WBK Finanse i Leasing S.A., with a total nominal value of PLN 50,499,900.00 representing 99.99% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the bank's books of PLN 50,512,484.00. The value of shares in the BZ WBK Finanse books will total PLN 50,512,484.00.

The above shares represent the bank's non-cash contribution to the BZ WBK Finanse capital with a total value of PLN 117,969,653.29.

Purchase of shares of a new subsidiary Krynicki Recykling S.A.

BZ WBK Inwestycje Sp. z o.o. (the bank's subsidiary) acquired 3,076,852 new issue shares of Krynicki Recykling S.A. (representing 30.37% of the share capital) with the nominal value of PLN 3.25 each. The company acquired the shares for the total of PLN 9,999,769.00. The agreement was signed on 19th of December 2008 and the share capital increase was registered on 2nd of February 2009.

The company was classified as an associate therefore is accounted for using the equity method.

Krynicki Recykling S.A, seated in Olsztyn, is quoted on the NewConnect market. It operates in an environmental protection industry sector.

Purchase of shares was a part of building a portfolio of pre-IPO investments.

Purchase of shares of a new subsidiary Metrohouse S.A.

In July 2008, BZ WBK subsidiary – BZ WBK Inwestycje Sp. z o.o. purchased shares of Metrohouse S.A. The purchase price was PLN 4,600,000.00, number of shares – 2,300,000 i.e. 35.38% of Metrohouse share capital.

The company was classified as an associate therefore is accounted for using the equity method.

Metrohouse S.A has been set up to develop the biggest chain of real estate agents in Poland. The company offers services related to buying, selling and letting properties in Greater Warsaw, Gdańsk and Olsztyn and acts as a credit intermediary. Purchase of shares of Metrohouse SA was a part of building a potfolio of pre-IPO investments.

Disposals of investments in subsidiaries and associates in 2009 and 2008

In 2009 the bank did not sell any subsidiary or associate.

Disposals in 2008	Net assets	Revenue	Gain/loss on sale
Brytyjsko-Polskie Towarzystwo Finansowe WBK CU Sp. z o.o.	680	1,200	520
NFI Magna Polonia S.A.	2,537	1,821	(716)
Total	**3,217**	**3,021**	**(196)**

Bank Zachodni WBK S.A. made a transaction of partial disposal of NFI Magna Polonia shares. Shares representing 22.47% of votes at the AGM of NFI Magna Polonia were sold, whereas the rest (5.06%), is recognized as investment securities.

In thousands of PLN

49. Investments in joint ventures

BZ WBK-CU Towarzystwo Ubezpieczeń Ogólnych Spółka Akcyjna and BZ WBK-CU Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna were established on 30 July 2008.

The bank invested in:

- BZ WBK – CU Towarzystwo Ubezpieczeń Ogólnych S.A. – 13,500 ordinary registered shares of A series with nominal value of PLN 1,000 each and issue price per share of PLN 1,334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the bank totaled PLN 17,082 k,
- BZ WBK-CU Towarzystwo Ubezpieczeń na Życie S.A. – 10,875 ordinary registered shares of A series with value of PLN 1,000 each and issue price per share of PLN 1,334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the bank totaled PLN 15,031 k.

These represent the long-term investments and have been financed from the bank's own funds.

Both joint ventures are classified to available-for-sale portfolio and are accounted for using the equity method. As at 31.12.2009 carrying value of these entities totaled PLN 18,405 k and PLN 12,872 k respectively.

On 01.06.2009 these entities have changed their names to: BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. respectively.

50. Events after the balance sheet date

Authorization for issue of Consolidated Financial Statements of Bank Zachodni WBK Group

The consolidated financial statements of Bank Zachodni WBK Group were authorised for issue on 26th of February 2010 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be approved by the shareholders at their Annual General Meeting.

Financing Agreement between the European Investment Bank and Bank Zachodni WBK S.A.

On 28 January 2010 a financing agreement was concluded between the European Investment Bank and Bank Zachodni WBK S.A. with regard to funding projects promoted by small and medium-sized enterprises in the sectors of industry and services.

The maximum credit line extended to Bank Zachodni WBK S.A. for this purpose is EUR 100,000 k.

The contract stipulates that the financing may be drawn in three tranches at least of EUR 25,000 k each. The repayment term is set independently for each tranche, ranging from minimum three years to maximum eight years from the tranche drawdown.

51. Staff benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits),
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided during the term of employment),

Within these categories, the companies of the BZ WBK Group create the following types of provisions:

Provisions for accrued holiday leaves

Liabilities related to accrued holiday leaves are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to the adopted bonus system are stated in the amount of the probable payment without discounting.

Provisions for retirement allowances

Liabilities related to retirement allowances are measured using actuarial methods (including discounting).

Other staff-related provisions

These are provisions for the National Fund of Rehabilitation of the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2009	31.12.2008
Provisions for accrued holiday leaves	19,636	22,166
Provisions for employee bonuses	112,554	79,220
Provisions for retirement allowances	35,208	34,056
Other staff-related provisions	2,765	5,303
Total	**170,163**	**140,745**

Detailed information about movements on staff-related provisions is available in additional note 34.

Awards for the year 2007 paid in 2008 to the Members of the Management Board of Bank Zachodni WBK S.A.

First and last name	Position	Period	Awards for 2007
Mateusz Morawiecki	President of the Management Board	01.01.2008–31.12.2008	1,440.00
Paul Barry	Member of the Management Board	01.10.2008–31.12.2008	0.00
Andrzej Burliga	Member of the Management Board	01.01.2008–31.12.2008	540.00
Declan Flynn	Member of the Management Board	01.01.2008–31.12.2008	1,015.60
Michał Gajewski	Member of the Management Board	01.01.2008–31.05.2008	840.00
Justyn Konieczny	Member of the Management Board	01.01.2008–31.12.2008	840.00
Janusz Krawczyk	Member of the Management Board	01.01.2008–31.12.2008	684.00
Jacek Marcinowski	Member of the Management Board	01.01.2008–31.12.2008	504.00
James Murphy	Member of the Management Board	01.01.2008–30.09.2008	555.99
Marcin Prell	Member of the Management Board	01.01.2008–31.12.2008	504.00
Mirosław Skiba	Member of the Management Board	22.07.2008–31.12.2008	0.00
Feliks Szyszkowiak	Member of the Management Board	01.01.2008–31.12.2008	648.00

In 2009 the Members of the Management Board did not receive any awards for the year 2008.

52. Share based incentive scheme

In 2006 the BZ WBK Group has introduced the Incentive Scheme ("the Scheme") on terms approved by the shareholders. The scheme is designed to provide market-competitive incentives for senior executives and key managers, in the context of the bank's long-term performance against stretching growth targets over the three financial years period 2006–2008. Conditional awards of shares are made to employees with vesting to take place on the date of the AGM approving financial statements for the last year of the scheme. Subject to vesting conditions the scheme will be realized by distribution of shares only.

Initial vesting was in Q2,2009. All outstanding awards have been subscribed and fully paid in May–June 2009.

Shares will vest on a linear pattern between 25% and 100% contingent on EPS growth adjusted by Consumer Price Index (CPI). The range of the scale requires EPS growth adjusted for CPI between 8% and 16% for 2007 and 2008 editions.

During 2007 conditional awards of shares were granted to no more the 100 individuals. In 2008 third edition has been granted to no more than 600 individuals.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility is based on an analysis of historical volatility based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

In thousands of PLN

Share based payments granted:

	2008	2007
Number of share based payments	288,112	78,341
Share price	149.00	292.50
Exercise price (PLN)	10	10
Vesting period	3 years	3 years
Expected volatility	40.82%	40.69%
Award life	3 years	3 years
Risk free rate	6.87%	4.90%
Fair value per award	133.01 PLN	267.53 PLN
Dividend yield	2.01%	2.05%

The following table summarizes the share based payments activity:

	12 months of 2009 Number of share based payments	12 months of 2008 Number of share based payments
Outstanding at 1 January	476,929	200,722
Granted	–	288,112
Exercised	(115,729)	–
Forfeited	(19,499)	(11,905)
Expired	–	–
Outstanding at 31 December	341,701	476,929
Exercisable at 31 December	–	–

Exercise price for all share based payments amounts to 10 PLN.

For the share based payments outstanding as at 31 December 2009 and as at 31 December 2008 the average remaining contractual life is approximately 1.1 years and 1.6 years respectively.

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2009 and 2008 amounts to PLN 1,547 k and PLN 1,734 k respectively.

Taking up the bank's shares by the Management Board Members under the 2006 incentive scheme

On 21.04.2009, the Supervisory Board of Bank Zachodni WBK S.A. passed a resolution stipulating that conditions for the first Incentive Scheme of 2006 were met. In May 2009, subscription of H series shares issued by the bank under resolution made by General Meeting of Shareholders of 4 April 2006 on the conditional increase of share capital was completed. In total, 115,729 shares were allocated to 86 employees, of which 23,084 shares to members of the Management Board. On 10 July 2009, the H series shares were registered with the National Depository of Securities.

Details of number of conditional awards (bonds with pre-emptive rights) for the Members of the Management Board are given below.

No. of awards	2009
Outstanding at 1 January	**74,766**
Exercised	(23,084)
Outstanding at 31 December	**51,682**
Exercisable at 31 December 2009	–

First and last name	Total as at 01.01.2009	Exercised in 2009	Total as at 31.12.2009
Mateusz Morawiecki	13,522	3,591	9,961
Andrzej Burliga	6,023	1,606	4,417
Justyn Konieczny	11,438	3,591	7,847
Janusz Krawczyk	10,058	3,397	6,661
Jacek Marcinowski	10,058	3,397	6,661
Marcin Prell	9,191	2,530	6,661
Mirosław Skiba	4,388	1,575	2,813
Feliks Szyszkowiak	10,058	3,397	6,661
Total	**74,766**	**23,084**	**51,682**

No. of awards	2008
Outstanding at 1 January	**42,949**
Granted	35,535
Granted before MB nomination	2,538
Forfeited	(6,256)
Outstanding at 31 December	**74,766**
Exercisable at 31 December 2008	–

First and last name	Total as at 01.01.2008	Forfeited	Granted before MB nomination	Granted during 2008	Total as at 31.12.2008
Mateusz Morawiecki	6,149	–	–	7,403	13,552
Paul Barry*	–	–	–	–	–
Andrzej Burliga	2,691	–	–	3,332	6,023
Declan Flynn*	–	–	–	–	–
Michał Gajewski	6,256	(6,256)	–	–	–
Justyn Konieczny	6,256	–	–	5,182	11,438
Janusz Krawczyk	5,616	–	–	4,442	10,058
Jacek Marcinowski	5,616	–	–	4,442	10,058
Marcin Prell	4,749	–	–	4,442	9,191
Mirosław Skiba	–	–	2,538	1,850	4,388
Feliks Szyszkowiak	5,616	–	–	4,442	10,058
Total	**42,949**	**(6,256)**	**2,538**	**35,535**	**74,766**

* Members of Management Board on assignment to BZ WBK from Allied Irish Banks plc do not participate in BZ WBK Incentive Scheme.

53. Average staff level with break down into professional group

As at 31 December 2009 the bank employed 8,937 persons, i.e. 8,809 FTE's.
As at this date, in subsidiaries there were 661 persons employed (incl. 43 persons working in the bank, too), i.e. 644 FTE's.
In 2009, the average staffing level in Bank Zachodni WBK S.A. was 8,977 FTE's whereas an average staffing level in subsidiaries was 660 FTE's.

The table below presents the employment structure in the Group with a break-down according to education:

Education	No. of staff	Structure %
University/college degree	6,590	68.9
High school degree	2,771	29.0
Vocational	26	0.3
Other	168	1.8
Total	**9,555**	**100.0**

As at 31 December 2008 the bank employed 9,590 persons, i.e. 9,515 FTE's.
As at this date, in subsidiaries there were 718 persons employed (incl. 54 persons working in the bank, too), i.e. 706 FTE's.
In 2008, the average staffing level in Bank Zachodni WBK S.A. was 9,073 FTE's whereas an average staffing level in subsidiaries was 686 FTE's.

The table below presents the employment structure in the Group with a break-down according to education:

Education	No. of staff	Structure %
University/college degree	6,858	66.9
High school degree	3,179	31.0
Vocational	28	0.3
Other	189	1.8
Total	**10,254**	**100.0**

54. Dividend per share

Bank Zachodni WBK S.A. will propose an allocation to dividends 29.64% of profit for the current reporting period of PLN 292,304,052 i.e. PLN 4.00 per one share. Outstanding profit of PLN 693,923,867.10 will be allocated to other reserve capital.

On 21.04.2009 the Annual General Meeting of Bank Zachodni WBK S.A. Shareholders allocated the net profit of 2008 to the reserve capital and to the general risk fund. Therefore, Bank Zachodni WBK S.A. did not pay a dividend out of its income generated in 2008.

In thousands of PLN

Signatures

Signatures of Members of the Management Board

Date	Name	Function	Signature
26.02.2010	Mateusz Morawiecki	President	
26.02.2010	Paul Barry	Member	
26.02.2010	Andrzej Burliga	Member	
26.02.2010	Declan Flynn	Member	
26.02.2010	Justyn Konieczny	Member	
26.02.2010	Janusz Krawczyk	Member	
26.02.2010	Jacek Marcinowski	Member	
26.02.2010	Michael McCarthy	Member	
26.02.2010	Marcin Prell	Member	
26.02.2010	Mirosław Skiba	Member	
26.02.2010	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the books of account

Date	Name	Function	Signature
26.02.2010	Wojciech Skalski	Financial Accounting Area Director	