PRELIMINARY OFFERING MEMORANDUM, DATED 18 March 2013
SUBJECT TO COMPLETION

BANK ZACHODNI WBK S.A.

(a Polish joint stock company with its registered office in Wrocław and address at ul. Rynek 9/11, 50-950 Wrocław entered in the Register of Business Entities of the National Court Register under No. 0000008723)

[REDACTED]

IMPORTANT INFORMATION

[REDACTED] as the joint global coordinators (the "**Joint Global Coordinators**"), [REDACTED] as the joint bookrunners (the "**Joint Bookrunners**"), [REDACTED] (the "**Co-Lead Managers**" and together with the Joint Global Coordinators and the Joint Bookrunners, the "**Managers**"), are acting exclusively for BZ WBK and the Selling Shareholders and for no one else in connection with the Offering; they will not be responsible to anyone other than BZ WBK and the Selling Shareholders for providing the protections afforded to their respective clients, or for providing advice in relation to the Offering or any transaction or arrangement referred to in this Offering Memorandum.

Capitalized terms used in this Offering Memorandum but not otherwise defined herein have the meaning ascribed to such terms in "*Abbreviations and Definitions*". Certain industry terms and other terms used in this Offering Memorandum are explained in "*Abbreviations and Definitions*".

Unless indicated or implied otherwise, in this Offering Memorandum the term "**BZ WBK**" or the "**Bank**" refers to Bank Zachodni WBK Spółka Akcyjna with its registered office in Wrocław without the BZ WBK Subsidiaries (as such term is defined in the section titled "*Abbreviations and Definitions*"), while the term "**BZ WBK Group**" refers to: (i) BZ WBK and the BZ WBK Subsidiaries (including the former subsidiaries of Kredyt Bank) following the Merger if there is no reference to any period, a reference is made to the date of this Offering Memorandum or the context implies that a reference is made to a period following the Merger; or (ii) BZ WBK and the BZ WBK Subsidiaries (excluding the former subsidiaries of Kredyt Bank) prior to the Merger if a reference is made to a period before the Merger or the context implies that a reference is made to a period prior to the Merger.

Unless indicated otherwise, references to statements as to beliefs, knowledge, expectations, estimates and opinions of BZ WBK are those of the management board of Bank Zachodni WBK S.A. (the "**Management Board**") as of the date of this Offering Memorandum.

Neither BZ WBK, the Selling Shareholders, nor the Managers make any assurance as to the compliance with applicable law of an investment in the Offer Shares by any investor.

RESPONSIBILITY STATEMENT

BZ WBK

BZ WBK accepts responsibility for the completeness and accuracy of the information contained in this Offering Memorandum. To the best of BZ WBK's knowledge and belief (having taken all reasonable care to ensure that such is the case), this Offering Memorandum contains all the information with respect to BZ WBK and the Offer Shares that is material in the context of the Offering and does not omit anything likely to affect its accuracy or completeness. The opinions, assumptions, intentions, projections and forecasts expressed in this Offering Memorandum with regard to BZ WBK are honestly held by BZ WBK, have been reached after considering all relevant circumstances and are based on reasonable assumptions.

KBC

KBC accepts responsibility for the completeness and accuracy of the information contained in the following parts of this Offering Memorandum: "*Summary—Summary of the Offering—Selling Shareholders*" and "*Major Shareholders and the Selling Shareholders*", in all cases, only in respect to the information regarding KBC.

To the best of KBC's knowledge (having taken all reasonable care to ensure that), the information contained in the part of this Offering Memorandum for which KBC accepts responsibility is in accordance with the facts and contains no omission likely to affect its import.

Banco Santander

Banco Santander accepts responsibility for the completeness and accuracy of the information contained in the following parts of this Offering Memorandum: "*Summary—Summary of the Offering—Selling Shareholders*" and "*Major Shareholders and the Selling Shareholders*", in all cases, only in respect to the information regarding Banco Santander, the Banco Santander Group (excluding, for this purpose, the BZ WBK Group), Santander Consumer Bank and Santander Consumer Finanse.

To the best of Banco Santander's knowledge (having taken all reasonable care to ensure that), the information contained in the part of this Offering Memorandum for which Banco Santander accepts responsibility is in accordance with the facts and contains no omission likely to affect its import.

IMPORTANT NOTICE

This Offering Memorandum is intended to provide information to prospective investors in the context of, and for the sole purpose of, evaluating a possible investment in the Offer Shares offered hereby. It contains selected and summary information, does not express any commitment or acknowledgement or waiver and does not create any express or implied right towards anyone other than a prospective investor in the context of the Offering. It cannot be used except in connection with the promotion of the Offering. The contents of this Offering Memorandum are not to be construed as an interpretation of BZ WBK's obligations, of market practice or of contracts entered into by BZ WBK.

No representation or warranty, express or implied, is made by the Managers as to the accuracy, completeness or verification of the information set forth in this Offering Memorandum or any other information provided by BZ WBK or the Selling Shareholders in connection with the Offer Shares or their distribution, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation in this respect, whether made in the past or the future. The Managers assume no responsibility for its accuracy, completeness or verification and accordingly disclaim, to the fullest extent permitted by applicable law, any and all liability, whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this document or any such statement.

Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should, therefore, read this Offering Memorandum in its entirety, in particular, the "*Risk Factors*" section, when considering an investment in the Offer Shares. In making an investment decision, prospective investors must rely on their own examination of BZ WBK and the information contained in this Offering Memorandum, including the merits and risks involved with an investment in the Offer Shares.

Any decision to invest in the Offer Shares offered hereby should be based solely on this Offering Memorandum (and any supplement hereto), taking into account that any summary or description set forth in this Offering Memorandum of legal provisions, accounting principles or a comparison of such principles, corporate structuring or contractual relationships is for information purposes only and should not be construed as legal, accounting or tax advice as to the interpretation or enforceability of such provisions, information or relationships.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of BZ WBK and the terms of the Offering, including the merits and risks involved.

The investors also acknowledge that: (i) they have not relied on the Managers or any person affiliated with the Managers in connection with any investigation of the accuracy of any information contained in this Offering Memorandum or their investment decision; and (ii) they have relied only on the information contained in this Offering Memorandum.

Except for the mandatory provisions of applicable law, no person is authorized to give any information or to make any representation in connection with the Offering other than as contained in this Offering Memorandum, and, if given or made, such information or representation must not be relied upon as having been authorized by BZ WBK, the Selling Shareholders or any of the Managers.

This Offering Memorandum is confidential. Any reproduction or distribution of this Offering Memorandum, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares offered hereby is prohibited, except to the extent that such information is otherwise publicly available. Each prospective investor in the Offer Shares, by accepting delivery of this Offering Memorandum, agrees to the foregoing.

This Offering Memorandum does not constitute an offer to sell or a solicitation by or on behalf of BZ WBK, the Selling Shareholders or any Manager to any person to subscribe for any of the Offer Shares offered hereby in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Offering Memorandum and the offering of the Offer Shares in certain jurisdictions are restricted by law. Persons into whose possession this Offering Memorandum may come are required by BZ WBK, the Selling Shareholders and the Managers to inform themselves about and to observe such restrictions. No action has been taken by BZ WBK, the Selling Shareholders or the Managers that would permit an offering of the Offer Shares, or the possession or distribution of this Offering Memorandum or any other offering material or application form relating to the Offer Shares, in any jurisdiction where any action for that purpose is required. This Offering Memorandum may not be used for, or in connection with, any offer to or solicitation by anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful. None of BZ WBK, the Selling Shareholders or any of the Managers accepts any responsibility for any violation by any person, whether or not such a person is a prospective investor in the Offer Shares, of any of these restrictions. See "*Selling Restrictions*" and "*Transfer Restrictions*", elsewhere in this Offering Memorandum.

This Offering Memorandum has not been submitted for approval to any regulatory authority in any jurisdiction.

None of BZ WBK, the Selling Shareholders, the Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. The contents of this Offering Memorandum should not be construed as legal, financial or tax advice. The investors are advised to consult their own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.

For the purpose of or in connection with the Offering, each of the Managers and any of their respective affiliates acting as an investor for its own account, may subscribe for the Offer Shares and/or in that capacity may retain, purchase or sell for its own account the Offer Shares and any other securities of BZ WBK or related investments and may offer or sell the securities of BZ WBK or other investments other than in connection with the Offering. Accordingly, references in this Offering Memorandum to the Offer Shares being offered or placed should be read as including any offering or placement of such securities to the Managers and/or any relevant affiliate acting in such capacity. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition certain of the Managers and/or their affiliates may enter into funding arrangements (including swaps or contracts for differences) with investors in connection with which such Managers (and/or their affiliates) may from time to time acquire, hold or dispose of Offer Shares.

Neither the delivery of this Offering Memorandum nor any sale made hereunder at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the Group's affairs since the date hereof or that the entirety of the information set forth in this Offering Memorandum is correct as of any time subsequent to its date.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED WHETHER THIS OFFERING MEMORANDUM IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

The Offer Shares are being offered in the United States only to QIBs in reliance on exemptions from registration under the U.S. Securities Act. Other than QIBs, persons that are located in the United States will not be permitted to subscribe for the Offer Shares.

The information contained in this Offering Memorandum has been provided by BZ WBK, the Selling Shareholders and the other sources identified herein. Distribution of this Offering Memorandum to any person other than the prospective purchaser specified by BZ WBK and those persons, if any, retained to advise such prospective purchaser with respect thereto, is unauthorized, and any disclosure of its contents, without the prior written consent of BZ WBK, is prohibited. Any reproduction or distribution of this Offering Memorandum in the United States, in whole or in part, and any disclosure of its contents to any other person is prohibited.

This Offering Memorandum is personal to each prospective purchaser and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the securities described herein. Investors agree to the foregoing by accepting the delivery of this Offering Memorandum. If, at any time, BZ WBK is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, it will furnish, upon written request, to any owner of the Offer Shares, or any prospective purchaser designated by any such owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act. In such cases, BZ WBK will also furnish to each such owner all notices of the meetings of the shareholders and other reports and communications that are made generally available by BZ WBK to its shareholders.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (THE "**RSA**") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTE A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO EEA INVESTORS

This Offering Memorandum and the Offering are only addressed to and directed at persons in Member States of the European Economic Area (the "**EEA**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (the "**Qualified Investors**"). This Offering Memorandum must not be acted on or relied on in any Member State of the EEA by persons who are not Qualified Investors. The Offer Shares are only available to, and any investment or investment activity to which this Offering Memorandum relates is available only to, Qualified Investors, and will be engaged in only with such persons.

This Offering Memorandum has been prepared on the basis that all marketing activities with respect to the Offer Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States, from the requirement to produce a prospectus for the offering of securities. Accordingly, any person making or intending to make any offer within the EEA of the Offer Shares which are the subject of this Offering Memorandum should only do so in circumstances in which no obligation arises for the Group, the Selling Shareholders or any of the Managers to produce a prospectus or any other offering document for such offer.

NOTICE TO UK INVESTORS

In the United Kingdom, this Offering Memorandum is being distributed only to, and is directed only at, Qualified Investors: (i) who have professional experience in matters relating to investments falling within Article 19(5) of the order regarding financial promotion, issued on the basis of the Financial Services and Markets Act 2000, as amended, (the "**Order**"); or (ii) who fall within Article 49(2)(a) to (d) of the Order; or (iii) to whom it may otherwise be lawfully communicated (all such persons together being referred to as the "**Relevant Persons**"). This Offering Memorandum must not be acted on or relied on in the United Kingdom by persons who are not the Relevant Persons. The Offer Shares are only available to, and any investment or investment activity to which this Offering Memorandum relates is available only to the Relevant Persons, and will be engaged in only with such persons.

This Offering Memorandum has been prepared on the basis that all marketing activities with respect to the Offer Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in the UK, from the requirement to produce a prospectus for offers of ordinary shares. Accordingly, any person making or intending to make any offer within the UK of the Offer Shares which are the subject of this Offering Memorandum should only do so in circumstances in which no obligation arises for the Group, the Selling Shareholders or any of the Managers to produce a prospectus or any other offering document for such offer.

STABILIZATION

[REDACTED]

ENFORCEABILITY OF CIVIL CLAIMS

BZ WBK is an entity established and operating in accordance with Polish law and the vast majority of BZ WBK's assets are located in Poland. Poland is a member of the EU. Therefore, any judgment issued by a court in an EU Member State in a civil or commercial matter will be recognized and enforced in Poland under Regulation No. 44/2001. Investors who attempt to enforce a judgment issued by a court outside the EU may face difficulties. In general, foreign court judgments issued in civil matters may be enforced in Poland pursuant to the general provisions of the Polish Civil Procedure Code. Foreign judgments may be enforced in Poland provided that, *inter alia*, they are final and conclusive and do not infringe the basic principles of the Polish legal system (public policy). BZ WBK cannot provide assurance that all conditions precedent required for the enforcement of foreign judgments in Poland will be satisfied, or that a particular judgment will be enforced in Poland.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General Information

This Offering Memorandum contains the audited consolidated financial statements of the BZ WBK Group for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 (the "**Consolidated Financial Statements of BZ WBK**"), as well as the audited consolidated financial statements of the Kredyt Bank Group for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 (the "**Consolidated Financial Statements of Kredyt Bank**" and jointly with the Consolidated Financial Statements of BZ WBK, the "**Consolidated Financial Statements**").

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") adopted by the European Union ("**EU**"), which differ to some extent from the IFRS issued by the International Accounting Standards Board ("**IASB**"). Presentation of financial information in accordance with the IFRS requires the management to make various estimates and assumptions which may have an impact on the values shown in the financial statements and notes thereto. The actual values may differ from such assumptions.

The consolidated financial statements of the BZ WBK Group for the year ended 31 December 2010 were audited by KPMG Audyt Sp. z o.o., with its registered office in Warsaw. The consolidated financial statements of the BZ WBK Group for the years ended 31 December 2011 and 31 December 2012 were audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (former Deloitte Audyt Sp. z o.o.), with its registered office in Warsaw.

The Consolidated Financial Statements of Kredyt Bank were audited by Ernst & Young Audit sp. z o.o., with its registered office in Warsaw. The auditor's opinion on the audited consolidated financial statements of the Kredyt Bank Group for the year ended 31 December 2012 (the "**Consolidated Financial Statements of Kredyt Bank for 2012**") has been qualified by Ernst & Young. The qualification related to the lack of sufficient evidence presented to Ernst & Young, on the reasonableness of approximately PLN 333 million of the total PLN 577 million adjustment to impairment allowances of the additional loan impairment allowances of the Kredyt Bank Group as of 31 December 2012, the corresponding impairment charge in the profit and loss for the year ended 31 December 2012, as well as approximately PLN 61 million of deferred tax asset that has been recognized in relation to such additional loan impairment allowances. In addition, the part of the above loan impairment allowances relating to losses incurred but not recorded ("**IBNR**") and collective impairment amounting to PLN 258 million has been presented in a non-compliant way in liabilities in line "*Provisions*". The full text of the qualification and the auditor's opinion issued by Ernst & Young is attached to this Offering Memorandum. The line items in the Consolidated Financial Statements of Kredyt Bank for 2012 affected by the above qualifications include "*net operating income*", "*impairment losses on loans and advances to customers*", "*deferred tax assets*", "*total assets*", "*provisions*", "*total liabilities*", "*equity attributable to the shareholders of Kredyt Bank*", "*total equity*", "*total equity and liabilities*", "*net impairment losses on financial assets, other assets and provisions*", "*profit*, *(loss) before tax*", "*income tax expense (credit)*", "*net profit (loss)*" and "*capital adequacy ratio*" and "*Tier 1 ratio (calculated based on primary funds)*". For more information on the above, please see "*Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group*" and note number 4 to the Consolidated

Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Before the Merger, the Kredyt Bank Group and the BZ WBK Group in some cases adopted different assumptions affecting certain accounting policies, judgments and estimates and the presented amounts of assets, liabilities and equity or profit and loss account items. Given that after the Merger the BZ WBK Group will prepare consolidated financial statements also covering the former Kredyt Bank Group, such assumptions will have to be unified within the BZ WBK Group.

The Consolidated Financial Statements are presented in thousands of PLN; PLN being the functional and presentation currency of the BZ WBK Group and the Kredyt Bank Group. Unless otherwise indicated, other financial and statistical data included in this Offering Memorandum are in PLN.

Unless otherwise indicated, all financial data as of and for the year ended 31 December 2012 and 2011 pertaining to the BZ WBK Group and the Kredyt Bank Group presented herein is based on the consolidated financial statements of the BZ WBK Group for the years ended 31 December 2012 and 31 December 2011 and the Consolidated Financial Statements of Kredyt Bank for the years ended 31 December 2012 and 31 December 2011, or has been calculated based thereon, and all financial data as of and for the year ended 31 December 2010 pertaining to the BZ WBK Group and the Kredyt Bank Group presented herein is based on the unaudited corresponding financial information included within the consolidated financial statements of the BZ WBK Group for the year ended 31 December 2011 and the consolidated financial statements of the Kredyt Bank Group for the year ended 31 December 2011, respectively, or has been calculated based thereon.

Certain figures included in this Offering Memorandum have been subject to rounding adjustments and presented in PLN million or PLN billion (not in PLN thousand as in the Consolidated Financial Statements). Accordingly, in certain instances the sum of numbers in a column or a row in tables contained in this Offering Memorandum may not conform exactly to the total figure given for that column or row. Some percentages in the tables in this Offering Memorandum have also been rounded, and accordingly the totals in these tables may not add up to exactly 100%. Percentage changes during the compared periods were computed on the basis of the amounts expressed in PLN thousands.

Unless otherwise indicated, all references in this Offering Memorandum to "PLN", "Polish Zloty" and "zloty" are to the lawful currency of Poland. References to "EUR", "Euro" or "€" are to the lawful currency of the European Economic and Monetary Union. References to "USD", "dollars", or "US$" are to the lawful currency of the United States. References to "CHF" are to the lawful currency of Switzerland. For information on exchange rates please see "*Exchange Rates*".

Unaudited Pro Forma Financial Information

In connection with the merger of BZ WBK and Kredyt Bank, the unaudited pro forma condensed consolidated financial information has been included in this Offering Memorandum, which comprises the unaudited pro forma condensed consolidated statement of financial position as of 31 December 2012 and the unaudited pro forma condensed consolidated income statement for the year ended 31 December 2012 (the"**Unaudited Pro Forma Financial Information**"). The unaudited pro forma condensed consolidated statement of financial position gives effect to the Merger as if it had occurred on 31 December 2012. The unaudited pro forma condensed consolidated income statement gives effect to the Merger as if it had occurred on 1 January 2012.

The Unaudited Pro Forma Financial Information has been prepared only and exclusively for illustrative purposes and are based upon available information and assumptions that we believe are reasonable but are not necessarily indicative of the results that actually would have been achieved if the Merger had been completed on the dates indicated or that may be achieved in the future. Unless otherwise indicated, all the financial information relating to the companies covered by the Unaudited Pro Forma Financial Information is based on the consolidated financial statements of BZ WBK for the year ended 31 December 2012 and the Consolidated Financial Statement of Kredyt Bank for 2012 to which adjustments were made as indicated in the Unaudited Pro Forma Financial Information. Ernst & Young issued qualfied opinion on the Consolidated Financial Statements of Kredyt Bank for 2012 (see "*Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group"* and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto"). The line items in the Unaudited Pro Forma Financial Information affected by such qualifications include "*loans and advances to customers*", "*goodwill*", "*net deferred tax assets*", "*total asset*", "*retained earnings*", "*total equity*", and "*total equity and liabilities*", "*impairment losses on loans and advances*", "*corporate income tax*", "*operating profit*", "*profit before tax*", and "*profit for the period*".

Furthermore, in connection with the Merger, as of the date of this Offering Memorandum, the BZ WBK Group is still performing confirmatory work in relation to the fair value adjustments of the Kredyt Bank Group's assets and liabilities. Thus, the information on the fair value adjustments of the Kredyt Bank Group's assets and liabilities included in "*Selected Pro Forma Financial Information*" is based on a preliminary estimate of the fair values of assets acquired and liabilities assumed, and is subject to change as a result of such confirmatory work. Under applicable accounting rules, BZ WBK has up to twelve months from the date of acquisition to finalize the fair values. BZ WBK expects that this will be completed by 31 December 2013.

MARKET, ECONOMIC AND INDUSTRY DATA

Certain macroeconomic and statistical data included in this Offering Memorandum has been derived from publicly available sources, the reliability of which may vary. Macroeconomic and statistical data concerning Poland is mostly based on information published by the Polish Central Statistical Office (*Główny Urząd Statystyczny*, or "**GUS**"), the NBP, the PFSA, the ECB and Eurostat. In any case, macroeconomic and statistical data, as well as the source data on which it is based, may not have been extracted or derived from a source in a manner analogous to that used in other countries. There is no guarantee that a third party using different methods of gathering, analyzing or processing information would obtain the same results.

Market data and certain industry data and forecasts used, as well as statements made herein regarding the position of BZ WBK and the Banco Santander Group, were estimated or derived based upon assumptions which the Management Board and Banco Santander, respectively, deem reasonable, and BZ WBK's and Banco Santander's (as applicable) own research, surveys or studies conducted at their request by third parties, or derived from publicly available sources (in particular Eurostat, the IMF, and industry and/or general publications, such as reports issued by GUS, the PFSA, the NBP, and the ECB or Eurostat). When searching for, processing and preparing macroeconomic, market, industry and other data from sources other than BZ WBK and Banco Santander, such as governmental publications, third-party publications, industry publications and general interest publications, neither BZ WBK nor Banco Santander, respectively, have verified such data. BZ WBK and Banco Santander (as applicable) have accurately extracted information from such third-party sources and, as far as BZ WBK and Banco Santander (as applicable) are aware and to the extent BZ WBK and Banco Santander (as applicable) can ascertain from the information published by these sources, there are no omissions that would render such information in this Offering Memorandum misleading.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. However, in the preparation of this Offering Memorandum, this third-party information has not been independently verified, nor has there been any investigation of the validity of the methodology or the basis used by the third parties in producing such data or making estimates and forecasts. Neither BZ WBK, Banco Santander, nor any of the Managers can give any assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

Neither BZ WBK nor (where applicable) Banco Santander intend to, and nor are they required to update the data presented herein, save for the obligations arising under the provisions of applicable law.

RATINGS

The Offering Memorandum contains information regarding ratings assigned by Fitch (solicited ratings) and Moody's (unsolicited ratings). The ratings of Moody's and Fitch exclusively reflect the opinions and evaluations of such credit rating agencies. Such ratings do not constitute any recommendations to invest and should not be regarded as grounds for any investment decisions regarding the purchase or sale of any financial instruments. The ratings may be subject to review, adjustment, suspension or downgrading by the relevant agencies.

NO INCORPORATION OF WEBSITE INFORMATION

The contents of BZ WBK's website and any other website referenced herein do not form part of this Offering Memorandum.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements, which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "would", "could" or similar expressions of the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond BZ WBK's control that could cause BZ WBK's actual results, financial condition, results of operations or prospects to differ materially from any future results, financial condition, results of operations or prospects expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding BZ WBK's present and future business strategies and the environment in which it currently operates and will operate in the future. Among the important factors that could cause BZ WBK's actual results, financial condition, results of operations or prospects to differ materially from those expressed in such forward-looking statements are those factors discussed in the "*Operating and Financial Review*" and "*Risk Factors*" sections and elsewhere in this Offering Memorandum. These forward-looking statements speak only as of the date of this Offering Memorandum. BZ WBK expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein in order to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based, unless required to do so by applicable laws or the listing rules of the WSE.

Investors should be aware that several important factors and risks could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- risks related to macroeconomic conditions, including such as global economic conditions, Poland's economic conditions, negative impact of depreciation of currencies in Central and Eastern Europe, the collapse of the Euro as a common currency and the impact of other extraordinary events beyond BZ WBK's control;
- risks related to the BZ WBK Group's business, including the BZ WBK Group's possible failure in implementing its strategy and achieving medium-term targets, the BZ WBK Group being unable to expand its loan and deposits portfolio, the BZ WBK Group being unable to maintain the quality of its loan portfolio, the BZ WBK Group being unable to raise additional capital in the future, BZ WBK being unable to satisfy its required or targeted capital adequacy and other regulatory ratios, and the BZ WBK Group being unable to sustain its current levels of margins on loans and deposits; and
- risks related to the Merger and the integration of the BZ WBK Group and the Kredyt Bank Group, including such as the BZ WBK Group being unable to achieve the benefits of the Merger, loss of customers as a result of the Merger and integration process and complexity of integration of IT systems and organizational integration; and
- risks related to the Polish banking sector, including specifically the increased regulation of the financial services and banking industry in Poland and internationally, the competition in the Polish financial sector, the impact on the BZ WBK Group's business of certain recommendations issued by the PFSA, and a significant reduction of the rate of growth of the Polish banking sector.

This list of important factors is not exhaustive. The sections of this Offering Memorandum entitled "*Risk Factors*" and "*Operating and Financial Review*" contain a more complete discussion of the factors that could affect BZ WBK's future performance and the industry in which it operates. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which BZ WBK operates. BZ WBK does not make any representation, warranty or prediction that the factors anticipated by such forward-looking statements will be present, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

BZ WBK is not required to, and does not intend to, update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

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SUMMARY

The following summary is intended as an introduction to this Offering Memorandum. It contains information which may be found in other sections hereof. It must be stressed that this summary is not exhaustive and does not present all the information material to potential investors' decisions with regard to the acquisition of the Offer Shares. A decision on the acquisition of the Offer Shares should always be made on the basis of the entire Offering Memorandum. Prior to making any investment decision, potential investors should thoroughly review the entire Offering Memorandum, including the information set forth in the "Risk Factors" section, the Consolidated Financial Statements and other financial information, including notes thereto.

Overview

BZ WBK was established in 2001 as a result of the merger between Bank Zachodni S.A. (BZ) and Wielkopolski Bank Kredytowy S.A. (WBK). AIB was the major shareholder of WBK and then BZ WBK from 1996 until 2011. Since 2011, BZ WBK has been part of the Banco Santander Group. Shares in BZ WBK have been listed on the WSE since 2001.

BZ WBK is a universal bank offering a wide range of products and services to both retail and corporate customers. Historically, the strength of BZ WBK has been in business and corporate banking and BZ WBK has achieved strong market positions in this market segment. Over the past few years BZ WBK has expanded its presence in retail banking by increasing its branch presence and its retail loan book. As of 31 December 2012, the BZ WBK Group's market share in terms of total gross loans and deposits stood at 4.3% and 5.3%, respectively, according to data from the NBP. BZ WBK's traditional banking product range has been supplemented by other financial products and services offered by BZ WBK Subsidiaries, including Dom Maklerski BZ WBK. The BZ WBK Group has established a strong presence in brokerage (a 7.8% market share in equity market trading and 11.9% market share in future contracts market trading according to data from the WSE for 2012).

The core pillars of the BZ WBK Group's strategy are a strong capital and funding position, a focus on risk management and efficiency, and a strong corporate culture. The BZ WBK management team has over the past several years focused on diversifying the income of BZ WBK, targeted growth in the most profitable market segments, and placed a strong emphasis on customer service and satisfaction. The results of this strategy and approach to business have been a balanced growth in loans and deposits and an increased presence in the profitable retail and SME segments, all of which have led to a strong and stable financial performance. BZ WBK has been one of the most profitable banks in Poland in terms of ROE and has had one of the strongest net income growth rates in the Polish banking sector in recent years.

On 4 January 2013, BZ WBK merged with Kredyt Bank, a medium sized credit institution with a strong focus on retail banking and the mortgage market. The Merger resulted in the BZ WBK Group becoming (together with Poland's two largest banks, PKO Bank Polski and Bank Pekao) one of the three leading banks in the country, with a significant gap between them and the rest of the market in terms of the size of their respective branch networks. The BZ WBK Group's market share in terms of total loans and total deposits increased to 7.5% and 8.7% respectively according to data from NBP, and the BZ WBK Group improved its position in retail banking and, in particular, in the mortgage market.

As of 31 December 2012, the BZ WBK Group had a network of 889 branches comprising 519 BZ WBK branches and 370 Kredyt Bank branches. In addition, the BZ WBK offers its services through SME and Business & Corporate Centers located in all the major regions of the country. The BZ WBK Group also utilizes other distribution channels, including online banking, call centers, mobile banking and an ATM network. The customer base of the BZ WBK Group following the Merger increased substantially as a result of acquisition of the Kredyt Bank Group customers. As of 31 December 2012, the aggregated customer base of the BZ WBK Group and the Kredyt Bank Group had approximately 4.1 million clients, including 3.8 million individual customers, 274.5 thousand SME customers and 7.3 thousand corporate customer groups.

The Management Board expects substantial benefits from the Merger. The Management Board believes that following the Merger the BZ WBK Group will have sufficient scale to compete effectively with the two largest banking institutions in Poland and will enjoy competitive advantages over the smaller banks on the market. The Kredyt Bank Group's distribution platform and customer base are highly complementary to the BZ WBK Group, and the BZ WBK Group's strategy will be to increase the productivity of the former Kredyt Bank Group's branch network as well as increase the profitability of its customer base. This will be achieved through a focus on more profitable products and services, customers segments and improved product pricing. The Management Board believes the BZ WBK Group has the tools, including its risk management framework and CRM platform, to enable it to achieve its goals. In addition, the integration of the Kredyt Bank Group is expected to result in considerable synergies. The Management Board estimates that following the completion of the integration process in 2015 the implemented measures will result in annual cost synergies of approximately PLN 340 million and annual revenue synergies of approximately PLN 125 million, in each case on a pre-tax basis. The Management Board estimates that integration-related expenses will amount, on a pre-tax basis, to approximately PLN 430 million with additional capital expenditures in the amount of approximately PLN 165 million, the majority of which the Management Board expects to be incurred by the BZ WBK Group in 2013.

In 2012, the BZ WBK Group generated a net profit of PLN 1,462.6 million. In the same period, Kredyt Bank Group generated a net loss of PLN (156.5) million. The total assets of the BZ WBK Group and the Kredyt Bank Group, as of 31 December 2012, amounted to PLN 60,019.2 million and PLN 40,761.2 million, respectively. Total equity amounted to PLN 8,977.7 million for the BZ WBK Group and PLN 3,051.4 million for the Kredyt Bank Group. On a pro forma basis, giving effect to the Merger as if it had occurred on 1 January 2012, the BZ WBK Group's profit before tax in 2012 would be PLN 1,747.8 million and net profit would be PLN 1,331.8 million. Also on a pro forma basis, giving effect to the Merger as if it had occurred on 31 December 2012, the BZ WBK Group's total assets would be PLN 101,989.2 million and its total equity PLN 13,521.6 million as of that date.

Operating Environment

The BZ WBK Group's operations are based entirely in Poland. Poland is the largest economy in Central and Eastern Europe (nominal GDP amounted to PLN 1,523 billion in the year ended 31 December 2011, according to GUS) and has the largest population of all the countries in the region (38.5 million as of 31 December 2012, according to GUS). Polish economy has been highly resilient in recent years, despite the difficult macroeconomic environment in Western Europe and globally. Poland was the only country in the EU that showed positive real GDP growth in each of the years 2009-2012 (real GDP growth of 1.6%, 3.9%, 4.3% and an estimated 2.0% in 2009, 2010, 2011 and 2012, respectively, according to GUS). Polish macroeconomic fundamentals are sound and the economy, based on the latest EU budget for 2014-2020, is expected to continue to benefit from EU funds in this period.

The Polish banking sector has historically shown strong growth with loans and deposits demonstrating compounded annual growth rate of 17.7% and 11.9%, respectively, between 31 December 2005 and 31 December 2012, according to the PFSA. This growth has been achieved while maintaining a strong capital adequacy ratio of 14.7% for the sector (as of 31 December 2012, according to the PFSA) as well as a sound loan to deposit ratio of 111.3% for the sector (as of 30 September 2012, according to the PFSA). The BZ WBK Group believes there is still significant potential for growth. According to Eurostat and the European Banking Federation, as of 31 December 2011, the Polish banking sector was relatively underpenetrated with loans and deposits as a percentage of GDP at 55% and 50%, respectively, compared to the EU average of 139% and 121%, providing substantial room for future growth.

Competitive Strengths

The BZ WBK Group has a long-term track record of delivering superior results, both in favorable and challenging business and macroeconomic conditions. It has consistently outperformed its Peer Group average in terms of net profit growth and profitability levels as measured by ROE and ROA. The track record of the BZ WBK Group demonstrates the effectiveness of the competitive strengths of the business as well as the strategy that the BZ WBK Group has pursued in the past. The Management Board believes that these competitive strengths, which have been summarized below, will enable the BZ WBK Group following the Merger to take advantage of the growth opportunities that the expected growth of the Polish economy and the Polish banking sector should present.

Market Position and Scale

The BZ WBK Group and the Kredyt Bank Group have complementary franchises in terms of geographic footprint and business mix. Following the Merger, the BZ WBK Group has critical mass and became part of the leading group of three banks operating in an otherwise fragmented Polish market. After the Merger, BZ WBK became the third largest bank in Poland as measured by deposits and equity as of 31 December 2012 (according to data from the NBP), while simultaneously becoming one of the three leading banks (together with Poland's two largest banks, PKO Bank Polski and Bank Pekao) in terms of the number of branches.

As of 31 December 2012, the aggregated distribution network of the BZ WBK Group and the Kredyt Bank Group consisted of 889 branches. The Merger provided complementary strength in the branch network in the east (mainly from the Kredyt Bank Group) and west (mainly from the BZ WBK Group) of Poland, while deepening the overall penetration in the economically important center of the country. Given the high complementarity of the branch networks, the BZ WBK Group only expects to close around 50 out of the 889 branches following the Merger.

As of 31 December 2012, the BZ WBK Group and the Kredyt Bank Group jointly had over 4.1 million clients, including 3.8 million individual customers, 274.5 thousand SME customers and 7.3 thousand corporate customer groups. As of 31 December 2012, the aggregated market share of the BZ WBK Group and the Kredyt Bank Group in terms of the value of deposits to individual customers and loans to individual customers amounted to 9.1% and 7.5%, respectively (according to the Regulatory Reporting WEBIS and the NBP).

The Management Board believes that the BZ WBK Group's enlarged size and market position strengthens its competitiveness through economies of scale, by providing greater customer reach and customer visibility, as well as the ability to retain and attract the best staff, all of which should allow the BZ WBK Group to take advantage of future business opportunities available in the market.

Effective Business Model

The BZ WBK Group has been pursuing a universal banking model, focusing on high margin products, with strong positions across the retail and corporate segments and a market-leading SME franchise. The BZ WBK Group's retail and corporate banking business model is based on an attractive and competitive product and service offering and a strong customer experience. An attractive product offering combined with high quality customer service delivered through qualified and motivated staff, have all enabled the BZ WBK Group to effectively strengthen its relations with existing customers and attract new customers, as well as to achieve a high cross-sell ratio and high revenue per customer.

The BZ WBK Group's market position in attractive business segments, including brokerage services, is a result of successful cross-selling that contributes to the diversification of its revenue base. In 2012, Dom Maklerski BZ WBK was one of the largest brokerage houses in Poland with a market share of 7.8% (equity markets) and a market share of 11.9% (future contracts market) according to data from the WSE. The BZ WBK Group also held established market positions in the factoring and leasing services segments with market share of 5.1% and 6.0%, respectively, based on factor market turnover and leasing new sales (gross assets) according to data from the Polish Factor Association and the Polish Leasing Association, respectively, as of 31 December 2012.

The Management Board believes that the BZ WBK Group has a proven business model that has in the past resulted in strong profitability of the BZ WBK Group, a high cross-sell ratio and income diversification. The BZ WBK Group intends to apply the same business principles for the BZ WBK Group following the Merger. The Management Board believes, in particular, that the business model of the BZ WBK Group, once applied to the customer base of the Kredyt Bank Group, will result in substantial financial benefits to the BZ WBK Group.

Strong Capital and Funding Position

As of 31 December 2012, the BZ WBK Group had relatively strong capitalization levels, with the Tier 1 ratio and capital adequacy ratio among the highest in the Polish banking sector. As of 31 December 2012, the BZ WBK Group had a Tier 1 ratio of 14.2% and a capital adequacy ratio of 16.5%.

The principal source of funding of the BZ WBK Group is customer deposits which, on a pro forma basis, represented PLN 77,451.4 million, or 87.5%, of the BZ WBK Group's total liabilities as of 31 December 2012. In the period from 2010 to 2012, the BZ WBK Group maintained the net loan to deposit ratio at a level well below 90%, which enabled flexible implementation of the policy of balanced growth of its loan portfolio in the most profitable market segments. As a result of the Merger, the net loan to deposit ratio of the BZ WBK Group increased. As of 31 December 2012, the BZ WBK Group's net loan to deposit ratio was, on a pro-forma basis, at a level of 86.8%, compared to 111.3% for the Polish banking sector (as of 30 September 2012, according to the PFSA).

The Management Board set the mid-term target of the capital adequacy ratio of the BZ WBK Group following the Merger at above 13.5%. In terms of the BZ WBK Group's net loan to deposit ratio, the Management Board expects it to remain at a level below 97%. The Management Board believes that the BZ WBK Group's capital and funding position following the Merger provide a solid foundation not only to maintain existing business, but also to support growth.

Prudent Risk Management Practices

The continued focus of the BZ WBK Group on risk management underpinned, in particular, by the application of rigorous credit assessment and approval processes, and further supported by the Banco Santander Group's worldwide risk management practices, has been an integral part of the BZ WBK Group's efforts to control the level of non-performing loans while at the same time growing the BZ WBK Group's loan portfolio.

For example, as of 31 December 2012 and 2011, the NPL ratio of the BZ WBK Group was 5.4% and 5.5%, respectively, while loans to customers grew by 4.9% to PLN 39,867.6 million as of 31 December 2012 from PLN 38,017.2 million as of 31 December 2011.

The Management Board believes that the BZ WBK Group's conservative risk approach, which combines strict management of credit risk together with prudent management of FX risk and interest rate risk, has allowed the BZ WBK Group to maintain strong profitability while growing its loan portfolio. The Management Board's mid-term target is to maintain asset quality at a better than the market average level.

Experienced and Stable Management Team

The BZ WBK Group has a highly qualified, stable and experienced senior management team. The senior management team has, on average, over 20 years of experience in the banking sector and six (out of ten) members of the Management Board have been at BZ WBK for over ten years. The management team has a strong track record and has been instrumental in the development of BZ WBK's business model and in delivering high profitability of the BZ WBK Group on a consistent basis.

In addition, a number of the Management Board members of BZ WBK gained experience in the process of bank acquisition and integration while taking part in the merger of Bank Zachodni S.A. and Wielkopolski Bank Kredytowy S.A. in 2001. The BZ and WBK merger process was highly successful and it resulted in substantial synergy benefits.

Benefits from Affiliation with the Banco Santander Group

As of the date of this Offering Memorandum, and following the Offering, Banco Santander is and intends to remain the controlling shareholder of BZ WBK. The BZ WBK Group believes that being part of the Banco Santander Group offers a significant competitive advantage over the other banks in the Peer Group. The Banco Santander Group is the largest bank in the Eurozone and one of the largest in the world in terms of market capitalization. Being a member of the Banco Santander Group allows the BZ WBK Group, among other things, to:

- benefit from the Banco Santander Group's operational expertise in areas such as IT infrastructure, internal control and risk management, with practices that have been developed in response to a wide range of market conditions around the world;
- leverage on the Banco Santander Group's global presence to access a multinational customer base and support large Polish corporate customers in the internationalization of their businesses which led to the establishment of the global banking and markets division;
- replicate or adapt in Poland the Banco Santander Group's successful product offerings (insurance, asset management, international trade) and best practices from other countries;
- benefit from the Banco Santander Group's management training and development which is composed of a combination of in-house training and development with access to managerial expertise in other units of the Banco Santander Group outside Poland; and
- benefit from an experienced management team with expertise within other entities from the Banco Santander Group.

Having successfully completed a number of acquisitions across Europe, US and Latin America during the last several years, the Banco Santander Group has extensive experience in acquiring and integrating banks as well as maximizing synergy effects arising from those acquisitions, which, together with the BZ WBK Group's previous M&A experience, is expected to support the integration of the Kredyt Bank Group.

Strategy

The BZ WBK Group's goal is to continue to grow in scale, focusing particularly on attractive products and segments that increase overall profitability and maximize shareholder returns. In particular, the Management Board has set the following targets for the BZ WBK Group that it aims to achieve in the medium term:

- increasing its market share to 10% with respect to retail lending (aspirational target) and key selected products and segments such as bancassurance;
- maintaining RoAE at a level in the high teens;
- maintaining a cost-to-income ratio in the low 40s with room for further improvement;
- maintaining a net loan to deposit ratio below 97%;
- maintaining a total capital adequacy ratio above 13.5%;
- achieving better than market average asset quality; and
- achieving a dividend payout ratio of 50% of the consolidated net profit of the BZ WBK Group.

In the pursuit of its overall strategic goal and to achieve its medium term targets, the Management Board has implemented and intends to continue to implement the below-described strategic initiatives:

Expanding the Scale of Operations While Focusing on Profitability and Operational Excellence

The BZ WBK Group intends to continue to increase its market penetration, focusing on profit-generating and prospective segments of customers and high-margin products such as consumer lending and SME lending. The BZ WBK Group intends to continue to use its extensive distribution network to proactively pursue and strengthen its relationships with its customers through the offering of key products and business solutions. To achieve these objectives, the BZ WBK Group intends to continue to leverage its strong brand name as well as capture the benefits of growth in the banking sector as the Polish economy expands and the level of penetration of financial services in Poland approaches those of other countries in the EU. Furthermore, the BZ WBK Group will continue to focus its marketing efforts and its CRM platform to increase and promote loyalty within its customer base, as well as the cross-selling of products and services to multiply the number of products used by each of its customers, in particular to customers of the Kredyt Bank Group.

The BZ WBK Group will continue to focus on operational excellence and strict cost control. In 2012, the aggregated operating expenses of the BZ WBK Group and the Kredyt Bank Group decreased by PLN 157.4 million, or 5.3%, in comparison with 2011. Such a decrease resulted mainly from the reduction of branches (ten branches were closed following the merger announcement), a reduction in 2012 in the total aggregated number of FTEs of both the BZ WBK Group and the Kredyt Bank Group by 856, or 6.3%, in comparison with 2011, and strict cost control in all other areas of the BZ WBK Group.

As the BZ WBK Group pursues its growth and profitability objectives, it intends to continue to carefully monitor the credit quality of its loan portfolio while diversifying its balance sheet. The BZ WBK Group plans to maintain a balanced growth profile with a strong emphasis on liquidity, a stable low-cost funding base and strong capital ratios.

Bringing the Former Kredyt Bank Group in Line With the BZ WBK Group's Standards

The Kredyt Bank Group has historically focused primarily on the retail segment, particularly in the area of mortgage loans, which provides the enlarged BZ WBK Group with an enhanced retail customer base. Post-Merger, the Management Board plans to focus on re-balancing the Kredyt Bank Group's business mix towards more profitable products and services as well as increasing the cross-selling of products and services.

The Management Board intends to bring the former Kredyt Bank Group in line with the BZ WBK Group's operating and business standards, leveraging its attractive customer base and branch network. The potential from bringing the former Kredyt Bank Group in line with the BZ WBK Group's standards is evidenced by the BZ WBK Group's superior income generation and cost efficiency as compared to the

Kredyt Bank Group. In 2012, the BZ WBK Group generated total income from business activities (including net interest income, net fee and commission income, dividend income, net gain (loss) on sale of subsidiaries and associates, net trading income and revaluation, gains (losses) from other financial securities, other operating income and share in net profits (loss) of entities accounted for by the equity method), which constituted 6.9% of the total assets as of 31 December 2012 and fee and commission income for 2012 which constituted 2.7% of the total assets as of 31 December 2012. In the same year the Kredyt Bank Group generated total net income from business activities (including net interest income, net fee and commission income, dividend income, net trading income, net gains from investment activities, net result on derivatives used as hedging instruments and hedged items and other operating income and share in profits (loss) of associates), which constituted 3.9% of the total assets as of 31 December 2012 and net fee and commission income for 2012 which constituted 0.8% of the total assets as of 31 December 2012. In the same year, the BZ WBK Group's cost to income ratio amounted to 43.9% compared to 62.4% for the Kredyt Bank Group.

Successful Integration and Realization of Synergy Benefits

The BZ WBK Group started the process of planning the operational, commercial and technological integration of the Kredyt Bank Group immediately following the announcement of the Merger in February 2012. The BZ WBK Group developed an integration plan and began to the extent permitted by applicable laws its implementation prior to the Merger Date in an effort to achieve synergies and ensure that best practices are implemented as soon as feasible.

The Management Board expects that the integration will result in significant merger synergies, including cost and revenue synergies. The cost synergies are primarily expected to be derived from the following areas:

- Operational Integration—the consolidation of support functions, the adoption of internal best practices across business and support units and the right-sizing of the combined branch network. In addition, there will be a centralization of headquarter operations;
- IT and Communication—migration to a single IT platform (expected to be completed by September 2014), a review and renegotiations of the terms of all IT contracts and licenses aiming at aligning them with the Banco Santander Group's terms and benefitting from economies of scale in IT maintenance and support functions;
- Marketing—the BZ WBK Group will incur marketing costs for only one brand and will utilize strong "BZ WBK" brand awareness;
- Other Operations—achieving economies of scale across all operating cost lines; and
- Property—the introduction of plans regarding headquarters consolidation and branch closure, as well as a review of the terms of all rental agreements.

The Management Board estimates, based on the current implementation plans, that annual (pre-tax) cost savings of PLN 175 million, PLN 220 million, and PLN 340 million (as compared to the 2011 aggregated cost base of the BZ WBK Group and the Kredyt Bank Group) will be achieved by 31 December 2013, 2014 and 2015, respectively.

In addition to the cost synergies, the Merger is expected to bring significant revenue synergies mainly from the following areas:

- Insurance—insurance cross-selling to the customers of the Kredyt Bank Group;
- Commission Income—increased commission income due to a more active management of fee lines, increased transaction activity and the increased penetration of and fees from the debit and credit card business;
- SME Margins—an increase in revenues due to aligning the margins from small business customers and the corporate banking business of the former Kredyt Bank Group and the BZ WBK Group; and
- Brokerage—the development of brokerage services for the former Kredyt Bank Group's retail customers through the existing, efficient delivery platform.

The Management Board estimates, based on the current implementation plans, that annual (pre-tax) revenue synergies of PLN 10 million, PLN 60 million, and PLN 125 million (as compared to the 2011 aggregated revenues of the BZ WBK Group and the Kredyt Bank Group) will be achieved by 31 December 2013, 2014, and 2015, respectively.

For more details regarding the integration of the BZ WBK Group and the Kredyt Bank Group please see "*Business of the BZ WBK Group—Merger and Integration of the BZ WBK Group and the Kredyt Bank Group*" below.

Shareholding Structure

As the Bank is a publicly listed company with its shares listed on the main floor of the WSE, the Bank does not have detailed information regarding the shareholding structure existing as of the date of this Offering Memorandum. The information regarding the Bank's shareholding structure described below is based on the information provided by the major shareholders of the Bank (holding at least 5% of the total voting rights at the General Meeting) in accordance with Article 69 of the Act on Public Offering and the list of shareholders of the Bank present at the last extraordinary General Meeting. In accordance with the above, the major shareholders holding at least 1% of the total number of votes at the General Meeting are:

- Banco Santander, which holds 70,334,512 Shares in the Bank, constituting 75.19% of the Bank's share capital and representing 75.19% of the total voting rights at the General Meeting;
- KBC, which holds 15,125,964 Shares in the Bank, constituting 16.17% of the Bank's share capital and representing 16.17% of the total voting rights at the General Meeting;
- OFE PZU Złota Jesień, which holds 1,900,000 Shares in the Bank, constituting 2.03% of the Bank's share capital and representing 2.03% of the total voting rights at the General Meeting; and
- the EBRD, which holds 1,561,618 Shares in the Bank, constituting 1.67% of the Bank's share capital and representing 1.67% of the total voting rights at the General Meeting.

BZ WBK Group

The capital group of BZ WBK consists of BZ WBK and: (i) its direct subsidiaries, i.e. BZ WBK Finanse Sp. z o.o., BZ WBK Inwestycje Sp. z o.o., Dom Maklerski BZ WBK, BZ WBK Nieruchomości S.A. and BZ WBK Asset Management and indirect subsidiaries, i.e. BZ WBK Faktor, BZ WBK Finanse & Leasing, BZ WBK Leasing and BZ WBK TFI; (ii) its associates, i.e. POLFUND- Fundusz Poręczeń Kredytowych S.A., Krynicki Recycling S.A. and Metrohouse & Partnerzy S.A.; (iii) joint ventures, i.e. BZ WBK-Aviva TU Ogólnych and BZ WBK-Aviva TU na Życie; and (iv) the companies formerly owned by Kredyt Bank which became subsidiaries of BZ WBK as a consequence of the Merger, i.e. Kredyt Lease S.A., Kredyt Trade Sp. z o.o. in liquidation (*w likwidacji*), Lizar Sp. z o.o., and BFI Serwis Sp. z o.o.

The above Group companies support BZ WBK by performing sales functions and supplementing the product range that BZ WBK offers. They allow the Group to provide a wider scope of services and to sell a larger number of products as well as to solicit new clients through cross-selling.

For more information on the BZ WBK Group, please see "*General Information on the BZ WBK Group*".

For information on the global reorganization of the Banco Santander Group's asset management business and its potential impact on BZ WBK asset management business in Poland see "*Major Shareholders and the Selling Shareholders—Relationship between BZ WBK and the Banco Santander Group—Global Reorganization of the Banco Santander Group's Asset Management Business*".

Composition of the Management and Supervisory Boards

The Management Board is composed of Mateusz Morawiecki, the president of the Management Board and the following members of the Management Board: Andrzej Burliga, Michael McCarthy, Piotr Partyga, Marcin Prell, Mirosław Skiba, Juan de Porras Aguirre, Feliks Szyszkowiak, Eamonn Crowley and Marco Antonio Silva Rojas.

The Supervisory Board is composed of Gerry Byrne, the chairman of the Supervisory Board and the following members of the Supervisory Board: José Antonio Alvarez, Witold Jurcewicz, José Luis De Mora, John Power, José Manuel Varela, Jerzy Surma, David R. Hexter and Guy Libot.

For information on the Management and Supervisory Boards, please see "*Management and Corporate Governance*".

Summary of Risk Factors

Investing in securities covered by this Offering Memorandum, including the Offer Shares, is subject to risks which might adversely affect the business, financial condition, the results of operations or perspectives of development of the BZ WBK Group and, therefore, may adversely impact the value of the Shares. For a review of the risk factors relating to the macroeconomic conditions, the risk factors relating to the Group's business and the risk factors relating to the Offering please see "Risk Factors".

Risks Related to the BZ WBK Group's Business

- The BZ WBK Group may not be able to successfully implement its strategy or achieve its medium-term targets.
- The BZ WBK Group may not be able to continue to expand its loan and deposit portfolios.
- The BZ WBK Group may not be able to maintain the quality of its loan portfolio.
- A decrease in the value of collateral established in favor of the BZ WBK Group may adversely affect the quality of the BZ WBK Group's loan portfolio.
- The BZ WBK Group may not be able to sustain its current margins on loans and deposits;
- The BZ WBK Group may be unable to maintain the required or targeted capital adequacy and other regulatory ratios or may be required to raise additional capital.
- BZ WBK may not be able to pay dividends in accordance with its dividend policy.
- Banco Santander will continue to hold a controlling stake in the BZ WBK Group following the Offering.
- Undertakings of Banco Santander towards the PFSA regarding the amalgamation of its Polish subsidiaries into the BZ WBK Group.
- Risk related to the conclusion of related-party agreements.
- Risk associated with involvement in the construction sector.
- Risk associated with involvement in property financing.
- Risk related to the bankruptcy of debtors.
- The BZ WBK Group faces liquidity risk.
- Market risks associated with fluctuations in bond and equity prices and other market factors are inherent in the BZ WBK Group's business.
- BZ WBK may be required to make substantial contributions to the BFG or to the investment compensation scheme created by the NDS.
- The BZ WBK Group may be subject to litigation, administrative proceedings or other proceedings;
- Risk associated with the decisions of antimonopoly authorities.
- The BZ WBK Group's anti-money laundering procedures may not be sufficient to prevent money laundering.
- The BZ WBK Group's IT systems may fail or their security may be compromised.
- The BZ WBK Group is subject to operational risks inherent in its business activities.
- The BZ WBK Group outsources a portion of its operations to external providers.
- The BZ WBK Group may not be able to retain, train or hire a sufficient number of qualified staff.
- Risk of a reduction of BZ WBK's ratings.
- The BZ WBK Group's market position depends on its reputation and brand image.

Risks Related to the Merger and the Integration of the BZ WBK Group and the Kredyt Bank Group

- The Management Board's expectations as to the benefits of the merger may not be achieved.
- The BZ WBK Group may lose customers as a result of the merger and integration process.

- Unexpected losses resulting from the Merger may arise.
- The integration of IT systems is complex.
- The organizational integration is complex.
- Risk related to effects of unifying accounting policies and interpretations of laws applied by the BZ WBK Group and the Kredyt Bank Group.
- The audit opinion for the Consolidated Financial Statements of Kredyt Bank for 2012 contains qualification.
- Risk related to refinancing the credit lines from KBC.

Risks Related to the Polish Banking Sector

- Changes to or an increase in the regulations of the financial services and banking industry in Poland and internationally could adversely affect the BZ WBK Group's business, financial condition, results of operations and/or prospects.
- The BZ WBK Group faces competition in the Polish financial sector.
- BZ WBK's business, financial condition, results of operations and/or prospects may be affected by certain recommendations issued by the PFSA.
- An additional tax levy may be imposed on banks in Poland and the EU.
- The debt recovery process in Poland is cumbersome when compared to other EU jurisdictions.
- The procedures for the perfection of mortgages in Poland are formalistic and lengthy when compared to other EU jurisdictions.

Risk Related to Laws and Regulations

- Polish laws and regulations may change and the interpretation thereof may be unclear.
- Interpretation of Polish tax laws and regulations applicable to the BZ WBK Group's operations may be unclear, and Polish tax laws and regulations may change.
- Investors may not be able to enforce foreign court judgments against the BZ WBK Group.

Risks Related to Macroeconomic Conditions

- Global economic conditions could affect the BZ WBK Group's business, financial condition, results of operations and/or prospects.
- Poland's economic conditions could affect the BZ WBK Group's business, financial condition, results of operations and/or prospects.
- The devaluation or depreciation of PLN or other currencies in the CEE region could impact the BZ WBK Group's business, financial condition, results of operations and/or prospects.
- The collapse of the Euro as a common currency may adversely impact the business, financial condition, results and/or prospects of the BZ WBK Group.
- Extraordinary events beyond the BZ WBK Group's control could adversely affect the BZ WBK Group's business, financial condition, results of operations and/or prospects.

Risks Related to the Offering and the Shares

[REDACTED]

- BZ WBK's failure to meet the requirements set forth in the WSE Rules or the Act on Public Offering may cause the Shares to be delisted.
- Trading in the Shares on the WSE may be suspended.
- The market price of the Shares may decrease and/or be highly volatile.
- The issuance of shares by BZ WBK in the future or the future sale of a significant number of Shares, or the expectation that such an issue or sale will take place, could adversely impact the price of the Shares.

- The Shares may have limited liquidity.
- Administrative sanctions may be imposed on BZ WBK for a breach of the Act on Public Offering.
- The value of Shares for foreign investors may decrease due to exchange rate fluctuations.
- Holders of the Shares in certain jurisdictions may be subject to restrictions regarding the exercise of pre-emptive rights with respect to future offerings.
- The interpretation of Polish laws and regulations governing investing in shares, including tax laws and regulations applicable to investors, may be unclear and Polish tax laws and regulations may change.

Summary of the Offering

[REDACTED]

Summary of Financial and Operating Data

This section should be read along with the information provided in "Operating and Financial Review" and in the Consolidated Financial Statements, and the notes thereto, and other financial data presented elsewhere in this Offering Memorandum.

Selected Financial and Operating Data and Key Ratios for the BZ WBK Group

	As of and for the year ended 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Loans and advances to customers	39,867,554	38,017,173	32,838,385
Total assets	60,019,177	59,796,643	53,153,871
Deposits from customers	47,077,094	46,829,482	41,970,454
Total liabilities	51,041,463	52,313,683	46,380,296
Total equity	8,977,714	7,482,960	6,773,575
Net interest income	2,301,077	2,068,585	1,822,175
Net fee and commission income	1,384,986	1,357,672	1,343,228
Operating expenses	(1,817,194)	(1,918,883)	(1,763,521)
Operating profit	1,817,293	1,531,326	1,352,729
Consolidated profit for the period	1,462,635	1,226,867	1,040,569

Source: The Consolidated Financial Statements of BZ WBK

Selected Key Ratios

	As of and for the year ended 31 December		
	2012	2011	2010
	(%) (unaudited)		
Profitability ratios			
NIM(1)	4.3	4.3	4.0
Net fee and commission income/Total net income from business activities	33.5	35.5	38.0
Cost/Income (C/I)(2)	43.9	50.2	49.9
ROA(3)	2.4	2.1	1.8
ROE(4)	20.9	19.8	17.9
Capital ratios			
Tier 1 ratio(5)	14.2	13.2	13.8
Capital adequacy ratio	16.5	15.1	15.8
Loan portfolio quality			
NPL ratio(6)	5.4	5.5	6.9
Cost of risk ratio(7)	1.2	1.0	1.2
Coverage ratio(8)	53.5	49.1	45.1
Funding ratios			
Loan to deposit ratio(9)	84.7	81.2	78.2
Leverage ratio (total equity/total assets)(10)	15.0	12.5	12.7

Source: The numbers based on which the ratios were calculated were derived from the Consolidated Financial Statements of BZ WBK or accounting records of BZ WBK

(1) Net interest income (including Swap points) to average interest-bearing assets, net of impairment write-down (calculated based on the balances as of the end of previous reporting period, the end of the half-year period in a given year and the end of a given year).

(2) Calculated by dividing BZ WBK's operating expenses by total net income from business activities (total net income from business activities is defined as the sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income; (iv) net gain/(loss) on sale of subsidiaries and associates; (v) net trading income and revaluation; (vi) gains (losses) from other financial securities; (vii) other operating income).

(3) Calculated by dividing consolidated profit for the period attributable to BZ WKB shareholders by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of total assets.

(4) Calculated by dividing consolidated profit for the period attributable to BZ WKB shareholders by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of sum of equity (calculated as a sum of share capital, other reserve funds, revaluation reserve, retained earnings).

(5) Tier I own funds after reductions indicated in Resolution of the PFSA No. 381/2008 to risk-weighted assets calculated using the standard method pursuant to PFSA Resolution No. 76/2010.

(6) Calculated by dividing gross loans and advances to customers (individually and collectively impaired) by gross receivables.

(7) Calculated by dividing impairment losses on loans and advances by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of sum gross receivables.

(8) Calculated by dividing allowance for impairment (for individual and collectively impaired receivables) by gross loans and advances to customers (individually and collectively impaired).

(9) Calculated by dividing loans and advances to customers by deposits from customers.

(10) Calculated by dividing total equity by total assets.

Selected Financial and Operating Data and Key Ratios for the Kredyt Bank Group

Ernst & Young issued qualified opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. The qualification related to the lack of sufficient evidence presented to Ernst & Young, on the reasonableness of approximetely PLN 333 million of the total PLN 577 million adjustment to impairment provisions of the additional loan impairment allowances of the Kredyt Bank Group as of 31 December 2012, the corresponding impairment charge in the profit and loss for the year ended 31 December 2012, as well as approximately PLN

61 million of deferred tax asset that has been recognized in relation to such additional loan impairment allowances.

In addition, the part of the above loan impairment allowances relating to losses incurred but not recorded and collective impairment amounting to PLN 258 million has been presented in a non-compliant way in liabilities in line "Provisions". The full text of the qualification and the auditor's opinion issued by Ernst & Young is attached to this Offering Memorandum. The line items in the Consolidated Financial Statements of Kredyt Bank for 2012 affected by the above qualifications include "net operating income", "impairment losses on loans and advances to customers", "deferred tax assets", "total assets", "provisions", "total liabilities", "equity attributable to the shareholders of Kredyt Bank", "total equity", "total equity and liabilities", "net impairment losses on financial assets, other assets and provisions", "profit (loss) before tax", "income tax expense (credit)", "net profit (loss)" and "capital adequacy ratio" and "Tier 1 ratio (calculated based on primary funds)".

For more information on the above, please see "Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

	As of and for the year ended 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Gross loans and advances to customers	29,834,384	30,493,915	29,108,520
Total assets	40,761,235*	42,003,084	43,374,246
Amounts due to customers	30,392,630	28,043,157	25,660,758
Total liabilities	37,709,857*	38,937,459	40,546,022
Total equity	3,051,378*	3,065,625	2,828,224
Net interest income	759,666	1,150,096	1,127,766
Net fee and commission income	341,395	314,920	329,873
Net operating income	(159,096)*	427,168	231,483
Net profit (loss)	(156,453)*	327,244	185,936

Source: The Consolidated Financial Statements of Kredyt Bank

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Selected Key Ratios

	As of and for the year ended 31 December		
	2012	2011	2010
		(%) (unaudited)	
Profitability ratios			
NIM(1)	1.81*	2.66	2.71
Net fee and commission income / Total net income from business activities(2)	23.0	20.4	20.8
Cost/Income (C/I)(3)	62.4	61.3	56.9
ROA(4)	(0.4)*	0.8	0.4
ROE(5)	(5.0)*	11.1	6.8
Capital ratios			
Tier 1 ratio(6)	8.88*	8.66	8.95
Capital adequacy ratio	12.66*	12.50	12.51
Loan portfolio quality			
NPL ratio(7)	10.1	8.2	9.7
Cost of risk ratio(8)	1.39*	0.59	1.45
Coverage ratio(9)	55.4*	51.7	63.6
Funding ratios			
Loan to deposit ratio(10)	92.9*	103.7	106.0
Leverage ratio (total equity/total assets)(11)	7.5*	7.3	6.5

Source: The Consolidated Financial Statements of Kredyt Bank, BZ WBK.

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

(1) Net interest income to average total assets (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(2) Net fee and commission income to total net income from business activities (calculated as total operating income for the year less other operating income for the year).

(3) General and administrative expenses for the year to total operating income for the year less other operating expenses for the year.

(4) Net profit (loss) for the year to average total assets (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(5) Net profit (loss) for the year to average total equity (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(6) Calculated by dividing Tier 1 capital by the total capital requirements multiplied by 12.5 (ratio calculated based on primary funds).

(7) The share of impaired gross receivables in gross loans and advances to customers.

(8) Net impairment losses on loans and advances to average gross loans and advances to customers (calculated based on the balance as of the end of the previous reporting period as of 30 June of a given year and as of 31 December of a given year).

(9) Impairment losses for receivables with evidence to impairment to impaired gross receivables.

(10) Loans and advances to customers (net of impairment) as of the end of the period (calculated as a sum of gross loans and advances to customers and the negative amount of impairment losses on loans and advances to customers) to amounts due to customers as of the end of the period.

(11) Total equity as of the end of the period to total assets as of the end of the period.

Selected Pro Forma Financial Information

The following selected unaudited pro forma condensed consolidated financial information, which comprises the unaudited pro forma condensed consolidated statement of financial position as of 31 December 2012 and the unaudited pro forma condensed consolidated income statement for the year ended 31 December 2012, has been prepared based on the assumptions described in the Unaudited Pro Forma Financial Information which has been attached to this Offering Memorandum and in compliance with the recognition and measurement principles of IFRS.

The unaudited pro forma condensed consolidated financial information has been prepared only and exclusively for illustrative purposes and is based upon available information and assumptions that we believe are reasonable but are not necessarily indicative of the results that actually would have been achieved if the Merger had been completed on the dates indicated or that may be achieved in the future. Unless otherwise indicated, all the financial information relating to the companies covered by the unaudited pro forma condensed consolidated financial information is based on the consolidated financial statements of the BZ WBK Group for the year ended 31 December 2012 and the Consolidated Financial Statement of the Kredyt Bank for 2012, to which adjustments were made as indicated in the Unaudited Pro Forma Financial Information.

Ernst & Young issued qualified opinion on the Consolidated Financial Statements of Kredyt Bank for 2012 (see "Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto"). The line items in the Unaudited Pro Forma Financial Information affected by such qualifications include "loans and advances to customers", "goodwill", "net deferred tax assets", "total asset", "retained earnings", "total equity", and "total equity and liabilities", "impairment losses on loans and advances", "corporate income tax", "operating profit", "profit before tax", and "profit for the period".

The unaudited pro forma condensed consolidated statement of financial position gives effect to the Merger as if it had occurred on 31 December 2012. The unaudited pro forma condensed consolidated income statement gives effect to the Merger as if it had occurred on 1 January 2012. The unaudited pro forma adjustments are described in the notes to the Pro Forma Financial Information.

	As of and for the year ended 31 December 2012						
	BZ WBK Group historical data	**Kredyt Bank Group historical data**	**Inter-company transactions**	**Purchase price allocation & acquisition adjustments / Non-recurring transaction adjustments**	**IFRS harmonization adjustments / Changes in accounting policy and other**	**Other adjustments**	**Total pro forma**
				(PLN thousand) (unaudited)			
Loans and advances to customers	39,867,554	28,229,316*	—	(497,727)	(257,800)		67,341,343
Total assets	60,019,177	40,761,235*	(7,437)	1,475,892	(259,180)	(533)	101,989,155
Deposits from customers	47,077,094	30,392,630	—	(18,288)	—	—	77,451,436
Total liabilities	51,041,463	37,709,857*	(7,437)	(16,570)	(259,180)	(533)	88,467,600
Total equity	8,977,714	3,051,378*	—	1,492,462	—	—	13,521,554
Net interest income	2,301,077	759,666	—	41,826	—	—	3,102,569
Net fee and commission income	1,384,986	341,395	—	—	229,115	—	1,955,496
Operating expenses	(1,817,194)	(997,839)	—	(36,376)	36,192	16,778	(2,798,439)
Operating profit	1,817,293	(159,096)*	—	5,450	36,192	27,150	1,726,989
Profit for the period	1,462,635	(156,453)*	—	4,915	29,315	(8,637)	1,331,775

Source: Unaudited Pro Forma Financial Information

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

RISK FACTORS

Prior to making any investment decision, every prospective purchaser of Offer Shares should carefully consider all of the risk factors discussed below, as well as other information provided elsewhere in this Offering Memorandum. Any of the following risks, if they materialize, may have a material adverse effect on the business, revenues, results of operations, financial condition and/or prospects of the BZ WBK Group. As a result of the occurrence of any of the following risks, the market price of the Offer Shares may decrease, which would expose the investors to a loss of all or part of the invested funds. The following list of risk factors is not exhaustive. Other circumstances may exist that should be considered by the investors in making investment decisions. The sequence of the presentation of the following risk factors does not necessarily reflect their scope, significance, likelihood of occurrence or potential impact on the BZ WBK Group's operations.

Risks Related to the BZ WBK Group's Business

The BZ WBK Group May Not Be Able to Successfully Implement its Strategy or Achieve its Medium-Term Targets

The BZ WBK Group's strategic plan is to continue to expand in scale, focusing particularly on attractive products and segments that increase overall profitability and maximize shareholder returns, and to achieve the following targets in the medium term: (i) increasing a market share of 10% with regard to retail lending (aspirational target) and key selected products and segments, such as bancassurance; (ii) maintaining RoAE at a level in the high teens; (iii) maintaining a cost-to-income ratio in the low 40s with room for further improvement; (iv) a net loan-to-deposit ratio of below 97%; (v) maintaining a total capital adequacy ratio of above 13.5%; (vi) achieving better than market average asset quality; and (vii) achieving a dividend payout ratio of 50% of the consolidated net profit of the BZ WBK Group. In the pursuit of its overall strategic goal and to achieve above-mentioned medium-term targets, the Management Board intends to expand the scale of the operations of the BZ WBK Group, while focusing on operational excellence, bringing the former Kredyt Bank Group into line with BZ WBK Group's standards, while integrating the former Kredyt Bank Group, and successfully realize synergies derived from the Merger (see "*Business of the BZ WBK Group—Strategy*").

The BZ WBK Group may not be able to achieve its major strategic objectives in the medium-term due to general factors such as difficult economic or market conditions, a stricter regulatory requirements being imposed on the banking and financial services sector in Poland and globally, increased competition on the Polish banking market, the monetary policy of maintaining the NBP reference rate at a low level as set by the Monetary Policy Council, changes in customer behavior, and other factors which remain beyond BZ WBK's control. Specifically, the BZ WBK Group's business plan assumes moderate macroeconomic growth, with a slowdown expected in 2013 and recovery afterwards to approximately 3.6% real GDP growth in 2015 as well as progressive FX stabilization post 2012 and improving interest rates in the medium term. Moreover, the BZ WBK Group may not be in position to achieve all of its objectives, also in the case where certain difficulties arise in achieving the anticipated cost savings or revenue synergies as a result of the Merger or the assumptions underlying anticipated synergies proving to be inadequate. In particular, the BZ WBK Group may not be able to sufficiently leverage its expanded branch network or implement planned efficiency gains.

For more information on the risks connected with the possible failure to implement the integration plan following the Merger and achieve its major strategic objectives in connection with the Merger and the integration of the BZ WBK Group and the Kredyt Bank Group, see "*Risks Related to the Merger and the Integration of the BZ WBK Group and the Kredyt Bank Group*" below. Failure to successfully implement its strategy could affect the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

The BZ WBK Group May Not Be Able to Continue to Expand Its Loan and Deposit Portfolios

There are many factors which may adversely affect the growth of customer deposits and the loan portfolio, some of which are beyond the BZ WBK Group's control, such as intensity of competition (see the risk factor titled "*The BZ WBK Group Faces Competition in the Polish Financial Sector*" below), economic and political conditions, and the monetary policy of the Monetary Policy Council. In addition, the changing savings preferences of the BZ WBK Group's customers from deposits to alternative investments, combined with the increased availability of alternative investments, may result in the BZ WBK Group not being able to increase its customer deposits at a pace sufficient to finance its expanding lending business. Furthermore, as the Kredyt Bank Group had competitive economic terms (at a higher level than the BZ WBK Group) for the deposit products offered to its customers, it is possible that if BZ WBK does not continue offering such terms to the former Kredyt Bank's customers, the amount of deposits of the BZ WBK Group post-Merger may decrease. In addition, the BZ WBK Group's deposit margins may be negatively impacted by the recent, or further, lowering of the NBP reference rate by the Monetary Policy Council.

Any of the above factors may adversely affect the business, financial condition, results of operations and/or prospects of the BZ WBK Group

The BZ WBK Group May Not Be Able to Maintain the Quality of its Loan Portfolio

In order to manage credit risk, the BZ WBK Group employs certain risk management methods which may prove ineffective at mitigating credit risk. The BZ WBK Group employs qualitative and quantitative tools and metrics for managing risk which are, to a high degree, based on observed historical market behavior and market benchmarks provided by external consulting companies. These tools and metrics may fail to appropriately predict future risk exposures. In addition, some elements of the risk management systems employed by the BZ WBK Group may prove insufficient in measuring and managing credit risk. Moreover, as a consequence of the Merger, the risk management systems in BZ WBK and Kredyt Bank will be merged, which may pose additional risks, such as technical mistakes made when these systems are merged or the inadequacy of the merged risk management system to assess credit risk as regards certain groups of customers.

The quality of the assets in the BZ WBK Group's loan portfolio is subject to changes in the creditworthiness of its customers, their ability to repay their loans on time, the BZ WBK Group's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans, and the changes in the value of such collateral, which may not be sufficient to cover the full amounts due under these loans.

In addition, the quality of the BZ WBK Group's loan portfolio may deteriorate due to various other reasons, including internal factors (such as the failure of risk management procedures or a change in the business mix of the BZ WBK Group, including expansion into non-collateralized lines such as SME and consumer loans) and factors beyond the BZ WBK Group's control (such as any negative developments of Poland's economy resulting in the financial distress or insolvency of the BZ WBK Group's customers, or restriction of credit information concerning certain customers).

The BZ WBK Group's NPL Ratio decreased from 6.9% as of 31 December 2010 to 5.5% as of 31 December 2011 and to 5.4% as of 31 December 2012 (see "*Operating and Financial Review—Key Performance Indicators*"). The main factor behind the decrease of the BZ WBK Group's NPL ratio was the conservative credit policy applied by the BZ WBK Group and an increasing balance of loans and advances to customers.

The Kredyt Bank Group's NPL Ratio decreased from 9.7% as of 31 December 2010 to 8.2% as of 31 December 2011 and increased to 10.1% as of 31 December 2012 (see "*Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Key Performance Indicators*").

As of 31 December 2012, the coverage ratios of BZ WBK and Kredyt Bank were 53.5% and 55.4%, respectively.

There is also a risk that the losses incurred with respect to the impaired portfolio are higher than those assumed for the purposes of the calculation of impairment.

The past and current performance of the BZ WBK Group's loan portfolio may not be treated as indicative of future trends given the Merger and the impact of the inclusion of the Kredyt Bank Group's loan portfolio in the BZ WBK Group's loan portfolio and the targeted change in business mix, which may result in increased risk to the quality of the loan portfolio due to expansion with regard to SME and consumer loans (for more details, please see *"Business of the BZ WBK Group—Strategy"*).

The occurrence of any of the above factors could have a material adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

A Decrease in the Value of Collateral Established in Favor of the BZ WBK Group May Adversely Affect the Quality of the BZ WBK Group's Loan Portfolio

A portion of the loan portfolio of the BZ WBK Group (42% as of 31 December 2012), including the mortgage loan portfolio, is secured by mortgage-based collateral, mostly mortgages on real properties.

Such portion increased as a result of the Merger, due to the fact that 64% of the Kredyt Bank Group's loan portfolio as of 31 December 2012 was secured by mortgage-based collateral. As of 31 December 2012, the average LTV ratio in the BZ WBK Group's portfolio of mortgage loans for individual customers and property loans stood at 67% and 59%, respectively (based on the value of exposures). The value of asset collateral (*i.e.* residential or commercial premises or land) that secure the BZ WBK Group's loan portfolio may decline due to reasons that are beyond the BZ WBK Group's control, including macroeconomic factors. Any deterioration of the value of such security will decrease the value of the funds that the BZ WBK Group would be able to recover by enforcing its security and may increase the credit risk and loss incurred by the BZ WBK Group. A deterioration of the value of asset collateral may also result in the BZ WBK Group's customers owning such assets being less likely to repay their loans, especially if the value of collateral falls below the value of the outstanding loan. Furthermore, the BZ WBK Group may not have up-to-date data on the value of the assets constituting the security and may not be in a position to accurately assess the impairment losses on loans secured in that way. The occurrence of any of the above factors may have a material adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

The BZ WBK Group May Not Be Able to Sustain Its Current Margins on Loans and Deposits

The BZ WBK Group's operations are affected by fluctuations in interest rates in Poland and elsewhere in Europe. In particular, the BZ WBK Group's operations depend on the management of the BZ WBK Group's exposure to interest rates and the change of the relationships between market interest rates and interest margins. The net interest income of the BZ WBK Group depends primarily on the level of its interest-earning assets and interest-bearing liabilities, as well as the average rate earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities.

However, various factors could make the BZ WBK Group unable to maintain its current levels of margins on loans and deposits, including increasing market competition, changing demand for fixed-rate and floating-rate loans, changes in the monetary policy of the Monetary Policy Council, increased inflation, and changes in both domestic and international interbank interest rates. Moreover, as a result of the Merger, the BZ WBK Group acquired the portfolio of loans and deposits of the Kredyt Bank Group. Such portfolio bears different margins to the portfolio of the BZ WBK Group, and the BZ WBK Group might not be able or willing to change such margins and align them to the level of margins of the BZ WBK Group portfolio. Please also see *"Risk Related to a Loss of Some Customers as a Result of the Merger and Integration Process"*.

The BZ WBK Group could suffer from the effects of decreasing margins or an inability to increase its current level of net interest margins for a variety of reasons, including: (i) market interest rates on floating rate loans decreasing and BZ WBK being unable to offset such decrease by decreasing the rates payable on deposits; and/or (ii) interest rates payable on deposits or other funds increasing and BZ WBK being unable to offset such increase by increasing rates in its lending activities due to increased pricing competition among banks. A decrease of margins may result in lower net interest income and therefore adversely affect the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

In addition, an increase in interest rates may result in an increase in the installment amounts payable by the BZ WBK Group's customers. Such increase may result in difficulties related to the repayment of incurred loans (please also see "*The BZ WBK Group May Not Be Able to Maintain the Quality of its Loan Portfolio"*), which, in turn, may adversely affect the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

The BZ WBK Group May Be Unable to Maintain the Required or Targeted Capital Adequacy and Other Regulatory Ratios or May Be Required to Raise Additional Capital

As of the date of this Offering Memorandum, the BZ WBK Group is required, to maintain a minimum capital adequacy ratio of at least 8%. Moreover, under the EBA Recommendation on Temporary Capital Buffers, credit institutions are required to maintain a temporary capital buffer of 9% core Tier 1 ratio. In addition, the PFSA in its letter of 24 January 2012 addressed to Polish banks expressed its expectation that Polish banks maintain a minimum capital adequacy ratio of at least 12% and a Tier 1 ratio of at least 9%. The BZ WBK Group's medium-term target assumes that its capital adequacy ratio will be maintained at a level of above 13.5%. As of 31 December 2012, the BZ WBK Group's capital adequacy ratio and the Tier 1 ratio equaled 16.5% and 14.2%, respectively, while the Kredyt Bank Group's capital adequacy ratio and Tier 1 ratio (calculated on the basis of primary funds) equaled 12.7% and 8.9%, respectively.

The BZ WBK Group's ability to satisfy the current capital adequacy requirements or the targeted capital adequacy ratios may be adversely affected by various factors, including:

- an increase of the BZ WBK Group's risk-weighted assets as a result of the implementation of the BZ WBK Group's business expansion and development strategy;
- any inability of the BZ WBK Group to raise capital;
- losses resulting from a deterioration in the BZ WBK Group's asset quality, a reduction in income levels or an increase in expenses;
- a decline in the value of the BZ WBK Group's securities portfolio;
- inaccuracy of the BZ WBK Group's estimates regarding the amount of capital needed to cover operating risk;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of banks and/or changes in the PFSA's regulatory approach;
- currency rate fluctuations which have an impact on the value of assets denominated in foreign currencies;
- insufficient profit retention (e.g. resulting from the payment of dividends by BZ WBK to its shareholders); and
- carrying out mergers and acquisitions.

Moreover, there can be no assurance that the BZ WBK Group will be able to comply with more stringent prudential regulations concerning capital adequacy under Basel III (i.e. further changes to the CRD) or that the implementation thereof will not impose significant additional costs on the BZ WBK Group.

In order to keep its capital adequacy ratios at or above the required and targeted levels, the BZ WBK Group may be required to raise additional capital in the future. The BZ WBK Group's ability to raise additional capital may be limited by:

- the BZ WBK Group's future financial condition, results of operations and cash flows;
- general market conditions for capital-raising activities by commercial banks and other financial institutions;
- domestic and international economic, political and/or other conditions;
- inability to obtain funding from the Banco Santander Group;
- any necessary governmental or regulatory approvals; and
- BZ WBK's credit rating (if any at the time of capital raising).

BZ WBK can give no assurance that it will not need to raise additional capital in the future, nor can it give any assurance that it will be able to obtain such capital on favorable terms, in a timely manner or at all.

Failure to maintain the minimum capital adequacy and other regulatory ratios or to otherwise maintain sufficient levels of capital to conduct the BZ WBK Group's business may have an adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group. Moreover, a breach of applicable law relating to minimum capital adequacy and other regulatory ratios may result in the BZ WBK Group becoming subject to administrative sanctions that may result in an increase in operating costs, loss of reputation, and, consequently, an adverse effect on the business, financial condition and/or results of operations of the BZ WBK Group.

BZ WBK May Not Be Able to Pay Dividends in Accordance with its Dividend Policy

BZ WBK's dividend policy is to distribute dividends at the level of 50% of the consolidated net profit of the Group for the relevant financial year. The ability to deliver such payments is subject to the following risks and limitations:

- the profitability of the BZ WBK Group might be lower than expected, which might result in the Management Board recommending a lower dividend payment or none at all;
- the recommendation of the Management Board regarding payment of dividend needs to take into account the PFSA's recommendations regarding payment of dividend by Polish banks (for information

on the recommendations regarding the 2013 dividend policy of banks for the year 2012 issued by the PFSA, please see "Dividends and Dividend Policy"); and

- payment of divided is subject to the adoption of a resolution by the ordinary General Meeting (payment of an interim dividend may be made after a relevant decision has been taken by the Management Board and such interim dividend has been approved by the Supervisory Board (and following arrangements with the PFSA)) (for more details on the dividend please see "Dividend—Rights and Obligations Related to Shares and the General Meeting").The Management Board cannot ensure that the ordinary General Meeting will not adopt a resolution on the payment of a higher or lower dividend than that which is recommended in the given year by the Management Board. Moreover, payment of a dividend at a higher level than assumed in BZ WBK's dividend policy is subject to certain contractual limitations (for more details please see "*Material Contracts—Other Agreements—Agreements with the EBRD*" and "*Major Shareholders and the Selling Shareholders—Investment Agreement between Banco Santander and KBC*"). Payment of a dividend at a higher level than that recommended by the Management Board may limit potential of the BZ WBK Group for growth and thus may adversely affect the business, financial condition and/or results of operations of the BZ WBK Group.

Banco Santander Will Continue to Hold a Controlling Stake in the BZ WBK Group Following the Offering

As of the date of this Offering Memorandum, Banco Santander directly holds Shares representing 75.19% of BZ WBK's share capital, which entitle it to exercise 75.19% of the total number of votes at the General Meeting. After the Offering, assuming that all of the Offer Shares will be sold in the course of the Offering and Banco Santander will not receive any Shares as a result of stabilization transactions, Banco Santander will hold up to 70% of BZ WBK's share capital and the same percentage share in the total number of votes at the General Meeting and KBC will cease to be a shareholder of BZ WBK. Thus, Banco Santander will continue to be the controlling shareholder of BZ WBK.

As the controlling shareholder of BZ WBK, Banco Santander will be in a position to appoint the majority of the members of the Supervisory Board and influence the composition of the Management Board (see "*Management and Corporate Governance*"). Given such influence of Banco Santander, Banco Santander will retain decisive control over BZ WBK's business, including its strategy and business development, as well as the dividend policy of BZ WBK. BZ WBK cannot predict how Banco Santander will exercise its rights or how its actions will influence the business of BZ WBK, its revenues and results of operations and its ability to implement its strategy.

In addition, the interests of Banco Santander may differ from BZ WBK's interests or those of its other shareholders and the concentration of control in Banco Santander will limit other shareholders' ability to influence corporate matters. As a result, BZ WBK may take action that its other shareholders do not view as beneficial.

Undertakings of Banco Santander towards the PFSA Regarding the Amalgamation of Its Polish Subsidiaries into the BZ WBK Group

Banco Santander has made certain undertakings towards the PFSA with regard to its Polish subsidiaries which operate in Poland and are not currently part of the BZ WBK Group, i.e. Santander Consumer Bank and Santander Consumer Finanse. For more details regarding the above undertakings, please see *"Streamlining the Structure and Operations of the Members of the Banco Santander Group in Poland"* in *"Major Shareholders and the Selling Shareholders"*.

As of the date of this Offering Memorandum, the structure of the transactions resulting from Banco Santander's undertakings, as well as the exact timing and arrangements with the other shareholders thereof, have not been agreed or determined, and BZ WBK cannot guarantee if or when such transactions will occur. If they occur, there is a risk that the structure of such transactions and/or the timing and/or other conditions thereof (including payment (cash or non-cash) for the Santander Consumer Bank and/or Santander Consumer Finanse) may not be favorable or beneficial or might not be deemed as such by the market. There is also a risk that the inclusion of these entities in the BZ WBK Group may negatively affect its capital position, have a dilutive effect on the shareholders of BZ WBK, and/or affect the future financial performance of the BZ WBK Group. Moreover, it is possible that if BZ WBK were not required to be involved in such transactions, it could pursue other more favorable opportunities. Furthermore, it is possible that the financial and operational performance of Santander Consumer Finanse and/or Santander Consumer Bank will not be satisfactory or there will be difficulties of an organizational, managerial, technical or other nature in including these entities into the BZ WBK Group. If any of above occurs, it could have a material adverse effect on the business, financial condition or results of operations of the BZ WBK Group.

Risk Related to the Conclusion of Related-party Agreements

In the course of its operations, members of the BZ WBK Group conclude, and members of the Kredyt Bank Group concluded, transactions with their related parties within the meaning of the Polish Corporate Income Tax Act. These transactions ensure that business activity within the respective groups was and will be conducted efficiently and include, among other things, the mutual provision of services, the sale of goods, and other transactions. Due to the specific nature of related-party transactions, the complexity and ambiguity of legal regulations governing the methods of examining the prices applied, as well as difficulties in identifying comparable transactions for reference purposes, no assurance can be given that members of the BZ WBK Group will not be subject to inspections or other investigative activities undertaken by tax authorities and/or fiscal control authorities to verify the above issues. Should the methods of determining arm's-length terms for the purpose of the above transactions be challenged, that may have a material adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

Risk Associated with Involvement in the Construction Sector

The financial condition of entities from the construction sector has significantly deteriorated in 2012 and continues to be difficult in 2013, which creates increased exposure for banks financing such sector. The difficulties mainly concern entities engaged in the construction of infrastructure and roads. Approximately 2.8% of the loan portfolio of the BZ WBK Group and 2% of the loan portfolio of Kredyt Bank Group as of 31 December 2012 included credit products provided to entities from the construction sector. This loan portfolio is characterized by a large share of guarantee products, a high degree of concentration and a low level of property collateral.

A further deterioration of the situation in the construction sector may have an adverse effect on the results of operations of the BZ WBK Group and may force the BZ WBK Group to make further impairment write-downs, which could have a material adverse effect on the business, financial situation and/or the results of operations of the BZ WBK Group.

Risk Associated with Involvement in Property Financing

The BZ WBK Group and the Kredyt Bank Group are involved in property financing, and such exposure bears significant risks, especially taking into account the deterioration on the Polish real estate market, which has continued into 2013 (see *"Development of the Mortgage and Real Estate Market—Operating and Financial Review"*). Approximately 22.1% of the loan portfolio of the BZ WBK Group and 4% of the loan portfolio of the Kredyt Bank Group as of 31 December 2012 included credit products involving property financing.

A further deterioration of the situation on the real estate market may have an adverse effect on the results of operations of the BZ WBK Group and may force the BZ WBK Group to make further impairment write-downs, which could have a material adverse effect on the business, financial situation and/or results of operations of the BZ WBK Group.

Risk Related to the Bankruptcy of Debtors

As of the date of this Offering Memorandum, BZ WBK as the successor of Kredyt Bank is a creditor of three companies (including two mining companies) for which bankruptcy proceedings have been commenced and which are deemed important by BZ WBK. The receivables notified in the three aforementioned bankruptcy proceedings amount to PLN 656,935,268.79. BZ WBK's claims are secured by mortgages and registered pledges on particular assets of the companies. No legal risk provisions have been made with regard to these proceedings, since the risk is addressed by the relevant credit provisions (see also *"Business of the BZ WBK Group—Legal, Administrative and Arbitration Proceedings—Other Proceeding"*).

If the assets of such companies are insufficient to satisfy the claims of BZ WBK resulting from the above exposures, BZ WBK may not fully recover its claims. Moreover, no assurance can be given that similar proceedings will not be commenced against the BZ WBK Group's customers in the future. The non-satisfaction of such claims, any delay in this respect or the commencement of such proceedings in the future could have a material adverse effect on the reputation, business, financial condition and/or results of operations of the BZ WBK Group.

The BZ WBK Group Faces Liquidity Risk

The BZ WBK Group may become exposed to liquidity risk when the maturities of its assets and liabilities are not matched. For example, the BZ WBK Group may be exposed to increased liquidity risk as a result of its holdings of real estate mortgage loans, which are long-term assets that are financed by capital and short-term deposits. Maturity mismatches can arise if the BZ WBK Group is unable to obtain new deposits or to find alternative sources of funding to fund existing or future loan portfolios.

In terms of current and short-term liquidity, the BZ WBK Group is exposed, as are many other banks, to the risk of rapid withdrawal of deposits by its customers in large volumes. If a substantial portion of the BZ WBK Group's customers withdraw their demand deposits or do not roll over their term deposits upon maturity, the BZ WBK Group's liquidity position would be adversely affected. Crystallization of liquidity risks and the inability to raise sufficient funds to finance its operations, particularly its lending operations, could have a material adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

Market Risks Associated with Fluctuations in Bond and Equity Prices and Other Market Factors Are Inherent in the BZ WBK Group's Business

The BZ WBK Group is exposed to market risk as a consequence of its trading activities in financial markets and through the asset and liability management of its overall financial position, including its trading portfolio. Market risk entails the risk of a decline in the value of the BZ WBK Group's investment holdings or its trading results as a consequence of fluctuations of interest rates, foreign exchange rates, as well as commodity, bond and equity prices. The performance of financial markets could cause changes in the value of the BZ WBK Group's investment and trading portfolios. To the extent current market conditions persist, the fair value of the BZ WBK Group's bond, derivative and structured loan portfolios could fall more than currently estimated, and therefore cause the BZ WBK Group to record write-downs. Future valuations of the assets for which the BZ WBK Group has already recorded or estimated write-downs, which reflect the then-prevailing market conditions, may result in significant changes in the fair values of such assets.

Furthermore, the values of certain financial instruments are recorded at fair value, which is determined by using financial models that incorporate assumptions, judgments and estimations that are inherently uncertain and which may change over time or may ultimately be inaccurate. Consequently, failure to obtain correct valuations for such assets may result in unforeseen losses for the BZ WBK Group in the case of any asset devaluations. Any of these factors could require the BZ WBK Group to recognize further write-downs or realize impairment charges, which may have a material adverse effect on its business, financial condition and/or results of operations. The volatility of global equity markets due to the recent economic uncertainty has had a particularly strong impact on the financial sector.

BZ WBK May Be Required to Make Substantial Contributions to the BFG or to the Investment Compensation Scheme Created by the NDS

Pursuant to the provisions of the Act on the BGF, BZ WBK is a member of the mandatory guarantee system and is required to contribute to a fund created for the purpose of deposit guarantees. If any entity that is a member of the fund is declared bankrupt, other members of the fund may be required to make additional payments to cover the liabilities of the bankrupt entity. The amount of the payment by each member is proportional to the amount of guarantee fund established by them.

Additionally, BZ WBK Brokerage House, pursuant to the provisions of the Act on Trading in Financial Instruments, is a member of the obligatory investor compensation scheme established by the NDS. If the aggregate value of investors' claims for compensation exceeds the funds accumulated by the compensation scheme and the installments for a given calendar year which are due but at that time not paid, the amount of the annual contributions to be made in a given calendar year may be increased pursuant to the provisions of the Act on Trading in Financial Instruments.

The imposition of additional payments which the BZ WBK Group must make to the BGF or to the investment compensation scheme created by the NDS could have a material adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

The BZ WBK Group May Be Subject to Litigation, Administrative Proceedings or Other Proceedings

Due to the nature of its business, the BZ WBK Group may be subject to the risk of litigation by customers, employees, shareholders or other persons through civil claims, administrative proceedings, regulatory actions or other litigation. The outcome of litigation or similar proceedings or actions is difficult to assess or quantify. Plaintiffs in these types of actions against the BZ WBK Group may, in particular, seek recovery of large or indeterminate amounts or other remedies, or challenge the resolutions adopted by the BZ WBK Group's governing bodies, which may affect the BZ WBK Group's ability to conduct its business, and the magnitude of the potential losses relating to such actions may remain unknown for substantial periods of time. The cost of defending future actions may be significant. There may also be adverse publicity associated with litigation that could negatively impact the reputation of the BZ WBK Group, regardless of whether the allegations are valid or whether the BZ WBK Group is ultimately found liable. For more information on legal, administrative and arbitration proceedings, please see *"Business of the BZ WBK Group—Legal, Administrative and Arbitration Proceedings"*.

Furthermore, in July 2010, changes were introduced into Polish law making it possible to bring class action lawsuits. The ability of customers to group their lawsuits in a single class action significantly lowers the legal fees and other costs of such lawsuits, which may result in more frequent court actions against the BZ WBK Group.

The above events may adversely affect the BZ WBK Group's business, financial condition, results of operations and/or prospects.

Risk Associated with the Decisions of the Antimonopoly Authorities

The business of the BZ WBK Group must comply with the regulations regarding competition, consumer protection and state aid. Under the Antimonopoly Act, the President of the Antimonopoly Office has the right to issue a decision stating that a business entity is engaged in anti-competitive agreements and concerted practices the object or effect of which is to prevent, restrict or distort competition. Moreover, the President of the Antimonopoly Office may issue a decision stating that a given business entity which has a dominant position on the market is applying certain practices that abuse such position. The President of the Antimonopoly Office may order the discontinuance of such practices and may also impose a fine on the business entity. The President of the Antimonopoly Office also has the authority to declare that the provisions of agreements, as well as the tariffs and fees charged by a particular business, violate the collective interest of consumers and, as a consequence, may order the discontinuance of such agreements and impose a fine on the business entity (in general up to 10% of the revenues earned in the year preceding the year in which such penalty is imposed), which may adversely affect the business, financial condition and/or results of operations of the BZ WBK Group. For example, the BZ WBK Group is currently a party to certain proceedings concerning the alleged application of practices violating collective consumer interests and unfair commercial practices. For more details regarding these proceedings, please see *"Proceedings regarding competition and consumer protection issues—Legal, Administrative and Arbitration Proceedings—Legal, Administrative and Arbitration Proceedings"*. No assurance can be given that similar proceedings will not be instituted against the BZ WBK Group in the future, which could have a material adverse effect on the business, financial condition and/or results of operations of the BZ WBK Group.

If there is any suspicion of a breach which could affect trade between Member States, the Treaty and other community legislation apply directly and the authority competent to enforce such legislation is the European Commission or Polish antimonopoly authorities, including the President of the Antimonopoly Office.

Polish and European provisions on state aid are not precise. If any of the BZ WBK Group companies receives prohibited state aid, it may be required to return the amount of aid obtained together with interest accrued thereon, on the terms and conditions set forth in Polish and European law, which could adversely affect the business, financial condition and/or results of operations of the BZ WBK Group.

The BZ WBK Group's Anti-Money Laundering Procedures May Not Be Sufficient to Prevent Money Laundering

Money laundering involves all types of operations aimed at legitimizing any proceeds from any illegal or undisclosed sources. The BZ WBK Group has introduced all the procedures to counteract money laundering which are required by law. However, no assurance may be given that all of such prohibited transactions will be prevented, some may take place, either as a result of the BZ WBK Group's employees failure to observe the above procedures or because of the ever new methods to legitimize 'dirty money'. If such breach occurs, the BZ WBK Group and the responsible executives will be subject to legal sanctions and the risk of loss of reputation expected of a financial institution which, consequently, may adversely affect the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

The BZ WBK Group's IT Systems May Fail or Their Security May Be Compromised

The BZ WBK Group relies heavily on its IT systems for a variety of functions, including processing applications, providing information to customers and maintaining financial records. Despite the implementation of cybersecurity and back-up measures, the IT systems used by the BZ WBK Group may be vulnerable to physical or electronic intrusions, computer viruses or other cyber incidents (resulting both from deliberate attacks or unintentional events). Moreover, programming errors and similar disruptive problems could have an impact on the BZ WBK Group's ability to serve its customers' needs on a timely basis or at all, interrupt the BZ WBK Group's operations, damage the BZ WBK Group's reputation, expose the BZ WBK Group to increased regulatory scrutiny and require it to incur significant technical, legal and other expenses. In the history of the operations of the BZ WBK Group and the Kredyt Bank Group there have been IT system breakdowns resulting in internet banking being temporarily inaccessible. No assurance can be given that future break downs of the IT systems will not occur more often or be more extensive. A serious failure or security breach or other cyber incidents related to the BZ WBK Group's IT systems and the resulting problems could have a material adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

The BZ WBK Group is Subject to Operational Risks Inherent in its Business Activities

The BZ WBK Group is subject to the risk of incurring losses or undue costs due to inadequate or failed internal processes, failures of people or systems, and from external events, such as errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorized transactions, robbery, and damage to assets.

The BZ WBK Group may also be liable for flaws in products or contracts, legal disputes, and to penalties and fines imposed on the BZ WBK Group by regulatory authorities for infringement or attempted infringement of applicable law, market standards and/or recommendations.

In addition, fraud or other unacceptable behavior by the BZ WBK Group's employees, or any third parties acting in BZ WBK's name, could be impossible to detect and could also expose BZ WBK to sanctions imposed by supervisory authorities and to serious reputational damage. The BZ WBK Group can give no assurance that its employees and financial intermediaries will not commit errors, act fraudulently or otherwise behave unacceptably. Such conduct could make the BZ WBK Group liable to pay damages.

Any failure of the BZ WBK Group's risk management system to detect or correct operational risk, to comply with applicable law, standards and recommendations or any failure of its employees or third parties to act professionally could have a material adverse effect on the BZ WBK Group's business, financial condition, results of operations and/or prospects.

The BZ WBK Group Outsources a Portion of Its Operations to External Providers

The BZ WBK Group outsources a portion of its operations to external providers. Such outsourced services include, *inter alia*, the provision of certain IT applications, document archiving, cash management, ATM support, maintenance of the IT environment, and delivery of IT infrastructure (hardware and software services for central and branch entities). Unsatisfactory quality of the external providers' services could result in operational deficiencies or reputational risk for the BZ WBK Group.

The BZ WBK Group may be exposed to the risk of liability to its customers and a loss reputation if the external providers fail to duly perform their services or, specifically, if they perform their services in breach of applicable law or banking regulations or if they take improper actions which result in an infringement upon third-party rights.

The occurrence of the factors described above could have a material adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

The BZ WBK Group May Not Be Able to Retain, Train or Hire a Sufficient Number of Qualified Staff

The success of the BZ WBK Group's business partly depends on its ability to maintain qualified personnel. The BZ WBK Group is largely dependent upon the qualifications and skills of its upper and mid-level management, especially the members of the Management Board, to implement its strategy and manage day-to-day operations. In Poland, there is strong competition for qualified personnel specialized in banking and finance, especially at the middle and upper management levels. Some Polish market participants have taken an aggressive approach to the recruitment of qualified and talented staff, by offering pay increases to attract staff from their competitors. Competition of this kind may increase the BZ WBK Group's personnel expenses and make it difficult for the BZ WBK Group to recruit and incentivize qualified personnel. In addition, the BZ WBK Group's personnel may resign at any time and may seek to divert business partners and customer relationships which they have developed while working with the BZ WBK Group to their new employers. The BZ WBK Group may not be able to prevent such persons from leaving, and, if they do leave, it may not be able to replace them with staff who have comparable skills and experience. It may also not be able to prevent such defection of business partners and customers away from the BZ WBK Group.

The occurrence of the factors described above could have a material adverse effect on the BZ WBK Group's business, financial condition, results of operations and/or prospects.

Risk of a Reduction of BZ WBK's Ratings

As of the date of this Offering Memorandum, BZ WBK has been assigned ratings by Fitch (solicited rating) and Moody's (non-solicited rating). On 10 January 2013, Fitch confirmed all of BZ WBK's ratings, including its long-term issuer default rating (IDR) of "BBB" and BZ WBK's viability rating (VR) of "bbb", reflecting Fitch's view that the merged entity's stand-alone credit profile is broadly in line with that of BZ WBK pre-Merger, albeit marginally weaker as a result of the incorporation of Kredyt Bank. For more details on these ratings and the interpretation thereof, please see *"Ratings"* in *"Business of the BZ WBK Group"*.

A reduction of BZ WBK's ratings could adversely affect the business, financial condition/or and results of operations of the BZ WBK Group.

The BZ WBK Group's Market Position Depends on its Reputation and Brand Image

The BZ WBK Group's market position and its ability to attract new customers depend to a large extent on its reputation. The BZ WBK Group's ability to maintain and enhance its reputation and brand image will largely depend on its ability to continue to provide high quality services that meet the requirements of its customers. The BZ WBK Group's reputation and brand image could also be adversely affected by external factors, such as negative press coverage or general negative perception about the BZ WBK Group's services. If the BZ WBK Group is unable to maintain its reputation, this could have could have an adverse effect on the business, financial situation and/or results of operations of the BZ WBK Group.

Risks Related to the Merger and the Integration of the BZ WBK Group and the Kredyt Bank Group

The Management Board's Expectations as to the Benefits of the Merger May not be Achieved

The Merger process is subject to risk associated with the effective integration of the operational resources of the BZ WBK Group and the Kredyt Bank Group. The expected synergies and savings through economies of scale may not be achieved after the Merger. The Merger is expected to bring specific positive economic benefits which will have a positive effect on the market position and the financial situation of the BZ WBK Group after the Merger. The most important expected benefits resulting from the Merger include: (i) an improved competitive position resulting from leveraging a combined distribution platform and cross-selling to the former Kredyt Bank's customers; (ii) cost synergies which are expected to amount to approximately PLN 340 million annually on a pre-tax basis (fully phased) and revenue synergies which are expected to amount to approximately PLN 125 million annually on a pre-tax basis (fully phased); and (iii) increased attractiveness for investors (for more details, see "*Business of the BZ WBK Group—Strategy*" and "*Business of the BZ WBK Group—Merger and Integration of the BZ WBK Group and the Kredyt Bank Group*").

Achievement of the aforementioned benefits from the integration of the BZ WBK Group and the Kredyt Bank Group depends, inter alia, on the successful integration process which is underway as of the date of this Offering Memorandum. The occurrence of any unexpected problems during the integration may reduce the actual benefits, delay the period during which they are expected or increase the integration costs, which are estimated to amount to PLN 430 million before tax (see also *"Operating and Financial Review—Costs Related to the Merger and Expected Synergies"*). Furthermore, efforts to integrate the businesses of the BZ WBK Group and the Kredyt Bank Group may also divert management attention and resources.

The occurrence of the factors described above could have an adverse effect on the business, results of operations, financial condition and/or prospects of the BZ WBK Group.

The BZ WBK Group May Lose Customers as a Result of the Merger and Integration Process

In connection with the Merger, BZ WBK is engaged in active information and marketing activities to prepare its customers for the integration and to manage the retention of customers during the integration process. Nevertheless, the aforementioned actions may prove less effective than expected. Due to the complexity of the integration process of the BZ WBK Group and the Kredyt Bank Group, its efficiency, effectiveness, duration and the risk of failing to achieve all of the expected synergies, it is possible that some customers may decide to cease using all or some of the products or services offered by the BZ WBK Group.

Moreover, following the Merger, the ultimate range of products and services of the BZ WBK Group for the Retail segment will be based on the range thereof offered by BZ WBK. Business and corporate customers of the BZ WBK Group after the Merger will be offered certain products and services on the terms currently available from BZ WBK.

Consequently, the terms of some of the products and services of Kredyt Bank Group offered to its customers prior to the Merger may not be the same as the terms of similar products in the product portfolio of the BZ WBK Group after the Merger. BZ WBK cannot rule out that the discontinuation by BZ WBK after the Merger of products offered prior to the Merger by the Kredyt Bank Group, specifically elements which are widely recognized by customers and enjoy a great deal of popularity due to their attractive terms, may have an adverse effect on the attitude of the customers of the former Kredyt Bank Group towards BZ WBK. In order to mitigate this process and its consequences, the BZ WBK Group could take certain actions to retain its regular customers, which may involve certain costs, the value of which is difficult to assess as of the date of this Offering Memorandum.

Additionally, following the Merger customers of the former Kredyt Bank might be classified into different segments in accordance with the segment split adopted by the BZ WBK. Such re-classification might also entail changes in product offering, the availability of certain products or customer relations with BZ WBK. There is a risk that certain customers will perceive the consequences of such re-classifications as unfavorable.

Furthermore, following the Merger customers of the former Kredyt Bank and BZ WBK who before the Merger had deposits in both Kredyt Bank and BZ WBK in the total amount exceeding EUR 100,000, may decide to withdraw a portion of their deposits in order avoid crossing the above treshold (which is calculated per one financial institution) and above which customers' deposits are not protected in full by the mandatory guarantee system operated by the BFG.

The occurrence of the factors described above could have a material adverse effect on the reputation, business, financial condition and/or results of operations of the BZ WBK Group.

Unexpected Losses Resulting from the Merger May Arise

Despite the legal and business due diligence review conducted in respect of the Kredyt Bank Group in connection with the Merger, the BZ WBK Group may uncover information after having merged with Kredyt Bank that was not known to the BZ WBK Group before the completion of the Merger and which may give rise to significant new contingencies or to contingencies in excess of the projections made by the BZ WBK Group. Any losses incurred by the BZ WBK Group as a result of the occurrence of any such contingencies relating to the Kredyt Bank Group and not known to BZ WBK in the context of the Merger could have a material adverse effect on the business, financial condition and/or results of operations of the BZ WBK Group.

The Integration of IT Systems is Complex

Both BZ WBK and Kredyt Bank rely heavily on the ability of their respective IT systems to correctly and promptly process a large amount of transactions. The correct operation of these IT systems is of key importance to effective competition on the financial market.

One of the stages of the integration of the BZ WBK Group and the Kredyt Bank Group is the integration of these IT systems, which will be carried out mainly by way of the introduction of BZ WBK's IT system in the Kredyt Bank Group. The process of the integration of the IT systems is complicated and multi-stage and is to be concluded with the full migration of the data from the Kredyt Bank Group to the BZ WBK Group simultaneously with the communication process involving the customers of the Kredyt Bank Group.

Given the complexity of the process of the integration of the IT systems of BZ WBK and Kredyt Bank, BZ WBK cannot guarantee that certain errors and delays will not occur during the planned data migration or that some IT systems may prove ineffective or their efficiency may be limited, which could have a material adverse effect on the reputation, business, financial condition and/or results of operations of the BZ WBK Group.

The Organizational Integration is Complex

The post-Merger integration involves the creation of a uniform organizational structure. Achievement of this organizational integration is one of the key assumptions underpinning the anticipated cost synergies from the Merger. On the one hand, it should result in savings as any overlapping functions, redundant positions, elements of technical and IT infrastructure and premises will be eliminated, but, on the other hand, it may cause temporary interruptions in the operations of the banks due to changes in the scope of existing responsibilities. Specifically, the integration process is subject to:

- risk of a change of operational and personnel philosophies;
- risk of a change of corporate culture;
- risk of additional time and funds needing to be contributed to assess credit risk, operational risk, management risk and market risk involving BZ WBK after the Merger;
- risk related to managers being excessively focused on the integration process;
- risk involving the integration of the products and services offered by BZ WBK after the Merger;
- risk of a suspension of or delay in growth in connection with the integration process;
- risk of a loss of key employees and customers (see *"Risk Related to a Loss of Some Customers As a Result of the Planned Merger"*); and
- risk of a delay to the integration process, operational difficulties and additional costs arising out of the requirement that the property of each of BZ WBK and Kredyt Bank should be managed by BZ WBK separately until the satisfaction or securing of any claims of creditors which arose prior to the Merger and who prior to 10 July 2013 requested in writing the payment thereof.

No assurance can be given that the integration effort in connection with the Merger will be fully effective and in line with the assumptions made when planning the Merger. If any of the above occurs, it could have an adverse effect on the prospects, results of operations and/or financial situation of the BZ WBK Group.

Risk Related to Effects of Unifying Accounting Policies and Interpretations of Laws Applied by the BZ WBK Group and the Kredyt Bank Group

Before the Merger, the members of the Kredyt Bank Group and the BZ WBK Group adopted in some cases different assumptions affecting certain accounting policies, judgments and estimates and the presented amounts of assets, liabilities and equity or profit and loss account items. Given that after the Merger the BZ WBK Group will prepare consolidated financial statements covering also the former Kredyt Bank Group, such assumptions will have to be unified within the BZ WBK Group. Thus, the financial statements of the BZ WBK Group in the future could be based, in certain respects, on different assumptions that were adopted historically by the BZ WBK Group or, especially, by the former Kredyt Bank Group.

Similarly, before the Merger, the Kredyt Bank Group and the BZ WBK Group might have adopted in some cases different interpretations of laws and regulations, such discrepancies between interpretations might have in particular occurred in the field of banking laws and recommendations as well as tax laws. After the Merger, it is possible that the BZ WBK Group will have to undertake certain measures in order to ensure that the entire BZ WBK Group interprets all laws and regulations uniformly.

Furthermore, in connection with the Merger, as of the date of this Offering Memorandum, the BZ WBK Group is still performing confirmatory work in relation to the fair value adjustments of the Kredyt Bank Group's assets and liabilities. Thus, the information on the fair value adjustments of the Kredyt Bank Group's assets and liabilities included in "*Selected Pro Forma Financial Information*" is based on a preliminary estimate of the fair values of assets acquired and liabilities assumed, and is subject to change as a result of such confirmatory work. Under applicable accounting rules, BZ WBK has up to twelve months from the date of acquisition to finalize the fair values. BZ WBK expects that this will be completed by 31 December 2013.

If any of the above occurs, it could have an adverse effect on the prospects, results of operations and/or financial situation of the BZ WBK Group.

The Audit Opinion for the Consolidated Financial Statements of Kredyt Bank for 2012 Contains Qualification

Ernst & Young issued qualified opinion on the Consolidated Financial Statements of Kredyt Bank for 2012 in connection with part of the impairment allowance recognized by the Management Board. For more details regarding such impairment allowance and the qualified opinion, please see "*Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group*".

The line items in the Consolidated Financial Statements of Kredyt Bank for 2012 affected by such qualifications include "*net operating income*", "*impairment losses on loans and advances to customers*", "*deferred tax assets*", "*total assets*", "*provisions*", "*total liabilities*", "*equity attributable to the shareholders of Kredyt Bank*", "*total equity*", "*total equity and liabilities*", "*net impairment losses on financial assets, other assets and provisions*", "*profit (loss) before tax*", "*income tax expense (credit)*", "*net profit (loss)*" and "*capital adequacy ratio*" and "*Tier 1 ratio (calculated based on primary funds)*". In addition, the following line items in the Unaudited Pro Forma Financial Information are affected "*loans and advances to customers*", "*goodwill*", "*net deferred tax assets*", "*total asset*", "*retained earnings*", "*total equity*", and "*total equity and liabilities*", "*impairment losses on loans and advances*", "*corporate income tax*", "*operating profit*", "*profit before tax*", and "*profit for the period*".

Due to the fact that the presentation of the collective impairment allowances of PLN 258 million in liabilities is not compliant with IFRS, the Consolidated Financial Statements of Kredyt Bank for 2012 are not fully comparable, in particular as regards the value of provisions in liabilities and impairment losses on loans and advances to customers in assets, with the Consolidated Financial Statements of Kredyt Bank for previous years. As a consequence, the value of provisions and, by extension, the value of total liabilities, is higher, and the negative amounts of impairment losses on loans and advances to customers is lower, and, by extension, the value of total assets, are higher than if the collective impairment allowances of PLN 258 million had been presented in compliance with IFRS, i.e. by increasing the value of negative amounts of impairment losses on loans and advances to customers presented on the asset side. Moreover, the lack of full comparability of data has an impact on the analysis of financial results of the Kredyt Bank Group, which may not in full reflect the trends and changes in financial results of the Kredyt Bank Group.

In addition, due to the fact that the Management Board intends to correct the presentation of the collective impairment allowances so that they are aligned with the accounting standards applied in the consolidated financial statements of the BZ WBK Group, data included in future consolidated financial statements of the BZ WBK Group may not be fully comparable with data affected by the above qualification included in audit opinion issued by Ernst & Young.

Furthermore, Ernst & Young provided a qualified opinion, due to lack of sufficient evidence presented to it, on the reasonableness of approximately PLN 333 million of the total PLN 577 million adjustment to impairment allowances of the additional loan impairment allowances of the Kredyt Bank Group as of 31 December 2012, the corresponding impairment charge in the profit and loss for the year ended 31 December 2012, as well as approximately PLN 61 million of deferred tax asset that has been recognized in relation to such additional loan impairment allowances.

Risk Related to Refinancing the Credit Lines from KBC

As of the date of this Offering Memorandum, the KBC Group continues to provide a certain level of financing to BZ WBK on the basis of certain financing agreements (for more details regarding these financing agreements, see *"Material Contracts—Agreements on the External Financing of BZ WBK"*). Except for the financing provided by the above financing agreement, if the BZ WBK Group needs any new financing in the future, such financing will likely be derived from sources other than KBC. Therefore, BZ WBK cannot give any assurance that it will raise funding on similar terms and conditions as those applicable to such funding. There is a risk that the terms and conditions of such funding may be less favorable than the terms and conditions which were given by the KBC Group to Kredyt Bank before the Merger.

Such a situation could have an adverse effect on the business, financial condition and/or results of operations of the BZ WBK Group.

Risks Related to the Polish Banking Sector

Changes to or an Increase in the Regulations of the Financial Services and Banking Industry in Poland and Internationally Could Adversely Affect the BZ WBK Group's Business, Financial Condition, Results of Operations and/or Prospects

The BZ WBK Group's operations are subject to Polish and European law, as well as various judicial and administrative decisions and administrative recommendations, that together impose a wide range of requirements and restrictions. The number of new or modified laws and regulations concerning banking activities has recently increased substantially, resulting in additional costs and uncertainty for all European banks.

It is possible that international and Polish regulations governing financial services, including banking and brokerage activities, may become stricter, especially in light of the current market conditions and the expectation of tightened supervision of the financial services sector.

In November 2010, at the G-20 summit in Seoul, the Basel Committee on Banking Supervision approved the Basel III Accord, which provides for tightening the capital and liquidity requirements applicable to banks with a view to strengthening the resilience of banking sector entities. The European Commission has prepared a draft directive and a draft regulation of the European Parliament and Council implementing the provisions of the Basel III Accord. Subsequently, the directive will have to be introduced into the laws of individual EU Member States. As of the date of this Offering Memorandum, it is not entirely clear how the Polish regulator will introduce such regulations into the laws of Poland and, therefore, how the reforms introduced by the Basel III Accord will affect the BZ WBK Group.

On 18 December 2011, the Consumer Credit Act came into effect, which in particular broadened the range of agreements to which its provisions apply, as well as the scope of the lenders' obligations to inform consumers of the total amount of interest, commissions and fees charged on consumer loans.

On 26 August 2011, amendments to the Banking Law, commonly known as the "Anti-Spread Act", came into force. Under these amendments, banks in Poland are required to accept, in the case of mortgage loans denominated in foreign currencies, the payment of both principal and interest in such foreign currencies and not to restrict a consumer's right to obtain foreign currencies from any sources (for example, from other banks or foreign exchange points).

Stricter supervision of the business conducted by the BZ WBK Group is also contained in the act amending the Banking Law, the Act on Trading in Financial Instruments and the Act on the Financial Market Supervision, which came into force on 12 June 2011, increasing the capital adequacy requirements for brokerage houses and the regulatory powers vested in the PFSA.

Moreover, in March 2012, the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards. A recommendation was made that multilateral arrangements be concluded between banks and the payment card organizations, with the aim of reducing the levels of interchange fees. As of the date of this Offering Memorandum, proposals for a draft law amending the Act on Payment Services regarding interchange fees are being considered by the Polish legislature. As of the date of this Offering Memorandum, such draft law has not been adopted and is subject to change.

In addition to amendments relating to Basel III and the above acts, the BZ WBK Group's business is, and will be, influenced by the regulations, requirements and recommendations included in the resolutions and recommendations issued by the PFSA (see the risk factor below titled "*The BZ WBK Group's Business, Financial Condition, Results of Operations and/or Prospects May Be Affected By Certain Recommendations Issued by the PFSA*").

Furthermore, as part of the reform of the European financial supervision system of the EU, the concept of an integrated banking union is being contemplated. Based on the proposals of the European Commission, such potential banking union is to comprise of four pillars: (i) more integrated banking supervision; (ii) a single rulebook in the form of capital requirements (in particular, CRD 4 regulations); (iii) common deposit protection schemes; and (iv) a European recovery and resolution mechanism.

To implement the first pillar, on 12 September 2012, the European Commission proposed a single supervisory mechanism ("**SSM**") for banks, led by the ECB, in order to strengthen the Economic and Monetary Union. Based on the proposals, the ECB will be exclusively competent for key supervisory tasks which are indispensable for detecting risks to the viability of banks and will be authorized to require such banks to take necessary actions. If the SSM is to be adopted, certain material supervisory powers will be removed from the level of national authorities from the Eurozone and transferred to the ECB. For more information, please see "*Banking Regulations in Poland*".

Although Member States outside the Eurozone cannot fully participate in the SSM, they may notify the ECB of their intention to join the SSM by establishing close co-operation between their competent authorities and the ECB. According to a statement made by the Prime Minister of Poland in December 2012, a decision on Poland joining the SSM will be made following internal consultations with the Minister of Finance, the NBP, the PFSA and the BGF. As of the date of this Offering Memorandum, such consultations have not yet been completed. If such proposals regarding the implementation of the banking union are adopted, however, Poland may decide to join the SSM by establishing close co-operation with the ECB even without prior joining the Eurozone. Moreover, if Poland joins the Eurozone and the regulation establishing the SSM will apply as a matter of law, Polish banks will participate in the SSM and the powers of the PFSA will be significantly limited.

It is not known whether the proposal regarding the creation of a European banking union will be introduced, and if so, in what form. Given this uncertainty, the precise impact of the SSM on the business of the BZ WBK Group cannot be assessed; however, such impact may have a material adverse effect on the business, financial condition, results and/or prospects of the BZ WBK Group.

BZ WBK cannot rule out that as a result of the actions, amendments and proposals referred to above, as well as other possible regulatory changes (including changes with respect to the requirements arising from the regulations and recommendations imposed by the governments or financial regulatory authorities, including the European Commission and other competent authorities of the European Union and the Basel Committee on Banking Supervision), the BZ WBK Group may become subject to more onerous supervision of its activities, including ECB supervision under the SSM, increased capital adequacy requirements or be required to incur additional costs or comply with additional disclosure and reporting obligations, as well as be subject to restrictions on certain types of transactions. The occurrence of any of the above-mentioned factors may affect the BZ WBK Group's strategy, its growth potential and profit margins and, consequently could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

The BZ WBK Group Faces Competition in the Polish Financial Sector

Competition in the Polish financial sector is relatively high, due to its relatively low level of concentration. According to the PFSA, as of 31 December 2012 there were 45 domestic commercial banks operating in Poland, and the market share of the five largest banks in the Polish banking sector by assets, value of customer deposits and amounts due from non-financial sector entities was 44.9%, 44.2% and 39.1%, respectively. In recent years, some large international banks have expanded, through acquisitions and mergers, and new banks have commenced operations in the Polish market (see "*Industry Overview—The Polish Banking Sector—Competitive Landscape of the Polish Banking Sector*").

The BZ WBK Group is especially exposed to competition in the area of universal banking, where it faces competition from large banks operating in the Polish retail and business market as well as from dynamically growing medium and small banks. If the BZ WBK Group is unable to maintain its competitive position in the Polish banking sector, there could be a material adverse effect on the BZ WBK Group's business, financial condition, results of operations and/or prospects.

BZ WBK's Business, Financial Condition, Results of Operations and/or Prospects May Be Affected by Certain Recommendations Issued by the PFSA

In recent years, the PFSA has issued new recommendations and introduced changes to previous recommendations which have imposed more onerous requirements on the lending activities and capital requirements of Polish banks.

In February 2010, the PFSA published Recommendation T, under which the PFSA determined, in particular, the maximum level of the ratio of expenses to service debt to average income earned by the borrowers. The implementation of Recommendation T led to a reduction in the number of potential borrowers in the retail segment, in particular those interested in mortgage loans, as well as a decrease in the value of loans granted. In February 2012, the PFSA published a new Recommendation T, the provisions of which are planned to be implemented by the banks by 31 July 2013. For more information on the new recommendation T, please see *"Banking Regulations in Poland"*.

In January 2011, the PFSA amended Recommendation S, which imposed additional restrictions regarding mortgage loans and loans denominated in foreign currencies, specifically through the determination of the maximum ratio of debt servicing expenses to the given borrower's average net income established for retail exposures. As a result of the implementation of Recommendation S, BZ WBK's flexibility in respect to its real estate financing loans and mortgage-secured loans, in particular foreign currency loans, was limited.

As of the date of this Offering Memorandum, the PFSA is considering further changes to Recommendation S that, in particular, regard foreign currency mortgage loans, which under the current proposal should be offered exclusively to borrowers who have a stable income in the currency of the loan.

In June 2011, the PFSA increased the risk weighting of retail and mortgage loans denominated in foreign currencies from 75% to 100%; such regulation has been in force since 30 June 2012. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of such type. Such amendment resulted in a lowering of the capital adequacy ratio of the BZ WBK Group (which, as of 31 December 2012 amounted to 16.5%).

Moreover, in 2012 the PFSA displayed its intention to more closely regulate bancassurance products and stressed the need to pay special attention to the need to provide customers with accurate and clear information about the offered investment products as well as the need to adjust the investment product offers to customer needs. In 2013 the PFSA addressed a letter to the Polish banks in which it expressed the need to make financial statements in the banking sector mutually comparable in terms of the manner of recognizing insurance-related fees. For more information regarding the PFSA's recommendations, please see "*Banking Regulations in Poland*".

The recommendations referred to above, as well as other possible changes in existing recommendations and issuance of new recommendations affecting supervision may affect the BZ WBK Group's strategy, its growth potential, its fees and commissions, and profit margins and, consequently, could have a material adverse effect on its the business, financial condition, results of operations and/or prospects.

An Additional Tax Levy May Be Imposed on Banks in Poland and the EU

The European Commission has been working on pan-European legislation imposing a financial transaction tax, a portion of the proceeds of which would be contributed directly to the EU budget. As of the date of this Offering Memorandum, there is no clear information as to when such tax would be imposed, if at all.

In addition, currently in Poland work is in progress on a new banking levy. In 2012, the Polish Minister of Finance announced his intention to introduce a banking levy; a draft of an act amending the Act on the BGF was approved by the Council of Ministers in January 2013 and passed over to the Parliament for further consideration. It has been initially proposed that a stabilization fund be established and credited with a prudence fee to be paid by banks. It is not known whether, when and in what form any such law will be adopted and, consequently, if any such fee will actually be introduced; moreover, the level of the fee has not been determined. Furthermore, as publicly announced in January 2013, the Ministry of Finance has commenced preliminary work on a draft regulation on the taxation of income generated by individuals from bank deposits connected with insurance policies, which may result in banks incurring additional obligations as tax remitters. However, as of the date of this Offering Memorandum, it is not known whether such regulation will be introduced, and if so, in what form.

The Debt Recovery Process in Poland is Cumbersome When Compared to Other EU Jurisdictions

Some of the companies from the BZ WBK Group engage in debt collection, which mainly involves the recovery of claims resulting from their respective banking operations. The conduct of debt collection operations, court proceedings and recovery through a bailiff may be time-consuming and difficult. The procedures for the sale of real properties or other methods of enforcement of mortgages on real properties established in favor of the BZ WBK Group may be protracted and difficult to implement in practice. Moreover, collection may not bring the expected results and the recovered amounts may be lower than expected. What is more, the value of assets securing the loan portfolio of the BZ WBK Group, specifically the value of the real properties, is subject to significant fluctuations and changes due to circumstances beyond the control of the BZ WBK Group, including macroeconomic circumstances affecting the Polish economy. Any drop in the value of the security interests may reduce the amount that the BZ WBK Group may recover through the enforcement of the security.

A delay in the enforcement of or an inability to enforce a significant number of security interests used as collateral may require the creation of additional provisions for the actual larger value of the loan portfolio or the making of certain write-downs, which may have an adverse effect on the business, financial condition and results of operations of the BZ WBK Group.

The Procedures for the Perfection of Mortgages in Poland are Formalistic and Lengthy When Compared to Other EU Jurisdictions

Mortgage loans granted by the BZ WBK Group are perfected by registering the mortgage with land and mortgage registries *(księgi wieczyste)* maintained by local courts having jurisdiction over the location of the property. Additionally, the procedure of the establishment of such collateral may be time-consuming, depending on the location of the given court. The BZ WBK Group disburses loans prior to the registration of mortgages in the land and mortgage registry book. As a result, particularly when granting mortgage loans for properties acquired on the primary market, there is a period prior to registration when the loans are not collateralized by the mortgage. In order to limit the risks related to granting unsecured loans, the BZ WBK Group insures these loans during the interim period. If the borrower defaults on the loan before the mortgage is registered and the insurance company fails to pay damages under the insurance policy, the claim of the BZ WBK Group under the loan may be unsecured and thus difficult to collect, which may have an adverse effect on the business, financial condition and results of operations of the BZ WBK Group.

Risks Related to Laws and Regulations

Polish Laws and Regulations May Change and the Interpretation Thereof May Be Unclear

BZ WBK has been established and operates under Polish law. A significant number of applicable regulations and the regulations on the functioning of financial institutions, the issuance of and trading in securities, shareholders' rights, foreign investments, issues related to corporate operation and corporate governance, commerce, taxes and the conducting of business activity have been changed and may be changed. These regulations are also subject to diverse interpretations and court judgments and may be applied in an inconsistent manner. BZ WBK cannot provide any assurance that its interpretation of Polish laws and regulations will not be challenged, in particular by the financial regulatory authorities, which could result in liability on the part of the BZ WBK Group or could require the BZ WBK Group to modify its practices, all of which could have an adverse effect on the BZ WBK Group's business, financial condition, results of operations and/or prospects.

Interpretation of Polish Tax Laws and Regulations Applicable to the BZ WBK Group's Operations May Be Unclear, and Polish Tax Laws and Regulations May Change

The Polish tax system is subject to frequent changes. Furthermore, some provisions of tax law are ambiguous and there are often no unanimous or uniform interpretations of laws or uniform practice by tax authorities or administrative courts. In particular, numerous doubts arise as to the interpretation of the provisions of tax law governing the operation of banks and other financial institutions, and applicable to complex financial transactions. Due to frequent changes to tax law and varying interpretations thereof, the risk connected with Polish tax law may be greater than that under other tax jurisdictions.

In addition to its own tax obligations, the members of the BZ WBK Group also pays tax on payments or contributions to its customers, employees and other entities. This means that on the basis of tax laws, the members of the BZ WBK Group, as tax remitters, are liable with all their assets for the correct calculation and timely payment of that tax. There can be no assurance that changes to tax law which are unfavorable to the members of the BZ WBK Group either as taxpayers or tax remitters will not be introduced or that the Polish tax authorities will not take a different and unfavorable interpretation of tax provisions or calculations to that adopted by the members of the BZ WBK Group, or that individual interpretations of tax laws obtained by the members of the BZ WBK Group will not be repealed, which may have an adverse effect on the business, financial condition, results of operations and/or prospects of the BZ WBK Group.

Investors May Not Be Able to Enforce Foreign Court Judgments against the BZ WBK Group

BZ WBK is an entity established and operating in accordance with Polish law and the vast majority of the BZ WBK Group's assets are located in the territory of Poland. Investors may enforce in Poland any judgment given in a civil or commercial case by a court in a Member State under Council Regulation No. 44/2001 of 22 December 2000 on the jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. The only Member State of the EU where Council Regulation No. 44/2001 does not apply is Denmark. Investors may face difficulties when attempting to enforce in Polish courts judgments that are issued by a court of a state that is not a Member State. In general, such foreign court judgments issued in civil matters are recognized by operation of law and may be enforced in Poland pursuant to the general provisions of the Polish Civil Procedure Code. Such judgments of foreign courts may be enforced in Poland provided that, *inter alia*, the judgments of foreign courts are final in their original jurisdiction and do not contradict the basic public policy principles of the Polish legal system. BZ WBK cannot provide assurance that all conditions precedent for the enforcement of foreign judgments in Poland will be met or that any particular judgment will be enforceable in Poland.

Risks Related to Macroeconomic Conditions

Global Economic Conditions Could Affect the BZ WBK Group's Business, Financial Condition, Results of Operations and/or Prospects

Macroeconomic conditions and the behavior of global financial markets influence the BZ WBK Group and its performance. At the beginning of 2008, the global economy started to experience one of its most significant crises in more than 80 years. Many developed economies were affected by recession, and many economies which are considered emerging markets, including Poland, underwent a significant slowdown in the rate of economic development. The financial crisis caused disruption in financial markets worldwide, impacting liquidity and the availability of funding within the international banking system. Access to funds and credit markets, as well as other forms of funding, was significantly limited. Insufficient liquidity, reduced availability of funding as well as the high volatility of prices within different classes of assets exerted significant pressure on financial institutions. Beginning in the second half of 2009, due to extraordinary measures regarding economic policy taken in developed economies (including significant loosening of the monetary policy of many central banks, governmental programs stimulating demand and recapitalizing banks from both private and state funds), the situation of the financial sector started to show signs of improvement.

However, in the second half of 2010, as a result of the crisis related to the indebtedness of certain Eurozone countries, an increase of risk related to the stability of the European financial sector and a slowdown in economic growth were observed. Additionally, the restructuring programs adopted by some of the highly indebted EU countries, which consist, *inter alia*, of decreasing governmental expenses and increasing taxes, resulted in lower growth rates in certain of these countries and, as a consequence, for the Eurozone. In 2011, the anxieties about the Eurozone situation increased, which was mostly reflected in the lowering of ratings of Eurozone countries and banks at the end of 2011. In 2012, such anxieties continued due to the requirement to recapitalize the Spanish banking sector and growing concerns around the effectiveness and consequences of the restructuring programs adopted by certain EU countries, as well as due to the uncertainty as to the necessity for further financial aid for certain EU countries or the EU banking sector. As of the date of this Offering Memorandum, the economic slowdown in Eurozone countries is expected to continue in 2013, which may also adversely impact the Polish economy.

If the aforementioned unfavorable circumstances and tendencies continue, they could have a material adverse effect on the business, financial condition, results of the operations and/or prospects of the BZ WBK Group.

Poland's Economic Conditions Could Affect the BZ WBK Group's Business, Financial Condition, Results of Operations and/or Prospects

The BZ WBK Group conducts its operations in Poland. The Polish economy is affected by the turmoil of the global macroeconomic situation and the international financial markets. The unfavorable trends in the Polish economy resulted in a deterioration of the employment market and an increase of unemployment rates.

A possible fall in household incomes and the situation on the labor market, the deterioration of demand, and anxiety concerning the economic conditions (which result in a limitation of investments) may restrict demand for the BZ WBK Group's loans earmarked for retail and business customers. The deterioration of the situation on the Polish financial markets may result in limited availability or increased cost of financing for entities from the banking segment and intensified competition in the deposit market. The deterioration of the economic situation (including increasing unemployment rates) and turmoil on the financial market (including the foreign exchange market) may have an unfavorable influence on the financial situation of the BZ WBK Group's borrowers and their ability to service and repay loans, which may in consequence result in a deterioration of the BZ WBK Group's loan portfolio. In such economic and market conditions, the value of collateral which secures loans granted by the BZ WBK Group, including real properties, may significantly decline.

The economic slowdown influenced the rate of growth of the Polish banking sector, which resulted in depressed lending by Polish banks in recent years relative to 2007/2008. The rate of growth of the banking sector in Poland may be further impeded given the uncertain prospects of the global economy, the Eurozone crisis and spread of the global economic slowdown evidenced in 2011 and 2012 to the Polish economy. Thus, the results achieved by the Polish banking sector in the past might not be indicative of future trends.

Any of these unfavorable conditions and tendencies could have a material adverse effect on the BZ WBK Group's business, financial condition, results of operations and/or prospects.

The Devaluation or Depreciation of PLN or Other Currencies in the CEE Region Could Impact the BZ WBK Group's Business, Financial Condition, Results of Operations and/or Prospects

Some Polish households and companies are exposed to the CHF and EUR through mortgage and other loans denominated in these currencies. Such exposure also exists among the BZ WBK Group's customers. A portion of the loans and advances to customers of the BZ WBK Group (30.7% as of 31 December 2012) and of the former Kredyt Bank Group (45.4% as of 31 December 2012), specifically in the real estate loan portfolio, is denominated in foreign currencies, mainly in EUR (23.4% and 11.8% of the BZ WBK Group's and Kredyt Bank Group's loan portfolios respectively as of 31 December 2012) and CHF (5.1% and 33.0% of the BZ WBK Group's and Kredyt Bank Group's loan portfolios respectively as of 31 December 2012). For more details regarding the currency structure of the mortgage loan portfolio, please see *"Selected Statistical and Financial Information—Loan Portfolio Analysis"* and *"Operating and Financial Review—Financial Condition—Assets—Loans and Advances to Customers"*. As a consequence, a depreciation of the PLN against foreign currencies, in particular against the CHF and EUR, may make it more difficult for debtors to repay their loans denominated in foreign currencies; specifically due to the fact that the vast majority of customers obtain their income in PLN.

Moreover, the volatility of the PLN may also make it more difficult for customers of Polish banks to settle foreign exchange instruments.

Additionally, certain investors perceive the economic or financial conditions of CEE countries to influence the economic or financial conditions of Poland, and financial assets of CEE countries may be treated as the same 'asset class' by certain foreign investors. As a result, these investors may reduce their investments in Polish financial assets due to the worsening economic or financial conditions in other CEE countries even if such worsening of financial conditions does not impact the Polish economy.

The above-mentioned factors may affect the quality and value of the BZ WBK Group's loan portfolio, increase provisions and have a material adverse effect on the BZ WBK Group's business, financial condition, results of operations and/or prospects.

The Collapse of the Euro as a Common Currency May Adversely Impact the Business, Financial Condition, Results and/or Prospects of the BZ WBK Group

There is a risk that a deterioration of the overall economic conditions in the EU and the issues related to the high debt levels of certain EU countries will result in the collapse of the EUR as the common currency in some or all of the Eurozone countries. Since, as of 31 December 2012, 10.8% and 6.2% of the BZ WBK Group's and the Kredyt Bank Group's amounts due to customers were denominated in EUR, 6.0% and 3.9%, respectively, of the investment securities of the BZ WBK Group and the Kredyt Bank Group, respectively, were denominated in EUR and 23.4% and 12.2%, respectively, of net loans and advances to customers of the BZ WBK Group and the Kredyt Bank Group loans and advances to customers were denominated in EUR, the liquidation of the Euro and the possible destabilization of the EUR exchange rate against other currencies could have an impact on the BZ WBK Group's business, specifically as follows: (i) the national currencies which would replace the EUR could be unstable, resulting in greater exchange rate risk than the BZ WBK Group is subject to; (ii) the receivables or payables under the agreements that the BZ WBK Group is party to or securities held or issued by the BZ WBK Group that are denominated in EUR could be exchanged into national currencies at unfavorable rates; (iii) the collapse of the EUR would result in an increase in transaction costs, which could adversely impact international trade the financing of which constitutes one of the area of the BZ WBK Group's business; (iv) the interest rates applicable to national currencies into which EUR is exchanged can be higher than those applicable to EUR, thus increasing the costs of funding in these currencies; and (v) the collapse of the EUR could result in further deterioration of the economic conditions in the EU, which would also impact the BZ WBK Group.

If the EUR collapses or there is a destabilization of the EUR exchange rates, this could have a material adverse effect on the business, financial condition, results of the operations and/or prospects of the BZ WBK Group.

Extraordinary Events beyond the BZ WBK Group's Control Could Adversely Affect the BZ WBK Group's Business, Financial Condition, Results of Operations and/or Prospects

Factors beyond the BZ WBK Group's control, such as catastrophic events, terrorist attacks, acts of war or hostilities, pandemic diseases or other similar unpredictable events, and responses to those events or acts, may create economic and/or political uncertainties which could have a negative impact on the Polish economy and, more specifically, could impede the BZ WBK Group's business and result in substantial losses. Such events or acts, and the losses resulting therefrom, are difficult to predict and may relate to property, financial assets or key employees.

If the BZ WBK Group's plans do not fully address these events, or if its plans cannot be implemented under the given circumstances, such losses may increase. Unforeseen events can also lead to additional operating costs, such as higher insurance premiums and the implementation of additional back-up systems. Insurance coverage for certain risks may also be unavailable, thus increasing the risk to the BZ WBK Group. The BZ WBK Group's inability to effectively manage these risks could have a material adverse effect on the BZ WBK Group's business, financial condition, results of operations and/or prospects.

Risks Related to the Offering and the Shares

[REDACTED]

BZ WBK's Failure to Meet the Requirements Set Forth in the WSE Rules or the Act on Public Offering May Cause the Shares to Be Delisted

Securities traded on the WSE may be delisted by the WSE. "*The Warsaw Stock Exchange Rules*" and the "*Detailed Exchange Trading Rules*" establish the basis for the optional and mandatory delisting of securities by the WSE. Securities are delisted when their transferability has been limited or when they are no longer dematerialized and have been converted to registered form, or at the PFSA's request in connection with a material threat to the proper functioning of the WSE, the safety of trading on the WSE or to the interests of investors, among other matters specified in detail in the Act on Trading in Financial Instruments. The PFSA may decide to delist a public company's securities if the company breaches its duties under the Act on Public Offering or certain obligations regarding disclosure of confidential information under the Act on Trading in Financial Instruments. The WSE may decide to delist securities if a public company, *inter alia*: repeatedly violates WSE regulations; submits an application for delisting; is declared bankrupt; fails to have any dealings in the given securities for a period of the last three months; or opens liquidation proceedings. There can be no assurance that none of the grounds for the delisting of the Shares will occur in the future. Upon the delisting of securities, investors can no longer trade the affected securities on the WSE, which would have a material adverse effect on the liquidity of such securities. Any off-market sale of such securities may be achieved only at a significant discount to their last traded price.

Trading in the Shares on the WSE May Be Suspended

The WSE may pass a resolution suspending trading in securities in accordance with the WSE Rules. The WSE may suspend trading in financial instruments at the request of a public company in order to protect the interests and the safety of trading activities or upon a violation of the WSE regulations by a listed company. Trading may be suspended for a period of up to three months.

The PFSA is empowered under the Act on Trading in Financial Instruments to direct the WSE to suspend trading in instruments quoted on the WSE for a period not exceeding one month. The PFSA may exercise this right where trading in specific securities or other financial instruments constitutes a threat to the proper functioning of the WSE or the safety of trading on the WSE, or where the interests of investors have been infringed. Other reasons justifying the PFSA demanding the suspension of trading in securities are specified in detail in the Act on Trading in Financial Instruments. During a suspension of trading in securities, investors are unable to purchase and sell the affected securities on the stock market, which will adversely affect the liquidity levels of such securities. Any off-market sale of suspended securities might be achieved only at a significant discount to their last traded price. There can be no assurance that trading in the Shares will not be suspended.

The Market Price of the Shares May Decrease and/or Be Highly Volatile

The market price of the Shares may decrease and/or be highly volatile, and be subject to significant fluctuations caused by various factors, some or many of which are beyond the BZ WBK Group's control and not necessarily related to the BZ WBK Group's business, operations and prospects. These factors include: the overall condition of the Polish economy; conditions and trends in the banking sector in Poland and elsewhere in Europe; changes in market valuations of companies in the financial services industry; variations in BZ WBK's quarterly operating results; fluctuations in stock market prices and volumes; potential changes in the banking regulatory regime; changes in financial estimates or recommendations by securities analysts regarding BZ WBK or the Shares; announcements by the BZ WBK Group or its competitors of new services or technology, acquisitions, or joint ventures; and activity by short sellers and changing government restrictions with regard to such activity. In addition, the equity market has generally been exposed to significant fluctuations in price which may be unrelated to or disproportionately high in relation to the results of operations of the companies in question. Such general market factors may have an adverse effect on the market price of the Shares, irrespective of the BZ WBK Group's results of operations.

The Issuance of Shares by BZ WBK in the Future or the Future Sale of a Significant Number of Shares in BZ WBK, or the Expectation That Such an Issue or Sale Will Take Place, Could Adversely Impact the Price of the Shares

Similarly as in other international offers comparable to the Offering, BZ WBK and the Selling Shareholders will be subject to lock-up restrictions concerning the issue or transfer of shares in BZ WBK for a specific time (see "*Plan of Distribution—Lock-Up Undertakings*").

After the lock-up restrictions expire, BZ WBK will be able to issue new shares (including through an issuance with the exclusion of pre-emptive rights, which is possible with the consent of the General Meeting after the adoption of a resolution with an 80% majority of the votes cast). Additionally, after the expiry of the lock-up restrictions, the Selling Shareholders will be able to freely dispose of the Shares.

It is not certain if the above-mentioned entities or other shareholders of BZ WBK who acquire a block of the Offer Shares in the Offering will wish to sell such Shares in the future or if BZ WBK will issue new shares or securities representing rights to shares in BZ WBK. Nevertheless, the market price of the Shares may decrease if, after the expiry of the restrictions, the above-mentioned entities or other shareholders of BZ WBK who acquire a block of the Offer Shares in the Offering resolve to sell their Shares or BZ WBK issues new shares or other securities, or the investors resolve that such is their intention.

The issuance or sale of a significant number of shares of BZ WBK or securities representing rights to shares in BZ WBK in the future or the expectation that such issuance or sale may occur may materially and adversely affect the market price of the shares in BZ WBK as well as BZ WBK's capacity to attract capital through a public offering or private placement of shares or other securities.

It needs to be stressed that future transactions involving the sale of a material number of shares in BZ WBK or the mere expectation of such sale may adversely impact BZ WBK's ability to raise capital in the future at a time appropriate for BZ WBK and at satisfactory prices, while the shareholding of BZ WBK's shareholders may be diluted as a consequence of any issues of new shares in BZ WBK in the future.

The Shares May Have Limited Liquidity

The fact that the Shares are admitted to trading on the regulated market operated by the WSE does not guarantee their liquidity. Listed companies from time to time experience significant fluctuations in securities trading volumes, which can have a negative impact on the market price of the Shares. If an appropriate level of trading in the Shares is not achieved or maintained, that could have a material impact on the liquidity and price of the Shares. Even if the appropriate level of trading in the Shares is achieved and maintained, the market price of the Shares may be below the price of such shares in the Offering.

Furthermore, the Shares may have a lower level of liquidity than the shares in comparable companies to BZ WBK listed on other markets, especially in the US or in other Western European countries. Moreover, as of the date of this Offering Memorandum, only Shares constituting approximately 8.64% of BZ WBK's share capital are in free float. Although, assuming that the Offering is fully subscribed for and none of the Selling Shareholders will receive any Shares as a result of stabilization transactions, the Shares in free float would amount to 30% of BZ WBK's share capital, such level of free float does not guarantee that the Shares will have sufficient liquidity.

Any inadequate level of liquidity of the Shares may limit the ability of investors to sell the required number of the Shares at the expected share price. This could have a material adverse effect on the price of the Shares.

Administrative Sanctions May Be Imposed on BZ WBK for a Breach of the Act on Public Offering

Pursuant to the Act on Public Offering, if a public company fails to perform or incorrectly performs its legal obligations, including its disclosure obligations, the PFSA may exclude the company's securities from trading on a regulated market for a definite or indefinite period, impose a fine of up to PLN 1 million, or impose both sanctions jointly. There can be no assurance that the PFSA will not impose such sanctions on BZ WBK in the future, which may adversely affect BZ WBK's reputation and the perception customers and investors have of it.

The Value of the Shares for Foreign Investors May Decrease Due to Exchange Rate Fluctuations

The market price of the Shares traded on the WSE is denominated in PLN. Consequently, payments for the Offer Shares will be made by foreign investors in PLN and, accordingly, foreign investors must convert amounts into PLN at a certain exchange rate, which could be different from the exchange rate prevalent in the future. Consequently, the return on investment in the Shares will depend not only on changes in the price of the Shares during the investment period, but also on fluctuations in the exchange rate between PLN and the investors' domestic currencies. Exchange rate risk will also apply to any cash disbursements under rights associated with the Shares, including the payment of dividends, which, if any are made, would be made in PLN.

Holders of the Shares in Certain Jurisdictions May Be Subject to Restrictions Regarding the Exercise of Pre-Emptive Rights with Respect to Future Offerings

In the case of an increase of BZ WBK's registered share capital, existing shareholders of BZ WBK are entitled to exercise pre-emptive rights pursuant to the Commercial Companies Code, unless such are waived in whole or in part by a resolution of the General Meeting. To the extent that pre-emptive rights are granted, holders of Shares in the U.S. may be unable to exercise their pre-emptive rights unless a registration statement under the U.S. Securities Act is effective with respect to such rights or an exemption from the registration requirements is available. Shareholders of BZ WBK in other jurisdictions may also be limited in their ability to exercise their pre-emptive rights. BZ WBK cannot give any assurance that in the future it will register any of the Shares or other securities in accordance with the U.S. Securities Act or the provisions of any other jurisdiction outside of Poland. If BZ WBK's share capital is increased in the future, BZ WBK's shareholders who are not able to exercise a potential pre-emptive right (in accordance with the laws of the country where they have their registered office) should take into account that their interest in BZ WBK's share capital may be diluted upon such issuance of new Shares. Furthermore, although in some jurisdictions non-participating shareholders may be given a distribution in cash of the value of their tradable rights, there is no requirement to do so in Poland and, consequently, an investor in the Shares may not receive any exercisable rights or any compensation in lieu of such rights.

The Interpretation of Polish Laws and Regulations Governing Investing in Shares, Including Tax Laws and Regulations Applicable to Investors, May Be Unclear and Polish Tax Laws and Regulations May Change

The Polish legal system, including the tax regulations incorporated therein, is subject to frequent changes. Furthermore, some provisions of Polish law, specifically tax law, are ambiguous and often there is no unanimous or uniform interpretation of the law or uniform practice by the public authorities, including the tax authorities, or the courts as far as the application of Polish law. Because of frequent changes in law and, specifically, tax law and the varying interpretations thereof, the risk connected with Polish tax law may be greater than that in other developed markets. The above is true in particular with respect to issues related to income tax applicable to income generated by investors in relation to the acquisition, holding and sale of securities. No assurance may be given that changes to the tax law, including tax treaties, which may prove unfavorable to investors will not be introduced or that the Polish tax authorities will not take a new, different and unfavorable interpretation of tax provisions, which could have an adverse effect on the tax charges incurred and the actual profit generated by investors from their investment in the Shares.

USE OF PROCEEDS

[REDACTED]

DIVIDENDS AND DIVIDEND POLICY

Dividend History

The table below presents information on the net profits of BZ WBK, the total dividend paid and the dividend per Share for each of the three most recent financial years.

	Year ended 31 December		
	2012	2011	2010
Consolidated profit for the period (in PLN thousand)	1,462,635	1,226,867	1,040,569
Dividend to be paid to shareholders (in PLN thousand)	—	584,608	584,608
Dividend per Share (in PLN)	—	8.00	8.00

Source: BZ WBK, Consolidated Financial Statements of BZ WBK

On 8 March 2013 BZ WBK informed investors that the Management Board tabled the following proposal which was approved by the Supervisory Board: (i) to allocate PLN 710,942,676.40 from BZ WBK's net profit for 2012 to dividend for shareholders, which means that the proposed dividend per share will be PLN 7.60; and (ii) to set the dividend registration date for 2 May 2013 and the dividend pay-out date for 17 May 2013. Such proposal of the Management Board as approved by the Supervisory Board will be submitted to the annual General Meeting.

Dividend Policy

BZ WBK's dividend policy is to distribute dividends of 50% of the consolidated net profit of the BZ WBK Group for the relevant financial year. In submitting proposed dividend payments, the Management Board will take into account the liquidity and capital requirements necessary for the growth of the business of the Group.

The dividend policy may, however, be reviewed from time to time by the Management Board and any future dividends will be paid subject to the General Meeting's decision, taking into account several factors concerning the BZ WBK Group, including the BZ WBK Group's prospects, future profits, cash requirements, financial standing, level of liquidity ratios, expansion plans as well as the laws and regulations pertaining to this subject in order to make such decision. Additionally, a draft resolution on dividend payments will always be reviewed, approved and adopted by the General Meeting, which is authorized to decide on a dividend amount other than that recommended by the Management Board.

Dividend Payment Restrictions

The payment of dividends by BZ WBK is subject to certain contractual and legal restrictions. In particular, the timing and method of dividend payments is prescribed by Polish corporate law. See "*Rights and Obligations Related to Shares and General Meetings—Dividends*".

On 27 November 2012, the PFSA adopted a stance on the rules regarding the 2013 dividend policy of banks for the year 2012. In the PFSA's stance it is stated that dividends for the year 2012 may only be paid by banks which meet all of the following criteria: (i) a capital adequacy ratio of over 12%; (ii) a Tier 1 ratio of over 9%; (iii) a forecast capital adequacy ratio for late 2013 in the extreme conditions test scenarios (base, shock I and shock II) of over 12%; (iv) a forecast Tier 1 ratio for late 2013 in the extreme conditions test scenarios (base, shock I and shock II) of over 9%; (v) a BION assessment of capital level above 2.5; (vi) a BION assessment of capital consonance better than 2.5; and (vii) a general BION assessment above 2.5. Banks that do not meet one or more of the above-listed criteria will be required to retain 100% of the profit made in 2012. To ensure the secure and stable operation of the banks, the PFSA made it a rule to recommend to banks that they should not pay 2012 dividends which amount to more than 75% of their profits.

All Shares, including the Offer Shares, carry equal rights to dividends and entitle the holders to participate in BZ WBK's profit from the date of their purchase, provided that the General Meeting passes a resolution on the distribution of profits and the dividend date is set after the date of the purchase of Shares.

Pursuant to the Shareholders' Agreement with the EBRD, any resolution of the Supervisory Board to pay a dividend of more than 50% of BZ WBK's profit after tax in the previous financial year, save if made in accordance with the business plan as provided to the EBRD, may be adopted only if the member of the

Supervisory Board nominated by the EBRD has voted in favor of such resolution (see "*Material Contracts—Other Agreements—Agreements with the EBRD*").

Moreover, under the Investment Agreement, resolutions approving the distribution of more than 50% of the profits obtained in a given year require KBC to vote in favor thereof in order to be passed (see "*Major Shareholders and the Selling Shareholders—Investment Agreement between Banco Santander and KBC"*).

For more detailed information regarding dividend and dividend payments, see "*Rights and Obligations Related to Shares and General Meetings—Dividends*".

Generally, income (revenue) earned by shareholders from dividends and other revenue from a share in the profits of legal persons who have their registered office or management board in Poland is subject to taxation at a flat rate of 19% of the income (revenue) earned. Nevertheless, the said rule may be modified with respect to taxpayers who comply with certain conditions specified in the CIT Act or the appropriate double tax treaty concluded between the Republic of Poland and their country of tax residence—in such case income (revenue) from dividends and other revenues from participation in profits generated by legal persons may be tax exempt or taxed at a lower rate. For more detailed information regarding the taxation of dividends, including specifically the conditions of tax exemption or the application of a lower tax rate, please see "*Taxation—Personal Income Tax and Corporate Income Tax*".

CAPITALIZATION

The data presented in this section should be considered in conjunction with the information provided in "Operating and Financial Review", the Consolidated Financial Statements of BZ WBK and the notes thereto, as well as the financial data presented in the other sections of this Offering Memorandum.

The following table contains information about the capitalization of the BZ WBK Group as of 31 December 2012.

	BZ WBK Group (PLN million) (audited)
Equity	
Share capital	746.4
Supplementary capital	—
Other reserve funds	5,704.7
Revaluation reserve	872.4
Retained earnings	127.1
Profit of the current period	1,433.8
Equity attributable to owners of BZ WBK	8,884.4
Non-controlling interests in equity	93.3
Total equity	**8,977.7**

Source: Consolidated Financial Statements of BZ WBK

The following table contains information about the capitalization of the Kredyt Bank Group as of 31 December 2012.

	Kredyt Bank Group (PLN million) (audited)
Equity	
Share capital	1,358.3
Supplementary capital	1,130.2
Other reserves	481.2
Revaluation reserve	212.3
Retained earnings (loss)	25.9
Current net profit (loss) attributable to the shareholders of Kredyt Bank	(156.5)*
Equity attributable to the shareholders of Kredyt Bank	3,051.4*
Attributable to non-controlling interests	—
Total equity	**3,051.4***

Source: Consolidated Financial Statements of Kredyt Bank

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

The Management Board's objective is to maintain, on an on-going basis, a level of capital that is adequate to the scale and risk profile of the BZ WBK Group's business activities.

The capital adequacy ratio, which shows the relationship between the capital requirements in respect of the specific risks and the level of capital and reserves, taking account of the obligatory reductions in line with the provisions of the Banking Law and the Resolutions of the Polish Financial Supervision Authority, is one of the basic measures applied by the BZ WBK Group in capital management. The minimum (as required under the Banking Law) level of the capital adequacy ratio may not be lower than 8% at both BZ WBK and the BZ WBK Group level. Additionally, the PFSA in its letter of 24 January 2012 to Polish banks stated that it expects them to maintain a minimum capital adequacy ratio of at least 12% and a minimum Tier 1 ratio of at least 9%. BZ WBK's internal target is to keep capital adequacy ratio for the BZ WBK Group at a level above 13.5%.

The table below presents the calculation of the capital adequacy ratio of the BZ WBK Group as well as information on Tier 1 ratio as of 31 December 2012.

	BZ WBK Group (PLN million) (unaudited)
Total capital requirement	4,028.5
Total own funds	8,549.4
Reductions	223.7
Own funds after reductions	8,325.7
Tier 1 capital	7,157.0
Tier 2 capital	1,168.7
Capital adequacy ratio (%)	**16.5**
Tier 1 ratio (%)	**14.2**

Source: Consolidated Financial Statements of BZ WBK

The table below presents the calculation of the capital adequacy ratio of the Kredyt Bank Group as well as information on Tier 1 ratio as of 31 December 2012.

	Kredyt Bank Group (PLN million) (audited)
Capital requirement	2,471.9*
Own funds and short-term capital	3,910.3*
Primary funds	2,742.8*
Supplementary funds	1,167.5
Capital adequacy ratio (%)	**12.7***
Tier 1 ratio (calculated based on primary funds) (%)	**8.9***

Source: Consolidated Financial Statements of Kredyt Bank

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group" above and note number 4 to the Consolidated Financial Statements as well as the auditor's opinion of Ernst & Young related thereto.

For more information on capital requirements on the BZ WBK Group please see "*Operating and Financial Review—Regulatory Capital Requirements*".

EXCHANGE RATES

The tables below present the mid, highest and lowest rates, as well as period-end rates as announced by the NBP for exchange transactions between PLN and foreign currencies during the respective periods. BZ WBK cannot guarantee, however, that the actual value of PLN corresponds to the given value of the respective currency or that it might have corresponded or been translated into the respective currency at the referred rate.

EUR/PLN Exchange Rate

	EUR/PLN exchange rate			
	Mid	High	Low	Period-end
2010	3.995	4.177	3.836	3.960
2011	4.120	4.564	3.840	4.417
2012	4.185	4.514	4.047	4.088
January 2013	4.137	4.197	4.067	4.187
February 2013	4.173	4.203	4.152	4.157

Source: NBP

On 15 March 2013, the EUR/PLN mid exchange rate announced by the NBP was PLN 4.1595 per EUR 1.

USD/PLN Exchange Rate

	USD/PLN exchange rate			
	Mid	High	Low	Period-end
2010	3.016	3.492	2.745	2.964
2011	2.963	3.507	2.646	3.417
2012	3.257	3.578	3.069	3.100
January 2013	3.115	3.170	3.066	3.087
February 2013	3.120	3.184	3.056	3.168

Source: NBP

On 15 March 2013, the USD/PLN mid exchange rate announced by the NBP was PLN 3.1868 per USD 1.

CHF/PLN Exchange Rate

	CHF/PLN exchange rate			
	Mid	High	Low	Period-end
2010	2.895	3.193	2.650	3.164
2011	3.348	3.956	2.965	3.633
2012	3.472	3.704	3.338	3.387
January 2013	3.368	3.412	3.307	3.389
February 2013	3.392	3.420	3.356	3.407

Source: NBP

On 15 March 2013, the CHF/PLN mid exchange rate announced by the NBP was PLN 3.3770 per CHF 1.

MARKET PRICE OF THE SHARES

The Shares have been traded on the main market of the WSE under the symbol "BZWBK" since June 2001. Currently 93,545,089 Shares are traded (including 18,907,458 series J bearer shares issued in connection with the Merger).

The trading currency of the Shares is PLN.

The following table provides an overview of the changes in the price of the Shares (based on the closing price on the WSE) for the periods indicated.

Period	High Price in PLN	Low Price in PLN	Turnover value in PLN million*
Year ended 31 December 2008	255.30	90.00	7,619.11
Year ended 31 December 2009	198.00	61.00	7,669.30
Year ended 31 December 2010	223.80	165.60	11,021.53
Year ended 31 December 2011	240.00	190.10	1,766.15
Year ended 31 December 2012	245.40	217.70	69.12
1st quarter 2010	206.50	165.60	1,999.92
2nd quarter 2010	223.80	181.30	2,704.13
3rd quarter 2010	219.00	176.30	3,808,94
4th quarter 2010	217.00	207.00	2,508,54
1st quarter 2011	228.20	211.60	1,505.35
2nd quarter 2011**	236.90	221.00	146.85
3rd quarter 2011	240.00	190.10	74.49
4th quarter 2011	232.00	207.80	39.46
1st quarter 2012	235.00	217.70	33.31
2nd quarter 2012	237.00	222.20	8.18
3rd quarter 2012	239.50	222.10	9.13
4th quarter 2012	245.40	226.00	18.50
January 2013***	284.70	239.00	17.24
February 2013	275.00	245.20	75.48

Source: the WSE

* Since 1 January 2011 value single counted; covers only electronic order book trades.

** As a result of Banco Santander's tender offer for the purchase of 100% of the shares completed on 1 April 2011 and the subsequent reverse squeeze-out requested by the minority shareholders, Banco Santander acquired shares representing 96.25% of BZ WBK's share capital. The free float of BZ WBK's shares following the completion of Banco Santander's tender offer and reverse squeeze-out was limited.

*** Following the admission and introduction to trading on the regulated market operated by the WSE of 18,907,458 series J bearer shares issued in connection with the Merger, the free float of the Shares increased to 8.64%.

On 15 March 2013, the closing price of the Shares on the WSE was PLN 266.80.

The Management Board expects that in the medium-term, following the completion of the Offering, the Shares will be included in the WIG-20 index of the WSE.

SELECTED HISTORICAL FINANCIAL INFORMATION

The selected financial data as of and for each of the years ended 31 December 2012, 31 December 2011 and 31 December 2010 was derived from or prepared on the basis of the Consolidated Financial Statements and the book entries or the internal management reporting system. Any financial information marked as "audited" derives from the Consolidated Financial Statements of BZ WBK or the Consolidated Financial Statements of Kredyt Bank. The financial data marked as "unaudited" derives from or has been determined on the basis of book entries or the internal management reporting system of BZ WBK.

This section should be read along with the information provided in "Operating and Financial Review", the Consolidated Financial Statements and the notes thereto and other financial data presented elsewhere in this Offering Memorandum.

Selected Historical Financial Information of the BZ WBK Group

Consolidated Statements of Financial Position

	As of 31 December		
	2012	**2011**	**2010**
		(PLN thousand) (audited)	
ASSETS			
Cash and balances with central banks	4,157,274	1,425,541	2,534,463
Loans and advances to banks	1,458,128	1,204,172	619,655
Loans and advances to customers	39,867,554	38,017,173	32,838,385
Investment securities	11,716,133	11,652,195	13,395,355
TOTAL ASSETS	**60,019,177**	**59,796,643**	**53,153,871**
LIABILITIES			
Deposits from banks	1,351,050	2,505,070	2,526,082
Deposits from customers	47,077,094	46,829,482	41,970,454
TOTAL LIABILITIES	**51,041,463**	**52,313,683**	**46,380,296**
EQUITY			
Equity attributable to owners of BZ WBK S.A.	8,884,367	7,355,575	6,623,056
Non-controlling interests in equity	93,347	127,385	150,519
TOTAL EQUITY	**8,977,714**	**7,482,960**	**6,773,575**
TOTAL LIABILITIES AND EQUITY	**60,019,177**	**59,796,643**	**53,153,871**

Source: The Consolidated Financial Statements of BZ WBK

Consolidated Income Statement

	For the year ended 31 December		
	2012	**2011**	**2010**
		(PLN thousand) (audited)	
Net interest income	2,301,077	2,068,585	1,822,175
Fee and commission income	1,596,038	1,558,664	1,555,947
Fee and commission expense	(211,052)	(200,992)	(212,719)
Net fee and commission income	1,384,986	1,357,672	1,343,228
Other income*	450,217	396,693	371,601
Impairment losses on loans and advances	(501,793)	(372,741)	(420,754)
Operating expenses	(1,817,194)	(1,918,883)	(1,763,521)
Operating profit	1,817,293	1,531,326	1,352,729
Corporate income tax	(374,404)	(315,563)	(316,612)
Profit for the period	1,462,635	1,226,867	1,040,569

Source: The Consolidated Financial Statements of BZ WBK

* Other income calculated as the sum of dividend income, net gain/(loss) on the sale of subsidiaries and associates, net trading income and revaluation, gains (losses) from other financial securities and other operating income.

Selected Key Ratios

	As of and for the year ended 31 December		
	2012	2011	2010
	(%) (unaudited)		
Profitability ratios			
NIM(1)	4.3	4.3	4.0
Net fee and commission income / Total net income from business activities	33.5	35.5	38.0
Cost/Income (C/I)(2)	43.9	50.2	49.9
ROA(3)	2.4	2.1	1.8
ROE(4)	20.9	19.8	17.9
Capital ratios			
Tier 1 ratio(5)	14.2	13.2	13.8
Capital adequacy ratio	16.5	15.1	15.8
Loan portfolio quality			
NPL ratio(6)	5.4	5.5	6.9
Cost of risk ratio(7)	1.2	1.0	1.2
Coverage ratio(8)	53.5	49.1	45.1
Funding ratios			
Loan to deposit ratio(9)	84.7	81.2	78.2
Leverage ratio (total equity/total assets)(10)	15.0	12.5	12.7

Source: The numbers based on which the ratios were calculated were derived from the Consolidated Financial Statements of BZ WBK or accounting records of BZ WBK

(1) Net interest income (including Swap points) to average interest-bearing assets, net of impairment write-down (calculated based on the balances as of the end of previous reporting period, the end of the half-year period in a given year and the end of a given year).

(2) Calculated by dividing operating expenses by total net income from business activities (total net income from business activities is defined as the sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income (iv) net gain/(loss) on sale of subsidiaries and associates; (v) net trading income and revaluation (vi) gains (losses) from other financial securities; (vii) other operating income).

(3) Calculated by dividing consolidated profit for the period attributable to BZ WKB shareholders by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of total assets.

(4) Calculated by dividing consolidated profit for the period attributable to BZ WKB shareholders by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of sum of equity (calculated as a sum of share capital, other reserve funds, revaluation reserve, retained earnings).

(5) Tier I own funds after reductions indicated in Resolution of the PFSA No. 381/2008 to risk-weighted assets calculated using the standard method pursuant to PFSA Resolution No. 76/2010.

(6) Calculated by dividing gross loans and advances to customers (individually and collectively impaired) by gross receivables.

(7) Calculated by dividing impairment losses on loans and advances by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of sum gross receivables.

(8) Calculated by dividing allowance for impairment (for individual and collectively impaired receivables) by gross loans and advances to customers (individually and collectively impaired).

(9) Calculated by dividing loans and advances to customers by deposits from customers.

(10) Calculated by dividing total equity by total assets.

	As of and for the year ended 31 December		
	2012	2011	2010
		(PLN thousand) (unaudited)	
Loans and advances to banks	1,458,128	1,204,172	619,655
Current account in Central Bank	3,073,166	492,941	1,712,907
Loans and advances to customers (net of other)	39,855,400	38,014,213	32,828,338
Debt instruments—trading	176,963	5,082,985	1,726,289
Debt instruments—AFS/HTM	11,048,024	10,971,561	12,715,274
	55,611,681	**55,765,872**	**49,602,463**
Total banks income	102,074	84,547	67,756
Total customers income	3,089,041	2,574,875	2,312,292
Total debt securities income trading	108,390	125,020	85,866
Total debt securities income AFS/HTM	567,980	629,291	664,387
	3,867,485	**3,413,733**	**3,130,301**
Total banks costs	(106,090)	(155,101)	(141,584)
Total customers costs	(1,439,564)	(1,168,126)	(1,158,362)
Total debt in issue costs	(20,754)	(21,921)	(8,180)
	(1,566,408)	**(1,345,148)**	**(1,308,126)**
NIM annualized +swappoint	**2,403,425**	**2,246,719**	**2,014,262**
FX swaps allocation	102,348	178,134	192,087
Net fee and commission income / Total net income from business activities (A2/A) (%)	**33.5**	**35.5**	**38.0**
Total costs/total income (A/B) (%)	**43.9**	**50.2**	**49.9**
A. Total net income from business activities	4,136,280	3,822,950	3,537,004
A1. Net interest income	2,301,077	2,068,585	1,822,175
A2. Net fee and commission income	1,384,986	1,357,672	1,343,228
A3. Other income, of which:	450,217	396,693	371,601
Dividend income	55,748	68,025	54,514
Net gain/(loss) on sale of subsidiaries and associates	400	—	—
Net trading income and revaluation	164,345	267,151	258,731
Gains (losses) from other financial securities	180,052	11,713	12,408
Other operating income	49,672	49,804	45,948
B. Operating expenses	(1,817,194)	(1,918,883)	(1,763,521)
ROA (C/D1) (%)	**2.4**	**2.1**	**1.8**
C. Profit for the period attributable to BZ WBK shareholders	1,433,847	1,184,347	974,223
D. Total assets	60,019,177	59,796,643	53,153,871
D1. Average total assets (3 point average)	59,717,312	56,141,772	53,600,905
ROE (C/E1) (%)	20.9	19.8	17.9
E. Equity	7,450,520	6,171,228	5,648,833
Share capital	746,376	730,760	730,760
Other reserve funds	5,704,680	4,698,884	4,344,640
Revaluation reserve	872,400	545,318	433,134
Retained earnings	127,064	196,266	140,299
E1. Average Equity (3 point average)	6,845,022	5,971,329	5,446,216
NPL ratio (G/H) (%)	**5.4**	**5.5**	**6.9**
F. Allowance for impairment (individually and collectively impaired loans)	1,207,320	1,069,295	1,069,645
G. Gross loan and advances to customers (individually and collectively impaired)	2,256,518	2,178,771	2,373,730
G1. Average gross loans	40,415,010	36,641,248	35,223,503
H. Total gross loan and advances to customers	41,411,761	39,432,418	34,246,006
Cost of risk ratio (I/G1) (%)	**1.2**	**1.0**	**1.2**
I. Impairment losses on loans and advances	(501,793)	(372,741)	(420,754)
Coverage ratio (F/G) (%)	**53.5**	**49.1**	**45.1**
Loan to deposit ratio (J/K) (%)	**84.7**	**81.2**	**78.2**
J. Loans and advanced to customers (net of impairment)	39,867,554	38,017,173	32,838,385
K. Deposits from customers	47,077,094	46,829,482	41,970,454
Leverage ratio (%)	**15.0**	**12.5**	**12.7**
J. Total equity	8,977,714	7,482,960	6,773,575

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

Selected Historical Financial Information of the Kredyt Bank Group

Ernst & Young issued qualified opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. The qualification related to the lack of sufficient evidence presented to Ernst & Young, on the reasonableness of approximetely PLN 333 million of the total PLN 577 million adjustment to impairment provisions of the additional loan impairment allowances of the Kredyt Bank Group as of 31 December 2012, the corresponding impairment charge in the profit and loss for the year ended 31 December 2012, as well as approximately PLN 61 million of deferred tax asset that has been recognized in relation to such additional loan impairment allowances.

In addition, the part of the above loan impairment allowances relating to losses incurred but not recorded and collective impairment amounting to PLN 258 million has been presented in a non-compliant way in liabilities in line, "Provisions". The full text of the qualification and the auditor's opinion issued by Ernst & Young is attached to this Offering Memorandum. The line items in the Consolidated Financial Statements of Kredyt Bank for 2012 affected by the above qualifications include, "net operating income", "impairment losses on "loans and advances to customers", "deferred tax assets", "total assets", "provisions", "total liabilities", "equity attributable to the shareholders of Kredyt Bank", "total equity", "total equity and liabilities", "net impairment losses on financial assets, other assets and provisions", "profit", "(loss) before tax", "income tax expense (credit)", "net profit (loss)", "capital adequacy ratio" and "Tier 1 ratio (calculated based on primary funds)".

For more information on the above, please see "Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Consolidated Statements of Financial Position

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
ASSETS			
Cash and balances with the Central Bank	963,375	784,668	1,943,636
Gross loans and advances to banks	1,179,730	1,188,012	1,466,249
Derivatives	1,155,201	1,071,089	463,159
Gross loans and advances to customers	29,834,384	30,493,915	29,108,520
Investment securities	7,976,365	8,678,712	9,467,240
TOTAL ASSETS	**40,761,235***	**42,003,084**	**43,374,246**
LIABILITIES			
Amounts due to banks	4,283,078	8,486,491	12,150,706
Amounts due to customers	30,392,630	28,043,157	25,660,758
TOTAL LIABILITIES	**37,709,857***	**38,937,459**	**40,546,022**
EQUITY			
Equity attributable to the shareholders of Kredyt Bank	3,051,378*	3,065,625	2,828,224
Attributable to non-controlling interests	0	0	0
TOTAL EQUITY	**3,051,378***	**3,065,625**	**2,828,224**
TOTAL EQUITY AND LIABILITIES	**40,761,235***	**42,003,084**	**43,374,246**

Source: The Consolidated Financial Statements of Kredyt Bank

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Consolidated Income Statement

	For the year ended 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Net interest income	759,666	1,150,096	1,127,766
Net fee and commission income	341,395	314,920	329,873
Dividend income	1,791	1,699	1,841
Other operating income	93,590	133,188	100,930
Total operating income	**1,575,138**	**1,679,487**	**1,689,338**
Total operating expenses	**(997,839)**	**(1,053,535)**	**(985,884)**
Net impairment losses on financial assets, other assets and provisions	(736,395)*	(198,784)	(471,971)
Net operating income	**(159,096)***	**427,168**	**231,483**
Share in profit (loss) of associates	1,019	3,973	3,224
Profit (loss) before tax	**(158,077)***	**431,141**	**234,707**
Income tax expense (credit)	1,624*	(103,897)	(48,771)
Net profit (loss)	**(156,453)***	**327,244**	**185,936**

Source: The Consolidated Financial Statements of Kredyt Bank

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Selected Key Ratios

	As of and for the year ended 31 December		
	2012	2011	2010
		(%) (unaudited)	
Profitability ratios			
NIM(1)	1.81*	2.66	2.71
Net fee and commission income / Total net income from business activities(2)	23.0	20.4	20.8
Cost/Income (C/I)(3)	62.4	61.3	56.9
ROA(4)	(0.4)*	0.8	0.4
ROE(5)	(5.0)*	11.1	6.8
Capital ratios			
Tier 1 ratio(6)	8.88*	8.66	8.95
Capital adequacy ratio	12.66*	12.50	12.51
Loan portfolio quality			
NPL ratio(7)	10.1	8.2	9.7
Cost of risk ratio(8)	1.39*	0.59	1.45
Coverage ratio(9)	55.4*	51.7	63.6
Funding ratios			
Loan to deposit ratio(10)	92.9*	103.7	106.0
Leverage ratio (total equity/total assets)(10)	7.5*	7.3	6.5

Source: The Consolidated Financial Statements of Kredyt Bank, BZ WBK

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto

(1) Net interest income to average total assets (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(2) Net fee and commission income to total net income from business activities (calculated as total operating income for the year less other operating income for the year).

(3) General and administrative expenses for the year to total operating income for the year less other operating expenses for the year.

(4) Net profit (loss) for the year to average total assets (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(5) Net profit (loss) for the year to average total equity (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(6) Calculated by dividing Tier 1 capital by the total capital requirements multiplied by 12.5 (ratio calculated based on primary funds).

(7) The share of impaired gross receivables in gross loans and advances to customers.

(8) Net impairment losses on loans and advances to average gross loans and advances to customers (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(9) Impairment losses for receivables with evidence to impairment to impaired gross receivables.

(10) Loans and advances to customers (net of impairment) as of the end of the period (calculated as a sum of gross loans and advances to customers and the negative amount of impairment losses on loans and advances to customers) to amounts due to customers as of the end of the period.

(11) Total equity as of the end of the period to total assets as of the end of the period.

	As of and for the year ended 31 December**		
	2012	2011	2010
		(in PLN thousands) (unaudited)	
NIM = A/((B+C+D)/3) (%)	**1.81***	**2.66**	**2.71**
A. Net interest income	759,666	1,150,096	1,127,766
B. Total assets	40,761,235*	42,003,084	43,374,246
C. Total assets at 30 June	43,495,151	44,340,215	42,245,376
D. Total assets at the end of the previous reporting period	42,003,084	43,374,246	39,076,598***
Net fee and commission income/Total net income from business activities = A/B (%)	**23.0**	**20.4**	**20.8**
A. Net fee and commission income	341,395	314,920	329,873
B. Total net income from business activities = a-b	1,481,548	1,546,299	1,588,408
a) Total operating income	1,575,138	1,679,487	1,689,338
b) Other operating income	93,590	133,188	100,930
Cost/Income (C/I) = −A/(B+C) (%)	**62.4**	**61.3**	**56.9**
A. General and administrative expenses	(959,400)	(990,363)*****	(928,103)******
B. Total operating income	1,575,138	1,679,487	1,689,338
C. Other operating expenses	(38,439)	(63,172)*****	(57,781)******
ROA = A/((B+C+D)/3) (%)	**(0.4)***	**0.8**	**0.4**
A. Net profit (loss)	(156,453)*	327,244	185,936
B. Total assets	40,761,235*	42,003,084	43,374,246
C. Total assets at 30 June	43,495,151	44,340,215	42,245,376
D. Total assets at the end of the previous reporting period	42,003,084	43,374,246	39,076,598***
ROE = A/((B+C+D)/3) (%)	**(5.0)***	**11.1**	**6.8**
A. Net profit (loss)	(156,453)*	327,244	185,936
B. Total equity	3,051,378*	3,065,625	2,828,224
C. Total equity at 30 June	3,244,851	2,955,927	2,727,418
D. Total equity at the end of the previous reporting period	3,065,625	2,828,224	2,588,583***
NPL ratio = B/A (%)	**10.1**	**8.2**	**9.7**
A. Gross loans and advances to customers	29,834,384	30,493,915	29,108,520
B. Impaired gross receivables	3,005,091	2,512,454	2,821,984
Cost of risk ratio = −A/((B+C+D)/3) (%)	**1.39***	**0.59**	**1.45**
A. Net impairment losses on loans and advances	(422,264)*	(172,398)	(410,384)
B. Gross loans and advances to customers at the end of the reporting period	29,834,384	30,493,915	29,108,520
C. Gross loans and advances to customers at 30 June	30,676,784	28,651,797	28,748,715
D. Gross loans and advances to customers at the end of the previous reporting period	30,493,915	29,108,520	27,297,744***
Coverage ratio = A/B (%)	**55.4***	**51.7**	**63.6**
A. Impairment losses for receivables with evidence for impairment****	1,605,068*	1,299,559	1,793,562
B. Impaired gross receivables	3,005,091	2,512,454	2,821,984
Loan to deposit ratio = A/B (%)	**92.9***	**103.7**	**106.0**
A. Loans and advances to customers (net of impairment)	28,229,316*	29,085,754	27,194,520
B. Amounts due to customers	30,392,630	28,043,157	25,660,758

	As of and for the year ended 31 December**		
	2012	2011	2010
		(in PLN thousands) (unaudited)	
Leverage (total equity/total assets) = A/B (%)	**7.5***	**7.3**	**6.5**
A. Total equity	3,051,378*	3,065,625	2,828,224
B. Total assets	40,761,235*	42,003,084	43,374,246

Source: The Consolidated Financial Statements of Kredyt Bank, BZ WBK

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

** Data as of and for the year ended 31 December unless specified otherwise in the table.

*** The amount at the beginning of the reported period.

**** Impairment losses for receivables with evidence for impairment as of 31 December 2012 includes additional PLN 199.8 million impairment losses for receivables with evidence for impairment presented as a liability in item "Provisions" (for more information see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group").

***** In 2012 the Kredyt Bank Group changed the presentation of expenses incurred by the Kredyt Bank Group within particular expense categories from net terms to gross terms (including VAT). Therefore the values of the items presented in the consolidated income statement for 2011 have changed. For more information please refer to note note 5 in the Concolidated Financial Statements of Kredyt Bank for the 2012.

****** Not comparable as the data was not restated as for 2011 in the year 2012. For more information please refer to the explanation above.

SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial data as of and for the year ended 31 December 2012 was derived from or prepared on the basis of the Unaudited Pro Forma Financial Information. This section should be read along with the information provided in "Operating and Financial Review", the Consolidated Financial Statements, the Unaudited Pro Forma Financial Information and the notes thereto and other financial data presented elsewhere in the Offering Memorandum.

The following unaudited pro forma condensed consolidated financial information, which comprises the unaudited pro forma condensed consolidated statement of financial position as of 31 December 2012 and the unaudited pro forma condensed consolidated income statement for the year ended 31 December 2012, has been prepared based on the assumptions described in the Unaudited Pro Forma Financial Information and in compliance with the recognition and measurement principles of the IFRS.

The unaudited pro forma condensed consolidated financial information has been prepared only and exclusively for illustrative purposes and, in light of its hypothetical nature, it does not represent the actual asset and financial position, financial result, the balance sheet sum or the equity of BZ WBK. Also, it does not form the basis for any forecasts, comparisons or budgets. It is not intended to be indicative of future results. Unless otherwise indicated, all of the financial information relating to the companies covered by the unaudited pro forma condensed consolidated financial information is based on the consolidated financial statements of the BZ WBK Group and of the Kredyt Bank Group for the year ended 31 December 2012, to which adjustments were made as indicated in the Unaudited Pro Forma Financial Information.

The unaudited pro forma condensed consolidated statement of financial position gives effect to the Merger as if it had occurred on 31 December 2012. The unaudited pro forma condensed consolidated income statement gives effect to the Merger as if it had occurred on 1 January 2012. The unaudited pro forma adjustments are described in the notes to the Unaudited Pro Forma Financial Information.

The unaudited pro forma condensed consolidated financial information has been prepared based on the following: (i) the audited consolidated financial statements of the BZ WBK Group for the year ended 31 December 2012, presented in thousands of PLN, which have been prepared in accordance with the IFRS as approved by the EU; and (ii) the audited consolidated financial statements of the Kredyt Bank Group for the year ended 31 December 2012, presented in thousands of PLN, which have been prepared in accordance with the IFRS as approved by the EU.

Ernst & Young issued qualified opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. The qualification related to the lack of sufficient evidence presented to Ernst & Young, on the reasonableness of approximetely PLN 333 million of the total PLN 577 million adjustment to impairment provisions of the additional loan impairment allowances of the Kredyt Bank Group as of 31 December 2012, the corresponding impairment charge in the profit and loss for the year ended 31 December 2012, as well as approximately PLN 61 million of deferred tax asset that has been recognized in relation to such additional loan impairment allowances. In addition, the part of the above loan impairment allowances relating to losses incurred but not recorded and collective impairment amounting to PLN 258 million has been presented in a non-compliant way in liabilities in line „Provisions". The full text of the qualification and the auditor's opinion issued by Ernst & Young is attached to this Offering Memorandum (for more information on the above, please see "*Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group*" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto. The line items in the Unaudited Pro Forma Financial Information affected by such qualifications include "*loans and advances to customers*", "*goodwill*", "*net deferred tax assets*", "*total asset*", "*retained earnings*", "*total equity*", and "*total equity and liabilities*", "*impairment losses on loans and advances*", "*corporate income tax*", "*operating profit*", "*profit before tax*", and "*profit for the period*".

The Merger is being accounted for using the acquisition method of accounting in accordance with IFRS 3 "*Business combination*" ("*IFRS 3*"). Under the acquisition method of accounting, the aggregate consideration paid is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values on the transaction date. Goodwill is measured as the excess, if any, of the sum of the consideration paid over the net amounts of identifiable assets acquired and liabilities assumed on the acquisition date. This unaudited pro forma condensed consolidated financial information has been prepared based on preliminary estimates of fair values. The final allocation of the consideration paid to the assets acquired and the liabilities assumed may differ materially from the information presented in such unaudited pro forma condensed consolidated financial information. In accordance with IFRS 3, an acquirer has up to twelve months following the acquisition to finalize the allocation of the purchase price, which is expected to be completed by 31 December 2013. The preliminary estimates of the fair values of the assets acquired and the liabilities assumed herein may be subject to change upon the finalization of the valuation of the assets acquired and the liabilities assumed as of the closing date as well as the finalization of the audit that is underway as of the date of the pro forma preparation of the underlying data of Kredyt Bank as of 4 January 2013 required for valuation purposes.

The adjustments made in order to present the unaudited pro forma condensed consolidated financial statements have been made based upon available information and assumptions that the Management Board believes are reasonable, are directly attributable to the Merger and are factually supportable. The unaudited pro forma financial statements have not been prepared, and shall not be construed as having been prepared, in accordance with Regulation S-X under the US Securities Act. The unaudited pro forma condensed consolidated financial statements do not purport to present what the BZ WBK Group's financial position or results of operations would actually have been if the Merger would have occurred on the dates described above. No account has been taken within the unaudited pro forma condensed consolidated financial information of any future changes in accounting policies or any synergies (including cost savings), all of which may or may not occur as a result of the Merger.

Unaudited Pro Forma Condensed Consolidated Statement of Financial Position

	As of 31 December 2012						
	BZ WBK Group historical data	**Kredyt Bank Group historical data**	**Inter-company transactions**	**Purchase price allocation & acquisition adjustments**	**IFRS harmonization adjustments**	**Other adjustments**	**Pro forma balance sheet**
				(PLN thousand) (unaudited)			
ASSETS							
Cash and balances with central banks	4,157,274	963,375	—	—	—	—	5,120,649
Loans and advances to banks	1,458,128	1,197,430	(2,314)	—	(899,047)	117,700	1,854,197
Reverse repo transactions	—	117,700	—	—	—	(117,700)	—
Financial assets at fair value through profit and loss	—	60,413	—	—	—	(60,413)	—
Financial assets held for trading	831,715	1,361,671	(5,123)	—	—	60,413	2,248,676
Hedging derivatives	253,553	118,610	—	—	—		372,163
Loans and advances to customers	39,867,554	28,229,316*	—	(497,727)	(257,800)		67,341,343
Investment securities	11,716,133	7,976,365	—	155,040	899,047		20,746,585
Investments in associates and joint ventures	115,685	—	—	—	—		115,685
Intangible assets	127,338	94,816	—	139,394	—		361,548
Goodwill	—	—	—	1,689,049	—	(533)	1,688,516
Property, plant and equipment	479,811	223,338	—	(31,910)	—		671,239
Current income tax assets	—	—	—	—	—		—
Net deferred tax assets	258,037	328,578*	—	27,376	(1,380)		613,611
Investment property	—	16,137	—	—	—		16,137
Assets classified as held for sale	—	5,709	—	—	—		5,709
Other assets	753,949	84,477	—	(5,329)	—		833,097
Total assets	**60,019,177**	**40,761,235***	**(7,437)**	**1,475,892**	**(259,180)**	**(533)**	**101,989,155**

Source: Unaudited Pro Forma Financial Information

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Unaudited Pro Forma Condensed Consolidated Statement of Financial Position

	As of 31 December 2012						
	BZ WBK Group historical data	**Kredyt Bank Group historical data**	**Inter-company transactions**	**Non-recurring transaction adjustments**	**Changes in accounting policy and other**	**Other adjustments**	**Pro forma balance sheet**
				(PLN thousand) (unaudited)			
LIABILITIES							
Deposits from banks	1,351,050	4,283,078	(2,314)	(23,476)	—	94,937	5,703,275
Repo transactions		94,937	—	—	—	(94,937)	—
Hedging derivatives	321,950	62,366	—	—	—	—	384,316
Financial liabilities held for trading	728,831	1,280,520	(5,123)	—	—	—	2,004,228
Deposits from customers	47,077,094	30,392,630	—	(18,288)	—	—	77,451,436
Subordinated liabilities	409,110	971,533	—	—	—	—	1,380,643
Current income tax liabilities	154,916	7,238	—	—	—	—	162,154
Net deferred tax liabilities	—	1,380	—	—	(1,380)	—	—
Other liabilities	998,512	616,175*	—	25,194	(257,800)	(533)	1,381,548
Total liabilities	**51,041,463**	**37,709,857***	**(7,437)**	**(16,570)**	**(259,180)**	**(533)**	**88,467,600**
Equity							
Equity attributable to owners of BZ WBK	**8,884,367**	**3,051,378**	**—**	**1,492,462**	**—**	**—**	**13,428,207**
Share capital	746,376	1,358,294	—	(1,169,219)	—	—	935,451
Other reserve funds	5,704,680	1,611,325	—	2,743,441	—	—	10,059,446
Revaluation reserve	872,400	212,298	—	(212,298)	—	—	872,400
Retained earnings	127,064	25,914*	—	(25,914)	—	—	127,064
Profit on the current period	1,433,847	(156,453)	—	156,453	—	—	1,433,847
Non-controlling interests in equity	**93,347**	**—**	**—**	**—**	**—**	**—**	**93,347**
Total equity	**8,977,714**	**3,051,378***	**—**	**1,492,462**	**—**	**—**	**13,521,554**
Total equity and liabilities	**60,019,177**	**40,761,235***	**(7,437)**	**1,475,892**	**(259,180)**	**(533)**	**101,989,155**

Source: Unaudited Pro Forma Financial Information

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Unaudited Pro Forma Condensed Consolidated Income Statement

	For the year ended 31 December						
	BZ WBK Group historical data	Kredyt Bank Group historical data	Inter-company transactions	Purchase price allocation & acquisition adjustments	IFRS harmonization adjustments	Other adjustments	Pro forma profit and loss
				(PLN thousand) (unaudited)			
Interest income	3,867,485	2,299,386	(2,558)	58,012	—	—	6,222,326
Interest expense	(1,566,408)	(1,539,720)	2,558	(16,186)	—	—	(3,119,757)
Net interest income	**2,301,077**	**759,666**	**—**	**41,826**	**—**	**—**	**3,102,569**
Fee and commission income	1,596,038	419,906	—	—	229,115	—	2,245,059
Fee and commission expense	(211,052)	(78,511)	—	—	—	—	(289,563)
Net fee and commission income	**1,384,986**	**341,395**	**—**	**—**	**229,115**	**—**	**1,955,496**
Dividend income	55,748	1,791	—	—	—	—	57,539
Nat gain (loss) on sale of subsidiaries and associates	400	—	—	—	—	17,138	17,538
Net trading income and revaluation	164,345	305,340	—	—	(229,115)	—	240,570
Net result on hedging activities	—	(4,115)	—	—		4,115	—
Gains (losses) from other financial securities	180,052	77,471	—	—	—	(21,253)	236,270
Other operating income	49,672	93,590	—	—	—	1,177	144,439
Impairment losses on loans and advances	(501,793)	(736,395)*	—	—	—	9,195	(1,228,993)
Operating expenses incl.:	(1,817,194)	(997,839)	—	(36,376)	36,192	16,778	(2,798,439)
Bank's staff, operating expenses and management costs	*(1,653,112)*	*(959,400)*	—	*2,341*	—	*101,946*	*(2,508,225)*
Depreciation/ amortization	*(137,940)*	—	—	*(38,717)*	*36,192*	*(70,833)*	*(211,299)*
Other operating expenses	*(26,142)*	*(38,439)*	—	—		*(14,335)*	*(78,916)*
Operating profit	**1,817,293**	**(159,096)***	**—**	**5,450**	**36,192**	**27,150**	**1,726,989**
Share in net profits (loss) of entities accounted for by the equity method	19,746	1,019	—	—	—	—	20,765
Profit before tax	**1,837,039**	**(158,077)***	**—**	**5,450**	**36,192**	**27,150**	**1,747,754**
Corporate income tax	(374,404)	1,624*	—	(534)	(6,876)	(35,788)	(415,978)
Profit for the period	**1,462,635**	**(156,453)***	**—**	**4,915**	**29,315**	**(8,637)**	**1,331,775**
of which:							
attributable to owners of BZ WBK	*1,433,847*	*(156,453)*	—	*4,915*	*29,315*	*(8,637)*	*1,302,987*
attributable to non-controlling interests	*28,788*	—	—	—	—	—	*28,788*

Source: Unaudited Pro Forma Financial Information

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

OPERATING AND FINANCIAL REVIEW

This operating and financial review has been prepared based on the consolidated income statement, consolidated statement of financial position and consolidated cash flow statement of the BZ WBK Group as of and for the years ended 31 December 2012, 2011 and 2010 contained in the Consolidated Financial Statements of BZ WBK and based on the accounting records and the internal management reporting system for the same periods.

The part of this operating and financial review titled "Operating and Financial Review of the Kredyt Bank Group" relates to the Kredyt Bank Group and has been prepared based on the consolidated income statement, consolidated statement of financial position and consolidated cash flow statement of the Kredyt Bank Group as of and for the years ended 31 December 2012, 2011 and 2010 contained in the Consolidated Financial Statements of Kredyt Bank and based on the accounting records and the internal management reporting system for the same periods.

The part of this operating and financial review titled "Operating and Financial Review of the Kredyt Bank Group" is included in this operating and financial review in order to provide historical information on the Kredyt Bank Group which as a result of the Merger has been merged into BZ WBK. For more details regarding the Merger and its consequences please see "Merger and Integration of the BZ WBK Group and the Kredyt Bank Group".

The following discussion and analysis of the BZ WBK Group's and the Kredyt Bank Group's results of operations, financial condition, prospects and cash flows should be read and interpreted in conjunction with the Consolidated Financial Statements of BZ WBK and the Consolidated Financial Statements of Kredyt Bank and other financial information included in other sections of the Offering Memorandum, specifically, jointly with the data presented in "Selected Statistical and Financial Information", "Selected Historical Financial Information" and "Selected Pro-Forma Financial Information". This section includes forward-looking statements that reflect the current views of the Management Board and, due to their nature, involve risks and uncertainties. The actual results of the BZ WBK Group could differ materially from those contained in any forward-looking statements as a result of the factors discussed below and in other sections of this Offering Memorandum, particularly in "Risk Factors" (see also "Important Information—Forward-Looking Statements"). Investors should read the whole of the Offering Memorandum and not base their decisions or opinions solely upon the information contained in this section.

The summary of critical accounting policies and estimates according to which the Consolidated Financial Statements were prepared is provided in this section in "Material Accounting Policies, Estimates and Judgments".

Overview

BZ WBK was established in 2001 as a result of the merger between Bank Zachodni S.A. (BZ) and Wielkopolski Bank Kredytowy S.A. (WBK). AIB was the major shareholder of WBK and then BZ WBK from 1996 until 2011. Since 2011, BZ WBK has been part of the Banco Santander Group. Shares in BZ WBK have been listed on the WSE since 2001.

BZ WBK is a universal bank offering a wide range of products and services to both retail and corporate customers. Historically, the strength of BZ WBK has been in business and corporate banking and BZ WBK has achieved strong market positions in this market segment. Over the past few years BZ WBK has expanded its presence in retail banking by increasing its branch presence and its retail loan book. As of 31 December 2012, the BZ WBK Group's market share in terms of total gross loans and deposits stood at 4.3% and 5.3%, respectively, according to data from the NBP. BZ WBK's traditional banking product range has been supplemented by other financial products and services offered by BZ WBK Subsidiaries, including Dom Maklerski BZ WBK. The BZ WBK Group has established a strong presence in brokerage (a 7.8% market share in equity market trading and 11.9% market share in future contracts market trading according to data from the WSE for 2012).

The core pillars of the BZ WBK Group's strategy are a strong capital and funding position, a focus on risk management and efficiency, and a strong corporate culture. The BZ WBK management team has over the past several years focused on diversifying the income of BZ WBK, targeted growth in the most profitable market segments, and placed a strong emphasis on customer service and satisfaction. The results of this strategy and approach to business have been a balanced growth in loans and deposits and an increased presence in the profitable retail and SME segments, all of which have led to a strong and stable financial performance. BZ WBK has been one of the most profitable banks in Poland in terms of ROE and has had one of the strongest net income growth rates in the Polish banking sector in recent years.

On 4 January 2013, BZ WBK merged with Kredyt Bank, a medium sized credit institution with a strong focus on retail banking and the mortgage market. The Merger resulted in the BZ WBK Group becoming (together with Poland's two largest banks, PKO Bank Polski and Bank Pekao) one of the three leading banks in the country, with a significant gap between them and the rest of the market in terms of the size of their respective branch networks. The BZ WBK Group's market share in terms of total loans and total deposits increased to 7.5% and 8.7% respectively according to data from NBP, and the BZ WBK Group improved its position in retail banking and, in particular, in the mortgage market.

As of 31 December 2012, the BZ WBK Group had a network of 889 branches comprising 519 BZ WBK branches and 370 Kredyt Bank branches. In addition, the BZ WBK offers its services through SME and Business & Corporate Centers located in all the major regions of the country. The BZ WBK Group also utilizes other distribution channels, including online banking, call centers, mobile banking and an ATM network. The customer base of the BZ WBK Group following the Merger increased substantially as a result of acquisition of the Kredyt Bank Group customers. As of 31 December 2012, the aggregated customer base of the BZ WBK Group and the Kredyt Bank Group had approximately 4.1 million clients, including 3.8 million individual customers, 274.5 thousand SME customers and 7.3 thousand corporate customer groups.

The Management Board expects substantial benefits from the Merger. The Management Board believes that following the Merger the BZ WBK Group will have sufficient scale to compete effectively with the two largest banking institutions in Poland and will enjoy competitive advantages over the smaller banks on the market. The Kredyt Bank Group's distribution platform and customer base are highly complementary to the BZ WBK Group, and the BZ WBK Group's strategy will be to increase the productivity of the former Kredyt Bank Group's branch network as well as increase the profitability of its customer base. This will be achieved through a focus on more profitable products and services, customer segments and improved product pricing. The Management Board believes the BZ WBK Group has the tools, including its risk management framework and CRM platform, to enable it to achieve its goals. In addition, the integration of the Kredyt Bank Group is expected to result in considerable synergies. The Management Board estimates that following the completion of the integration process in 2015 the implemented measures will result in annual cost synergies of approximately PLN 340 million and annual revenue synergies of approximately PLN 125 million, in each case on a pre-tax basis. The Management Board estimates that integration-related expenses will amount, on a pre-tax basis, to approximately PLN 430 million with additional capital expenditures in the amount of approximately PLN 165 million, the majority of which the Management Board expects to be incurred by the BZ WBK Group in 2013.

In 2012, the BZ WBK Group generated a net profit of PLN 1,462.6 million. In the same period, Kredyt Bank Group generated a net loss of PLN (156.5) million. The total assets of the BZ WBK Group and the Kredyt Bank Group, as of 31 December 2012, amounted to PLN 60,019.2 million and PLN 40,761.2 million, respectively. Total equity amounted to PLN 8,977.7 million for the BZ WBK Group and PLN 3,051.4 million for the Kredyt Bank Group. On a pro forma basis, giving effect to the Merger as if it had occurred on 1 January 2012, the BZ WBK Group's profit before tax in 2012 would be PLN 1,747.8 million and net profit would be PLN 1,331.8 million. Also on a pro forma basis, giving effect to the Merger as if it had occurred on 31 December 2012, the BZ WBK Group's total assets would be PLN 101,989.2 million and its total equity PLN 13,521.6 million as of that date.

Trends and Recent Developments

This section of the Offering Memorandum includes forward-looking statements and estimates. The statements and estimates included herein are based upon a number of assumptions and judgments that are considered to be reasonable by the Management Board and are inherently subject to significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond the BZ WBK Group's control, and upon assumptions with respect to future business decisions that are subject to change. There can be no assurance that the BZ WBK Group will perform in accordance with these statements and estimates. Accordingly, the BZ WBK Group cannot provide any assurance that these statements and estimates will be realized. These statements and estimates may vary materially from the actual results. Prospective investors are cautioned not to place undue reliance on this information. See "Forward-looking Statements" and "Risk Factors".

Trends

The Management Board believes that the following trends will have an impact on the activities of the BZ WBK Group in the near future:

- the predicted gradual improvement of economic growth in the world economy, in particular in the Eurozone, which the Management Board expects will improve the market for Polish exports;
- stagnation in the labor market in the first months of 2013, which may negatively affect the quality of the household loan portfolio and limit demand for new consumption loans and mortgage loans;
- an increasing rate of growth of real household income due to the falling inflation, moderately high pension indexation and some recovery in the domestic labor market in the second half of 2013 due to improving results of exporters;
- a steep decline in the public sector's investment spending due to continued fiscal consolidation, which may deepen a slump in the construction sector and the financial problems of construction companies;
- changes in asset financing costs depending on the pace and scale of changes of the main interest rates, changes in the PLN exchange rate, development of the liquidity situation of the banking sector and the intensity of price competition between banks with respect to the acquisition of deposits;
- a possible increase in the volatility of the financial market in case of further concerns regarding the debt crisis in the Eurozone, a slower than expected pace of global economic revival, or a negative scenario with regard to social or political developments; and
- further developments on the global stock market and its impact on investors' willingness to purchase investment fund units instead of depositing funds in banks.

The banking sector in Poland is characterized by relatively lower penetration of banking services compared to Western European countries, as well as well-balanced capital and liquidity position. Provided that the Polish economy continues to grow, it should be expected that there will be an increase in demand for banking products and services. Nevertheless, the expected growth rate of the sector may be hindered due to the difficult macroeconomic conditions in some of the Eurozone countries. The Management Board's expectations as to the macroeconomic situation in 2013 are discussed in more detail below.

After the significant economic deceleration which was seen in 2012, a gradual economic recovery in Poland and globally should be observed in 2013. However, recovery is expected to be quite slow. The lowest growth in Poland's GDP is expected in the first quarter of 2013, when the real GDP growth rate may be close to zero. Seasonally adjusted GDP may even be negative on a quarter-on-quarter basis. However, the economy is expected to begin to recover slowly in subsequent quarters. As a result, in late 2013 the GDP growth rate may be close to 2% on a year-on-year basis, while GDP growth throughout the year is expected to be in the region of 1.2%.

The global economy, especially the Eurozone, is expected to recover. The economic recovery of key trading partners of Poland (such as Germany) will have a positive impact on exports to those countries, which will again become the driving force behind Poland's economy. Domestic demand is expected to be limited. Specifically, capital expenditure is expected to continue to fall in 2013, which will be to a large extent caused by substantial cuts in public investments arising from the fiscal consolidation policy. To some extent, private investments may be supported by interest rate cuts and the expected launch of the government program "Polish Investments". The pace of growth in private consumption will be quite weak, although a slight improvement is expected throughout the year. A substantial drop in the inflation rate, the indexation of social benefits (based on the high inflation rate reported in 2012) and, later, more rapid growth of salaries in the export sector will translate into an increase of real income of households, which should boost consumption. However, there is a risk that the growth of consumption will be impeded by the rebuilding of savings, which were eroded in the last quarters of 2012.

After a sudden decrease in inflation during the first months of 2013, inflation is expected to level off significantly below the NBP's inflation target (2.5%). This will be attributable to, inter alia, lower increases in prices set by regulators and a lack of substantial increases in global commodity prices, but primarily to the lack of demand and salary pressures which arise from the weak economy. The inflation rate may increase only in the fourth quarter of 2013, reaching levels close to the NBP's inflation target again.

The Monetary Policy Council cut interest rates in January 2013 for the third time in a row and, as a result, the NBP reference rate dropped to 4.0%. In the context of weak economic growth and lower inflation, the

Monetary Policy Council decided to continue monetary easing in February and March, cutting interest rates to 3.25%. Thus, the NBP reference rate broke a record low level of 3.5%, which was seen during the 2009 economic crisis.

Recent Developments

Merger

Following the granting of the approval of the PFSA on 4 December 2012, BZ WBK was merged with Kredyt Bank on 4 January 2013 (the "**Merger Date**"), which is the date of registration of the Merger by the registry court. As a result of the Merger, BZ WBK has assumed all of the rights and obligations of Kredyt Bank by means of universal succession, and the shareholders of Kredyt Bank became, on the Merger Date, the shareholders of BZ WBK.

The Merger was executed through the transfer of the entire estate (i.e. all of the assets and liabilities) of Kredyt Bank to BZ WBK in exchange for BZ WBK's merger shares, i.e. 18,907,458 series J ordinary bearer shares with a nominal value of PLN 10.00 each, which were allotted to the shareholders of Kredyt Bank. The merger shares were granted and allotted to the former shareholders of Kredyt Bank based on the share exchange ratio of 6.96 merger shares for 100 shares in Kredyt Bank. The price of the new shares of PLN 240.32 was calculated on the basis of the average BZ WBK share price over the thirty trading days between 21 November 2012 and 8 January 2013, excluding trading days which did not have the required turnover. The merger shares allotted to the former shareholders of Kredyt Bank were admitted and introduced to trading on the regulated market of the WSE starting on 25 January 2013.

The table below shows the total amount of the consideration transferred in the business combination and the effect thereof on the equity of the combined entity.

	04.01.2013
Share capital	189,074
Other reserve funds	4,354,766
Total consideration	**4,543,840**

The Merger was designed to implement the strategic objectives of BZ WBK and its major shareholder, Banco Santander, on the Polish market and will position BZ WBK among the top three universal banks in Poland. For more details on the Merger, please see *"Business of the BZ WBK Group—Strategy"* and *"Business of the BZ WBK Group—Merger and Integration of the BZ WBK Group and the Kredyt Bank Group"*.

Analysis of acquired assets and liabilities on the Merger Date

As of the date of publication of the Consolidated Financial Statements of BZ WBK for the year ended 31 December 2012, BZ WBK performed a preliminary and provisional valuation related to the Merger. The financial information of the acquired bank, which was the basis of this provisional settlement, is currently being audited by a qualified auditor and has not yet been finalized. Consequently, as a result of the audit of the financial statements, the data is still subject to change. Moreover, BZ WBK has not completed the process of the estimation of the fair value of selected assets and liabilities of Kredyt Bank, in particular: loans and advances to customers, non-current assets, deposits from customers and contingent liabilities. BZ WBK has not completed its fair value estimation of the intangible assets that can be recognized in the transaction. As a result, the total additional deferred tax assets and liabilities have been calculated based on the best estimates of the Management Board.

The following table shows the initial estimates of the fair values of the acquired assets and liabilities.

	04.01.2013
ASSETS	
Cash and balances with central banks	1,429,283
Loans and advances to banks	680,206
Financial assets held for trading	1,152,738
Hedging derivatives	111,200
Loans and advances to customers	27,568,167
Investment securities	10,377,912
Intangible assets	233,831
Property, plant and equipment	191,063
Net deferred tax assets	352,177
Investment property	16,002
Assets classified as held for sale	5,709
Other assets	77,663
Total assets	**42,195,951**
LIABILITIES	
Deposits from banks	(5,760,512)
Hedging derivatives	(78,970)
Financial liabilities held for trading	(1,130,233)
Deposits from customers	(31,044,324)
Subordinated liabilities	(978,237)
Current income tax liabilities	(7,238)
Other liabilities	(341,113)
Total liabilities	**(39,340,627)**
Fair value of identifiable net assets	**2,855,324**

During the Merger, BZ WBK recognized PLN 207.8 of additional assets that meet the conditions for recognition as intangible assets. These assets resulted from the revaluation of the acquired deposits of individual and business customers as well as customer relationships created by the former Kredyt Bank. As of the release date of the Consolidated Financial Statements of BZ WBK for the year ended 31 December 2012, BZ WBK has not completed the process of the identification of the intangible assets which can be recognized in accordance with the principles set out in IFRS 3.

Non-controlling interest

Due to the fact that the business combination considered all of the operations of the former Kredyt Bank, any non-controlling interests were recognized in the consolidated financial statements of the combined entity for the transaction.

Provisional calculation of goodwill

	04.01.2013
Goodwill	
Total consideration	4,543,840
Less: fair value of identifiable net assets	(2,855,324)
Total	**1,688,516**

Goodwill arising on the Merger Date represents a premium for control and results from a potential ability to achieve additional benefits arising from expected synergies, revenue growth, gained market share, combining the competencies of employees and increased efficiency of selected processes as compared to the fair value of the net assets acquired. These benefits were not recognized as separate intangible assets, as in this instance the conditions for their individual recognition were not met.

BZ WBK does not expect goodwill to be tax deductible in future periods.

The impact of the Merger on the results of the BZ WBK Group

For information on the impact of the Merger on the consolidated income statement and consolidated financial position of the BZ WBK Group if the Merger had occurred on 1 January 2012 or 31 December 2012, respectively, please see "*Selected Pro Forma Financial Information*".

General Factors Affecting Operating and Financial Results

The BZ WBK Group's operating and financial results were, in the periods under review, and continue to be affected by: (i) general economic conditions, in particular the economic situation in Poland, real GDP growth, the unemployment rate, the level of interest rates and inflation, foreign exchange rates, the financial condition and requirements of Polish corporates and individuals as well as the situation on the capital markets; (ii) the situation in the Polish banking sector, especially in terms of the regulatory environment and level of competition in the Polish banking sector; and (iii) BZ WBK Group-driven factors, such as product and customer strategies. In the periods under review, the BZ WBK Group's operating and financial results were, and continue to be, also affected by the quality of the BZ WBK Group's loan portfolio, the availability and costs of funding and the development of the mortgage and real estate market in Poland.

The key factors affecting the BZ WBK Group's financial and operating results for the years 2010-2012 are discussed below. The Management Board believes that general factors had and will have an impact on the business, operating and financial results, financial condition and development prospects of the BZ WBK Group.

Economic Situation in Poland

The BZ WBK Group conducts its operations exclusively in Poland, where almost all of its customers are located or carry out business activity. Therefore, the macroeconomic factors relating to Poland, such as GDP, the inflation rate, interest rates and currency exchange rates, as well as the unemployment rate, personal income, the financial situation of companies, together with various other factors, have a material impact on customer demand, loan losses and the margins on BZ WBK's products and services. This impact, in turn, affects the BZ WBK Group's results and balance sheet position.

The Polish economy is one of the fastest growing economies in the EU. In terms of the number of inhabitants (38.5 million as of 1 January 2012 according to Eurostat data), Poland ranks sixth among all EU countries. With a GDP of EUR 370 billion in 2011 (according to Eurostat data), it is the eighth largest EU economy and the twenty-second largest economy in the world (according to IMF data).

According to data obtained from Eurostat, Poland's GDP grew in real terms by 1.6%, 3.9%, 4.3% and during 2009, 2010 and 2011, respectively.

During 2010, Poland's economic growth accelerated in the wake of the improvement in the economic situation in the USA and in the Eurozone, including Germany. Real GDP growth in Poland reached 3.9% in 2010 and 4.3% in 2011 according to data from Eurostat. The improvement in the economic situation in Poland during 2010 and 2011 had a positive impact on the results of the entire banking sector in Poland. Such high economic growth in Poland led to an increase in personal wealth, which resulted in increased consumption and corporate activity. In 2012, the rate of growth of Poland's economy slowed down; according to GUS estimates, in 2012, real GDP growth amounted to 2.0%.

Poland has maintained a stable "A-" sovereign rating from Standard & Poor's. The Polish government is improving its structured fiscal balance and reducing its public debt through various initiatives, which include a reform of the pension system, a privatization program and the introduction of rules regarding public expenses. The goal of these measures is to ensure that public finances remain on a sustainable path and, in particular, to ensure that the ratio of national debt to GDP stays below 60%, which is required under the Constitution of the Republic of Poland and is one of the Maastricht criteria, namely the convergence criteria required to adopt the euro.

Interest Rates and Inflation

A substantial portion of the BZ WBK Group's income is related to interest income (net interest income constituted 55.6%, 54.1% and 51.5% of total net income from business activities of the BZ WBK Group in 2012, 2011 and 2010, respectively), and the BZ WBK Group's assets and liabilities are sensitive to changes in the interest rate environment. Both the level of market interest rates and the trend in the change of such rates have a material impact on the interest income earned by the BZ WBK Group as well as on the interest expenses paid by the BZ WBK Group; moreover, they also impact the BZ WBK Group's investment securities portfolio.

The interest rates announced by the NBP are determined by the Monetary Policy Council. When making decisions about potential changes in interest rates, the Monetary Policy Council takes several factors into account, including economic growth forecasts, and the actual and forecasted inflation rate for the Polish economy. Since 1998, the Monetary Policy Council has utilized a direct inflation target strategy in the implementation of its monetary policy. The Monetary Policy Council defines the inflation target and then adjusts the NBP basic interest rates in order to maximize the probability of achieving the target. Starting from 2004, the Monetary Policy Council adopted a long-term inflation goal of 2.5% (with a symmetric permissible fluctuation band of ± 1 p.p.).

Polish banks are free to determine interest rates on loans and deposits, subject to limitations resulting from usury rules and customer right protection regulations in respect of interest rates on consumer loans. The official NBP interest rates, in particular the reference rate, have a considerable impact on market interest rates, and as a result on interest rates on loans and deposits. The three-month Polish interbank offering rates (commonly referred to as the "three-month WIBOR") are widely used in Poland as the reference rates for interbank borrowings and deposits in Poland as well as for loans to customers and customer deposits.

The level of market interest rates on loans and deposits in Poland is also indirectly affected by the availability of interbank loans and other sources of financing available to Polish banks, as well as changes in the PLN exchange rate in respect of the main currencies (*i.e.* EUR, USD and CHF). The increased availability of funds on the international interbank lending market (despite the continuation of lower transaction limits than before the crisis), due in part to growing confidence in economic conditions and the banking sector, resulted in an increased availability of sources of financing for Polish banks during 2010 and 2011. It also contributed to the reduction and stabilization of interest rates paid on deposits during 2010 and 2011. In 2012, the conditions on the interbank credit market did not materially change compared with 2011.

The following table sets forth the average annual inflation rates, the NBP reference rates and the three-month interbank loan interest rates for the periods and on the dates indicated.

	Average Annual Inflation	Average annual NBP Reference Rate	Average annual three-month interbank loan interest rate			
			WIBOR(1)	EUR LIBOR(2)	USD LIBOR(3)	CHF LIBOR(4)
				(%)		
31 December 2010	2.59	3.50	3.94	0.75	0.34	0.19
31 December 2011	4.27	4.23	4.54	1.34	0.34	0.12
31 December 2012	3.71	4.60	4.91	0.49	0.43	0.07

Source: GUS, NBP, Reuters.

(1) Represents the Polish interbank interest rates on PLN-denominated three-month interbank loans.

(2) Represents the London interbank interest rates on EUR-denominated three-month interbank loans.

(3) Represents the London interbank interest rates on USD-denominated three-month interbank loans.

(4) Represents the London interbank interest rates on CHF-denominated three-month interbank loans.

In 2010, the Monetary Policy Council maintained interest rates at an unaltered level at 3.50%. However, in response to increased inflationary pressure in the second half of 2010, which, *inter alia*, resulted from an increase in food, energy and fuel prices in the first half of 2011, the NBP reference rate increased by a total of 100 basis points (as a result of increases in January, April, May and June 2011). In 2012, the NBP continued its restrictive monetary policy, and in May 2012 it increased the reference interest rate by 25 basis points to 4.75%. The grounds for this move mainly constituted the need to mitigate the risk of the inflation rate exceeding the inflation goal in the medium term. Due to the deterioration in economic conditions in the second half of 2012, in November 2012 the NBP decided to loosen its monetary policy and decrease the reference interest rate by 25 basis points to 4.50%. The decrease in the interest rates in November 2012 started a cycle of decreases in interest rates which took place in December 2012 and January 2013, February 2013 and March 2013 and which resulted in the reference rate being set at 4.25%, 4.00%, 3.75% and 3.25%, respectively. Moreover, the Monetary Policy Council stated in March 2013 that the decision it took in that month is part of the cycle of monetary policy easing which commenced in November 2012.

Regulatory Environment

EU and Polish laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions, in particular those regarding consumer protection, are continually evolving and changing. Changes in banking and other regulations affect the BZ WBK Group's business, financial condition, results of operations and/or prospects.

In recent years, the PFSA has issued new recommendations and introduced changes to previous recommendations which have imposed more onerous requirements on the lending activities and capital requirements of Polish banks.

In February 2010, the PFSA published Recommendation T, the aim of which was to improve the quality of risk management in banks, among other measures, by limiting the indebtedness of retail borrowers. The PFSA determined the level of the ratio of expenses to service debt to average income earned by the borrowers at a maximum of 50% for retail customers with net income not exceeding the average remuneration in the economy, and a maximum of 65% for the remaining customers. The implementation of Recommendation T led to a reduction in the number of potential borrowers in the retail segment, in particular those interested in mortgage loans, as well as a decrease in the value of loans granted. In February 2013, the PFSA published a new Recommendation T, the provisions of which are planned to be implemented by banks by 31 July 2013. The objective of the new Recommendation T is to introduce certain legal solutions that will allow for an increase in the activity of the banking sector in the area of extending loans compared with the activity of non-banking entities which extend loans. For more information, please see *"Banking Regulations in Poland"*.

In January 2011, the PFSA amended Recommendation S, which imposed limitations on Polish banks in respect of granting foreign currency mortgage loans. According to detailed recommendations concerning the financing of mortgage-secured loan exposures: (i) the bank should aim at limiting the borrower's exposure to currency risks, specifically by ensuring that the borrower's exposure is in the same currency as its income; (ii) in assessing the creditworthiness of a borrower, the bank should assume a maximum repayment term of 25 years; (iii) in the assessment of creditworthiness, the bank should take into account the likely change in the borrower's income after retirement, if the repayment term goes past the age of retirement; and (iv) in the case of foreign currency retail real-estate-financing loan exposures and foreign currency retail mortgage-secured loan exposures, the maximum ratio of loan service expenditure to average net income earned by individuals required to repay the debt should not exceed 42%. The amendment of Recommendation S did not affect the BZ WBK Group significantly, due to the fact that the decrease in the foreign currency mortgage loan portfolio by 2.7% in 2012 was compensated for by an increase in the PLN mortgage loan portfolio by 11.2% in the same period. As a result, the BZ WBK Group's mortgage loan portfolio increased by 6.3% in 2012, in comparison with growth of 9.8% in 2011. As of the date of the Offering Memorandum, further changes to Recommendation S are being considered by the PFSA. For more details please see *"Banking Regulations in Poland"*.

In June 2011, the PFSA increased the risk weighting of retail and mortgage loans denominated in foreign currencies from 75% to 100% (Resolution 153/2011 amending Resolution 76/2010); such resolution has been in force as of 30 June 2012. Risk weighting applies to the calculation of the value of risk-weighted assets which are the basis for the calculation of the banks' capital adequacy ratios. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of such type. Additionally, the PFSA in its letter of 24 January 2012 to Polish banks stated that it expects them to maintain a minimum capital adequacy ratio of at least 12% and a Tier 1 ratio of at least 9%. Both of the above recommendations of the PFSA impacted the Polish banking sector due to the resultant imposition of more stringent capital requirements. However, such recommendations did not have significant impact on the BZ WBK Group, due to its strong capital ratios: the capital adequacy ratio and the Tier 1 ratio of the BZ WBK Group amounted to 16.5% and 14.2%, respectively, as of 31 December 2012.

Cash deposited in individual Polish bank accounts and any cash due under receivables confirmed by documents issued by banks in favor of specific persons is covered by a guarantee system: the Bank Guarantee Fund. The banks pay mandatory annual fees to the Bank Guarantee Fund. Since 2011, the Bank Guarantee Fund has materially increased the level of the mandatory annual fees (which are calculated as a fraction of a bank's regulatory capital requirement multiplied by 12.5 and adjusted in accordance with the Act dated 14 December 1994 on the Bank Guarantee Fund) from 0.045% to 0.099%.

Such material increase resulted in an increase in the BZ WBK Group's general and administrative expenses for the Bank Guarantee Fund, the Polish Financial Supervision Authority and the National Depository for Securities by PLN 18.0 million or 73.1% in 2011 in comparison with 2010.

Apart from the recommendations and publications of the PFSA, the legal banking environment is subject to certain European law requirements. In particular, Polish banks are required to comply with the Capital Requirement Directive (CRD), as amended, as well as the Basel II requirements regarding the new rules for the calculation of capital requirements and the management of banking risk. In December 2010, at the G-20 summit in Seoul, the Basel Committee on Banking Supervision approved the Basel III Accord (which was subsequently revised in June 2011) ("**Basel III**"), which provides new capital and liquidity requirements for banks with a view to strengthening the resilience of the banking sector entities. To introduce the Basel III requirements, the European Commission initiated a European legislative procedure in connection with the adoption of two European acts which, if adopted, will influence the banking sector (i.e. CRD 4) (for more information please see "*Banking Regulations in Poland*").

For some further information on the regulatory environment, see the "*Banking Regulations in Poland—Regulatory Environment*".

Competition in the Polish Banking Sector

The level of competition in the Polish banking sector is relatively high, *inter alia*, due to its low level of concentration. According to the PFSA, as of 31 December 2012 there were 45 commercial banks operating in Poland, and the market share of the five largest banks by assets, value of customer deposits and amounts due from non-financial sector entities was 44.9%, 44.2% and 39.1%, respectively. In recent years, competition in the Polish financial sector has increased, which is largely due to the expansion of foreign financial institutions into the Polish market through acquisitions and mergers, the development of distribution networks by Polish banks and the commencement of operations in the Polish market by new banks (see "*Industry Overview—The Polish Banking Sector—Competitive Landscape of the Polish Banking Sector*"). Such competition has a significant impact on the BZ WBK Group's cost of funding, the levels of fees and commissions for granting loans, the level of margins on loans and deposits as well as the volume of loans and deposits which, in turn, have a material impact on the BZ WBK Group's NIM.

Loan Portfolio Quality

The BZ WBK Group applies a conservative policy to the recognition and measurement of credit risk. As of 31 December 2012, 2011 and 2010, the BZ WBK Group's NPL ratio amounted to 5.4%, 5.5%, and 6.9%, respectively, which was in the indicated periods at a lower level than the ratio of impaired loans for the Polish banking sector, which, according to data from the PFSA, amounted to 8.9%, 8.2%, and 8.8%, respectively. The Management Board believes that the Merger will result in an increase of the NPL ratio of the BZ WBK Group due to the higher NPL ratio of the Kredyt Bank Group (as of 31 December 2012, 2011 and 2010, the Kredyt Bank Group's NPL ratio amounted to 10.1%, 8.2%, and 9.7%, respectively). An increase in the value of impaired loans would have a significant direct impact on the net impairment result and, consequently, on the profit before tax of BZ WBK. The combined NPL ratio of the BZ WBK Group will depend on aligning Kredyt Bank's impairment methodologies and asset derecognition policies with those used by BZ WBK.

The quality of the BZ WBK Group's consumer and mortgage loan portfolios is primarily affected by: (i) the level of household income; (ii) the unemployment rate; (iii) interest rates; and (iv) foreign exchange rates (in respect of loans denominated in foreign currencies). Real estate prices are an additional driver which indirectly affects the quality of the mortgage loan portfolio as such loans are secured by properties. BZ WBK is required to increase its provisions if the value of the real estate securing the mortgage falls below a certain threshold. Additionally, borrowers who make a small or no down payment may be less inclined to repay their mortgage debt if the value of the underlying property falls substantially. In the consumer loan portfolio, due to the fact that consumer loans are usually unsecured (e.g. loans granted on credit cards), the ratio of loans showing evidence of impairment is generally higher than in the case of the mortgage loan portfolio. The lower consumer loan portfolio quality is taken into account in the interest margin, which is higher than the margin for mortgage loans.

The quality of the BZ WBK Group's business loan portfolio is primarily affected by macroeconomic factors influencing the financial condition of companies in Poland.

The quality of the loan portfolio is reflected, in particular, by the net impairment losses on loan receivables.

Development of the Mortgage and Real Estate Market

The financial crisis which started in the United States in 2008 and afterwards spread globally contributed to a slowdown of the Polish real estate market. Polish banks tightened their lending policies and limited lending activities at the end of 2008 and in the first half of 2009. The standstill in demand for housing due to more stringent lending practices and a change in consumer behavior combined with an increased supply of apartments, have resulted in a decrease in housing prices since the fourth quarter of 2008.

From the second half of 2009 onwards, the symptoms of the financial crisis were less noticeable. This resulted in lower liquidity pressure in the banking sector, which was perceived as the end of the "deposit war" and an increase in competition in the mortgage loan market, namely a decrease in margins, which resulted in slightly improved availability of loans (on the basis of data from the PFSA, housing receivables from households grew by 22.8% in 2010). The decrease in housing prices, which has been visible since the end of 2009, slowed in 2011, however, a slight downward trend is currently being observed due to the high supply of apartments in the primary and secondary markets, which is increasing faster than the demand. Demand is also being limited by a more conservative evaluation of creditworthiness. Additionally, foreign currency denominated mortgage loan offers have been limited or withdrawn by certain banks due to the PFSA's preference to limit foreign currency lending as well as its imposition of higher risk weights for foreign currency mortgage loans for the purposes of the calculation of capital requirements, which also negatively affected the demand on the housing market. In addition, the expiration of the "*Rodzina na swoim*" program of government subsidies, which occurred on 31 December 2012, will further serve to constrain the demand for housing real estate. For more details regarding the *"Rodzina na swoim"* program, see "*Changes in the»Rodzina na swoim«Program*" in *"Banking Regulations in Poland*".

In February 2010, the PFSA published Recommendation T the aim of which was to improve the quality of risk management in banks, thus preventing the excessive indebtedness of retail borrowers (see "*—Regulatory Environment*" below). In connection with the uncertain macroeconomic situation and the tightened lending policies of banks, the real estate market stagnated in 2012. The limited availability of loans in conjunction with an ever increasing supply resulted in further downward adjustments of real estate prices on the Polish market. Such trend is expected to continue in 2013, and might improve once the new *"Mieszkanie dla Młodych"* program of government subsidies is introduced, which is currently envisioned for the beginning of 2014. For more details regarding the *"Mieszkanie dla Młodych"* program, see "*Changes in the»Rodzina na swoim«Program*" in *"Banking Regulations in Poland*".

The BZ WBK Group achieved a market share in mortgage loans in Poland for the year 2012 of 2.4% according to data from the NBP. Despite the unfavorable market conditions, its home mortgage loan portfolio increased by 6.3% in 2012.

Foreign Exchange Rates

As of 31 December 2012, 2011 and 2010, 30.7%, 34.3%, and 33.8%, respectively, of the loan portfolio of the BZ WBK Group (in particular commercial real estate loans and mortgage loans) and 13.7%, 12.2%, and 11.4%, respectively, of its deposits were denominated in foreign currencies, primarily EUR. Therefore, fluctuations in exchange rates between PLN and foreign currencies, especially EUR, are factors that have an impact on the BZ WBK Group's financial and operating results and its financial condition. In particular, exchange rate fluctuations impact: (i) the financial standing of the BZ WBK Group due to the fact that the assets denominated in foreign currencies are presented in PLN as the functional currency of the BZ WBK Group; (ii) the operating profit of the BZ WBK Group through its trading results; (iii) the scale of the BZ WBK Group's lending activity in foreign currencies; and (iv) asset quality, especially loan portfolios denominated in EUR. Moreover, fluctuations in the PLN exchange rate to foreign currencies can also indirectly impact market interest rates on customer deposits and financing costs incurred by the BZ WBK Group, and thus its net interest result (see "*Inflation and Interest Rates*" above).

For information on the exchange rates of PLN against EUR, USD and CHF in the period under review, see "*Exchange Rates*".

Specific Factors Affecting Financial and Operating Results

In the period under review there were two material factors affecting the financial and operating results of the BZ WBK Group. The first was a change in the shareholding structure of the Bank, namely the acquisition by Banco Santander of the majority of the Shares from Allied Irish Banks plc, which was finalized on 1 April 2011 and resulted in certain changes in accounting judgments and estimates as a consequence of the adoption of Banco Santander Group's policies. The second factor was a significant impairment loss on one of the BZ WBK Group's credit exposures to a customer in the construction sector which was recognized in 2012. In addition, below are discussed costs related to the integration process connected with the Merger and revenues and cost synergies which are expected as a result of the Merger, which would have an impact on the future financial and operating results of the BZ WBK Group.

Changes in Accounting Judgment and Estimates resulting from the adoption of the Banco Santander Group's policies

The BZ WBK Group has changed its intention regarding a portfolio of government bonds, which so far have been classified as "held to Maturity", and has reclassified them into the "investment financial assets available for sale" category as a result of adopting the BZ WBK Group's investment policy to the strategy, investment rules and risk management rules of the Banco Santander Group. The above-mentioned change was introduced on the last business day of 2011 and pertained to financial instruments of a total carrying value of PLN 4,696.5 million, of which PLN 69.1 million was recognized measurement at fair value. The same amount of measurement, less the deferred tax, was recognized in equity of the BZ WBK Group in 2011.

Moreover, in 2011 the Management Board revised its estimates in respect of the economic life of intangible assets and property, plant and equipment as part of the ongoing process of integration with the Banco Santander Group. The resulting non-recurring increase in depreciation of fixed assets and amortization of intangible assets was PLN 76.4 million, which is included in the total amount of one-off adjustments of PLN 88.8 million.

Significant Impairment Loss on the BZ WBK Group's Exposure

In 2012, the BZ WBK Group incurred total impairment losses on loans and advances in the amount of PLN 501.8 million, compared to PLN 372.7 million in 2011. Such increase was mainly attributable to the impairment loss of PLN 168 million on one of the BZ WBK Group's exposures to a customer in the construction sector. Such impairment loss was a result of bankruptcy proceedings instituted against a customer of the BZ WBK Group. As of the date of this Offering Memorandum, the Management Board believes that there are no grounds for the recognition of further impairment on this exposure.

Costs Related to the Merger and Expected Synergies

The integration of the BZ WBK Group and the Kredyt Bank Group is expected to result in merger synergies as well as certain integration costs. The integration costs related to the Merger are expected to amount to approximately PLN 430 million before tax, which will be mainly related to: rationalization of Headcount, mailing communication and events for Clients, the costs of due diligence, legal advisory, strategic and merger consultancy, implementation and maintenance—IT costs, rationalization of branches; it is also expected that the integration will result in capital expenditure of approximately PLN 165 million before tax, mainly as a result of: preparation of IT central HDW and STW platform, modifications in other business applications, tools for migration process, rebranding Kredyt Bank's branches. In 2012, the BZ WBK incurred expenses of PLN 37.8 million and capital expenditures of PLN 19.3 million. The remaining costs are expected to occur mainly in 2013.

There is an opportunity to enhance the operating efficiency of the combined entity by bringing the efficiency levels of the Kredyt Bank Group up to those of BZ WBK Group.

The Management Board estimates, based on the current implementation plans, that annual (pre-tax) cost savings of PLN 175 million, PLN 220 million, and PLN 340 million (as compared to the 2011 aggregated cost base of the BZ WBK Group and the Kredyt Bank Group) will be achieved by 31 December 2013, 2014 and 2015, respectively.

The Management Board estimates, based on the current implementation plans, that annual (pre-tax) revenue synergies of PLN 10 million, PLN 60 million, and PLN 125 million (as compared to the 2011 aggregated revenues of the BZ WBK Group and the Kredyt Bank Group) will be achieved by 31 December 2013, 2014, and 2015, respectively.

Moreover, it is expected that the organizational and IT systems restructuring will trigger further savings and increase the growth potential in the long-term perspective. Operating within the Banco Santander Group should allow the BZ WBK Group to implement and use best practices during the process of the integration and alignment of systems.

For more details regarding synergies, please see "*Successful Integration of the BZ WBK Group and the Kredyt Bank Group and the Realization of Synergies Derived from the Merger—Strategy—Business of the BZ WBK Group*".

Key Performance Indicators

The Management Board evaluates and manages the BZ WBK Group's performance based on certain profitability ratios, regulatory capital ratios, loan portfolio quality ratios and liquidity ratios, among others. The table below presents some of the performance indicators that the Management Board uses to analyze the BZ WBK Group's business on a regular basis for the periods indicated.

	As of and for the year ended 31 December		
	2012	**2011**	**2010**
		(%) (unaudited)	
Profitability ratios			
NIM[1]	4.3	4.3	4.0
Net fee and commission income / Total net income from business activities	33.5	35.5	38.0
Cost/Income (C/I)[2]	43.9	50.2	49.9
ROA[3]	2.4	2.1	1.8
ROE[4]	20.9	19.8	17.9
Capital ratios			
Tier 1 ratio[5]	14.2	13.2	13.8
Capital adequacy ratio	16.5	15.1	15.8
Loan portfolio quality			
NPL ratio[6]	5.4	5.5	6.9
Cost of risk ratio[7]	1.2	1.0	1.2
Coverage ratio[8]	53.5	49.1	45.1
Funding ratios			
Loan to deposit ratio[9]	84.7	81.2	78.2
Leverage ratio (total equity/total assets)[10]	15.0	12.5	12.7

Source: The numbers based on which the ratios were calculated were derived from the Consolidated Financial Statements of BZ WBK or accounting records of BZ WBK

(1) Net interest income (including Swap points) to average interest-bearing assets, net of impairment write-down (calculated based on the balances as of the end of previous reporting period, the end of the half-year period in a given year and the end of a given year).

(2) Calculated by dividing operating expenses by total net income from business activities (total net income from business activities is defined as the sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income (iv) net gain/(loss) on sale of subsidiaries and associates; (v) net trading income and revaluation (vi) gains (losses) from other financial securities; (vii) other operating income).

(3) Calculated by dividing consolidated profit for the period attributable to BZ WKB shareholders by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of total assets.

(4) Calculated by dividing consolidated profit for the period attributable to BZ WKB shareholders by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of sum of equity (calculated as a sum of share capital, other reserve funds, revaluation reserve, retained earnings).

(5) Tier I own funds after reductions indicated in Resolution of the PFSA no. 381/2008 to risk-weighted assets calculated using the standard method pursuant to PFSA Resolution no. 76/2010.

(6) Calculated by dividing gross loans and advances to customers (individually and collectively impaired) by gross receivables.

(7) Calculated by dividing impairment losses on loans and advances by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of sum gross receivables.

(8) Calculated by dividing allowance for impairment (for individual and collectively impaired receivables) by gross loans and advances to customers (individually and collectively impaired).

(9) Calculated by dividing loans and advances to customers by deposits from customers.

(10) Calculated by dividing total equity by total assets.

	As of and for the year ended 31 December		
	2012	2011	2010
		(PLN thousand) (unaudited)	
Loans and advances to banks	1,458,128	1,204,172	619,655
Current account in Central Bank	3,073,167	492,941	1,712,907
Loans and advances to customers (net of other)	39,855,400	38,014,213	32,828,338
Debt instruments—trading	176,963	5,082,985	1,726,289
Debt instruments—AFS/HTM	11,048,024	10,971,562	12,715,274
	55,611,682	**55,765,873**	**49,602,463**
Total banks income	102,076	84,547	67,756
Total customers income	3,089,041	2,574,875	2,312,292
Total debt securities income trading	108,390	125,020	85,866
Total debt securities income AFS	567,980	629,291	664,387
	3,867,487	**3,413,733**	**3,130,301**
Total banks costs	(106,091)	(155,101)	(141,584)
Total customers costs	(1,439,564)	(1,168,125)	(1,158,362)
Total debt in issue costs	(20,754)	(21,922)	(8,180)
	(1,566,409)	**(1,345,148)**	**(1,308,126)**
NII annualized +swappoint	**2,403,425**	**2,246,719**	**2,014,262**
FX swaps allocation	102,348	178,134	192,087
Net fee and commission income / Total net income from business activities (A2/A) (%)	**33.5**	**35.5**	**38.0**
Total costs/total income (A/B) (%)	**43.9**	**50.2**	**49.9**
A. Total net income from business activities	4,136,280	3,822,950	3,537,004
A1. Net interest income	2,301,077	2,068,585	1,822,175
A2. Net fee and commission income	1,384,986	1,357,672	1,343,228
A3. Other income, of which:	450,217	396,693	371,601
Dividend income	55,748	68,025	54,514
Net gain/(loss) on sale of subsidiaries and associates	400	—	—
Net trading income and revaluation	164,345	267,151	258,731
Gains (losses) from other financial securities	180,052	11,713	12,408
Other operating income	49,672	49,804	45,948
B. Operating expenses	(1,817,194)	(1,918,883)	(1,763,521)
ROA (C/D1) (%)	**2.4**	**2.1**	**1.8**
C. Profit for the period attributable to BZ WBK shareholders	1,433,847	1,184,347	974,223
D. Total assets	60,019,177	59,796,643	53,153,871
D1. Average total assets (3 point average)	59,717,312	56,141,772	53,600,905
ROE (C/E1) (%)	20.9	19.8	17.9
E. Equity	7,450,520	6,171,228	5,648,833
Share capital	746,376	730,760	730,760
Other reserve funds	5,704,680	4,698,884	4,344,640
Revaluation reserve	872,400	545,318	433,134
Retained earnings	127,064	196,266	140,299
E1. Average Equity (3 point average)	6,845,022	5,971,329	5,446,216
NPL ratio (G/H) (%)	**5.4**	**5.5**	**6.9**
F. Allowance for impairment (individually and collectively impaired loans)	1,207,320	1,069,295	1,069,645
G. Gross loan and advances to customers (individually and collectively impaired)	2,256,518	2,178,771	2,373,730
G1. Average gross loans	40,415,010	36,641,248	35,223,503
H. Total gross loan and advances to customers	41,411,761	39,432,418	34,246,006
Cost of risk ratio (I/G1) (%)	**1.2**	**1.0**	**1.2**
I. Impairment losses on loans and advances	(501,793)	(372,741)	(420,754)
Coverage ratio (F/G) (%)	**53.5**	**49.1**	**45.1**
Loan to deposit ratio (J/K) (%)	**84.7**	**81.2**	**78.2**
J. Loans and advanced to customers (net of impairment)	39,867,554	38,017,173	32,838,385
K. Deposits from customers	47,077,094	46,829,482	41,970,454
Leverage ratio (%)	**15.0**	**12.5**	**12.7**
J. Total equity	8,977,714	7,482,960	6,773,575

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

Material Accounting Policies, Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires the management to make judgments, estimates and assumptions that affect the application of policies and the 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 for making 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 recognized in the period in which the estimate is revised if the revision affects only such period, or in the period of the revision and future periods if the revision affects both current and future periods.

The main estimates and judgments made by the BZ WBK Group are presented below.

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 the 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 judgment of the 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 the provision provided for in the 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 the 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 the BZ WBK Group; it triggers the process which results in the creation of provisions on individual loans with respect to which 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 loss estimates in the portfolio.

Loss estimates are driven by the following key factors:

- EP—Emergence Period, i.e. the estimated time between the occurrence of an event of default and its identification by the Group;
- PD—Probability of Default, based on historical observations together with EP, this factor is considered to be best indicator of incurred but not reported losses;
- 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; and
- 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 expected loss estimates.

Impairment loss on non-financial assets

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

Impairment is recognized if the 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 recognized while taking into consideration the expected recoverable amounts, and for long-term other receivables, discounting is applied.

Assets held for sale are recorded at the lower of their carrying amount or are estimated at 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-market 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 the adjustment of a 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 judgments

Provisions for employee benefits paid upon the termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of such accruals is updated at least on an annual basis.

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

Change in the Presentation of Certain Financial Information

Unless indicated otherwise, all financial data pertaining to the BZ WBK Group presented in the operating and financial review and in the other sections of this Offering Memorandum, in particular in sections "*Selected Historical Financial Information*" and "*Operating and Financial Review*" is based on the Consolidated Financial Statements of BZ WBK, or has been calculated based thereon. However, the financial data presented in sections "*Selected Historical Financial Information*" and "*Operating and Financial Review*" for the year ended 31 December 2010 or as of that date is derived from the Consolidated Financial Statements of BZ WBK for 2011. In connection with the changes introduced by BZ WBK as regards the presentation of certain financial data for the periods covered by the historical financial data, certain data included in the Consolidated Financial Statements of BZ WBK for 2010 and data for the year ended 31 December 2010 or as of that date as set out in the Consolidated Financial Statements of BZ WBK for 2011 may differ. Detailed information on the corrections is set out in Note No. 2 to Consolidated Financial Statements of BZ WBK for 2011.

Additionally, as described in "*Comparability with the results for previous period*", certain material presentation changes were introduced by BZ WBK in the Consolidated Financial Statements of BZ WBK for 2012 in comparison with the Consolidated Financial Statements of BZ WBK for the financial years 2011 and 2010.

Comparability with the results of previous periods

In the preparation of the Consolidated Financial Statements of the BZ WBK Group, BZ WBK introduced the following material presentation changes between particular reporting periods:

a) Change in the presentation of standardized purchase/sales transactions in respect of financial assets and their recognition in the statement of financial position as of the transaction settlement date rather than as of the date of concluding the transaction as in previous reporting periods.

	31.12.2011		
Assets	**before revision**	**revision**	**after revision**
Loans and advances to banks	1,244,290	(40,118)	1,204,172
Financial assets held for trading	5,860,309	(24,266)	5,836,043
Investment securities	11,664,507	(12,312)	11,652,195
Liabilities	**before revision**	**revision**	**after revision**
Deposits from banks	2,556,715	(51,645)	2,505,070
Financial liabilities held for trading	956,768	(25,051)	931,717

Source: The Consolidated Financial Statements of BZ WBK

Changes were made to the appropriate items in the statement of cash flows, i.e.:

- Changes to loans and advances to banks;
- Changes to trading portfolio financial instruments;
- Purchase/sale of investment securities.

b) In 2012, the BZ WBK Group changed the presentation of direct debt recovery costs, which are now reflected in the balance of provisions. Therefore, the BZ WBK Group has made the following transformations in the profit and loss account for the year 2011.

	31.12.2011		
Consolidated Income Statement	**before revision**	**revision**	**after revision**
Impairment losses on loans and advances	(366,982)	(5,759)	(372,741)
Other operating expenses	(49,622)	5,759	(43,863)

Source: The Consolidated Financial Statements of BZ WBK

c) On 1 January 2012, the BZ WBK Group changed the business segment reporting rules. The changes affect two key areas:

- Change in the structure of (split into) operating segments and, consequently, reporting segments; and
- Change in the calculation methodology for net interest income of segments.

Due to the unavailability of historical data, the BZ WBK Group dispensed with the conversion of comparable information.

Results of Operations

The BZ WBK Group's income is principally derived from net interest income, which represents the difference between interest income earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. The BZ WBK Group's results of operations are also affected by net fee and commission income, which represents the difference between income earned from fees and commissions and expenses incurred from fees and commissions. The BZ WBK Group also generates gains and losses from trading and revaluation and generates income and incurs expenses on financial instruments and on other business activities.

The table below presents selected information on the results of the BZ WBK Group for the periods indicated.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Net interest income	**2,301,077**	**2,068,585**	**1,822,175**	**11.2**	**13.5**
Net fee and commission income	**1,384,986**	**1,357,672**	**1,343,228**	**2.0**	**1.1**
Dividend income	55,748	68,025	54,514	(18.0)	24.8
Net gain/(loss) on sale of subsidiaries and associates	400	—	—	—	—
Net trading income and revaluation	164,345	267,151	258,731	(38.5)	3.3
Gains (losses) from other financial securities	180,052	11,713	12,408	1,437.2	(5.6)
Other operating income	49,672	49,804	45,948	(0.3)	8.4.
Impairment losses on loans and advances	(501,793)	(372,741)	(420,754)	34.6	(11.4)
Operating expenses	(1,817,194)	(1,918,883)	(1,763,521)	(5.3)	8.8
Operating profit	**1,817,293**	**1,531,326**	**1,352,729**	**18.7**	**13.2**
Share in net profits of entities accounted for by the equity method	19,746	11,104	4,452	77.8	149.4
Profit before tax	**1,837,039**	**1,542,430**	**1,357,181**	**19.1**	**13.6**
Corporate income tax	(374,404)	(315,563)	(316,612)	18.6	(0.3)
Consolidated profit for the period	**1,462,635**	**1,226,867**	**1,040,569**	**19.2**	**17.9**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

Net interest income

Interest income consists mainly of interest from lending activities to customers, banks and the public sector with the balance consisting of interest earned on debt securities, in particular Polish government debt securities, hedging operations and other interest income.

Interest expense consists mainly of interest paid on customer deposits (deposits from individuals, enterprises and the public sector), deposits from banks (including reverse repurchase agreements with financial institutions) and subordinated debt issuance.

The table below presents the basic components of interest income and expenses of the BZ WBK Group for the periods indicated:

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
Interest income from:					
Loans and advances to enterprises	1,502,167	1,307,357	1,173,137	14.9	11.4
Loans and advances to individuals, of which:	1,213,859	1,042,925	961,258	16.4	8.5
Home mortgage loans	420,853	*362,108*	*299,295*	16.2	*21.0*
Debt securities, including:	676,370	754,311	750,253	(10.3)	0.5
Investment portfolio available for sale	567,980	*342,168*	*302,158*	66.0	*13.2*
Trading portfolio	108,390	*125,020*	*85,866*	(13.3)	*45.6*
Investment portfolio held to maturity	—	*287,123*	*362,229*	—	*(20.7)*
Leasing agreements	172,509	177,026	172,702	(2.6)	2.5
Loans and advances to banks	90,463	78,264	60,383	15.6	29.6
Public sector	23,315	22,232	17,129	4.9	29.8
Reverse repo transactions	11,611	6,283	7,373	84.8	(14.8)
Interest recorded on hedging IRS	177,191	25,335	(11,934)	599.4	—
Total	**3,867,485**	**3,413,733**	**3,130,301**	**13.3**	**9.1**
Interest expense from:					
Deposits from individuals	(903,127)	(719,500)	(779,571)	25.5	(7.7)
Deposits from enterprises	(443,642)	(387,122)	(321,955)	14.6	20.2
Repo transactions	(84,070)	(131,700)	(95,976)	(36.2)	37.2
Public sector	(92,795)	(61,504)	(56,836)	50.9	8.2
Deposits from banks	(22,020)	(23,401)	(45,608)	(5.9)	(48.7)
Subordinated liabilities	(20,754)	(21,921)	(8,180)	(5.3)	168.0
Total	**(1,566,408)**	**(1,345,148)**	**(1,308,126)**	**16.4**	**2.8**
Net interest income	**2,301,077**	**2,068,585**	**1,822,175**	**11.2**	**13.5**
NIM (%)*	**4.3**	**4.3**	**4.0**	**—**	**—**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

* Net interest income (including Swap points) to average interest-bearing assets, net of impairment write-down (calculated based on the balances as of the end of previous reporting period, the end of the half-year period in a given year and the end of a given year).

In 2012, net interest income increased by 232.5 million, or 11.2%, to PLN 2,301.1 million from PLN 2,068.6 million in 2011. This was principally due to the combined effect of positive net interest margin trends in selected areas and growth of core business volumes.

Interest income increased by 13.3% to PLN 3,867.5 million in 2012 from PLN 3,413.7 million in 2011. The increase was mainly attributable to a 5.0% increase in gross loans and advances to customers caused principally by a 4.2% increase in lending to enterprises (driven mainly by the growth in the SME loan portfolio), and a 9.0% increase in lending to individuals (including a notable 15.9% increase in cash loan portfolio). The increase in interest income was also due to an increase in average interest rate on loans and advances to customers. Total loans and advances to customers generated average nominal interest income at the rate of 7.2% in 2012, as compared with 7.0% in 2011. Such increase was the result of an increase in the NBP's average reference rate, which amounted to 4.6% in 2012 as compared with 4.25% in 2011, as well as the growth in the volume of higher margin loans (mainly SME and cash loans). For more details on the loan portfolio and average interest rates, please see "*Operating and Financial Review—Financial Condition—Assets*" and "*Selected Statistical and Financial Information—Average Balances and Interest Rates*".

The increase in interest income in 2012 was also partially attributable to the implementation of hedge accounting on foreign currency loans from 1 December 2011. In 2012, interest income included interest income of PLN 158.7 million from CIRS transactions designated as hedging instruments under cash flow hedge accounting. The respective amount is disclosed under interest recorded on hedging IRS, which in 2012 amounted to PLN 177.2 million, as compared to PLN 25.3 million in 2011. Excluding the effect of these swaps, the BZ WBK Group's other interest-related income, specifically the income from FX Swaps and non-hedging CIRS transactions (PLN 102.3 million for 2012 and PLN 188.2 million for 2011, respectively), reported under net trading income and revaluation, the net interest income (excluding the impact of hedge accounting for SWAP transactions) increased by 6.7% in 2012 as compared with 2011.

Interest expense increased by 16.4% to PLN 1,566.4 million in 2012 from PLN 1,345.1 million in 2011. The increase was mainly attributable to a 5.6% increase in deposits from individuals and a 3.5% increase in deposits from the public sector partially offset by a 7.5% decrease in deposits from enterprises. The increase in interest expense was also the result of an increase in average interest rate on deposits and increased competition for retail deposits in the second half of 2012. Total deposits from customers produced nominal interest expense at the annual rate of 3.1% in 2012, as compared to 2.7% in 2011. Such increase was attributable to the increase in the NBP's average reference rate, which amounted to 4.6% in 2012, as compared with 4.25% in 2011. For more details on the deposit portfolio and average interest rates, please see "*Operating and Financial Review—Equity and Liabilities-Financial Condition*" and "*Selected Statistical and Financial Information—Average Balances and Interest Rates*".

In 2012, the BZ WBK Group's net interest margin was 4.33%, compared with 4.28% reported a year before. The increase in margin reflects the marginally faster growth of the BZ WBK Group's net interest income compared to the average value of interest bearing assets as a result of, inter alia, the BZ WBK Group's continued focus on increasing the proportion of higher margin lending in its portfolio and the positive impact of the introduction of hedging accounting through CIRS transactions in December 2011.

In 2011, net interest income increased by 246.4 million, or 13.5%, to PLN 2,068.6 million from PLN 1,822.2 million in 2010. This was principally due to the combined effect of positive net interest margin trends in the rising interest rate environment and strong growth of core business volumes. The BZ WBK Group's net interest income level was also positively influenced by higher margins on retail products, supported by four NBP reference rate increases during the first half of 2011.

Interest income increased by 9.1% to PLN 3,413.7 million in 2011 from PLN 3,130.3 million in 2010. The increase was mainly attributable to a 15.1% increase in total interest earning assets caused principally by a 19.8% increase in lending to enterprises, and a 9.9% increase in lending to individuals. The above increases in balances of loans to enterprises and loans to individuals also resulted in an improved mix of higher interest earning loans. Total loans and advances to customers generated an average nominal interest income at the rate of 7.0% in 2011, as compared with 7.0% in 2010. For more details on the loan portfolio and average interest rates, please see "*Operating and Financial Review—Financial Condition—Assets*" and "*Selected Statistical and Financial Information—Average Balances and Interest Rates*".

Taking into account the other interest-related income, which is generated by FX Swaps and Basis Swaps and which amounted to PLN 178.1 million in 2011 and PLN 192.1 million in 2010 and is disclosed under net trading income and revaluation, the underlying net interest income (excluding the impact of hedge accounting for SWAP transactions) increased by 11.5% in 2011 as compared with 2010.

Interest expense increased by 2.8% to PLN 1,345.1 million in 2011 from PLN 1,308.1 million in 2010. The increase was mainly attributable to a 20.2% increase in interest expense on deposits from enterprises, a 168.0% increase in the interest expense relating to the issuance of subordinated debt during 2010 offset by a 7.7% reduction in interest expense related to deposits from individuals. The reduction of the interest cost related to deposits from individuals was attributable to a significantly lower cost of attracting deposit funding from individuals in 2012 as compared to 2010, which was a period of increased price competition in the sector. As a result of the above, total deposits from customers produced nominal interest expense at the annual rate of 2.7% in 2011, as compared to 2.8% in 2010. For more details on the deposit portfolio and average interest rates, please see "*Operating and Financial Review—Financial Condition—Equity and Liabilities*" and "*Selected Statistical and Financial Information—Average Balances and Interest Rates*".

In 2011, the BZ WBK Group's net interest margin was 4.28%, compared with 3.98% reported a year before. The increase in margin reflects the marginally faster growth of the BZ WBK Group's net interest income compared to the average value of interest bearing assets as a result of, inter alia, the rebalancing of the BZ WBK Group's business to feature more profitable loans and a reduction in the cost of deposit funding for the BZ WBK Group.

Net fee and commission income

Fee and commission income consists mainly of fees and commissions charged to customers for using typical banking products (eBusiness & payments, current accounts and money transfer, foreign exchange commissions, credit commissions, off-balance sheet guarantee commissions and finance lease commissions), fees and commissions related to the activity of the BZ WBK Group on the capital markets (asset management fees, brokerage commissions and issue arrangement), insurance commissions charged for the distribution of insurance products and other fees and commissions.

Fee and commission expense consists of expenses corresponding to particular fee and commission income, with the most important contributors being fee and commission expenses from eBusiness & payments, distribution fees and other fee and commission expenses.

The table below presents the basic components of fee and commission income and expense of the BZ WBK Group for the periods indicated:

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
Fee and Commission income from:					
eBusiness & payments	440,379	391,533	357,483	12.5	9.5
Current accounts and money transfer	245,383	243,932	251,214	0.6	(2.9)
Foreign exchange commissions	233,782	224,263	201,745	4.2	11.2
Asset management fees	220,440	273,520	336,064	(19.4)	(18.6)
Credit commissions	154,931	115,509	104,764	34.1	10.3
Insurance commissions	108,401	68,758	70,339	57.7	(2.2)
Brokerage commissions	85,324	128,670	126,682	(33.7)	1.6
Credit cards	73,537	63,040	63,626	16.7	(0.9)
Off-balance sheet guarantee commissions	14,751	12,875	11,258	14.6	14.4
Finance lease commissions	5,146	4,069	3,841	26.5	5.9
Issue arrangement	4,932	15,321	11,220	(67.8)	36.6
Distribution fees	3,766	12,971	14,463	(71.0)	(10.3)
Other commissions	5,266	4,203	3,248	25.3	29.4
Total	**1,596,038**	**1,558,664**	**1,555,947**	**2.4**	**0.2**
Fee and Commission expense from:					
eBusiness & payments	(93,892)	(77,907)	(77,197)	20.5	0.9
Distribution fees	(29,256)	(36,260)	(42,939)	(19.3)	(15.6)
Brokerage commissions	(19,186)	(28,371)	(26,484)	(32.4)	7.1
Credit cards	(10,014)	(7,168)	(7,597)	39.7	(5.6)
Asset management fees and other costs	(7,390)	(8,369)	(10,447)	(11.7)	(19.9)
Finance lease commissions	(9,155)	(7,268)	(6,848)	26.0	6.1
Commission paid to credit agents	(11,916)	(12,174)	(23,217)	(2.1)	(47.6)
Other	(30,243)	(23,475)	(17,990)	28.8	30.5
Total	**(211,052)**	**(200,992)**	**(212,719)**	**5.0**	**(5.5)**
Net fee and commission income	**1,384,986**	**1,357,672**	**1,343,228**	**2.0**	**1.1**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

In 2012, net fee and commission income of the BZ WBK Group increased by PLN 27.3 million, or 2.0%, to PLN 1.385.0 million from PLN 1,357.7 million in 2011.

In the period under review, the largest component of the net fee and commission income was the net fee and commission income from eBusiness & Payments (which constituted 25.0% of the total net fee and commission income), which increased by 10.5% in 2012 mainly due to the growing number and activity of debit card holders, users of the BZWBK24 electronic banking system and customers making international payments. Strong growth was also recorded in insurance commissions (57.7% in 2012) and credit commissions (34.1% in 2012), the share of which in net fee and commission income increased to 7.8% and 11.2% in 2012, respectively. The growth in insurance fees and credit fees was primarily attributable to the development of the BZ WBK Group's lending business, including cash loans coming with "*Worry-Free Loan*" ("*Spokojny Kredyt*") insurance, SME loans with "*Business Guarantee*" ("*Biznes Gwarant*") insurance, and various financing options for the companies serviced by the Business and Corporate Banking segment and the Global Banking and Markets segment.

The above increases in the net fee and commission income from eBusiness & payments were partly offset by the decrease in asset management fees and brokerage commissions. The BZ WBK Group's fee and commission income from asset management fees in 2012 decreased by 19.4% as compared with 2011, reflecting the lower average value of mutual funds and private portfolios managed by BZ WBK Asset

Management and BZ WBK TFI (a decrease of 8.9% in 2012 as compared with 2011) as well as the sales structure changing in favor of low margin products such as bond funds. The BZ WBK Group's brokerage commissions decreased by 33.7% in 2012 as compared with 2011, which is attributable to the limited investment activity of customers, pressure to reduce margins in all the stock exchange market segments and a slowdown in the IPO market. Income from issue arrangement services fell during the year 2011 by PLN 10.4 million to PLN 4.9 million. The above-mentioned decrease in asset management fees and brokerage commissions was mainly due to the higher volatility on the capital markets in 2012 as a result of developments in the Eurozone. As a consequence, stock exchanges experienced lower volumes of stock trading and weaker issuer activity in the primary market compared with previous years.

In 2011, the net fee and commission income of the BZ WBK Group increased by PLN 14.4 million or 1.1%, to PLN 1,357.7 million from PLN 1,343.2 million in 2010. The increase in the BZ WBK Group's fee and commission income from distribution, lending and FX transactions, which was driven by growing business volumes, was partly offset by a decrease in asset management fees, which reflected the difficult situation on global stock markets.

Net fee and commission income generated from eBusiness & payments amounted to PLN 313.6 million in 2011, which is an increase of 11.9% as compared with 2010. Such growth was driven by the income from debit cards resulting from the higher number of cards (an increase of 9% as compared with 2010) and the value of cashless transactions effected by debit card holders (increase of 24% as compared with 2010). Debit card-related fees were also affected by revenues from card issuance and cash transactions, particularly the increasing number of withdrawals from third-party ATMs (an increase of 32% as compared with 2010) and the lower cost of such transactions as a result of interchange fee changes.

Foreign exchange commission income amounted to PLN 224.3 million and was 11.2% higher as compared with 2010, which resulted from an increase in the volume of FX trading of corporate customers (an increase of 26% as compared with 2010), partially offset by the effect of the narrowing of FX spreads (a decrease by 9% as compared with 2010).

Credit commissions income amounted to PLN 115.5 million and increased by 10.3% as compared with 2010, as a result of the expanding business overdraft portfolio and declining agency costs with a modified settlement process in place.

The BZ WBK Group's net fee and commission income from asset management fees decreased by 18.6% to PLN 265.2 million in 2011. The direction and extent of this change was affected by weak stock performance on the WSE, heavily influenced by global events (the debt crisis in the Eurozone and the USA, and concerns about the sustainability of the economic recovery worldwide). In such circumstances, the average value of net assets of mutual funds and private portfolios decreased by 14.9% in 2011 as compared with 2010, which adversely affected fee and commission income.

Dividend income

Dividend income consists mainly of dividends arising from BZ WBK's 10% share in three entities from AVIVA Polska Group which is included in dividends from investment portfolio entities.

The table below presents the basic components of dividend income of the BZ WBK Group for the periods indicated:

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Dividends from investment portfolio entities	54,404	66,702	53,293	(18.4)	25.2
Dividend from trading portfolio entities	1,344	1,323	1,221	1.6	8.4
Total	**55,748**	**68,025**	**54,514**	**(18.0)**	**24.8**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

In 2012, dividends from investment portfolio entities amounted to PLN 54.4 million, which constituted a decrease of PLN 12.3 million, or 18.4%, in comparison with 2011. Such decrease was mainly attributable to lower dividends received from three entities from AVIVA Polska Group (during 2012, 82.3% of dividend income was received from three entities from AVIVA Polska Group).

In 2011, dividends from investment portfolio entities amounted to PLN 66.7 million, which constituted an increase of PLN 13.4 million, or 25.2%, in comparison with 2010. Such increase was mainly attributable to the fact that in 2010, Bank Zachodni WBK recognized lower dividend income from the Aviva Group companies as a result of an interim dividend payout (PLN 20.3 million) in December 2009.

Net trading income and revaluation

Net trading income and revaluation includes profits and losses resulting from changes in the 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 debt instruments are also reflected in net interest income.

The table below presents information on the net trading income and revaluation of the BZ WBK Group for the periods indicated:

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Profit/(loss) on derivative instruments	129,821	133,446	109,221	(2.7)	22.2
Profit on interbank FX transactions	18,083	96,773	111,398	(81.3)	(13.1)
Other FX related income	13,622	25,965	27,275	(47.5)	(4.8)
Profit on market maker activity	2,996	8,455	9,736	(64.6)	(13.2)
Profit on equity instruments	433	—	—	—	—
Profit on debt instruments	(610)	2,512	1,101	—	128.2
Total	**164,345**	**267,151**	**258,731**	**(38.5)**	**3.3**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

In 2012, net trading income and revaluation decreased by PLN 102.8 million, or 38.5%, to PLN 164.3 million from PLN 267.2 million in 2011. The decrease in net trading income and revaluation was mainly driven by a decrease in profit on interbank FX transactions of PLN 78.7 million, which was due to the unfavorable market conditions and the impact of cash flow hedge accounting adopted by BZ WBK effective as of 1 December 2011.

In 2011, net trading income and revaluation increased by PLN 8.4 million, or 3.3%, to PLN 267.2 million from PLN 258.7 million in 2010. The increase in net trading income and revaluation was mainly driven by a growth in profit on derivative instruments of PLN 24.2 million, which was mainly driven by the fluctuations of the foreign currency and interest rate markets, and due to the impact of cash flow hedge accounting adopted by BZ WBK effective as of 1 December 2011.

Gains (losses) from other financial instruments

Gains (losses) from other financial instruments are composed mainly of profits (losses) from financial instruments (including profits (losses) from the sale of equity shares and debt securities), as well as of profits (losses) from hedging and hedged instruments.

The table below presents information on the gains (losses) from other financial instruments of the BZ WBK Group for the periods indicated:

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Profit on sale of equity shares	4,492	6,138	6,516	(26.8)	(5.8)
Profit on sale of debt securities	174,105	6,761	5,657	2,475.1	19.5
Allowance for impairment	(1,386)	(2,321)	(48)	(40.3)	4,735.4
Total profit (losses) on financial instruments	**177,211**	**10,578**	**12,125**	**1,575.3**	**(12.8)**
Change in fair value of hedging instruments	(57,503)	3,205	(192)	(1,894.2)	(1,769.3)
Change in fair value of underlying hedged positions	60,344	(2,070)	475	(3,015.2)	(535.8)
Total profit (losses) on hedging and hedged instruments	**2,841**	**1,135**	**283**	**150.3**	**301.1**
Total	**180,052**	**11,713**	**12,408**	**1,437.2**	**(5.6)**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

Gains from other financial instruments increased by PLN 168.3 million, or 1,437.2%, to PLN 180.1 million in 2012 from PLN 11.7 million in 2011. The increase in gains from other financial instruments was mainly driven by an increase in profit on sale of debt securities of PLN 167.3 million.

The change in profit on sale of debt securities was driven by the significant reduction in Polish government bond yields during 2012, which reached all-time lows, and the Management Board took the opportunity to reposition a portion of the available for sale investment portfolio by selling bonds with longer maturity. This resulted in a realized gain of PLN 174.1 million being reflected in the profit and loss accounts. Gains from other financial instruments decreased by PLN 0.7 million, or 5.6%, to PLN 11.7 million in 2011 from PLN 12.4 million in 2010. The decrease in gains from other financial instrument was mainly driven by a decrease in change in fair value of underlying hedged positions and hedging instruments of PLN 2.5 million.

Impairment losses on loans and advances

The table below presents information on impairment losses on loans and advances of the BZ WBK Group for the periods indicated:

	Year ended 31 December			Change	
	2012	2011	2010	2012/2010	2011/2010
	(PLN thousand) (audited)			%	
Collective and individual impairment charge	(538,908)	(371,079)	(474,770)	45.2	(21.8)
Incurred but not reported losses charge	19,263	(4,713)	35,317	—	—
Recoveries of loans previously written off	13,272	7,006	20,370	89.4	(65.6)
Off balance sheet credit related items	4,580	(3,955)	(1,671)	—	136.7
Total	**(501,793)**	**(372,741)**	**(420,754)**	**34.6**	**(11.4)**
NPL Ratio[(1)] (%)	**5.4**	**5.5**	**6.9**	**—**	**—**
Cost of risk ratio[(2)] (%)	**1.2**	**1.0**	**1.2**	**—**	**—**
Coverage Ratio[(3)] (%)	**53.5**	**49.1**	**45.1**	**—**	**—**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

(1) Calculated by dividing gross loans and advances to customers (individually and collectively impaired) by gross receivables.

(2) Calculated by dividing impairment losses on loans and advances by the average balance (calculated as the arithmetical average of the balances at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period) of sum gross receivables.

(3) Calculated by dividing allowance for impairment (for individual and collectively impaired receivables) by gross loans and advances to customers (individually and collectively impaired).

In 2012, impairment losses on loans and advances increased by PLN 129.1 million, or 34.6%, to PLN 501.8 million from PLN 372.7 million in 2011. The increase in impairment losses on loans and receivables was caused by an increase in collective and individual impairment charge by PLN 167.8 million, or 45.2%, to PLN 538.9 million in 2012 from PLN 371.1 million in 2011.

The increase in impairment losses is mainly due to the deteriorating financial condition of the construction sector (the bank suffered a material impairment loss on one large exposure to the company from the construction sector in 2012), liquidity problems of enterprises and the deceleration of economic growth in Poland. However, at the same time the write-down for incurred but not reported losses (IBNR) amounted to a positive impact of PLN 19.3 million, which is PLN 24.0 million less than in the previous year, when the amount was negative and increased the loss on loans and advances by PLN 4.7 million. The positive impact of IBNR reflects the timely loan service by mainly cash loan and mortgage customers.

In 2011, impairment losses on loans and advances decreased by PLN 48.0 million, or 11.4%, to PLN 372.7 million from PLN 420.8 million in 2010.

The drop in impairment losses on loans and receivables was caused mainly by a decrease in collective and individual impairment charge of PLN 103.7 million, or 21.8%, to PLN 371.1 million in 2011 from PLN 474.8 million in 2010. However, at the same time, the write-down for incurred but not reported losses (IBNR) amounted to PLN 4.7 million, which is PLN 40.0 million more than in the previous year, when the amount was positive and reduced the loss on loans and advances by PLN 35.3 million. The 2010 positive IBNR result was due to the reversal of PLN 60 million for the IBNR provisions in the Business and Corporate Banking portfolio.

In the period under review, the NPL ratio decreased from 6.9% in 2010 to 5.5% in 2011 and further decreased to 5.4% in 2012. The decrease in the NPL ratio is an effect of impaired loans and advances growing at a lower rate than the total balance of loans and advances to customers together with the sale of the NPL portfolio during 2011 and 2012. The above was a result of the conservative credit policy applied by the BZ WBK Group and an increasing balance of loans and advances to customers.

In the period under review, the coverage ratio increased from 45.1% in 2010 to 49.1% in 2011 and further to 53.5% in 2012. The above increases resulted from the changing mix of the collateralized and uncollateralized loans in the portfolio.

Employee costs and general administrative expenses

The table below shows information on employee costs and general administrative expenses of the BZ WBK Group in the years indicated:

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Employee costs					
Salaries and bonuses	(792,309)	(816,189)	(801,719)	(2.9)	1.8
Salary related costs	(123,004)	(117,235)	(117,524)	4.9	(0.2)
Staff benefits costs	(22,054)	(22,214)	(20,620)	(0.7)	7.7
Professional training	(16,723)	(17,526)	(14,176)	(4.6)	23.6
Retirement fund, holiday provisions and other employee-related costs	966	(3,645)	(4,955)	(126.5)	(26.4)
Total	**(953,124)**	**(976,809)**	**(958,994)**	**(2.4)**	**1.9**
General and administrative expenses					
Maintenance and rentals of premises	(226,577)	(216,709)	(212,295)	4.6	2.1
IT systems costs	(93,537)	(90,032)	(87,113)	3.9	3.4
Marketing and representation	(77,072)	(83,646)	(79,083)	(7.9)	5.8
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(49,386)	(42,660)	(24,548)	15.8	73.8
Consulting fees	(45,711)	(27,459)	(27,949)	66.5	(1.8)
Postal and telecommunication costs	(39,721)	(46,313)	(47,104)	(14.2)	(1.7)
Car, transport expenses, carriage of cash	(36,950)	(35,044)	(31,712)	5.4	10.5
Other external services	(35,914)	(36,428)	(36,433)	(1.4)	(0.0)
Sundry taxes	(19,188)	(19,525)	(17,138)	(1.7)	13.9
Stationery, cards, checks	(18,642)	(25,974)	(18,842)	(28.2)	37.9
Data transmission	(13,853)	(15,744)	(15,288)	(12.0)	3.0
KIR, SWIFT settlements	(12,430)	(11,307)	(12,187)	9.9	(7.2)
Security costs	(10,648)	(12,481)	(13,677)	(14.7)	(8.7)
Costs of repairs	(5,018)	(5,264)	(6,011)	(4.7)	(12.4)
Other	(15,341)	(13,750)	(12,218)	11.6	12.5
Total	**(699,988)**	**(682,336)**	**(641,598)**	**2.6**	**6.3**
Total Employee Costs and Overheads	**(1,653,112)**	**(1,659,145)**	**(1,600,592)**	**(0.4)**	**3.7**
C/I Ratio* (%)	**43.9**	**50.2**	**49.9**	**—**	**—**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

* Calculated by dividing operating expenses by total net income from business activities (total net income from business activities is defined as the sum of: (i) net interest income; (ii) net fee and commission income; (iii) dividend income (iv) net gain/(loss) on sale of subsidiaries and associates; (v) net trading income and revaluation (vi) gains (losses) from other financial securities; (vii) other operating income).

In 2012, total employee costs and overheads of the BZ WBK Group decreased by PLN 6.0 million, or 0.4%, to PLN 1,653.1 million, from PLN 1,659.1 million in 2011.

In 2012, the BZ WBK Group's employee costs amounted to PLN 953.1 million, a decrease of 2.4% in comparison with 2011, mainly due to the lower number of FTE employees (a decrease of 548 FTE staff over 2012) resulting from natural attrition and the BZ WBK Group not hiring new employees due to the expected Merger and the resulting integration with the Kredyt Bank Group.

In 2012, the BZ WBK Group's general and administrative expenses amounted to PLN 700.0 million and were 2.6% higher as compared with 2011. The most significant growth (an increase of 66.5% as compared with 2011) was seen in consulting fees connected with the Merger.

The higher fees paid to the BGF, the PFSA and the NDS (an increase of 15.8% as compared with 2011) result from the higher basis of their calculation as an effect of the steady development of business volumes.

The cost of maintenance and rental of premises increased (an increase of 4.6% as compared with 2011) due to the increase in energy prices and the indexation of lease agreements. IT system costs increased (an increase of 3.9% as compared with 2011) due to the increased outsourcing of IT services and application development.

At the same time, the BZ WBK Group notably limited its operating costs in such areas as stationery, cards, checks (a total decrease of 28.2% across all headings as compared with 2011), security costs (a decrease of 14.7% as compared with 2011), postal and telecommunications costs (a decrease of 14.2% as compared with 2011), and marketing and representation costs (a decrease of 7.9% as compared with 2011).

For more information related to the costs of the Merger and the integration, please see *"Costs Related to the Merger and Expected Synergies—Operating and Financial Review"*.

In 2011, employee costs and the BZ WBK Group's overheads increased by PLN 58.6 million, or 3.7%, to PLN 1,659.1 million from PLN 1,600.6 million in 2010.

In 2011, the BZ WBK Group's employee costs amounted to PLN 976.8 million, reflecting an increase of 1.8% as compared with 2010, mainly due to the launch of the fourth edition of the "*Performance-Share Program*" and the growth of the cost of training, which was driven mainly by management and sales training initiatives.

In 2011, the general and administrative expenses of the BZ WBK Group amounted to PLN 682.3 million and were 6.3% higher than in 2010. The most pronounced growth (an increase of 73.8% as compared with 2010) was seen in fees payable to the BGF, the PFSA and the NDS, mainly on account of the increase in the annual fee owed to the BGF.

Other sources of cost increase were marketing and representation costs (an increase of 5.8% as compared with 2010) associated with the BZ WBK Group's intensive marketing campaigns in the mass media. In 2011, the BZ WBK Group's marketing efforts were focused on the promotion of cash loans, home mortgages, the three-month Daily Earning Deposit and structured bonds. Projects related to the ownership changes led to higher business travel costs disclosed under car and transport expenses, carriage of cash (an increase of 10.5% as compared with 2010). There was also an increase of 3.4%, as compared with 2010, in IT system costs due to the need to improve the BZ WBK Group's IT infrastructure, secure additional licenses in response to the change of the strategic shareholder and to develop tools to facilitate the effective implementation of business projects.

Maintenance and rentals of premises increased by 2.1%, as compared with 2010, as a result of higher lease payments (indexation, the EUR exchange rate) and running costs, as well as qualitative development of the branch network.

Profit before tax

As a result of the above changes, the BZ WBK Group reported an increase in profit before tax of PLN 294.6 million, or 19.1%, to PLN 1,837.0 million in 2012 from PLN 1,542.4 million in profit before tax noted in 2011. The 2011 result was in turn an increase in profit before tax of PLN 185.2 million, or 13.6%, to PLN 1,542.4 million from PLN 1,357.2 million in profit before tax noted in 2010.

Income tax

Income tax expense was PLN 374.4 million in 2012 and PLN 315.6 million in 2011, representing an effective tax rate of 20.4% and 20.5%, respectively, compared with the nominal corporate income tax rate of 19%. The effective tax rate was higher in both 2012 and 2011 due to the negative tax impact of non-tax deductible expenses, non-tax deductible impairment provisions and the sale of receivables offset by the non-taxable receipt of dividends.

Consolidated profit for the period

As a result of the above, the BZ WBK Group's consolidated profit for the period increased by PLN 235.8 million, or 19.2%, to PLN 1,462.6 million in 2012 from PLN 1,226.9 million in 2011. The net profit generated by the BZ WBK Group was mainly attributable to:

- an increase in net interest income of PLN 232.5 million, or 11.2%, to PLN 2,301.1 million in 2012 from PLN 2,068.6 million in 2011;
- an increase in gains from other financial instruments of PLN 168.3 million, or 1,437.2%, to PLN 180.1 million in 2012 from PLN 11.7 million in 2011; and

- an increase in net fee and commission income of PLN 27.3 million, or 2.0%, to PLN 1,385.0 million in 2012 from PLN 1,357.7 million in 2011.

Such increases were partially offset by an increase in impairment losses on loans and advances of PLN 129.1 million, or 34.6%, to PLN 501.8 million in 2012 from PLN 372.7 million in 2011.

The BZ WBK Group's consolidated profit for the period increased by PLN 186.3 million, or 17.9%, to PLN 1,226.9 million in 2011 from PLN 1,040.6 million in 2010. The net profit generated by the BZ WBK Group was mainly attributable to:

- an increase in net interest income of PLN 246.4 million, or 13.5%, to PLN 2,068.6 million in 2011 from PLN 1,822.2 million in 2010;
- an increase in net fee and commission income of PLN 14.4 million, or 1.1%, to PLN 1,357.7 million in 2011 from PLN 1,343.2 million in 2010; and
- an increase in dividend income of PLN 13.5 million, or 24.8%, to PLN 68.0 million in 2011 from PLN 54.5 million in 2010.

Such increases were partially offset by an increase in operating expenses of PLN 155.4 million, or 8.8%, to PLN 1,918.9 million in 2011 from PLN 1,763.5 million in 2010.

Results of Operations by Operating Segment

The operational activity of the BZ WBK Group is divided into four segments: Retail Banking, Business and Corporate Banking, Global Banking and Markets, and ALM (Assets and Liabilities Management) and Center as follows:

- *Retail Banking* offers products and services to individual customers as well as small and micro companies. The products offered to customers of this segment include a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, foreign payments and private banking services. For small and micro companies, the segment provides, inter alia, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the retail banking segment generates income through offering asset management services within investment funds and private portfolios. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.
- *Business and Corporate Banking* offers products and activities to 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.
- *Global Banking and Markets* generates income from the sale of products and services to the largest international and local corporations, including: transactional banking with products such as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance; lending, including project finance, syndicated facilities and bond issues; FX and interest rate risk management products; and the underwriting and financing of securities issues, financial advice and brokerage services related to the activities of the brokerage house. Through its presence in the wholesale market, Global Banking and Markets also generates revenues from interest rate and FX risk positioning activity.
- *ALM and Center* provides central operations such as the financing of other segments of the BZ WBK Group, including liquidity, interest rate risk and FX risk management. It also includes managing BZ WBK's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment.

Income and costs assigned to a given segment are generated from the sale and service of products or services provided in the segment as presented below. Such income and costs are recognized in the profit and loss account for the BZ WBK Group and may be assigned to a given segment either directly or based on reasonable assumptions.

Settlements among business segments relate to rewards granted for delivered services and include:

- the sale to 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; and
- sharing of income and the delivery costs of common projects.

Income and cost allocations are regulated by agreements between segments, which are based on individual rates for specific services or a breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for operational activity and may be assigned to the segment directly or on a reasonable basis.

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 the BZ WBK Group.

On 1 January 2012, the BZ WBK Group changed its business segment reporting rules. The change affects two key areas:

- a change in the structure of (split into) operating segments and, consequently, reporting segments; and
- a change in the calculation methodology for the net interest income of segments.

In order to create a more effective operating model, in the fourth quarter of 2011, a new business segment was created: Global Banking and Markets ("**GBM**"). The role of the segment is to provide services to the largest corporations, including transactional banking products, specialist lending, Treasury and equity products. Furthermore, the Treasury operations were reorganized and divided into separate trading activity from liquidity, interest rate risk and FX risk management. Currently, trading activity is managed by the Global Banking and Markets segment, while liquidity, interest rate risk and FX risk management have been transferred to the ALM and Center segment within the Financial Management Division. Once these changes were implemented, BZ WBK ceased to classify customers and transactions based on the previous methodology. Therefore, it is not currently possible to obtain comparable information.

Another key change effective from 2012 is the introduction of a new methodology for the calculation of transfer pricing in the BZ WBK Group, which affects the reported net interest income at the level of individual segments. Furthermore, according to the existing methodology, transfer prices are calculated based on individual client accounts, taking into account the new transfer pricing components. In view of the foregoing, the retrieval of comparable financials is impossible, and any attempt to obtain estimated values would be very laborious and would not ensure the appropriate reliability of the results.

Therefore, BZ WBK advises that according to IFRS 8.29, it exercises the right of exemption from the requirement to transform comparable data on account of the unavailability of such information.

Due to the unavailability of comparable data regarding segment results for 2011 and 2010 and taking into account that in the future BZ WBK will be providing segment reports in accordance with the segment split introduced on 1 January 2012, the data presented below covers only the year 2012 for which the new segment split is available.

The table below presents information on the results of operations of the BZ WBK Group by business segment in 2012:

	Year ended 31 December 2012				
	Retail Banking	**Business and Corporate Banking**	**Global Banking and Markets**	**ALM and Center**	**Total**
			(PLN thousand) (audited)		
Net interest income	**1,544,222**	**548,992**	**96,243**	**111,620**	**2,301,077**
including internal transactions	11,737	(134,604)	37,161	85,706	—
Other income	1,099,538	**143,915**	**262,112**	**273,890**	**1,779,455**
including internal transactions	44,490	30,228	(56,311)	(18,407)	—
Dividend income	**—**	**—**	**—**	**55,748**	**55,748**
Operating costs	**(1,276,643)**	**(166,206)**	**(167,004)**	**(69,401)**	**(1,679,254)**
including internal transactions	(2,520)	(5,244)	(4,418)	12,182	—
Depreciation/amortization	**(106,610)**	**(14,552)**	**(10,975)**	**(5,803)**	**(137,940)**
Impairment losses on loans and advances	**(215,948)**	**(298,416)**	**14**	**12,557**	**(501,793)**
Share in net profits of entities accounted for by the equity method	**15,241**	**—**	**1,236**	**3,269**	**19,746**
Profit before tax	**1,059,800**	**213,733**	**181,626**	**381,880**	**1,837,039**
Corporate income tax					(374,404)
Non-controlling interests					(28,788)
Profit for the period					**1,433,847**

Source: The Consolidated Financial Statements of BZ WBK.

In 2012, Retail Banking generated PLN 1,059.8 million, or 57.7%, of profit before tax, Business and Corporate Banking generated PLN 213.7 million, or 11.6%, of profit before tax, ALM and Center generated PLN 381.9 million, or 20.8%, of profit before tax and GBM generated PLN 181.6 million, or 9.9%, of profit before tax.

Net Interest Income

In 2012, Retail Banking accounted for 67.1% of the net interest income of the BZ WBK Group, whereas Business and Corporate Banking accounted for 23.9% and GBM and ALM and Center, respectively, accounted for 4.2% and 4.9% of the total net interest income of the BZ WBK Group.

Other Income

In 2012, other income amounted to 1,779.5 million. The other income line item includes income generated by the BZ WBK Group from: fees and commission income and trading activity. During 2012, Retail Banking was the largest contributor to other income and accounted for 61.8%, which was mainly an effect of its scale of operations.

Operating Costs

In 2012, operating costs amounted to PLN 1,679.3 million. Retail Banking represented 76.0% of the BZ WBK Group's total operating costs. Such share of Retail Banking operating expenses was mainly due to the scale of its operations. The remaining operating costs were split among the remaining segments and the share of Business and Corporate Banking, GBM and ALM and Center in total operating costs amounted to 9.9%, 9.9% and 4.1%, respectively.

Impairment Losses on Loans and Advances

In 2012, impairment losses on loans and advances assigned to Retail Banking represented 43.0% of the total impairment losses on loans and advances, while the impairment losses on loans and advances assigned to Business and Corporate Banking represented 59.5% thereof. The impairment losses on loans and advances in GBM and ALM and Center were positive due to recoveries on previously impaired loans.

Impairment losses in the Business and Corporate Banking segment increased significantly in 2012 due to the impact of one large exposure to a Polish construction company which filed for bankruptcy during 2012.

The table below presents information on the assets, equity and liabilities of the BZ WBK Group by business segment in 2012:

	As of 31 December 2012				
	Retail Banking	**Business and Corporate Banking**	**Global Banking and Markets**	**ALM and Center**	**Total**
			(PLN thousand) (audited)		
Loans and advances to customers	20,042,900	17,534,167	2,189,673	100,814	39,867,554
Investments in associates and joint ventures	54,039	—	19,913	41,733	115,685
Other assets	1,392,045	528,367	1,274,427	16,841,099	20,035,938
Total assets	**21,488,984**	**18,062,534**	**3,484,013**	**16,983,646**	**60,019,177**
Deposits from customers	34,797,598	9,745,141	2,534,355	—	47,077,094
Other liabilities and equity	3,308,885	4,464,637	2,003,162	3,165,399	12,942,083
Total equity and liabilities	**38,106,483**	**14,209,778**	**4,537,517**	**3,165,399**	**60,019,177**

Source: The Consolidated Financial Statements of BZ WBK.

As of 31 December 2012, assets allocated to Retail Banking, Business and Corporate Banking, ALM and Center and GBM represented, respectively, 35.8%, 30.1%, 28.3% and 5.8% of the total assets of the BZ WBK Group.

Loans and advances to customers are the largest part of the total assets of the Retail Banking, Business and Corporate Banking and GBM segments comprising 93.3%, 97.1% and 62.8%, respectively, of the total assets thereof. The total assets of the ALM and Center segment comprise mainly other assets constituting 99.2% of the total assets of this particular segment. Other assets of the ALM and Center segment include mainly Polish Government bonds.

As of 31 December 2012, liabilities and equity allocated to Retail Banking represented 63.5% of the total liabilities and equity of the BZ WBK Group, whereas liabilities and equity allocated to Business and Corporate Banking represented 23.7%. Liabilities and equity allocated to GBM and ALM and Center comprised 7.6% and 5.3%, respectively, of the total liabilities and equity of the BZ WBK Group.

Deposits from customers are the largest part of the total equity and liabilities of Retail Banking, Business and Corporate Banking and GBM comprising 91.3%, 68.6% and 55.9%, respectively, of the total equity thereof.

Financial Condition

Assets

The table below presents information on the assets of the BZ WBK Group as of the dates indicated.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
ASSETS					
Cash and balances with the central banks	4,157,274	1,425,541	2,534,463	191.6	(43.8)
Loans and advances to banks	1,458,128	1,204,172	619,655	21.1	94.3
Financial assets held for trading	831,715	5,836,043	2,238,966	(85.7)	160.7
Hedging derivatives	253,553	141,636	14,768	79.0	859.1
Loans and advances to customers	39,867,554	38,017,173	32,838,385	4.9	15.8
Investment securities	11,716,133	11,652,195	13,395,355	0.5	(13.0)
Investments in associates and joint ventures	115,685	104,512	87,360	10.7	19.6
Intangible assets	127,338	151,166	172,561	(15.8)	(12.4)
Property, plant and equipment	479,811	499,793	547,536	(4.0)	(8.7)
Current income tax assets	—	20,687	—	—	—
Net deferred tax assets	258,037	245,019	309,164	5.3	(20.7)
Assets classified as held for sale	—	—	2,502	—	(100)
Other assets	753,949	498,706	393,156	51.2	26.8
Total assets	**60,019,177**	**59,796,643**	**53,153,871**	**0.4**	**12.5**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

As of 31 December 2012, the BZ WBK Group's total assets comprised mainly loans and advances to customers, investment securities and cash and balances with the central bank constituting 66.4%, 19.5% and 6.9% of the BZ WBK Group's total assets, respectively.

The total assets of the BZ WBK Group increased by PLN 222.5 million, or 0.4%, to PLN 60,019.2 million as of 31 December 2012 from PLN 59,796.6 million as of the end of 2011. Such increase was mainly attributable to an increase in cash and balances with the central bank of PLN 2,731.7 million, or 191.6%, to PLN 4,157.3 million as of 31 December 2012 from PLN 1,425.5 million as of the end of 2011, and was mainly driven by the requirement to increase liquidity in advance of the Merger, and an increase in loans and advances to customers of PLN 1,850.4 million, or 4.9%, to PLN 39,867.6 million as of 31 December 2012 from PLN 38,017.2 million as of the end of 2011, which was mainly driven by growth across all loan segments, offset by foreign exchange movements due to the strength of the PLN through 2012. The above increases were offset by a decrease in financial assets held for trading of PLN 5,004.3 million, or 85.7%, to PLN 831.7 million as of 31 December 2012 from PLN 5,836.0 million as of the end of 2011.

As of 31 December 2011, the BZ WBK Group's total assets comprised mainly loans and advances to customers, investment securities and financial assets held for trading constituting 63.6%, 19.5% and 9.8% of the BZ WBK Group's total assets, respectively.

The total assets of the BZ WBK Group increased by PLN 6,642.8 million, or 12.5%, to PLN 59,796.6 million as of 31 December 2011 from PLN 53,153.9 million as of the end of 2010. Such increase was mainly attributable to an increase in loans and advances to customers of PLN 5,178.8 million, or 15.8%, to PLN 38,017.2 million as of 31 December 2011 from PLN 32,838.4 million as of the end of 2010, and was mainly driven by strong loans growth across most loan types.

Below we present the BZ WBK Group's key assets and the key factors of change related to BZ WBK's total assets as of the balance sheet date.

Loans and advances to customers

Loans and advances to customers consist mainly of loans to enterprises, loans to individuals and finance lease receivables constituting 61.0%, 33.1% and 5.5% of the BZ WBK Group's gross receivables, respectively.

The table below presents selected information on the structure of the loan portfolio of the BZ WBK Group.

	Year ended 31 December			Change	
	2012	**2011**	**2010**	**2012/2011**	**2011/2010**
		(PLN thousand) (audited)		%	
Loans and advances to enterprises	25,280,604	24,262,182	20,251,489	4.2	19.8
Loans and advances to individuals, of which:	13,708,551	12,572,576	11,437,508	9.0	9.9
Home mortgage loans	*8,080,532*	*7,605,063*	*6,926,647*	*6.3*	*9.8*
Finance lease receivables	2,289,852	2,335,543	2,435,755	(2.0)	(4.1)
Loans and advances to public sector	105,366	259,057	101,089	(59.3)	156.3
Buy-sell-back transaction	15,234	100	10,118	15,134.0	(99.0)
Other	12,154	2,960	10,047	310.6	(70.5)
Gross receivables	**41,411,761**	**39,432,418**	**34,246,006**	**5.0**	**15.1**
Impairment write-downs	(1,544,207)	(1,415,245)	(1,407,621)	9.1	0.5
Total	**39,867,554**	**38,017,173**	**32,838,385**	**4.9**	**15.8**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

The balance of loans and advances to customers increased by PLN 1,850.4 million, or 4.9%, to PLN 39,867.6 million as of 31 December 2012 from PLN 38,017.2 million as of the end of 2011.

The increase in balance of loans and advances to customers in 2012 resulted mainly from:

- an increase in loans and advances to individuals, which increased by PLN 1,136.0 million, driven mainly by an increase in the cash loan portfolio (increase of 15.9%), mortgages (increase of 6.3%) and credit card balances (increase of 14.6%); and
- an increase in loans and advances to enterprises, which increased by PLN 1,018.4 million, driven mainly by an increase in loans to SME customers. Such increases in loans to SME customers were offset by a reduction in property loans.

In PLN equivalent terms, growth in the portfolio was also negatively impacted by the appreciation of the PLN versus the EUR in 2012. The above increases were also offset by a decrease in loans and advances to the public sector of 59.3% in 2012 as compared with 2011, which was mainly due to a more selective approach to the sector as a result of aggressive tender demands with regard to pricing.

The share of loans and advances to enterprises in total gross receivables decreased from 61.5% as of the end of 2011 to 61.0% as of the end of 2012, which is a decrease of 0.5 p.p. due to the BZ WBK Group's focus on increasing personal lending volumes, together with the impact of the exchange rate as the BZ WBK Group has a higher proportion of EUR denominated loans in the Business and Corporate segments. The balance of loans and advances to customers increased by PLN 5,178.8 million, or 15.8%, to PLN 38,017.2 million as of 31 December 2011 from PLN 32,838.4 million as of the end of 2010.

The increase in the balance of loans and advances to customers in 2011 resulted mainly from:

- an increase in loans and advances to individuals of PLN 1,135.1 million, due to growth in both the cash loan portfolio and mortgages, which increased by 15.2% and 9.8%, respectively; and
- an increase in loans and advances to enterprises, which increased by PLN 4,010.7 million, due to growth across most of the Business and Corporate segments and GBM (set-up during 2011).

The share of loans and advances to enterprises in total gross receivables increased from 59.1% as of the end of 2010 to 61.5% as of the end of 2011, which is an increase of 2.4 p.p. The growth was influenced by the depreciation of the PLN exchange rate versus the EUR during 2011.

For detailed information on the BZ WBK Group's loan portfolio structure, see *"Selected Statistical and Financial Information—Loan Portfolio Analysis"*.

Movements on impairment write-downs on loans and advances to customers

The table below presents movements in the balance of impairment losses on loans and advances to customers as of the indicated dates.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Individual and collective impairment					
As of the beginning of the period	(1,069,296)	(1,069,646)	(766,110)	(0.0)	39.6
Charge/write back of current period	(538,908)	(371,079)	(474,770)	45.2	(21.8)
Write off/Sale of receivables	381,667	352,347	206,912	8.3	70.3
Transfer	16,215	24,829	(38,958)	(34.7)	—
Foreign exchange differences	3,001	(5,747)	3,280	—	—
Balance at the end of the period	**(1,207,321)**	**(1,069,296)**	**(1,069,646)**	**12.9**	**(0.0)**
IBNR					
As of the beginning of the period	(345,949)	(337,975)	(373,566)	2.4	(9.5)
Charge/write back of current period	19,263	(4,713)	35,317	—	—
Transfer	(13,018)	27	10	—	170.0
Foreign exchange differences	2,818	(3,288)	264	—	—
Balance at the end of the period	**(336,886)**	**(345,949)**	**(337,975)**	**(2.6)**	**2.4**
Impairment write-downs	**(1,544,207)**	**(1,415,245)**	**(1,407,621)**	**9.1**	**0.5**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

Impairment write-downs increased by PLN 129.0 million, or 9.1%, to PLN 1,544.2 million in 2012 from PLN 1,415.2 million in 2011. The write-downs recorded in 2012 comprised provisions recorded on individual and collective impairment, which represented 78.2% of the total impairment write-downs in 2012. Other provisions were recorded for incurred but not yet identified losses which amounted to 21.8% of the total impairment write-downs in 2012. The increased write-downs were the result of the increase in non-performing loans during 2012 which was mainly due to the deteriorating financial condition of the construction sector (the BZ WBK Group suffered a material impairment loss on a loan to one large construction company in 2012), liquidity problems of enterprises and the projected deceleration of economic growth in Poland.

Impairment write-downs increased by PLN 7.6 million, or 0.5%, to PLN 1,415.2 million in 2011 from PLN 1,407.6 million in 2010. The impairment write-downs recorded in 2011 comprised mainly provisions recorded on individual and collective impairment, which represented 75.6% of the total impairment write-downs in 2011. Other provisions were recorded for incurred but not yet identified losses which amounted to 24.4% of the total impairment write-downs in 2011. The increased write-downs were the result of the increase in the level of IBNR on the retail loan portfolio.

Investment securities available for sale and held to maturity

The table below presents, as of the dates indicated, the balance of investment securities available for sale and held to maturity.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
Available for sale investments—measured at fair value					
Debt securities	11,048,024	10,971,561	6,965,866	0.7	57.5
Government securities:	7,711,424	10,893,773	6,885,095	(29.2)	58.2
—bonds	7,711,424	10,893,773	6,885,095	(29.2)	58.2
Central Bank securities:	2,099,256	—	—	—	—
—bills	2,099,256	—	—	—	—
Commercial securities:	1,237,344	77,788	80,771	1,490.7	(3.7)
—bonds	1,237,344	77,788	80,771	1,490.7	(3.7)
Equity securities:	627,180	629,194	623,456	(0.3)	0.9
—listed	13,441	19,475	20,688	(31.0)	(5.9)
—unlisted	613,739	609,719	602,768	0.7	1.2
Investment certificates	40,929	51,440	56,625	(20.4)	(9.2)
Total	**11,716,133**	**11,652,195**	**7,645,947**	**0.5**	**52.4**
Financial assets held to maturity					
Government securities:	—	—	5,749,408	—	—
—bonds	—	—	5,749,408	—	—
Total	**—**	**—**	**5,749,408**	**—**	**—**
TOTAL INVESTMENT FINANCIAL ASSETS	**11,716,133**	**11,652,195**	**13,395,355**	**0.5**	**(13.0)**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

As of the end of 2012, all investment securities available for sale were classified as available-for-sale securities measured at fair value. The balance of investment securities available for sale increased by PLN 63.9 million, or 0.5%, to PLN 11,716.1 million in 2012 from PLN 11,652.2 million in 2011. Such increase resulted primarily from the increase in bills issued by the Central Bank of PLN 2,099.3 million, which resulted mainly from the acquisition of such securities for the purposes of liquidity management and an increase in commercial bonds of PLN 1,159.6 million, which resulted mainly from an investment in longer duration bonds issued by a state-backed organization. Such increases were partially offset by a decrease in government bonds, which decreased by PLN 3,182.3 million, or 29.2%, to PLN 7,711.4 million in 2012 from PLN 10,893.8 million in 2011. Such decrease resulted from the movement into short-term bills issued by the Central Bank as mentioned above.

As of the end of 2011, all investment securities available for sale were classified as available-for-sale securities measured at fair value. The balance of investment securities available for sale and held to maturity decreased by PLN 1,743.2 million, or 13.0%, to PLN 11,652.2 million in 2011 from PLN 13,395.4 million in 2010. Such decrease resulted primarily from the requirement to fund asset growth.

Cash and balances with the central banks

The table below presents, as of the dates indicated, the cash and balances with central banks.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
Cash and balances with central banks					
Cash	1,084,108	932,600	821,556	16.2	13.5
Current accounts in central banks	3,073,166	290,908	1,712,907	956.4	(83.0)
Term deposits	—	202,033	—		
Total	**4,157,274**	**1,425,541**	**2,534,463**	**191.6**	**(43.8)**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

As of the end of 2012, cash and balances with central banks amounted to PLN 4,157.3 million and comprised cash in the amount of PLN 1,084.1 million and current accounts in central banks in the amount of PLN 3,073.2 million. The total balance of cash and balances with central banks increased by PLN 2,731.7 million, or 191.6%, to PLN 4,157.3 million in 2012 from PLN 1,425.5 million in 2011. Such increase resulted from the increase in current accounts in central banks of PLN 2,782.3 million and an increase in cash of PLN 151.5 million offset by a decrease in term deposits by PLN 202.0 million, which resulted mainly from the requirement to have excess available liquidity in advance of the Merger.

As of the end of 2011, cash and balances with central banks amounted to PLN 1,425.5 million and comprised cash in the amount of PLN 932.6 million, current accounts in central banks in the amount of PLN 290.9 million and term deposits in the amount of PLN 202.0 million. The total balance of cash and balances with central banks decreased by PLN 1,108.9 million, or 43.8%, to PLN 1,425.5 million in 2011 from PLN 2,534.5 million in 2010.

Financial assets held for trading

Financial assets held for trading decreased by PLN 5,004.3 million, or 85.7%, to PLN 831.7 million as of 31 December 2012 from PLN 5,836.0 million as of 31 December 2011. As of 31 December 2011, financial assets held for trading included short-term Polish Government bills which were used for the purposes of day to day trading activity. Separation of trading activity and banking book management in 2012 lead to segregation those bills into trading and non trading according to primary aim of holding such assets. However as at the Dec 31st 2012 all bills were in banking book classified as non-trading.

Financial assets held for trading increased by PLN 3,597.1 million, or 160.7%, to PLN 5,836.0 million as of 31 December 2011 from PLN 2,239.0 million as of 31 December 2010. The increase in financial assets held for trading was mainly due to an increase in the liquidity position at the end of 2011.

Equity and Liabilities

The table below presents information on equity and liabilities of the BZ WBK Group as of the dates indicated.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
EQUITY AND LIABILITIES					
LIABILITIES					
Deposits from banks	1,351,050	2,505,070	2,526,082	(46.1)	(0.8)
Hedging derivatives	321,950	523,725	16,441	(38.5)	3,085.5
Financial liabilities held for trading	728,831	931,717	578,611	(21.8)	61.0
Deposits from customers	47,077,094	46,829,482	41,970,454	0.5	11.6
Subordinated liabilities	409,110	441,234	395,230	(7.3)	11.6
Current income tax liabilities	154,916	—	82,858	—	—
Other liabilities	998,512	1,082,455	810,620	(7.8)	33.5
Total liabilities	**51,041,463**	**52,313,683**	**46,380,296**	**(2.4)**	**12.8**
EQUITY					
Total equity	**8,977,714**	**7,482,960**	**6,773,575**	**20.0**	**10.5**
Total equity and liabilities	**60,019,177**	**59,796,643**	**53,153,871**	**0.4**	**12.5**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

As of 31 December 2012, the main liabilities of the BZ WBK Group were deposits from customers, deposits from banks and other liabilities representing 92.2%, 2.6% and 2.0%, respectively, of the total liabilities of the BZ WBK Group.

The total liabilities of the BZ WBK Group decreased by PLN 1,272.2 million, or 2.4%, to PLN 51,041.5 million as of 31 December 2012 from PLN 52,313.7 million as of 31 December 2011. The decrease in total liabilities was mainly due to a decrease in deposits from banks of PLN 1,154,0 million, a decrease in financial liabilities held for trading of PLN 202.9 million and a decrease in hedging derivatives of PLN 201.8 million.

As of 31 December 2011, the main liabilities of the BZ WBK Group were deposits from customers, deposits from banks and other liabilities representing 89.5%, 4.8% and 2.1%, respectively, of the total liabilities of the BZ WBK Group.

The total liabilities of the BZ WBK Group increased by PLN 5,933.4 million, or 12.8%, to PLN 52,313.7 million as of 31 December 2011 from PLN 46,380.3 million as of 31 December 2010. The increase in total liabilities was mainly due to an increase in deposits from customers of PLN 4,859.0 million in order to fund asset growth, an increase in hedging derivatives of PLN 507.3 million and an increase in financial liabilities held for trading of PLN 353.1 million.

The main components of the BZ WBK Group's liabilities and the key drivers of the changes in the total liabilities of the BZ WBK Group as of the indicated dates are described below.

Deposits from banks

The table below presents, as of the dates indicated, selected information on the structure of deposits from the banks of the BZ WBK Group.

	Year ended 31 December			Change	
	2012	**2011**	**2010**	**2012/2011**	**2011/2010**
		(PLN thousand) (audited)		**%**	
Loans from other banks	59,388	143,572	380,791	(58.6)	(62.3)
Repo transactions	668,150	2,240,824	1,927,368	(70.2)	16.3
Term deposits	331,073	12,495	119,663	2,549.6	(89.6)
Current accounts	292,439	108,179	98,260	170.3	10.1
Total	**1,351,050**	**2,505,070**	**2,526,082**	**(46.1)**	**(0.8)**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

As of 31 December 2012, the largest component of deposits from banks was repo transactions, which accounted for 49.5% of total deposits from banks. The amount of deposits from banks decreased by PLN 1,154.0 million, or 46.1%, to PLN 1,351.1 million as of 31 December 2012 from PLN 2,505.1 million as of 31 December 2011. The amount of deposits from banks was mainly due to a decrease in repo transactions of PLN 1,572.7 million, or 70.2%, to PLN 668.2 million as of 31 December 2012 from PLN 2,240.8 million as of 31 December 2011. The decrease in repo transactions was mainly driven by the bank's lower liquidity requirement at the end of December 2012.

As of 31 December 2011, the largest components of deposits from banks were repo transactions, which accounted for 89.5% of total deposits from banks. The amount of deposits from banks decreased by PLN 21.0 million, or 0.8%, to PLN 2,505.1 million as of 31 December 2011 from PLN 2,526.1 million as of 31 December 2010. The amount of deposits from banks was mainly due to a decrease in loans from other banks of PLN 237.2 million, or 62.3%, to PLN 143.6 million as of 31 December 2011 from PLN 380.8 million as of 31 December 2010. The decrease in loans from other banks was mainly due to a lower level of inter-bank activity in the Polish banking sector.

Deposits from customers

Deposits from customers consist mainly of deposits from individuals, deposits from enterprises and deposits from the public sector constituting 60.8%, 35.1% and 4.0% of the BZ WBK Group's deposit portfolio, respectively, as of 31 December 2012.

The table below presents, as of the indicated dates, selected information on the structure of deposits from customers of the BZ WBK Group.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
Deposits from individuals	**28,636,346**	**27,111,339**	**25,230,799**	**5.6**	**7.5**
Term deposits	15,991,323	14,822,913	12,745,658	7.9	16.3
Current accounts	12,605,499	12,254,430	12,449,476	2.9	(1.6)
Other	39,524	33,996	35,665	16.3	(4.7)
Deposits from enterprises	**16,538,707**	**17,881,182**	**14,605,812**	**(7.5)**	**22.4**
Term deposits	9,224,568	11,786,350	8,757,801	(21.7)	34.6
Current accounts	5,618,926	4,702,194	4,958,514	19.5	(5.2)
Sell/buy-back transactions	205,033	—	—	—	—
Loans	1,186,187	1,047,963	600,805	13.2	74.4
Other	303,993	344,675	288,692	(11.8)	19.4
Deposits from public sector	**1,902,041**	**1,836,961**	**2,133,843**	**3.5**	**(13.9)**
Term deposits	648,281	806,083	1,015,651	(19.6)	(20.6)
Current accounts	1,251,996	1,028,988	1,117,309	21.7	(7.9)
Other	1,764	1,890	883	(6.7)	114.0
Total	**47,077,094**	**46,829,482**	**41,970,454**	**0.5**	**11.6**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

The total balance of deposits from customers increased by PLN 247.6 million, or 0.5%, to PLN 47,077.1 million as of 31 December 2012 from PLN 46,829.5 million as of the end of 2011. Such increase was mainly attributable to an increase in deposits from individuals of PLN 1,525.0 million or 5.6%, due to growth in the households deposit market, which grew by 8.1% according to data from the PFSA. The fastest growth was observed in term deposits.

Such increase in deposits from individuals was offset by a decrease in deposits from enterprises of PLN 1,342.5 million, or 7.5%, due to several high-value short-term deposits placed by corporate customers at the end of 2011 which matured in 2012 and were utilized for scheduled investment undertakings. The 21.7% reduction in term deposits was partially offset by a 19.5% increase in current accounts volumes due to an increase in the number of customers and the BZ WBK Group's focus on increasing customer transactional activity.

Deposits from individuals represented the largest category of deposits from customers in 2011, with a balance of PLN 27,111.3 million, which accounted for 57.9% of deposits from customers. As of 31 December 2011, the remaining categories of deposits from customers were deposits from enterprises and deposits from the public sector, which accounted for 38.2% and 3.9% of deposits from customers, respectively.

During 2011, the total balance of deposits from customers increased by PLN 4,859.0 million, or 11.6%, to PLN 46,829.5 million from PLN 41,970.5 million as of the end of 2010. Such increase was mainly attributable to an increase in deposits from enterprises of PLN 3,275.4 million, influenced by several high-value short-term deposits placed by corporate customers at the end of 2011, as well as by an increase in deposits from individuals of PLN 1,880.5 million in line with market trends (according to data from the PFSA, deposits from households increased by 13.0% in 2011).

Other Liabilities

The table below presents, as of the dates indicated, selected information on other liabilities of the BZ WBK Group.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Provisions, including:	226,696	252,387	247,275	(10.2)	2.1
Employee provisions	*190,865*	*206,274*	*212,540*	*(7.5)*	*(2.9)*
Provisions for legal claims	*15,912*	*17,590*	*17,518*	*(9.5)*	*0.4*
Provisions for off balance sheet credit facilities	*16,619*	*21,223*	*17,217*	*(21.7)*	*23.3*
Other provisions	*3,300*	*7,300*	*—*	*(54.8)*	*—*
Interbank and interbranch settlements	217,711	369,125	165,690	(41.0)	122.8
Other deferred and suspended income	106,727	119,791	95,104	(10.9)	26.0
Accrued liabilities	67,121	56,244	57,621	19.3	(2.4)
Sundry creditors	250,671	182,849	125,019	37.1	46.3
Settlements of stock exchange transactions	63,490	39,760	67,936	59.7	(41.5)
Public and law settlements	43,711	36,769	35,270	18.9	4.3
Finance lease related settlements	21,650	25,267	16,571	(14.3)	52.5
Other	735	263	134	179.5	96.3
Total	**998,512**	**1,082,455**	**810,620**	**7.8**	**33.5**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

The balance of other liabilities of the BZ WBK Group decreased by PLN 83.9 million, or 7.8%, to PLN 998.5 million as of the end of 2012 from PLN 1,082.5 million as of the end of 2011.

Sundry creditors represented the largest component of this item and accounted for 25.1% of the other liabilities of the BZ WBK Group as of 31 December 2012. Other significant items were provisions, interbank and interbranch settlements and other deferred and suspended income, which represented 22.7%, 21.8%, and 10.7%, respectively, of the total liabilities of the BZ WBK Group as of 31 December 2012.

The balance of other liabilities of the BZ WBK Group increased by PLN 271.8 million, or 33.5%, to PLN 1,082.5 million as of the end of 2011 from PLN 810.6 million as of the end of 2010.

Interbank and interbranch settlements represented the largest component of this item and accounted for 34.1% of the other liabilities of the BZ WBK Group as of 31 December 2011. Other significant items were provisions, sundry creditors and other deferred and suspended income, which represented 23.3%, 16.9%, and 11.1%, respectively, of the total liabilities of the BZ WBK Group as of 31 December 2011.

Equity

The table below presents, as of the dates indicated, the data concerning the equity of the BZ WBK Group.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
Equity					
Equity attributable to owners of BZ WBK S.A.	**8,884,367**	**7,355,575**	**6,623,056**	**20.8**	**11.1**
Share capital	746,376	730,760	730,760	2.1	0.0
Other reserve funds	5,704,680	4,698,884	4,344,640	21.4	8.2
Revaluation reserve	872,400	545,318	433,134	60.0	25.9
Retained earnings	127,064	196,266	140,299	(35.3)	39.9
Profit of the current period	1,433,847	1,184,347	974,223	21.1	21.6
Non-controlling interest in equity	**93,347**	**127,385**	**150,519**	**(26.7)**	**(15.4)**
Total equity	**8,977,714**	**7,482,960**	**6,773,575**	**20.0**	**10.5**
Total equity and liabilities	**60,019,177**	**59,796,643**	**53,153,871**	**0.4**	**12.5**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

Total equity increased by PLN 1,494.8 million, or 20.0%, to PLN 8,977.7 million as of 31 December 2012 from PLN 7,483.0 million as of 31 December 2011. The increase in total equity in 2012 resulted mainly from:

- the increase in share capital through the issue of 1,561,618 ordinary series I shares which were issued to the EBRD;
- profit made in 2012; and
- the increase in the valuation of investment securities available for sale.

Contingent Liabilities

A breakdown of contingent liabilities and off-balance transactions into categories for the periods indicated is 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 of the balance sheet date if the customers did not meet any of their obligations towards third parties.

	Year ended 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Contingent liabilities sanctioned			
—financial	**10,842,863**	**8,129,987**	**5,623,703**
—credit lines	9,637,360	7,006,625	4,745,222
—credit cards debits	1,109,436	970,702	818,961
—import letters of credit	96,067	152,165	55,105
—term deposits with future commencement term	—	495	4,415
—guarantees	2,221,092	1,473,722	1,185,541
Total	**13,063,955**	**9,603,709**	**6,809,244**

Source: The Consolidated Financial Statements of BZ WBK

The total balance of contingent liabilities increased by PLN 3,460.2 million, or 36%, to PLN 13,064.0 million as of 31 December 2012 from PLN 9,603.7 million as of the end of 2011. Such increase was mainly attributable to an overall increase in customer activity across all business segments with a specific emphasis on the GBM segment, which was set up in 2011 and is focused on longer term project related finance.

The total balance of contingent liabilities increased by PLN 2,794.5 million, or 41.0%, to PLN 9,603.7 million as of 31 December 2011 from PLN 6,809.2 million as of the end of 2010. Such increase was mainly attributable to an overall increase in customer activity across all business segments.

The table below present presents off-balance sheet liabilities relating to derivatives' nominal values.

	Year ended 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Derivatives' nominal values			
1. Term derivatives (hedging)	**14,675,607**	**10,702,996**	**1,669,876**
a) Single-currency interest rate swaps	1,085,000	341,696	975,320
b) Macro cash flow hedge—purchased (IRS)	2,213,144	2,269,914	694,556
c) Macro cash flow hedge—purchased (CIRS)	5,585,823	3,768,628	—
d) Macro cash flow hedge—sold (CIRS)	5,791,640	4,322,758	—
2. Term derivatives (trading)	**67,094,143**	**82,651,253**	**55,583,100**
a) Interest rate operations	35,333,886	49,413,206	28,179,598
Single-currency interest rate swaps	27,982,342	31,449,423	22,753,982
FRA—purchased amounts	6,850,000	17,900,000	5,400,000
Options	501,544	63,783	25,616
b) FX operations	31,760,257	33,238,047	27,403,502
FX swap—purchased amounts	8,020,505	11,006,569	7,840,597
FX swap—sold amounts	8,008,784	11,127,200	7,839,580
Forward—purchased amounts	1,483,082	2,088,999	1,008,250
Forward—sold amounts	1,482,429	2,041,784	993,640
Cross-currency interest rate swaps—purchased amounts	4,965,537	1,320,069	4,030,917
Cross-currency interest rate swaps—sold amounts	5,033,742	1,405,598	4,161,578
FX options—purchased	1,383,089	2,123,914	764,470
FX options—sold	1,383,089	2,123,914	764,470
3. Currency transactions—spot	**1,889,992**	**2,343,838**	**935,449**
Spot—purchased	944,898	1,172,159	467,710
Spot—sold	945,094	1,171,679	467,739
4. Transactions on equity instruments	**11,300**	**47,369**	**933**
Futures—sold	11,300	47,369	933
Total	**83,671,042**	**95,745,456**	**58,189,418**

Source: The Consolidated Financial Statements of BZ WBK

Regulatory Capital Requirements

BZ WBK is required to comply with the capital requirements for credit institutions and capital adequacy guidelines adopted by the Basel Committee on Banking Supervision (Basel II), as adopted in the EU (CRD implementing Basel II) and transposed to the Polish legal system in the Banking Law and the rules and regulations related thereto.

Capital adequacy is the condition under which the amount of the capital base of BZ WBK is sufficient to meet the regulatory obligations concerning capital requirements ("**Pillar I**") and internal capital ("**Pillar II**") resulting from the CRD. Public disclosure of the information on capital adequacy constitutes what is referred to as Pillar III.

The objective of capital adequacy management is to maintain, on an on-going basis, a level of capital that is adequate to the scale and risk profile of BZ WBK's business activities.

The capital adequacy ratio, which shows the relation between the capital requirements in respect of the specific risks and the level of capital and reserves, taking account of the obligatory reductions in line with the provisions of the Banking Law and the Resolutions of the Polish Financial Supervision Authority, is one of the basic measures applied by the BZ WBK Group in capital management. The minimum level—as required under the Banking Law—of the capital adequacy ratio may not be lower than 8% at both BZ WBK and the BZ WBK Group level. Additionally, the PFSA in its letter of 24 January 2012 to Polish banks stated that it expects them to maintain a minimum capital adequacy ratio of at least 12% and a minimum Tier 1 ratio of at least 9%. BZ WBK's internal target is to maintain the capital adequacy ratio for the BZ WBK Group at the level of above 13.5%.

Capital requirements (Pillar I)

Pillar I risks and the level of capital required to cover them are assessed in terms of quantity using the supervision measurement approaches. The Group applies the following approaches to the individual risk categories:

- credit risk—standardized approach;
- market risk—basic measurement approaches;
- supply settlement/counterparty risk—standardized approach;
- operational risk—standardized approach.

The capital requirement set for the individual risk categories is directly aggregated in order to establish the total minimum capital requirement.

The table below presents the amounts applied in the calculation of the capital adequacy ratio of the BZ WBK Group as of the dates indicated.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(in PLN million) (audited)			%	
Total capital requirement, including:	**4,028.5**	**3,696.9**	**3,169.4**	**9.0**	**16.6**
—in respect of credit risk	3,473.0	3,147.4	2,668.7	10.3	17.9
—in respect of market risk	16.0	44.6	34.8	(64.1)	28.2
—in respect of supply settlement/counterparty risk	42.5	44.2	27.9	(3.8)	58.4
—in respect of operational risk	497.1	460.7	438.0	7.9	5.2
Total capital and reserves	**8,549.4**	**7,210.7**	**6,490.6**	**19.0**	**11.1**
Reductions	223.7	233.1	242.5	(4.0)	(3.9)
Capital and reserves after reductions	**8,325.7**	**6,977.6**	**6,248.1**	**19.7**	**11.7**
Tier 1 capital	7,157.0	6,077.6	5,465.3	17.8	11.2
Tier 2 capital	1,168.7	899.9	782.8	29.9	15.0
Capital adequacy ratio (%)	**16.5**	**15.1**	**15.8**	**—**	**—**
Tier 1 ratio (%)	**14.2**	**13.2**	**13.8**	**—**	**—**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

The BZ WBK Group's capital adequacy ratio and Tier 1 ratio as of 31 December 2012 were 16.5% and 14.2%, respectively. The BZ WBK Group's capital adequacy ratios and Tier 1 ratios as of 31 December 2012, 31 December 2011 and 31 December 2010 were at a significantly higher level than the PFSA's requirements and internal regulations.

Internal capital (Pillar II)

The Group defines internal capital as capital required to safeguard against the consequences of high unexpected losses, which can expose the BZ WBK Group to the risk of insolvency.

The key task arising from Pillar II of the New Capital Accord is to carry out an internal capital adequacy assessment process ("**ICAAP**"). As part of the ICAAP process, the BZ WBK Group sets, allocates and maintains an appropriate level of internal capital which ensures security of the conducted banking activities taking into account the BZ WBK Group's risk profile arising from the adopted declaration of the acceptable risk level.

The ICAAP process in the BZ WBK Group comprises:

- identifying all risks related to the conducted activities, including assessing their materiality;
- measurement of risks and setting of internal capital;
- aggregation of internal capital and assessment of capital adequacy; and
- capital management, including capital planning and assessing the effectiveness of the conducted activities.

In the process of estimating internal capital, BZ WBK takes into account all the risks that are considered material.

The Group has an appropriate assessment process in place comprising all the key elements of planning and capital management (including aggregation of capital in respect of various risk types), which leads to calculating the appropriate level of capital to cover the individual risk types.

The process of estimating internal capital is based on economic capital models developed based on the methodology used for estimating internal capital in place at the Banco Santander Group, adapted to the conditions of BZ WBK and validated in the BZ WBK Group. The methodology for estimating internal capital is adequate to the type, scale and complexity of operations of the BZ WBK Group.

Disclosure (Pillar III)

The BZ WBK Group prepares and publishes information on the capital adequacy of the BZ WBK Group under the BZ WBK Group's disclosure policy formula based on resolution 385/2008 of the PFSA dated 17 December 2008, as amended and accepted under PFSA resolutions 368/2010 dated 12 October 2010, 259/2011 dated 4 October 2011 and 326/2011 dated 20 December 2011, on the rules and scope of banks disclosing qualitative and quantitative information on their capital adequacy. Such information is available on BZ WBK's website.

The above information relates to the BZ WBK Group's risk management principles, own funds, value of risk weighted assets and off-balance sheet liabilities, information on capital adequacy and policy of variable components of remuneration.

Cash Flows

The table below presents information on net consolidated cash flows from operating, investment and financial activities and cash and cash equivalents of the BZ WBK Group as of the dates indicated.

	Year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
Net cash flow from operating activities	(1,603,790)	1,705,170	1,387,232	—	22.9
Net cash flow from investing activities	2,388,635	1,764,163	(14,059)	35.4	—
Net cash flow from financing activities	(337,883)	(554,769)	(745,466)	(39.1)	(25.6)
Total net cash flow	**446,962**	**2,914,564**	**627,707**	**(84.7)**	**364.3**

Source: The Consolidated Financial Statements of BZ WBK, BZ WBK

In 2012, the BZ WBK Group recorded total net cash inflows of PLN 447.0 million, which were mostly related to cash flows from investing activities of PLN 2,388.6 million. This positive cash flow from investing activities was mainly related to the sale or maturity of investment securities of PLN 41,854.8 million. The positive cash flow from investing activities was partially offset by negative cash flow operating activities of PLN 1,603.8 million, which resulted mainly from changes in the balance of loans and advances to customers and negative cash flow from financing activities of PLN 337.9 million, which was mainly the effect of outflow resulting from dividends and other payments to shareholders, which amounted to PLN 647.4 million.

In 2011, the BZ WBK Group recorded total net cash inflows of PLN 2,914.6 million, which were mostly related to cash flows from investing activities of PLN 1,764.2 million and cash flows from operating activities of PLN 1,705.2 million. This was mainly related to the disposal of investment securities of PLN 3,425.6 million and a significant increase in loans and advances to customers, accompanied by a relatively lower increase in deposits from customers.

In 2010, the BZ WBK Group recorded total net cash inflows of PLN 627.7 million, which were mostly related to net cash outflows from investing activities of PLN 14.1 million resulting from considerable purchases of investment financial assets.

Contractual Obligations

The following table sets forth, as of the date indicated, the contractual flows of the BZ WBK Group's liabilities:

	As of 31 December 2012							
	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
Deposits from banks	1,032,117	234,192	84,741	—	—	—	—	1,351,050
Financial liabilities held for trading	120,729	77,054	160,611	187,156	114,286	68,995	—	728,831
Deposits from customers	29,403,871	6,477,429	9,718,649	408,507	46,009	1,022,629	—	47,077,094
Subordinated liabilities	4,378	—	—	—	—	404,732	—	409,110
Other items	—	—	—	—	—	—	10,453,092	10,453,092
Short position	**30,561,095**	**6,788,675**	**9,964,001**	**595,663**	**160,295**	**1,496,356**	**10,453,092**	**60,019,177**

Source: Consolidated Financial Statements of BZ WBK

Capital Expenditure

In 2012, capital expenditure of the BZ WBK Group for the execution of investment projects and initiatives amounted to PLN 82.6 million. Capital expenditure in 2011 amounted to PLN 118.6 million compared to PLN 69.5 million in 2010.

Capital expenditure in 2012

In 2012, capital expenditure of the BZ WBK Group amounted to PLN 82.6 million (including capital expenditure related to the Merger of PLN 19.3 million). In such period, capital expenditure primarily included expenditure on automated teller machines (ATMs) and cash deposit machines (CDMs) as well as on the implementation and development of IT systems used at BZ WBK and the purchase of hardware. IT system expenditure included expenditure on the maintenance and development of the branch system, modifications of the IT platform of the Treasury Division, the expansion of electronic services, the expansion of credit and financial systems as well as software development (such as SAP and SAS). Other capital expenditure on IT systems concerned the performance of the tasks associated with the extension of wholesale data applications and expenditure on the implementation of the integration project with Kredyt Bank. The remaining portion of capital expenditure on fixed assets and intangible assets included expenditure on the modernization of existing banking outlets, the extension of channels and products as well as expenditure on card services and branch office furniture and equipment.

Capital expenditure in 2011

In 2011, BZ WBK carried out a number of strategic projects, including, inter alia, the mass implementation of a new Avocado package (a package combining banking and telecommunication services and products launched by BZ WBK in cooperation with "Plus" mobile telecommunication services operated by Polkomtel) through the network of Polkomtel, a strategic partner of BZ WBK, the maintenance of business continuity of the SAP system, the migration of the IT platform from AIB to the Banco Santander Group and the automation of mortgage loans granting procedures.

Additionally, in 2011 BZ WBK carried out intensive work on the development of mobile banking, the effect of which is the implementation of an application enabling fast and easy access to accounts and bank products via mobile phone. BZ WBK also continued working on the development of the network of branches and franchise outlets. Eight branches were opened and five were moved to locations that were more convenient for customers.

Total capital expenditure of the BZ WBK Group for the execution of investment projects in 2011 amounted to PLN 118.6 million.

Capital expenditure in 2010

In 2010, BZ WBK carried out work on the development of its branch network and partner outlets. Fifteen branches were opened, four branches were moved to locations that were more convenient for customers, and the network of partner outlets was increased from 89 outlets at the end of 2009 to 100 outlets as of 31 December 2010.

In an effort to maintain a high standard of services, BZ WBK carried out modernization works in several dozen branches. The IT infrastructure in the branches was modernized by replacing computers, terminals, printers, multi-function appliances and UPSs. Moreover, work was performed to increase the effectiveness of the infrastructure for heating, lighting and air-conditioning installations and security systems. BZ WBK also continued works on modernizing the ATM network thanks to which a high level of efficiency and a high technological level of the network were maintained.

Total capital expenditure of the BZ WBK Group for the execution of investment projects in 2010 amounted to PLN 69.5 million.

Current and Planned Investments

The BZ WBK Group's anticipated capital expenditures for the year ending 31 December 2013 will be PLN 204.6 million (the amount includes capital expenditure related to the Merger), of which PLN 9.2 million was invested by the end of February 2013. The BZ WBK Group's investments in 2013 are primarily related to the Merger and mostly include development of IT infrastructure, development of software and migration and conversion tools, physical rebranding and rationalization of existing branches. The Management Board expects that of the PLN 165 million of capital expenditures related to the Merger, PLN 115.4 million will be incurred in 2013. The BZ WBK Group will finance its capital expenditure mainly from its own funds.

Operating and Financial Review of the Kredyt Bank Group

Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group

The most important factors which affected the financial and operating results of the Kredyt Bank Group in the year ended 31 December 2012 are discussed below.

After the Merger, the Management Board, reviewed the judgments related to the impairment of individually significant credit exposures with evidence of impairment included in the portfolio of Kredyt Bank as of 31 December 2012. Following such review, the level of impairment and provisions for off-balance sheet items were calculated based on new scenarios for loan recovery (weighted with the probability of the realization thereof) and significantly higher discount factors for collateral. In addition, new circumstances were taken into account: those that had emerged after the balance sheet date and affected previous estimates. As a result, the total adjustment to the level of impairment, provisions for off-balance sheet items and accrued interest for individually significant exposures amounted to PLN 319 million (of which PLN 28.6 million related to the interest and adjusted interest income line).

Moreover, after the Merger, the Management Board performed an analysis of the impairment allowance for retail and SME credit exposures calculated on a portfolio basis that were included in the balance sheet of Kredyt Bank in relation to both the non-impaired portfolio and portfolio of receivables with evidence for impairment. As a result of the analysis, changes have been introduced to the previous approach to the calculation of parameters, in particular with respect to the length of the periods considered for historical data used for LGD determination and also for selected IBNR portfolios introducing adjustments to the values of PD and LIP. As a result of the above-mentioned changes, the impairment allowance for portfolio calculated loans was increased by PLN 258 million and can be broken down as follows:

Type of exposure (in PLN million)	Impairment losses IBNR	Impairment losses for receivables with evidence for impairment	Total
Mortgage housing loans and other mortgage loans	34.3*	142.9*	177.2*
Cash loans	7.3*	26.4*	33.7*
Credit cards	3.7*	4.1*	7.8*
Overdraft facilities	3.5*	3.9*	7.4*
Other loans	9.3*	22.5*	31.8*
Total	**58.1***	**199.8***	**257.9***

Source: The Consolidated Financial Statements of Kredyt Bank, BZ WBK

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto

Kredyt Bank Group has disclosed an impairment allowance for portfolio calculated loans as presented in the table above as a liability in the line item "Provisions" in association with the net impairment losses on financial assets, other assets and provisions line item in the consolidated profit and loss statement.

Ernst & Young issued qualified opinion on the Consolidated Financial Statements of Kredyt Bank for 2012 due to lack of sufficient evidence presented to it, on the reasonableness of approximately PLN 333 million of the total PLN 577 million adjustment to impairment allowances of the additional loan impairment allowances of the Kredyt Bank Group as of 31 December 2012, the corresponding impairment charge in the profit and loss for the year ended 31 December 2012. Ernst & Young have also stated in its auditor's opinion that the presentation of the collective impairment provisions of PLN 258 million in liabilities is not in compliance with the adopted accounting standards and BZ WBK agrees with this position. The full text of the qualification and the auditor's opinion issued by Ernst & Young is attached to this Offering Memorandum. The line items in the Consolidated Financial Statements of Kredyt Bank for 2012 affected by the above qualifications include "*net operating income*", "*impairment losses on loans and advances to customers*", "*deferred tax assets*", "*total assets*", "*provisions*", "*total liabilities*", "*equity attributable to the shareholders of Kredyt Bank*", "*total equity*", "*total equity and liabilities*", "*net impairment losses on financial assets, other assets and provisions*", "*profit (loss) before tax*", "*income tax expense (credit)*", "*net profit (loss)*" and "*capital adequacy ratio*" and "*Tier 1 ratio (calculated based on primary funds)*". In BZ WBK's judgment, based on the BZ WBK methodology, the evidence for these additional impairment allowances is sufficient to justify their inclusion in the Consolidated Financial Statements of Kredyt Bank for 2012. The Management Board intends to correct the presentation of the collective impairment allowances so that they are aligned with the accounting standards applied in the financial statements of the BZ WBK Group in connection with the preparation of the next audited financial statements.

For more information on the above, please see note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012, as well as the audit opinion of Ernst & Young related thereto.

Furthermore, the level of provision for litigations has been increased by the amount of PLN 22.5 million.

Key Performance Indicators

The table below presents some of the performance indicators related to the former Kredyt Bank Group's financial performance and situation for the periods indicated.

	As of and for the year ended 31 December		
	2012	**2011**	**2010**
	(%)	**(unaudited)**	
Profitability ratios			
NIM(1)	1.81*	2.66	2.71
Net fee and commission income/Total net income from business activities	23.0	20.4	20.8
Cost/Income (C/I)(3)	62.4	61.3	56.9
ROA(4)	(0.4)*	0.8	0.4
ROE(5)	(5.0)*	11.1	6.8
Capital ratios			
Tier 1 ratio(6)	8.88*	8.66	8.95
Capital adequacy ratio	12.66*	12.50	12.51
Loan portfolio quality			
NPL ratio(7)	10.1	8.2	9.7
Cost of risk ratio(8)	1.39*	0.59	1.45
Coverage ratio(9)	55.4*	51.7	63.6
Funding ratios			
Loan to deposit ratio(10)	92.9*	103.7	106.0
Leverage ratio (total equity/total assets)(11)	7.5*	7.3	6.5

Source: The Consolidated Financial Statements of Kredyt Bank, BZ WBK

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto

(1) Net interest income to average total assets (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(2) Net fee and commission income to total net income from business activities (calculated as total operating income for the year less other operating income for the year).

(3) General and administrative expenses for the year to total operating income for the year less other operating expenses for the year.

(4) Net profit (loss) for the year to average assets (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(5) Net profit (loss) for the year to average total equity (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(6) Calculated by dividing Tier 1 capital by the total capital requirements multiplied by 12.5 (ratio calculated based on primary funds).

(7) The share of impaired gross receivables in gross loans and advances to customers.

(8) Net impairment losses on loans and advances to average gross loans and advances to customers (calculated based on the balance as of the end of the previous reporting period, as of 30 June of a given year and as of 31 December of a given year).

(9) Impairment losses for receivables with evidence to impairment to impaired gross receivables.

(10) Loans and advances to customers (net of impairment) as of the end of the period (calculated as a sum of gross loans and advances to customers and the negative amount of impairment losses on loans and advances to customers) to amounts due to customers as of the end of the period.

(11) Total equity as of the end of the period to total assets as of the end of the period.

	As of and for the year ended 31 December**		
	2012	2011	2010
		(in PLN thousands) (unaudited)	
NIM = A/((B+C+D)/3) (%)	**1.81***	**2.66**	**2.71**
A. Net interest income	759,666	1,150,096	1,127,766
B. Total assets	40,761,235*	42,003,084	43,374,246
C. Total assets at 30 June	43,495,151	44,340,215	42,245,376
D. Total assets at the end of the previous reporting period	42,003,084	43,374,246	39,076,598***
Net fee and commission income/Total net income from business activities = A/B (%)	**23.0**	**20.4**	**20.8**
A. Net fee and commission income	341,395	314,920	329,873
B. Total net income from business activities = a-b	1,481,548	1,546,299	1,588,408
a) Total operating income	1,575,138	1,679,487	1,689,338
b) Other operating income	93,590	133,188	100,930
Cost/Income (C/I) = −A/(B+C) (%)	**62.4**	**61.3**	**56.9**
A. General and administrative expenses	(959,400)	(990,363)*****	(928,103)******
B. Total operating income	1,575,138	1,679,487	1,689,338
C. Other operating expenses	(38,439)	(63,172)*****	(57,781)******
ROA = A/((B+C+D)/3) (%)	**(0.4)***	**0.8**	**0.4**
A. Net profit (loss)	(156,453)*	327,244	185,936
B. Total assets	40,761,235*	42,003,084	43,374,246
C. Total assets at 30 June	43,495,151	44,340,215	42,245,376
D. Total assets at the end of the previous reporting period	42,003,084	43,374,246	39,076,598***
ROE = A/((B+C+D)/3) (%)	**(5.0)***	**11.1**	**6.8**
A. Net profit (loss)	(156,453)*	327,244	185,936
B. Total equity	3,051,378*	3,065,625	2,828,224
C. Total equity at 30 June	3,244,851	2,955,927	2,727,418
D. Total equity at the end of the previous reporting period	3,065,625	2,828,224	2,588,583***
NPL ratio = B/A (%)	**10.1**	**8.2**	**9.7**
A. Gross loans and advances to customers	29,834,384	30,493,915	29,108,520
B. Impaired gross receivables	3,005,091	2,512,454	2,821,984
Cost of risk ratio = −A/((B+C+D)/3) (%)	**1.39***	**0.59**	**1.45**
A. Net impairment losses on loans and advances	(422,264)*	(172,398)	(410,384)
B. Gross loans and advances to customers at the end of the reporting period	29,834,384	30,493,915	29,108,520
C. Gross loans and advances to customers at 30 June	30,676,784	28,651,797	28,748,715
D. Gross loans and advances to customers at the end of the previous reporting period	30,493,915	29,108,520	27,297,744***
Coverage ratio = A/B (%)	**55.4***	**51.7**	**63.6**
A. Impairment losses for receivables with evidence for impairment****	1,605,068*	1,299,559	1,793,562
B. Impaired gross receivables	3,005,091	2,512,454	2,821,984
Loan to deposit ratio = A/B (%)	**92.9***	**103.7**	**106.0**
A. Loans and advances to customers (net of impairment)	28,229,316*	29,085,754	27,194,520
B. Amounts due to customers	30,392,630	28,043,157	25,660,758

	As of and for the year ended 31 December**		
	2012	2011	2010
		(in PLN thousands) (unaudited)	
Leverage (total equity/total assets) = A/B (%)	**7.5***	**7.3**	**6.5**
A. Total equity	3,051,378*	3,065,625	2,828,224
B. Total assets	40,761,235*	42,003,084	43,374,246

Source: The Consolidated Financial Statements of Kredyt Bank, BZ WBK

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

** Data as of and for the year ended 31 December unless specified otherwise in the table.

*** The amount at the beginning of the reported period.

**** Impairment losses for receivables with evidence for impairment as of 31 December 2012 includes additional PLN 199.8 million impairment losses for receivables with evidence for impairment presented as a liability in item "Provisions" (for more information see "Operating and Financial Review—Selected Specific Factors Affecting the Financial and Operating Results of the Kredyt Bank Group").

***** In 2012 the Kredyt Bank Group changed the presentation of expenses incurred by the Kredyt Bank Group within particular expense categories from net terms to gross terms (including VAT). Therefore the values of the items presented in the consolidated income statement for 2011 have changed. For more information please refer to note note 5 in the Concolidated Financial Statements of Kredyt Bank for the 2012.

****** Not comparable as the data was not restated as for 2011 in the year 2012. For more information please refer to the explanation above.

Results of Operations

The table below presents selected information on the results of the Kredyt Bank Group for the periods indicated.

	For the year ended 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
		(PLN thousand) (audited)		%	
Interest income	2,299,386	2,386,873	2,204,572	(3.7)	8.3
Interest expense	(1,539,720)	(1,236,777)	(1,076,806)	24.5	14.9
Net interest income	**759,666**	**1,150,096**	**1,127,766**	**(33.9)**	**2.0**
Fee and commission income	419,906	403,791	426,889	4.0	(5.4)
Fee and commission expense	(78,511)	(88,871)	(97,016)	(11.7)	(8.4)
Net fee and commission income	**341,395**	**314,920**	**329,873**	**8.4**	**(4.5)**
Dividend income	1,791	1,699	1,841	5.4	(7.7)
Net trading income	305,340	80,136	121,555	281.0	(34.1)
Net result on derivatives used as hedging instruments and hedged items	(4,115)	(1,714)	887	140.1	—
Net gains from investment activities	77,471	1,162	6,486	6567.0	(82.1)
Other operating income	93,590	133,188	100,930	(29.7)	32.0
Total operating income	**1,575,138**	**1,679,487**	**1,689,338**	**(6.2)**	**(0.6)**
General and administrative expenses	(959,400)	(990,363)**	(928,103)***	(3.1)	6.7
Staff costs	(452,726)	(444,429)**	(416,688)***	1.9	6.7
General expenses	(435,841)	(456,174)**	(410,461)***	(4.5)	11.1
Depreciation	(70,833)	(89,760)	(100,954)	(21.1)	(11.1)
Other operating expenses	(38,439)	(63,172)**	(57,781)***	(39.2)	9.3
Total operating expenses	**(997,839)**	**(1,053,535)**	**(985,884)**	**(5.3)**	**6.9**
Net impairment losses on financial assets, other assets and provisions	(736,395)*	(198,784)	(471,971)	270.4*	(57.9)
Net operating income	**(159,096)***	**427,168**	**231,483**	**—**	**84.5**
Share in profit (loss) of associates	1,019	3,973	3,224	(74.4)	23.2
Profit (loss) before tax	**(158,077)***	**431,141**	**234,707**	**—**	**83.7**
Income tax expense (credit)	1,624*	(103,897)	(48,771)	—	113.0
Net profit (loss)	**(156,453)***	**327,244**	**185,936**	**—**	**76.0**

Source: The Consolidated Financial Statements of Kredyt Bank BZ WBK

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group" above and note number 4 to the Consolidated Financial Statements as well as the auditor's opinion of Ernst & Young related thereto.

** In 2012 the Kredyt Bank Group changed the presentation of expenses incurred by the Kredyt Bank Group within particular expense categories from net terms to gross terms (including VAT). Therefore the values of the items presented in the consolidated income statement for 2011 have changed. For more information please refer to note note 5 in the Concolidated Financial Statements of Kredyt Bank for the 2012.

*** Not comparable as the data was not restated as for 2011 in the year 2012. For more information please refer to the explanation above.

Total operating income of the Kredyt Bank Group decreased by PLN 104,3 million, or 6.2%, to PLN 1,575.1 million in 2012 from PLN 1,679.5 million in 2011. Such decrease was mainly attributable to a decrease in net interest income of PLN 390.4 million and in other operating income of PLN 39.6 million.

The largest components of the Kredyt Bank Group's total operating income in 2012 were: (i) net interest income, which constituted 48.2% of the total operating income; (ii) net fee and commission income, which constituted 21.7% of the total operating income; and (iii) net trading income, which constituted 19.4% of the total operating income. Net trading income increased by PLN 225.2 million, or 281.0%, to PLN 305.3 million in 2012 from PLN 80.1 million in 2011. The increase of the net trading income in 2012 as compared to 2011 results primarily from the change in the Kredyt Bank Group's financing structure, i.e. the greater financing of currency assets through FX swaps (their valuation is presented in net trading income. Net fee and commission income increased by PLN 26.5 million, or 8.4%, to PLN 341.4 million in 2012 from PLN 314.9 million in 2011. The increase in net fee and commission income was mainly due to increase in commissions on the distribution and management of combined investment and insurance products. Such increases were offset by a decrease in the net interest income of PLN 390.4 million, or 33.9%, to PLN 759.7 million in 2012 from PLN 1,150.1 million in 2011. The decrease in net interest income was mainly due to increased funding costs during 2012 when the Kredyt Bank Group focused on the acquisition of deposits from both retail and enterprise customers.

Total operating expenses of the Kredyt Bank Group decreased by PLN 55.7 million, or 5.3%, to PLN 997.8 million in 2012 from PLN 1,053.5 million in 2011. The decrease in total operating expenses was attributable to the decrease in general and administrative expenses, which comprise 96.1% of total operating expenses in 2012. The decrease in general and administrative expenses of PLN 31.0 million, or 3.1%, to PLN 959.4 million in 2012 from PLN 990.4 million in 2011 was mainly due to a decrease in general expenses and depreciation.

Net impairment losses on financial assets, other assets and provisions increased by PLN 537.6 million, or 270.4%, to PLN 736.4 million in 2012 from PLN 198.8 million in 2011. The increase in net impairment losses on financial assets, other assets and provisions was mainly due to an increase in total impairment losses and total provisions (in particular, provision for credit risk). For more details, please see "*Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group*" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

The above changes in total operating income and expenses, as well as in net impairment losses, resulted in a loss before tax of PLN (158.1) million, as compared with a profit before tax of PLN 431.1 million in 2011.

The Kredyt Bank Group's income tax credit in 2012 amounted to PLN 1.6 million, which was mainly an effect of the pre-tax loss reported by the Kredyt Bank Group, as well as thin capitalization and other permanent differences relating mainly to impairment allowances.

As a consequence, the Kredyt Bank Group reported a net loss of PLN (156.5) million, as compared with a net profit of PLN 327.2 million in 2011.

Total operating income of the Kredyt Bank Group decreased by PLN 9.9 million, or 0.6%, to PLN 1,679.5 million in 2011 from PLN 1,689.3 million in 2010. Such decrease was mainly attributable to a decrease in net trading income of PLN 41.4 million and in net fee and commission income of PLN 15.0 million.

The largest components of the Kredyt Bank Group's total operating income in 2011 were: (i) net interest income, which constituted 68.5% of the total operating income; (ii) net fee and commission income, which constituted 18.8% of the total operating income; and (iii) other operating income, which constituted 7.9%

of the total operating income. Net interest income increased by PLN 22.3 million, or 2.0%, to PLN 1,150.1 million in 2011 from PLN 1,127.8 million in 2010. The increase in net interest income was mainly due to an increase in interest income on securities. Other operating income increased by PLN 32.3 million, or 32.0%, to PLN 133.2 million in 2011 from PLN 100.9 million in 2010. The increase in other operating income was mainly attributable to other income which comprised the reversal of unused provisions created in 2010 related to incentive programs. Such increases were offset by a decrease in net fee and commission income of PLN 15.0 million, or 4.5%, to PLN 314.9 million in 2011 from PLN 329.9 million in 2010. The decrease in net fee and commission income was mainly due to a decrease in fees and commissions due for payment card processing and ATM maintenance.

Total operating expenses of the Kredyt Bank Group increased by PLN 67.7 million, or 6.9%, to PLN 1,053.5 million in 2011 from PLN 985.9 million in 2010. Such increase was attributable to the increase in general and administrative expenses which comprise in 2011 94.0% of total operating expenses. The increase in general and administrative expenses of PLN 62.3 million, or 6.7%, to PLN 990.4 million in 2011 from PLN 928.1 million in 2010, was mainly driven by an increase in general expenses and staff costs (in 2012 the Kredyt Bank Group changed the presentation of expenses incurred by the Kredyt Bank Group within particular expense categories from net terms to gross terms (including VAT). Therefore the values of the items presented in the consolidated income statement for 2011 have changed. For more information please refer to note 5 in the Consolidated Financial Statements of Kredyt Bank for the 2012).

Net impairment losses on financial assets, other assets and provisions decreased by PLN 273.2 million, or 57.9%, to PLN 198.8 million in 2011 from PLN 472.0 million in 2010, which was mainly the result of a decrease in impairment losses on loans and advances.

The above changes in total operating income and expenses as well as in net impairment losses resulted in an increase in profit before tax of PLN 196.4 million, or 83.7%, to PLN 431.1 million in 2011 from PLN 234.7 million in 2010.

The Kredyt Bank Group's income tax expense in 2011 amounted to PLN 103.9 million which resulted in an effective tax rate of 24.1%, which was higher than the effective tax rate in 2010 which amounted to 20.8%. The effective tax rate was higher than the corporate income tax rate of 19%.

As a consequence, the Kredyt Bank Group's net profit increased by PLN 141.3 million, or 76.0%, to PLN 327.2 million in 2011 from PLN 185.9 million in 2010.

Financial Condition

The table below presents information on the assets, liabilities and equity of the Kredyt Bank Group as of the dates indicated.

	As of 31 December			Change	
	2012	2011	2010	2012/2011	2011/2010
	(PLN thousand) (audited)			%	
ASSETS					
Cash and balances with the Central Bank	963,375	784,668	1,943,636	22.8	(59.6)
Gross loans and advances to banks	1,179,730	1,188,012	1,466,249	(0.7)	(19.0)
Impairment losses on loans and advances to banks	0	0	(2,260)	—	(100.0)
Receivables arising from repurchase transactions	117,700	0	87,218	—	(100.0)
Financial assets designated upon initial recognition as at fair value through profit or loss	60,413	100,684	118,562	(40.0)	(15.1)
Financial assets held for trading (excluding derivatives)	325,080	60,493	1,601,283	437.4	(96.2)
Derivatives, including:	1,155,201	1,071,089	463,159	7.9	131.3
—derivatives used as hedging instruments	118,610	95,592	74,340	24.1	28.6
Gross loans and advances to customers	29,834,384	30,493,915	29,108,520	(2.2)	4.8
Impairment losses on loans and advances to customers	(1,605,068)*	(1,408,161)	(1,914,000)	14.0*	(26.4)
Investment securities:	7,976,365	8,678,712	9,467,240	(8.1)	(8.3)
—available-for-sale	5,427,775	5,262,038	6,219,461	3.1	(15.4)
—held-to-maturity	2,548,590	3,416,674	3,247,779	(25.4)	5.2
Investments in associates valued using the equity method	0	19,152	15,179	(100.0)	26.2
Property, plant and equipment	223,338	259,797	290,444	(14.0)	(10.6)
Intangible assets	94,816	59,711	50,201	58.8	18.9
Deferred tax assets	329,578*	263,257	350,387	25.2*	(24.9)
Current tax receivable	0	116,870	0	(100.0)	—
Investment properties	16,137	209,065	225,668	(92.3)	(7.4)
Non-current assets held for sale	5,709	12,128	7,070	(52.9)	71.5
Other assets	84,477	93,692	95,690	(9.8)	(2.1)
TOTAL ASSETS	**40,761,235***	**42,003,084**	**43,374,246**	**(3.0)***	**(3.2)**
LIABILITIES					
Amounts due to the Central Bank	0	32	6	(100.0)	433.3
Amounts due to banks	4,283,078	8,486,491	12,150,706	(49.5)	(30.2)
Liabilities arising from repurchase transactions	94,937	0	228,693	—	(100.0)
Financial liabilities held for trading (excluding derivatives)	115,424	0	0	—	—
Derivatives, including:	1,227,462	982,916	1,131,078	24.9	(13.1)
—derivatives used as hedging instruments	62,366	1,669	1,274	3636.7	31.0
Amounts due to customers	30,392,630	28,043,157	25,660,758	8.4	9.3
Current tax liability	7,238	182	155,197	3876.9	(99.9)
Provisions	358,764*	116,402	92,811	208.2*	25.4
Deferred tax liability	1,380	725	869	90.3	(16.6)
Other liabilities	257,411	271,044	214,804	(5.0)	26.2
Subordinated liabilities	971,533	1,036,510	911,100	(6.3)	13.8
TOTAL LIABILITIES	**37,709,857***	**38,937,459**	**40,546,022**	**(3.2)***	**(4.0)**
EQUITY					
Share capital	1,358,294	1,358,294	1,358,294	0.0	0.0
Supplementary capital	1,130,174	900,065	889,340	25.6	1.2
Revaluation reserve	212,298	70,092	59,421	202.9	18.0
Other reserves	481,151	400,942	400,942	20.0	0.0
Retained earnings (loss)	25,914	8,988	(65,709)	188.3	—
Current net profit (loss) attributable to the Shareholders of Kredyt Bank	(156,453)*	327,244	185,936	—	76.0
Equity attributable to the Shareholders of Kredyt Bank	**3,051,378***	**3,065,625**	**2,828,224**	**(0.5)***	**8.4**
Attributable to non-controlling interests	0	0	0	—	—
TOTAL EQUITY	**3,051,378***	**3,065,625**	**2,828,224**	**(0.5)***	**8.4**
TOTAL LIABILITIES AND EQUITY	**40,761,235***	**42,003,084**	**43,374,246**	**(3.0)***	**(3.2)**

Source: The Consolidated Financial Statements of Kredyt Banks BZ WBK

* Figures impacted by the qualification included in the auditor's opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. For more information on the above, please see "—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group" above and note number 4 to the Consolidated Financial Statements as well as the auditor's opinion of Ernst & Young related thereto.

As of 31 December 2012, the Kredyt Bank Group's total assets comprised mainly gross loans and advances to customers, investment securities and gross loans and advances to banks constituting 73.2%, 19.6% and 2.9% of the Kredyt Bank Group's total assets, respectively.

Total assets of the Kredyt Bank Group decreased by PLN 1,241.8 million, or 3.0%, to PLN 40,761.2 million as of 31 December 2012 from PLN 42,003.1 million as of the end of 2011.

Such decrease was mainly attributable to a decrease in investment securities of PLN 702.3 million, or 8.1%, to PLN 7,976.4 million as of 31 December 2012 from PLN 8,678.7 million as of 31 December 2011 and was mainly driven by a decrease in treasury bonds, as well as by a decrease in gross loans and advances to customers of PLN 659.5 million, or 2.2%, to PLN 29,834.4 million as of 31 December 2012 from PLN 30,493.9 million as of 31 December 2011, which was mainly due to a decrease in loans and advances to individuals.

As of 31 December 2012, the main liabilities of the Kredyt Bank Group were amounts due to customers, amounts due to banks and derivatives, representing 80.6%, 11.4% and 3.3%, respectively, of the total liabilities of the Kredyt Bank Group.

Total liabilities of the Kredyt Bank Group decreased by PLN 1,227.6 million, or 3.2%, to PLN 37,709.9 million as of 31 December 2012 from PLN 38,937.5 million as of 31 December 2011. The decrease in total liabilities was mainly due to a decrease in amounts due to banks of PLN 4,203.4 million, or 49.5%, to PLN 4,283.1 million as of 31 December 2012 from PLN 8,486.5 million as of 31 December 2011 which was mainly due to a decrease in term deposits and borrowed loans and advances.

Total equity decreased by PLN 14.2 million, or 0.5%, to PLN 3,051.4 million as of 31 December 2012 from PLN 3,065.6 million as of 31 December 2011. The decrease in total equity in 2012 resulted from the current net profit (loss) attributable to the shareholders of Kredyt Bank of PLN (156.5) million reported in 2012.

As of 31 December 2011, the Kredyt Bank Group's total assets comprised mainly gross loans and advances to customers, investment securities and gross loans and advances to banks, constituting 72.6%, 20.7% and 2.8% of the Kredyt Bank Group's total assets, respectively.

Total assets of the Kredyt Bank Group decreased by PLN 1,371.2 million, or 3.2%, to PLN 42,003.1 million as of 31 December 2011 from PLN 43,374.2 million as of 31 December 2010.

Such decrease was mainly attributable to a decrease in financial assets held for trading (excluding derivatives) of PLN 1,540.8 million, or 96.2%, to PLN 60.5 million as of 31 December 2011 from PLN 1,601.3 million as of 31 December 2010 and was mainly driven by a decrease in treasury securities, as well as to a decrease in cash and balances with the Central Bank of PLN 1,159.0 million, or 59.6%, to PLN 784.7 million as of 31 December 2011 from PLN 1,943.6 million as of 31 December 2010, which was mainly due to a decrease in current accounts at the Central Bank.

As of 31 December 2011, the main liabilities of the Kredyt Bank Group were amounts due to customers, amounts due to banks and subordinated liabilities representing 72.0%, 21.8% and 2.7%, respectively, of the total liabilities of the Kredyt Bank Group.

Total liabilities of the Kredyt Bank Group decreased by PLN 1,608.6 million, or 4.0%, to PLN 38,937.5 million as of 31 December 2011 from PLN 40,546.0 million as of 31 December 2010. The decrease in total liabilities was mainly due to a decrease in amounts due to banks of PLN 3,664.2 million, or 30.2%, to PLN 8,486.5 million as of 31 December 2011 from PLN 12,150.7 million as of 31 December 2010, which was due to a decrease in current accounts and borrowed loans and advances.

Total equity increased by PLN 237.4 million, or 8.4%, to PLN 3,065.6 million as of 31 December 2011 from PLN 2,828.2 million as of 31 December 2010. The increase in total equity resulted mainly from an increase in current net profit of PLN 141.3 million, or 76.0%, to PLN 327.2 million as of 31 December 2011 from PLN 185.9 million as of 31 December 2010 and an increase in retained earnings of PLN 74.7 million.

Cash Flows

The table below presents information on net consolidated cash flows from operating, investment and financial activities and cash and cash equivalents of the Kredyt Bank Group as of the dates indicated.

	For the year ended 31 December			Change	
	2012	**2011**	**2010**	**2012/2011**	**2011/2010**
	(PLN thousand) (audited)			**%**	
Net cash flow from operating activities	526,389	(281,957)	4,141,098	—	—
Net cash flow from investing activities	1,344,167	1,127,371	(1,333,245)	19.2	—
Net cash flow from financing activities	(1,654,898)	(2,305,350)	(1,597,551)	(28.2)	44,3
Net increase/ decrease in cash	**215,658**	**(1,459,936)**	**1,210,302**	**—**	**—**
Cash at the beginning of the period	**941,507**	**2,401,443**	**1,191,141**	**(60.8)**	**101,6**
Cash at the end of the period	**1,157,165**	**941,507**	**2,401,443**	**22.9**	**(60,8)**

Source: The Consolidated Financial Statements of Kredyt Bank, BZ WBK

In 2012, the Kredyt Bank Group recorded total net increase in cash of PLN 215.7 million, which was the result of net cash flow from investing activities of PLN 1,344.2 million and positive cash flows from operating activities of PLN 526.4 million. Such positive net cash flows were offset by a negative net cash flow from financing activities of PLN 1,654.9 million.

In 2011, the Kredyt Bank Group recorded total net decrease in cash of PLN 1,459.9 million, which were mostly related to negative net cash flows from financing activities of PLN 2,305.4 million and positive net cash flows from investing activities of PLN 1,127.4 million.

In 2010, the Kredyt Bank Group recorded total net cash increase of PLN 1,210.3 million, which were mostly related to positive net cash flows from operating activities of PLN 4,141.1 million. Such positive net cash flows were offset by negative net cash flows from financing activities and investing activities, respectively, of PLN 1,597.6 million and of PLN 1,333.2 million.

SELECTED STATISTICAL AND FINANCIAL INFORMATION

The following selected statistical and financial information has been taken or derived from the audited Consolidated Financial Statements or BZ WBK's management accounts. This section should be read in the context of the information provided elsewhere in this Offering Memorandum and, in particular, in the sections titled "Risk Management" and "Operating and Financial Review" as well as in the Consolidated Financial Statements.

Average balance sheet data has been calculated based upon the average of the sum of the balances as of 30 June and 31 December in each respective period. Average income statement and balance sheet data and other related statistical information has been prepared on a consolidated basis. The Management Board believes that the average data set forth herein is representative of the operations of the BZ WBK Group as of the date and for the periods specified and that such data would not differ materially if it were based on average monthly data.

Average Balances and Interest Rates

The table below sets forth, as of the dates indicated, the average balances and interest rates of the BZ WBK Group.

	For the year ended 31 December								
	2012			2011			2010		
	Average balances(1)	Interest earned / paid	Average interest rate	Average balances(1)	Interest earned / paid	Average interest rate	Average balances(1)	Interest earned / paid	Average interest rate
	(PLN thousand) (unaudited)	(PLN thousand) (unaudited)	(%) (unaudited)	(PLN thousand) (unaudited)	(PLN thousand) (unaudited)	(%) (unaudited)	(PLN thousand) (unaudited)	(PLN thousand) (unaudited)	(%) (unaudited)
Loans and advances to customers	**40,406,891**	**2,923,460**	**7.2**	**36,635,478**	**2,555,823**	**7.0**	**35,173,022**	**2,325,045**	**6.6**
Loans and advances to enterprises	24,783,971	1,502,167	6.1	22,080,655	1,307,357	5.9	21,408,645	1,173,137	5.5
Loans and advances to individuals, of which:	13,116,761	1,213,859	9.3	12,011,105	1,042,925	8.7	11,107,951	961,258	8.7
home mortgage loans	*7,857,396*	420,853	5.4	7,238,085	362,108	5.0	6,549,247	299,295	4.6
Finance lease receivables	2,324,637	172,509	7.4	2,366,246	177,026	7.5	2,561,128	172,702	6.7
Loans and advances to public sector	175,906	23,315	13.3	172,907	22,232	12.9	88,515	17,129	19.4
Buy-sell back transaction	5,616	11,611	206.7	4,565	6,283	137.6	6,783	819	12.1
Debt securities(2)	**13,643,068**	**676,370**	**5.0**	**15,260,994**	**754,311**	**4.9**	**13,819,081**	**750,253**	**5.4**
Deposits from customers	**46,705,490**	**1,439,564**	**3.1**	**43,189,843**	**1,168,126**	**2.7**	**41,483,984**	**1,158,362**	**2.8**
Deposits from individuals	27,916,054	903,127	3.2	25,941,408	719,500	2.8	25,553,990	779,571	3.1
Deposits from enterprises	16,824,667	443,642	2.6	15,179,715	387,122	2.6	13,730,802	321,955	2.3
Deposits from public sector	1,964,769	92,795	4.7	2,068,721	61,504	3.0	2,199,192	56,836	2.6

Source: BZ WBK

(1) Calculated based upon the arithmetical average of the balanced at the end of the prior fiscal year, at the end of the half year of the reporting period and at the end of the reporting period.

(2) Debt securities include: (i) debt securities held for trading; (ii) debt securities available for sale; and (iii) debt securities held to maturity.

Changes in interest income and interest expense

The following table sets forth a comparative analysis of changes to the interest income and interest expense of the BZ WBK Group in 2010, 2011 and 2012. Changes to the interest income or interest expense are attributed to either: (i) changes to the average balance (volume change) of interest bearing assets or interest bearing liabilities; or (ii) changes to average interest rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities; or (iii) changes in rate/volume. Changes in interest income and expense due to volume change have been calculated as the change in volume multiplied by the previous year's average interest rate. Changes in interest income and expense due to changes in average interest rate have been calculated as the change in average interest rate multiplied by the previous year's volume. Changes in rate/volume have been calculated as the change in average interest rate multiplied by the change in volume.

	2012/2011				2011/2010			
	Increase/decrease due to changes in				Increase/decrease due to changes in			
	Volume	Rate	Rate / volume	Total Change	Volume	Rate	Rate / volume	Total Change
	(PLN thousand) (unaudited)			(PLN thousand) (audited)	(PLN thousand) (unaudited)			(PLN thousand) (audited)
Interest income:								
Loans and advances to enterprises	160,059	30,962	3,791	194,811	1,107,534	(500,656)	(472,658)	134,220
Loans and advances to individuals, of which:	96,004	68,613	6,316	170,933	1,946,541	(616,489)	(1,248,385)	81,667
Real estate financing	*30,983*	*25,574*	*2,188*	*58,745*	*603,711*	*(179,277)*	*(361,621)*	*62,813*
Lease agreements	(3,113)	(1,430)	25	(4,517)	67,048	(45,183)	(17,541)	4,324
Loans and advances to public sector	386	686	12	1,083	(6,736)	19,512	(7,673)	5,103
Reverse repo transactions	206	(601)	(138)	(534)	(502)	1,487	(911)	74
Total interest income	**253,541**	**98,230**	**10,005**	**361,776**	**3,113,885**	**(1,141,328)**	**(1,747,169)**	**225,388**
Interest expense								
Deposits from individuals	54,768	119,744	9,115	183,627	11,819	(70,816)	(1,074)	(60,071)
Deposits from enterprises	41,951	13,145	1,424	56,520	33,974	28,216	2,977	65,167
Deposits from public sector	(3,091)	36,201	(1,819)	31,291	(3,372)	8,547	(507)	4,668
Total interest expense	**93,628**	**169,090**	**8,720**	**271,438**	**42,421**	**(34,053)**	**1,397**	**9,764**
Change in net interest income	**159,913**	**(70,860)**	**1,285**	**90,338**	**3,071,464**	**(1,107,274)**	**(1,748,566)**	**215,624**

Source: BZ WBK

Loan Portfolio Analysis

Loans by Industry Sector

The following table sets forth, as of the dates indicated, information on the loans by industry sector of the borrowers.

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Industry			
Property	9,146,877	10,000,795	7,165,978
Manufacturing	5,362,394	5,009,463	4,311,220
Distribution	5,825,206	4,856,776	3,904,839
Construction	1,142,668	1,086,923	3,278,765
Financial sector	920,673	1,040,992	530,198
Agriculture	1,143,513	1,006,619	880,718
Energy	843,660	767,532	304,168
Transportation	821,831	698,915	659,358
Other industries	2,349,797	2,292,017	1,678,263
Total Business Loans (A)	**27,556,619**	**26,760,032**	**22,713,507**
Retail (including mortgage loans) (B)	**13,750,387**	**12,593,772**	**11,449,018**
BZ WBK Group portfolio (A+B)	**41,307,006**	**39,353,804**	**34,162,525**
Other receivables (commercial bonds, reverse repo) (C)	**104,755**	**78,614**	**83,481**
Total BZ WBK Group (A+B+C)	**41,411,761**	**39,432,418**	**34,246,006**

Source: The Consolidated Financial Statements of BZ WBK.

Loans and Advances to Banks by Type

The following table sets forth, as of the dates indicated, information on the loans and advances to banks by type of instrument.

	As of 31 December		
	2012	2011	2010
	(PLN thousand) (audited)		
Loans and advances	916,567	428,823	304,313
Current accounts, other	473,748	775,349	315,342
Buy-sell-back transaction	67,813	—	—
Loans and advances to banks	**1,458,128**	**1,204,172**	**619,655**

Source: The Consolidated Financial Statements of BZ WBK

Loans and Advances to Banks by Maturity Structure

The following table sets forth, as of the dates indicated, information on the loans and advances to banks by maturity structure.

	As of 31 December		
	2012	2011	2010
	(PLN thousand) (audited)		
≤1M	1,448,023	1,204,172	609,318
> 1M ≤3M	—	—	—
> 3M ≤1Y	10,101	—	1,557
> 1Y ≤3Y	4	—	8,780
> 3Y ≤5Y	—	—	—
> 5Y	—	—	—
Rare intensive	—	—	—
Loans and advances to banks	**1,458,128**	**1,204,172**	**619,655**

Source: The Consolidated Financial Statements of BZ WBK.

Composition of Loan Portfolio by Nominal Value of the Principal Amounts of Loans

The following table sets forth, as of the dates indicated, information on the composition of the BZ WBK Group's loan portfolio by the nominal values of the principal amounts of loans.

	As of 31 December 2012			
	Total exposure		Number of customers	
	(PLN million) (unaudited)	(%) (unaudited)	(unaudited)	(%) (unaudited)
Up to PLN 150,000	9,891,045	24.8	1,053,403	97.0
Above PLN 150,000 but below PLN 300,000	4,117,279	10.3	20,119	1.9
Above PLN 300,000 but below PLN 500,000	2,453,892	6.2	6,463	0.6
Above PLN 500,000 but below PLN 1 million	2,196,447	5.5	3,236	0.3
Above PLN 1 million but below PLN 5 million	3,810,203	9.6	1,909	0.2
Above PLN 5 million but below PLN 10 million	1,931,219	4.8	274	0.0
Above PLN 10 million but below 50 million	6,253,183	15.7	284	0.0
Above 50 million	9,214,286	23.1	79	0.0
Total loans and advances to customers	**39,867,554**	**100.0**	**1,085,767**	**100.0**

Source: BZ WBK

Top 20 Borrowers

The table below sets forth, as of the dates indicated, the BZ WBK Group's twenty largest credit exposures with respect to borrowers (or capital-related groups of borrowers).

	As of 31 December 2012		
	Total credit exposure	Balance sheet exposure including towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
		(PLN thousand) (unaudited)	
Mining	1,069,820	292,292	777,528
Power industry	856,560	3,536	853,024
Manufacturing	800,818	—	800,818
Refinery	737,274	323,922	413,352
Real estate services	732,323	730,033	2,290
Power industry	600,485	363	600,122
Real estate services	569,648	507,660	61,988
Wholesale trade	534,007	534,007	—
Real estate services	473,900	473,900	—
Multimedia	456,112	333,456	122,656
Real estate services	395,638	293,325	102,313
Catering	372,921	8,693	364,228
Mining	357,136	5,154	351,982
Construction	339,034	333,214	5,820
Real estate services	337,971	292,764	45,207
Telecommunication	272,144	241,647	30,497
Wholesale trade	261,924	234,904	27,020
Food industry	250,630	—	250,630
Mining	249,718	182,648	67,070
Real estate services	240,741	213,661	27,080
Total gross exposure	**9,908,804**	**5,005,179**	**4,903,625**

Source: The Consolidated Financial Statements of BZ WBK.

Structure of Loan Portfolio by Currency

The following table sets forth, as of the dates indicated, information on the structure of the BZ WBK Group's loan portfolio by currency.

	As of 31 December					
	2012		2011		2010	
	(PLN thousand) (audited)	(%) (unaudited)	(PLN thousand) (audited)	(%) (unaudited)	(PLN thousand) (audited)	(%) (unaudited)
Loans and advances to business customers[(1)]	**27,703,210**	**66.9**	**26,859,842**	**68.1**	**22,808,498**	**66.6**
PLN	18,083,862	43.7	16,460,257	41.7	14,146,988	41.3
EUR	8,667,868	20.9	9,127,707	23.1	7,837,003	22.9
CHF	132,703	0.3	201,581	0.5	266,465	0.8
USD	761,115	1.8	961,883	2.4	478,172	1.4
Other Foreign Currencies	57,662	0.1	108,414	0.3	79,870	0.2
Loans and advances to individuals, as of which:	**13,708,551**	**33.1**	**12,572,576**	**31.9**	**11,437,508**	**33.4**
PLN	11,042,751	26.7	9,830,443	24.9	8,936,948	26.1
EUR	707,754	1.7	468,430	1.2	373,821	1.1
CHF	1,925,295	4.6	2,233,229	5.7	2,086,312	6.1
USD	28,240	0.1	35,008	0.1	34,940	0.1
Other Foreign Currencies	4,510	0.0	5,466	0.0	5,487	0.0
Home mortgage loans	***8,080,532***	***19.5***	***7,605,063***	***19.3***	***6,926,647***	***20.2***
PLN	*5,446,294*	*13.2*	*4,896,488*	*12.4*	*4,458,226*	*13.0*
EUR	*680,325*	*1.6*	*440,556*	*1.1*	*348,595*	*1.0*
CHF	*1,921,389*	*4.6*	*2,227,654*	*5.6*	*2,079,810*	*6.1*
USD	*28,169*	*0.1*	*34,953*	*0.1*	*34,578*	*0.1*
Other Foreign Currencies	*4,355*	*0.0*	*5,412*	*0.0*	*5,438*	*0.0*
Total loans and advances to customers	**41,411,761**	**100.0**	**39,432,418**	**100.0**	**34,246,006**	**100.0**

Source: BZ WBK

(1) Calculated as a sum of: (i) loans and advances to enterprises; (ii) loans and advances to public sector; (iii) finance lease receivables; (iv) buy-sell back transactions; and (v) other.

__Analysis of Loan Portfolio Quality__

The table below presents BZ WBK Group's exposure to credit risk in respect of its loan and advances to customers portfolio, grouped by classes, defined by provisions cover.

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Individually impaired			
—up to 50%	552,172	585,928	740,716
—50% to 70%	314,238	138,015	122,328
—70% to 85%	139,137	110,916	67,486
—over 85%	125,776	125,334	111,363
Gross amount	**1,131,323**	**960,193**	**1,041,893**
Allowance for impairment	(534,955)	(412,720)	(393,383)
Net amount	**596,368**	**547,473**	**648,510**
Collectively impaired			
—up to 50%	346,584	471,565	566,455
—50% to 70%	260,096	184,123	243,799
—70% to 85%	321,353	385,096	413,125
—over 85%	197,162	177,794	108,458
Gross amount	**1,125,195**	**1,218,578**	**1,331,837**
Allowance for impairment	(672,365)	(656,575)	(676,262)
Net amount	**452,830**	**562,003**	**655,575**
IBNR portfolio			
—up to 0.10%	15,893,956	9,099,273	12,519,938
—0.10% to 0.30%	8,733,853	14,343,794	6,173,343
—0.30% to 0.65%	8,055,863	4,747,809	3,623,313
—over 0.65%	6,366,816	8,984,157	9,472,201
Gross amount	**39,050,488**	**37,175,033**	**31,788,795**
IBNR provision	(336,887)	(345,950)	(337,976)
Net amount	**38,713,601**	**36,829,083**	**31,450,819**
Other receivables	**104,755**	**78,614**	**83,481**
Off-balance sheet exposures			
Financing granted	10,858,874	8,149,493	5,639,854
Guarantees	2,221,700	1,475,440	1,186,607
Nominal value of derivatives—purchased	—	—	—
Allowance for impairment	(16,619)	(21,224)	(17,217)
Off-balance sheet exposures—total	**13,063,955**	**9,603,709**	**6,809,244**

Source: The Consolidated Financial Statements of BZ WBK

The table below presents split of BZ WBK Group's allowances for impairment on loans and advances for customers by classes.

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Individual allowance for impairment			
—up to 50%	(110,543)	(105,510)	(160,538)
—50% to 70%	(197,267)	(94,519)	(69,707)
—70% to 85%	(101,400)	(88,132)	(52,562)
—over 85%	(125,745)	(124,559)	(110,576)
Total individual allowance for impairment	**(534,955)**	**(412,720)**	**(393,383)**
Collective allowance for impairment			
—up to 50%	(83,818)	(76,857)	(102,986)
—50% to 70%	(153,454)	(108,404)	(147,244)
—70% to 85%	(249,742)	(299,928)	(318,422)
—over 85%	(185,351)	(171,386)	(107,610)
Total collective allowance for impairment	**(672,365)**	**(656,575)**	**(676,262)**
IBNR			
—up to 0.10%	(6,195)	(4,119)	(5,959)
—0.10% to 0.30%	(15,210)	(22,562)	(12,084)
—0.30% to 0.65%	(37,025)	(21,714)	(16,035)
—over 0.65%	(278,457)	(297,555)	(303,898)
Total IBNR	**(336,887)**	**(345,950)**	**(337,976)**
Total allowance for impairment	**(1,544,207)**	**(1,415,245)**	**(1,407,621)**

Source: The Consolidated Financial Statements of BZ WBK

The following table sets forth, as of the dates indicated, information on the IBNR portfolio of loans and advances to customers.

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Non-past due	37,236,020	35,829,301	30,590,224
Past-due	1,814,468	1,345,732	1,198,571
1 to 30 days	1,298,818	1,098,866	875,444
31 to 60 days	398,948	166,543	252,541
61 to 90 days	105,352	71,801	65,678
>90 days	11,350	8,522	4,908
Total gross amount	**39,050,488**	**37,175,033**	**31,788,795**

Source: The Consolidated Financial Statements of BZ WBK

Securities Portfolio Analysis

Securities by Category

The following tables set forth, as of the dates indicated the components of the BZ WBK Group's securities by category of security.

The following table sets forth, as of the dates indicated, information on the financial assets and liabilities held for trading.

	As of 31 December					
	2012		2011		2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
			(PLN thousand) (audited)			
Trading derivatives	**641,051**	**711,669**	**700,252**	**872,544**	**464,442**	**568,153**
Interest rate operations	**365,874**	**371,136**	**314,053**	**308,585**	**238,659**	**236,968**
Options	564	564	132	132	68	68
IRS	356,991	358,516	304,421	300,206	236,209	235,422
FRA	8,319	12,056	9,500	8,247	2,382	1,478
FX operations	**275,177**	**340,533**	**386,199**	**563,959**	**225,242**	**331,185**
CIRS	75,561	152,711	42,149	120,636	65,543	171,730
Forward	27,050	22,343	97,509	32,182	25,765	9,937
FX Swap	142,466	135,140	150,924	316,003	90,104	105,658
Spot	901	1,140	2,015	1,536	1,363	1,393
Options	29,199	29,199	93,602	93,602	42,467	42,467
Other	**—**	**—**	**—**	**—**	**541**	**—**
Stock options	—	—	—	—	541	—
Debt and equity securities	**190,664**	**—**	**5,135,791**	**—**	**1,774,524**	**—**
Debt securities	**176,963**	**—**	**5,082,985**	**—**	**1,726,289**	**—**
Government securities:	175,487	—	431,084	—	526,989	—
—bills	—	—	—	—	206,799	—
—bonds	175,487	—	431,084	—	320,190	—
Central Bank securities:	—	—	4,647,956	—	1,199,300	—
—bills	—	—	4,647,956	—	1,199,300	—
Other securities:	1,476	—	3,945	—	—	—
—bonds	1,476	—	3,945	—	—	—
Equity securities:	**13,701**	**—**	**52,806**	**—**	**48,235**	**—**
—listed	13,701	—	52,806	—	48,235	—
Short sale	**—**	**17,162**	**—**	**59,173**	**—**	**10,458**
Total financial assets/liabilities	**831,715**	**728,831**	**5,836,043**	**931,717**	**2,238,966**	**578,611**

Source: The Consolidated Financial Statements of BZ WBK

The following table sets forth, as of the dates indicated, information on the off-balance sheet derivatives' nominal values.

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Derivatives' nominal values			
Term derivatives (hedging)	**14,675,607**	**10,702,996**	**1,669,876**
Single-currency interest rate swaps:	1,085,000	341,696	975,320
Macro cash flow hedge—purchased (IRS)	2,213,144	2,269,914	694,556
Macro cash flow hedge—purchased (CIRS)	5,585,823	3,768,628	—
Macro cash flow hedge—sold (CIRS)	5,791,640	4,322,758	—
Term derivatives (trading)	**67,094,143**	**82,651,253**	**55,583,100**
Interest rate operations:	35,333,886	49,413,206	28,179,598
Single-currency interest rate swaps	27,982,342	31,449,423	22,753,982
FRA—purchased amounts:	6,850,000	17,900,000	5,400,000
Options	501,544	63,783	25,616
FX operations	31,760,257	33,238,047	27,403,502
FX swap—purchased amounts	8,020,505	11,006,569	7,840,597
FX swap—sold amounts	8,008,784	11,127,200	7,839,580
Forward—purchased amounts	1,483,082	2,088,999	1,008,250
Forward—sold amounts	1,482,429	2,041,784	993,640
Cross-currency interest rate swaps—purchased amounts	4,965,537	1,320,069	4,030,917
Cross-currency interest rate swaps—sold amounts	5,033,742	1,405,598	4,161,578
FX options—purchased	1,383,089	2,123,914	764,470
FX options—sold	1,383,089	2,123,914	764,470
Currency transactions—spot	**1,889,992**	**2,343,838**	**935,449**
spot-purchased	944,898	1,172,159	467,710
spot-sold	945,094	1,171,679	467,739
Transactions on equity instruments	**11,300**	**47,369**	**993**
Futures	11,300	47,369	993
Total	**83,671,042**	**95,745,456**	**58,189,418**

Source: The Consolidated Financial Statements of BZ WBK

The following table sets forth, as of the dates indicated, information on the hedging derivatives.

	As of 31 December					
	2012		2011		2010	
	(PLN thousand) (audited)	(%) (unaudited)	(PLN thousand) (audited)	(%) (unaudited)	(PLN thousand) (audited)	(%) (unaudited)
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Hedging derivatives						
IRS hedging fair value	—	59,912	5,110	3,723	579	12,848
IRS hedging cash flow	253,553	262,038	136,526	520,002	14,189	3,593
Total hedging derivatives	**253,553**	**321,950**	**141,636**	**523,725**	**14,768**	**16,441**

Source: The Consolidated Financial Statements of BZ WBK

The following table sets forth, as of the dates indicated, information on the investment securities available for sale.

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Available for sale investments—measured at fair value			
Debt securities	**11,048,024**	**10,971,561**	**6,965,866**
Government securities:	7,711,424	10,893,773	6,885,095
—bills	—	—	—
—bonds	7,711,424	10,893,773	6,885,095
Central Bank securities:	2,099,256	—	—
—bills	2,099,256	—	—
Commercial securities:	1,237,344	77,788	80,771
—bonds	1,237,344	77,788	80,771
Equity securities	**627,180**	**629,194**	**623,456**
—listed	13,441	19,475	20,688
—unlisted	613,739	609,719	602,768
Investment certificates	**40,929**	**51,440**	**56,625**
Total	**11,716,133**	**11,652,195**	**7,645,947**

Source: The Consolidated Financial Statements of BZ WBK

The following table sets forth, as of the dates indicated, information on the financial assets held to maturity.

	As of 31 December		
	2012	2011	2010
		(PLN thousand) (audited)	
Financial assets held to maturity			
Government securities:	**—**	**—**	**5,749,408**
—bonds:	—	—	5,749,408
Total	**—**	**—**	**5,749,408**

Source: The Consolidated Financial Statements of BZ WBK

Maturity Profile of Financial Assets and Liabilities

The following table sets forth, as of the dates indicated, the distribution of the BZ WBK Group's financial assets and liabilities by maturity.

	As of 31 December 2012							
	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
	(PLN thousand) (audited)							
Financial assets held for trading	124,597	67,040	315,953	120,358	97,806	92,260	13,701	831,715
Investment securities	2,099,256	—	2,743,139	1,752,017	3,881,162	572,450	668,109	11,716,133
Financial liabilities held for trading	120,729	77,054	160,611	187,156	114,286	68,995	—	728,831
Derivatives settled in gross terms								
Inflows	3,762,151	2,108,001	2,432,156	5,690,297	3,578,758	1,958,704	—	19,530,067
Outflows	5,242,802	2,607,920	2,912,675	5,687,380	3,690,862	1,943,246	—	22,084,885

Source: The Consolidated Financial Statements of BZ WBK

	As of 31 December 2011							
	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
	(PLN thousand) (audited)							
Financial assets held for trading	4,661,829	140,617	304,613	462,572	112,061	101,545	52,806	5,836,043
Investment securities	444,775	139,372	2,101,636	3,510,893	1,725,321	3,049,565	680,633	11,652,195
Financial liabilities held for trading	203,130	124,926	219,964	271,622	70,549	41,526	—	931,717
Derivatives settled in gross terms								
Inflows	4,831,340	4,596,635	4,957,739	1,894,827	1,443,679	1,489,611	—	19,213,831
Outflows	4,950,048	4,572,971	4,989,123	2,045,457	1,693,035	1,676,614	—	19,927,248

Source: The Consolidated Financial Statements of BZ WBK

	As of 31 December 2010							
	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
	(PLN thousand) (audited)							
Financial assets held for trading	1,237,429	65,950	422,283	294,879	82,013	88,176	48,236	2,238,966
Investment securities	—	—	2,663,934	5,040,334	2,506,002	2,505,004	680,081	13,395,355
Financial liabilities held for trading	35,197	64,532	95,007	188,412	92,036	103,427	—	578,611
Derivatives settled in gross terms								
Inflows	2,371,246	3,876,195	2,965,534	1,297,145	1,549,361	1,287,992	—	13,347,473
Outflows	2,382,221	3,861,964	2,953,582	1,311,178	1,573,684	1,379,910	—	13,462,539

Source: The Consolidated Financial Statements of BZ WBK

Structure of Deposits

Structure of Deposits from Customers by Currency

The following table sets forth, as of the dates indicated, information on the structure of the BZ WBK Group's deposits customers, by currency.

	As of 31 December					
	2012		2011		2010	
	(PLN thousand) (audited)	(%) (unaudited)	(PLN thousand) (audited)	(%) (unaudited)	(PLN thousand) (audited)	(%) (unaudited)
Deposits from individuals	**28,636,346**	**60.8**	**27,111,339**	**57.9**	**25,230,799**	**60.1**
PLN	25,531,689	54.2	24,447,719	52.2	22,632,232	53.9
EUR	2,076,786	4.4	1,716,325	3.7	1,696,919	4.0
CHF	54,936	0.1	42,876	0.1	28,870	0.1
Other foreign currencies	972,935	2.1	904,419	1.9	872,778	2.1
Deposits from business customers(1)	**18,440,748**	**39.2**	**19,718,143**	**42.1**	**16,739,655**	**39.9**
PLN	15,090,521	32.1	16,661,958	35.6	14,555,024	34.7
EUR	3,029,607	6.4	2,845,937	6.1	1,992,763	4.7
CHF	5,927	0.0	12,620	0.0	1,460	0.0
Other foreign currencies	314,693	0.7	197,628	0.4	190,408	0.5
Deposits from customers, total	**47,077,094**	**100.0**	**46,829,482**	**100.0**	**41,970,454**	**100.0**

Source: BZ WBK

(1) Calculated as a sum of: (i) deposits from enterprises; and (ii) deposits from the public sector.

Structure of Deposits from Customers by Maturity

The following table sets forth, as of the dates indicated, the distribution of the portfolio of deposits from customers by maturity.

	As of 31 December		
	2012	2011	2010
	(PLN thousand) (audited)	(PLN thousand) (audited)	(PLN thousand) (audited)
≤ 1M	29,403,871	32,366,263	28,498,162
> 1M ≤ 3M	6,477,429	8,350,390	5,399,918
> 3M ≤ 1Y	9,718,649	4,362,508	6,719,536
> 1Y ≤ 3Y	408,507	840,078	907,123
> 3Y ≤ 5Y	46,009	25,451	49,667
> 5Y	1,022,629	884,792	396,048
Rate intensive	—	—	—
Deposits from customers	**47,077,094**	**46,829,482**	**41,970,454**

Source: BZ WBK

BUSINESS OF THE BZ WBK GROUP

Overview

BZ WBK was established in 2001 as a result of the merger between Bank Zachodni S.A. (BZ) and Wielkopolski Bank Kredytowy S.A. (WBK). AIB was the major shareholder of WBK and then BZ WBK from 1996 until 2011. Since 2011, BZ WBK has been part of the Banco Santander Group. Shares in BZ WBK have been listed on the WSE since 2001.

BZ WBK is a universal bank offering a wide range of products and services to both retail and corporate customers. Historically, the strength of BZ WBK has been in business and corporate banking and BZ WBK has achieved strong market positions in this market segment. Over the past few years BZ WBK has expanded its presence in retail banking by increasing its branch presence and its retail loan book. As of 31 December 2012, the BZ WBK Group's market share in terms of total gross loans and deposits stood at 4.3% and 5.3%, respectively, according to data from the NBP. BZ WBK's traditional banking product range has been supplemented by other financial products and services offered by BZ WBK Subsidiaries, including Dom Maklerski BZ WBK. The BZ WBK Group has established a strong presence in brokerage (a 7.8% market share in equity market trading and 11.9% market share in future contracts market trading according to data from the WSE for 2012).

The core pillars of the BZ WBK Group's strategy are a strong capital and funding position, a focus on risk management and efficiency, and a strong corporate culture. The BZ WBK management team has over the past several years focused on diversifying the income of BZ WBK, targeted growth in the most profitable market segments, and placed a strong emphasis on customer service and satisfaction. The results of this strategy and approach to business have been a balanced growth in loans and deposits and an increased presence in the profitable retail and SME segments, all of which have led to a strong and stable financial performance. BZ WBK has been one of the most profitable banks in Poland in terms of ROE and has had one of the strongest net income growth rates in the Polish banking sector in recent years.

On 4 January 2013, BZ WBK merged with Kredyt Bank, a medium sized credit institution with a strong focus on retail banking and the mortgage market. The Merger resulted in the BZ WBK Group becoming (together with Poland's two largest banks, PKO Bank Polski and Bank Pekao) one of the three leading banks in the country, with a significant gap between them and the rest of the market in terms of the size of their respective branch networks. The BZ WBK Group's market share in terms of total loans and total deposits increased to 7.5% and 8.7% respectively according to data from NBP, and the BZ WBK Group improved its position in retail banking and, in particular, in the mortgage market.

As of 31 December 2012, the BZ WBK Group had a network of 889 branches comprising 519 BZ WBK branches and 370 Kredyt Bank branches. In addition, the BZ WBK offers its services through SME and Business & Corporate Centers located in all the major regions of the country. The BZ WBK Group also utilizes other distribution channels, including online banking, call centers, mobile banking and an ATM network. The customer base of the BZ WBK Group following the Merger increased substantially as a result of acquisition of the Kredyt Bank Group customers. As of 31 December 2012, the aggregated customer base of the BZ WBK Group and the Kredyt Bank Group had approximately 4.1 million clients, including 3.8 million individual customers, 274.5 thousand SME customers and 7.3 thousand corporate customer groups.

The Management Board expects substantial benefits from the Merger. The Management Board believes that following the Merger the BZ WBK Group will have sufficient scale to compete effectively with the two largest banking institutions in Poland and will enjoy competitive advantages over the smaller banks on the market. The Kredyt Bank Group's distribution platform and customer base are highly complementary to the BZ WBK Group, and the BZ WBK Group's strategy will be to increase the productivity of the former Kredyt Bank Group's branch network as well as increase the profitability of its customer base. This will be achieved through a focus on more profitable products and services, customers segments and improved product pricing. The Management Board believes the BZ WBK Group has the tools, including its risk management framework and CRM platform, to enable it to achieve its goals. In addition, the integration of the Kredyt Bank Group is expected to result in considerable synergies. The Management Board estimates that following the completion of the integration process in 2015 the implemented measures will result in annual cost synergies of approximately PLN 340 million and annual revenue synergies of approximately PLN 125 million, in each case on a pre-tax basis. The Management Board estimates that integration-related expenses will amount, on a pre-tax basis, to approximately PLN 430 million with additional capital expenditures in the amount of approximately PLN 165 million, the majority of which the Management Board expects to be incurred by the BZ WBK Group in 2013.

In 2012, the BZ WBK Group generated a net profit of PLN 1,462.6 million. In the same period, Kredyt Bank Group generated a net loss of PLN (156.5) million. The total assets of the BZ WBK Group and the Kredyt Bank Group, as of 31 December 2012, amounted to PLN 60,019.2 million and PLN 40,761.2 million, respectively. Total equity amounted to PLN 8,977.7 million for the BZ WBK Group and PLN 3,051.4 million for the Kredyt Bank Group. On a pro forma basis, giving effect to the Merger as if it had occurred on 1 January 2012, the BZ WBK Group's profit before tax in 2012 would be PLN 1,747.8 million and net profit would be PLN 1,331.8 million. Also on a pro forma basis, giving effect to the Merger as if it had occurred on 31 December 2012, the BZ WBK Group's total assets would be PLN 101,989.2 million and its total equity PLN 13,521.6 million as of that date.

Operating Environment

The BZ WBK Group's operations are based entirely in Poland. Poland is the largest economy in Central and Eastern Europe (nominal GDP amounted to PLN 1,523 billion in the year ended 31 December 2011, according to GUS) and has the largest population of all the countries in the region (38.5 million as of 31 December 2012, according to GUS). Polish economy has been highly resilient in recent years, despite the difficult macroeconomic environment in Western Europe and globally. Poland was the only country in the EU that showed positive real GDP growth in each of the years 2009-2012 (real GDP growth of 1.6%, 3.9%, 4.3% and an estimated 2.0% in 2009, 2010, 2011 and 2012, respectively, according to GUS). Polish macroeconomic fundamentals are sound and the economy, based on the latest EU budget for 2014-2020, is expected to continue to benefit from EU funds in this period.

The Polish banking sector has historically shown strong growth with loans and deposits demonstrating compounded annual growth rate of 17.7% and 11.9%, respectively, between 31 December 2005 and 31 December 2012, according to the PFSA. This growth has been achieved while maintaining a strong capital adequacy ratio of 14.7% for the sector (as of 31 December 2012, according to the PFSA) as well as a sound loan to deposit ratio of 111.3% for the sector (as of 30 September 2012, according to the PFSA). The BZ WBK Group believes there is still significant potential for growth. According to Eurostat and the European Banking Federation, as of 31 December 2011, the Polish banking sector was relatively underpenetrated with loans and deposits as a percentage of GDP at 55% and 50%, respectively, compared to the EU average of 139% and 121%, providing substantial room for future growth.

Competitive Strengths

The BZ WBK Group has a long-term track record of delivering superior results, both in favorable and challenging business and macroeconomic conditions. It has consistently outperformed its Peer Group average in terms of net profit growth and profitability levels as measured by ROE and ROA. The track record of the BZ WBK Group demonstrates the effectiveness of the competitive strengths of the business as well as the strategy that the BZ WBK Group has pursued in the past. The Management Board believes that these competitive strengths, which have been summarized below, will enable the BZ WBK Group following the Merger to take advantage of the growth opportunities that the expected growth of the Polish economy and the Polish banking sector should present.

Market Position and Scale

The BZ WBK Group and the Kredyt Bank Group have complementary franchises in terms of geographic footprint and business mix. Following the Merger, the BZ WBK Group has critical mass and became part of the leading group of three banks operating in an otherwise fragmented Polish market. After the Merger, BZ WBK became the third largest bank in Poland as measured by deposits and equity as of 31 December 2012 (according to data from the NBP), while simultaneously becoming one of the three leading banks (together with Poland's two largest banks, PKO Bank Polski and Bank Pekao) in terms of the number of branches.

As of 31 December 2012, the aggregated distribution network of the BZ WBK Group and the Kredyt Bank Group consisted of 889 branches. The Merger provided complementary strength in the branch network in the east (mainly from the Kredyt Bank Group) and west (mainly from the BZ WBK Group) of Poland, while deepening the overall penetration in the economically important center of the country. Given the high complementarity of the branch networks, the BZ WBK Group only expects to close around 50 out of the 889 branches following the Merger.

As of 31 December 2012, the BZ WBK Group and the Kredyt Bank Group jointly had over 4.1 million clients, including 3.8 million individual customers, 274.5 thousand SME customers and 7.3 thousand corporate customer groups. As of 31 December 2012, the aggregated market share of the BZ WBK Group and the Kredyt Bank Group in terms of the value of deposits to individual customers and loans to individual customers amounted to 9.1% and 7.5%, respectively (according to the Regulatory Reporting WEBIS and the NBP).

The Management Board believes that the BZ WBK Group's enlarged size and market position strengthens its competitiveness through economies of scale, by providing greater customer reach and customer visibility, as well as the ability to retain and attract the best staff, all of which should allow the BZ WBK Group to take advantage of future business opportunities available in the market.

Effective Business Model

The BZ WBK Group has been pursuing a universal banking model, focusing on high margin products, with strong positions across the retail and corporate segments and a market-leading SME franchise. The BZ WBK Group's retail and corporate banking business model is based on an attractive and competitive product and service offering and a strong customer experience. An attractive product offering combined with high quality customer service delivered through qualified and motivated staff, have all enabled the BZ WBK Group to effectively strengthen its relations with existing customers and attract new customers, as well as to achieve a high cross-sell ratio and high revenue per customer.

The BZ WBK Group's market position in attractive business segments, including brokerage services, is a result of successful cross-selling that contributes to the diversification of its revenue base. In 2012, Dom Maklerski BZ WBK was one of the largest brokerage houses in Poland with a market share of 7.8% (equity markets) and a market share of 11.9% (future contracts market) according to data from the WSE. The BZ WBK Group also held established market positions in the factoring and leasing services segments with market share of 5.1% and 6.0%, respectively, based on factor market turnover and leasing new sales (gross assets) according to data from the Polish Factor Association and the Polish Leasing Association, respectively, as of 31 December 2012.

The Management Board believes that the BZ WBK Group has a proven business model that has in the past resulted in strong profitability of the BZ WBK Group, a high cross-sell ratio and income diversification. The BZ WBK Group intends to apply the same business principles for the BZ WBK Group following the Merger. The Management Board believes, in particular, that the business model of the BZ WBK Group, once applied to the customer base of the Kredyt Bank Group, will result in substantial financial benefits to the BZ WBK Group.

Strong Capital and Funding Position

As of 31 December 2012, the BZ WBK Group had relatively strong capitalization levels, with the Tier 1 ratio and capital adequacy ratio among the highest in the Polish banking sector. As of 31 December 2012, the BZ WBK Group had a Tier 1 ratio of 14.2% and a capital adequacy ratio of 16.5%.

The principal source of funding of the BZ WBK Group is customer deposits which, on a pro forma basis, represented PLN 77,451.4 million, or 87.5%, of the BZ WBK Group's total liabilities as of 31 December 2012. In the period from 2010 to 2012, the BZ WBK Group maintained the net loan to deposit ratio at a level well below 90%, which enabled flexible implementation of the policy of balanced growth of its loan portfolio in the most profitable market segments. As a result of the Merger, the net loan to deposit ratio of the BZ WBK Group increased. As of 31 December 2012, the BZ WBK Group's net loan to deposit ratio was, on a pro-forma basis, at a level of 86.8%, compared to 111.3% for the Polish banking sector (as of 30 September 2012, according to the PFSA).

The Management Board set the mid-term target of the capital adequacy ratio of the BZ WBK Group following the Merger at above 13.5%. In terms of the BZ WBK Group's net loan to deposit ratio, the Management Board expects it to remain at a level below 97%. The Management Board believes that the BZ WBK Group's capital and funding position following the Merger provide a solid foundation not only to maintain existing business, but also to support growth.

Prudent Risk Management Practices

The continued focus of the BZ WBK Group on risk management underpinned, in particular, by the application of rigorous credit assessment and approval processes, and further supported by the Banco

Santander Group's worldwide risk management practices, has been an integral part of the BZ WBK Group's efforts to control the level of non-performing loans while at the same time growing the BZ WBK Group's loan portfolio.

For example, as of 31 December 2012 and 2011, the NPL ratio of the BZ WBK Group was 5.4% and 5.5%, respectively, while loans to customers grew by 4.9% to PLN 39,867.6 million as of 31 December 2012 from PLN 38,017.2 million as of 31 December 2011.

The Management Board believes that the BZ WBK Group's conservative risk approach, which combines strict management of credit risk together with prudent management of FX risk and interest rate risk, has allowed the BZ WBK Group to maintain strong profitability while growing its loan portfolio. The Management Board's mid-term target is to maintain asset quality at a better than the market average level.

Experienced and Stable Management Team

The BZ WBK Group has a highly qualified, stable and experienced senior management team. The senior management team has, on average, over 20 years of experience in the banking sector and six (out of ten) members of the Management Board have been at BZ WBK for over ten years. The management team has a strong track record and has been instrumental in the development of BZ WBK's business model and in delivering high profitability of the BZ WBK Group on a consistent basis.

In addition, a number of the Management Board members of BZ WBK gained experience in the process of bank acquisition and integration while taking part in the merger of Bank Zachodni S.A. and Wielkopolski Bank Kredytowy S.A. in 2001. The BZ and WBK merger process was highly successful and it resulted in substantial synergy benefits.

Benefits from Affiliation with the Banco Santander Group

As of the date of this Offering Memorandum, and following the Offering, Banco Santander is and intends to remain the controlling shareholder of BZ WBK. The BZ WBK Group believes that being part of the Banco Santander Group offers a significant competitive advantage over the other banks in the Peer Group. The Banco Santander Group is the largest bank in the Eurozone and one of the largest in the world in terms of market capitalization. Being a member of the Banco Santander Group allows the BZ WBK Group, among other things, to:

- benefit from the Banco Santander Group's operational expertise in areas such as IT infrastructure, internal control and risk management, with practices that have been developed in response to a wide range of market conditions around the world;
- leverage on the Banco Santander Group's global presence to access a multinational customer base and support large Polish corporate customers in the internationalization of their businesses which led to the establishment of the global banking and markets division;
- replicate or adapt in Poland the Banco Santander Group's successful product offerings (insurance, asset management, international trade) and best practices from other countries;
- benefit from the Banco Santander Group's management training and development which is composed of a combination of in-house training and development with access to managerial expertise in other units of the Banco Santander Group outside Poland; and
- benefit from an experienced management team with expertise within other entities from the Banco Santander Group.

Having successfully completed a number of acquisitions across Europe, US and Latin America during the last several years, the Banco Santander Group has extensive experience in acquiring and integrating banks as well as maximizing synergy effects arising from those acquisitions, which, together with the BZ WBK Group's previous M&A experience, is expected to support the integration of the Kredyt Bank Group.

Strategy

The BZ WBK Group's goal is to continue to grow in scale, focusing particularly on attractive products and segments that increase overall profitability and maximize shareholder returns. In particular, the

Management Board has set the following targets for the BZ WBK Group that it aims to achieve in the medium term:

- increasing its market share to 10% with respect to retail lending (aspirational target) and key selected products and segments such as bancassurance;
- maintaining RoAE at a level in the high teens;
- maintaining a cost-to-income ratio in the low 40s with room for further improvement;
- maintaining a net loan to deposit ratio below 97%;
- maintaining a total capital adequacy ratio above 13.5%;
- achieving better than market average asset quality; and
- achieving a dividend payout ratio of 50% of the consolidated net profit of the BZ WBK Group.

In the pursuit of its overall strategic goal and to achieve its medium term targets, the Management Board has implemented and intends to continue to implement the below-described strategic initiatives:

Expanding the Scale of Operations While Focusing on Profitability and Operational Excellence

The BZ WBK Group intends to continue to increase its market penetration, focusing on profit-generating and prospective segments of customers and high-margin products such as consumer lending and SME lending. The BZ WBK Group intends to continue to use its extensive distribution network to proactively pursue and strengthen its relationships with its customers through the offering of key products and business solutions. To achieve these objectives, the BZ WBK Group intends to continue to leverage its strong brand name as well as capture the benefits of growth in the banking sector as the Polish economy expands and the level of penetration of financial services in Poland approaches those of other countries in the EU. Furthermore, the BZ WBK Group will continue to focus its marketing efforts and its CRM platform to increase and promote loyalty within its customer base, as well as the cross-selling of products and services to multiply the number of products used by each of its customers, in particular to customers of the Kredyt Bank Group.

The BZ WBK Group will continue to focus on operational excellence and strict cost control. In 2012, the aggregated operating expenses of the BZ WBK Group and the Kredyt Bank Group decreased by PLN 157.4 million, or 5.3%, in comparison with 2011. Such a decrease resulted mainly from the reduction of branches (ten branches were closed following the merger announcement), a reduction in 2012 in the total aggregated number of FTEs of both the BZ WBK Group and the Kredyt Bank Group by 856, or 6.3%, in comparison with 2011, and strict cost control in all other areas of the BZ WBK Group.

As the BZ WBK Group pursues its growth and profitability objectives, it intends to continue to carefully monitor the credit quality of its loan portfolio while diversifying its balance sheet. The BZ WBK Group plans to maintain a balanced growth profile with a strong emphasis on liquidity, a stable low-cost funding base and strong capital ratios.

Bringing the Former Kredyt Bank Group in Line With the BZ WBK Group's Standards

The Kredyt Bank Group has historically focused primarily on the retail segment, particularly in the area of mortgage loans, which provides the enlarged BZ WBK Group with an enhanced retail customer base. Post-Merger, the Management Board plans to focus on re-balancing the Kredyt Bank Group's business mix towards more profitable products and services as well as increasing the cross-selling of products and services.

The Management Board intends to bring the former Kredyt Bank Group in line with the BZ WBK Group's operating and business standards, leveraging its attractive customer base and branch network. The potential from bringing the former Kredyt Bank Group in line with the BZ WBK Group's standards is evidenced by the BZ WBK Group's superior income generation and cost efficiency as compared to the Kredyt Bank Group. In 2012, the BZ WBK Group generated total income from business activities (including net interest income, net fee and commission income, dividend income, net gain (loss) on sale of subsidiaries and associates, net trading income and revaluation, gains (losses) from other financial securities, other operating income and share in net profits (loss) of entities accounted for by the equity method), which constituted 6.9% of the total assets as of 31 December 2012 and fee and commission income for 2012 which constituted 2.7% of the total assets as of 31 December 2012. In the same year the

Kredyt Bank Group generated total net income from business activities (including net interest income, net fee and commission income, dividend income, net trading income, net gains from investment activities, net result on derivatives used as hedging instruments and hedged items and other operating income and share in profits (loss) of associates), which constituted 3.9% of the total assets as of 31 December 2012 and net fee and commission income for 2012 which constituted 0.8% of the total assets as of 31 December 2012. In the same year, the BZ WBK Group's cost to income ratio amounted to 43.9% compared to 62.4% for the Kredyt Bank Group.

Successful Integration and Realization of Synergy Benefits

The BZ WBK Group started the process of planning the operational, commercial and technological integration of the Kredyt Bank Group immediately following the announcement of the Merger in February 2012. The BZ WBK Group developed an integration plan and began to the extent permitted by applicable laws its implementation prior to the Merger Date in an effort to achieve synergies and ensure that best practices are implemented as soon as feasible.

The Management Board expects that the integration will result in significant merger synergies, including cost and revenue synergies. The cost synergies are primarily expected to be derived from the following areas:

- Operational Integration—the consolidation of support functions, the adoption of internal best practices across business and support units and the right-sizing of the combined branch network. In addition, there will be a centralization of headquarter operations;
- IT and Communication—migration to a single IT platform (expected to be completed by September 2014), a review and renegotiations of the terms of all IT contracts and licenses aiming at aligning them with the Banco Santander Group's terms and benefitting from economies of scale in IT maintenance and support functions;
- Marketing—the BZ WBK Group will incur marketing costs for only one brand and will utilize strong "BZ WBK" brand awareness;
- Other Operations—achieving economies of scale across all operating cost lines; and
- Property—the introduction of plans regarding headquarters consolidation and branch closure, as well as a review of the terms of all rental agreements.

The Management Board estimates, based on the current implementation plans, that annual (pre-tax) cost savings of PLN 175 million, PLN 220 million, and PLN 340 million (as compared to the 2011 aggregated cost base of the BZ WBK Group and the Kredyt Bank Group) will be achieved by 31 December 2013, 2014 and 2015, respectively.

In addition to the cost synergies, the Merger is expected to bring significant revenue synergies mainly from the following areas:

- Insurance—insurance cross-selling to the customers of the Kredyt Bank Group;
- Commission Income—increased commission income due to a more active management of fee lines, increased transaction activity and the increased penetration of and fees from the debit and credit card business;
- SME Margins—an increase in revenues due to aligning the margins from small business customers and the corporate banking business of the former Kredyt Bank Group and the BZ WBK Group; and
- Brokerage—the development of brokerage services for the former Kredyt Bank Group's retail customers through the existing, efficient delivery platform.

The Management Board estimates, based on the current implementation plans, that annual (pre-tax) revenue synergies of PLN 10 million, PLN 60 million, and PLN 125 million (as compared to the 2011 aggregated revenues of the BZ WBK Group and the Kredyt Bank Group) will be achieved by 31 December 2013, 2014, and 2015, respectively.

For more details regarding the integration of the BZ WBK Group and the Kredyt Bank Group please see "*—Merger and Integration of the BZ WBK Group and the Kredyt Bank Group*" below.

Merger and Integration of the BZ WBK Group and the Kredyt Bank Group

Following the granting of the approval of the PFSA on 4 December 2012, BZ WBK was merged with Kredyt Bank on 4 January 2013 (the "**Merger Date**"), which is the date the Merger was registered by the registry court. As a result of the Merger, BZ WBK has assumed all the rights and obligations of Kredyt Bank by means of universal succession and the shareholders of Kredyt Bank became, on the Merger Date, shareholders of BZ WBK.

The Merger was executed through the transfer of the entire estate (i.e. all the assets and liabilities) of Kredyt Bank to BZ WBK in exchange for BZ WBK's merger shares, i.e. 18,907,458 series J ordinary bearer shares with a nominal value of PLN 10.00 each, which were allotted to the shareholders of Kredyt Bank. The merger shares were granted and allotted to the former shareholders of Kredyt Bank based on the share exchange ratio of 6.96 merger shares in exchange for 100 shares in Kredyt Bank. The merger shares allotted to the former shareholders of Kredyt Bank were admitted and introduced to trading on the regulated market of the WSE starting from 25 January 2013.

To maximize positive synergies, BZ WBK has commenced the implementation of the integration of the business of the Kredyt Bank Group with the business of the BZ WBK Group, which includes: (i) the migration of its brand; (ii) the migration of customers and products; and (iii) the re-alignment of its organizational structure and back-office operations. It is envisioned that the integration plan will continue to be implemented until early 2015.

The main objective of BZ WBK in the first year after the Merger is to implement a "one face to the customer" approach by rebranding all channels and customer touchpoints into BZ WBK brands. Specifically, these actions will include installing BZ WBK branding in Kredyt Bank branches and offices, changes in the layout of documentation and marketing materials, the unification and harmonization of direct channels (including main webpages, e-banking platforms and call centers) and joint marketing activities. Full rebranding is planned to be completed by September 2013, which will likely be enhanced by the repositioning of the BZ WBK brand to reflect its strengthened market position and combined customer base.

During the process of integration, the key priority is to ensure the efficiency of the BZ WBK Group's operations, especially at the crucial first stage of the integration process. To implement the organizational integration, BZ WBK has analyzed and intends to rationalize the combined branch network. Such restructuring process is especially aimed at the optimization of situations involving branches of BZ WBK and Kredyt Bank being located within close proximity of one another.

For information on the integration of the Kredyt Bank Group's products and services offer with the BZ WBK Group's products and services offer, please see "*—Description of Business of Kredyt Bank Group—Integration of the Products and Services Offer Following the Merger*" below.

Operations of the BZ WBK Group

The BZ WBK Group provides a full range of products and services grouped into the following business segments:

- *Retail Banking:* which includes products and services targeted at individual customers as well as small and micro companies. The products offered to the customers of this segment include a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, foreign payments and private-banking services. For small and micro companies, the segment provides, inter alia, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios. It also covers insurance services provided to retail customers based on distribution agreements with other banks and financial institutions.
- *Business and Corporate Banking:* which includes products and services targeted at business entities, local governments and the public sector. In addition to banking products and services covering lending and deposit products, the segment provides products and services in the areas of cash management, leasing, factoring, trade financing and guarantees.
- *Global Banking & Markets:* in this segment (which started its operations in September 2011 and was created as a segment separate for accounting purposes on 1 January 2012) the BZ WBK Group derives income from the sale of products and services to the largest international and local corporations,

including: transactional banking with such products and services as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance; lending, including project finance, syndicated facilities and bond issues; FX and interest rate risk management products; underwriting and financing of securities issues; financial advice; and brokerage services linked to the activities of the brokerage house.

- *ALM and Center:* which covers central operations such as the financing of other of the BZ WBK Group's segments, including liquidity, interest rate risk and FX risk management. It also includes managing the BZ WBK Group's strategic investments and transactions which generate income and/or costs that cannot be directly or reasonably assigned to a given segment.

In 2012, the Retail Banking segment was the dominant segment among all the operating segments of the BZ WBK Group. It generated pre-provision profit (constituting the sum of net interest income, other income and dividend income less operating costs and depreciation/amortization) of PLN 1,260.5 million, or 54.4% of the total pre-provision profit of the BZ WBK Group in 2012. The second largest segment in terms of operating profit in that period was the Business and Corporate segment, which generated PLN 512.1 million of the pre-provision profit, or 22.1% of the pre-provision profit of the BZ WBK Group. The results of the ALM and the Global Banking & Markets segments amounted to PLN 366.1 million, or 15.8% of the pre-provision profit, and PLN 180.4 million, or 7.8% of the pre-provision profit, respectively. For more information on the results of the BZ WBK Group for the year ended 31 December 2012 broken down by operating segments, see "*Operating and Financial Results—Results of Operations by Operating Segment*".

In order to provide a fully comprehensive offer in all segments, BZ WBK's own offer is supplemented by the products offered by BZ WBK Subsidiaries and joint ventures, such as:

- Dom Maklerski BZ WBK—brokerage activities;
- BZ WBK TFI—fund management activities;
- BZ WBK Asset Management—brokerage services involving the management of customer portfolios consisting of one or more financial instruments;
- BZ WBK Leasing—lease of means of transport for companies and individual customers;
- BZ WBK Finanse & Leasing—lease of machines, machinery, equipment, computers and office equipment;
- BZ WBK Faktor—factoring and other forms of lending and financial services;
- BZ WBK-Aviva TU Ogólnych—general insurance; and
- BZ WBK-Aviva TU na Życie—life insurance.

Retail Banking

Overview

The BZ WBK Group offers its retail customers a broad range of financial products and services through its modern multi-channel distribution network, which as of 31 December 2012 included 889 branches (of which 519 were BZ WBK branches and 370 Kredyt Bank branches), 109 partner outlets of the BZ WBK Group, new technology-based distribution channels (in particular, online banking, call centers and mobile banking) as well as an ATM network of 1,452 ATMs (including the Kredyt Bank Group's network of 393 ATMs).

As of 31 December 2012, the BZ WBK Group services 2,855 thousand retail banking customers. The number of retail banking customers has grown dynamically in the analyzed period:

- by 5.4%, or 144 thousand, from 2,711 thousand as of 31 December 2011 to 2,855 thousand as of 31 December 2012; and
- by 5.5%, or 141 thousand, from 2,570 thousand as of 31 December 2010 to 2,711 thousand as of 31 December 2011.

Additionally, as a result of the Merger, the BZ WBK Group acquired 1.2 million (as of 31 December 2012) retail customers of the Kredyt Bank Group, of which around 100 thousand already had a banking relationship with BZ WBK Group.

The BZ WBK Group divides its retail customers into the following further sub-segments:

- the individual customer segment; and
- the SME customer segment, which includes institutional customers with an annual turnover below PLN 30 million and credit exposures not exceeding PLN 5 million.

The individual customer segment is further divided into the following categories:

- the wealth management segment, which includes customers whose savings held with BZ WBK Group exceed PLN 1 million;
- VIP, which includes customers whose savings held with the BZ WBK Group exceed PLN 300 thousand;
- Prestige, which includes customers whose savings held with the BZ WBK Group exceed PLN 100 thousand or have minimum monthly inflow of PLN 5,000; and
- mass customer.

All individual customers have their own advisors, and in the key branches of the BZ WBK Group a group of relationship and credit advisors has been appointed, whose main task consists of providing a wide range of services to the SME segment. In addition, customers who qualify for the wealth management segment, irrespective of their place of residence in Poland, are under the individual care of mobile managers located in Warsaw, Poznań, Wrocław and Szczecin.

As of 31 December 2012, loans and advances to customers and customer deposits in the Retail Banking amounted to PLN 20,043 million and PLN 34,798 million, respectively. As of 31 December 2012, according to the Regulatory Reporting WEBIS (in respect of the data for BZ WBK) and the NBP (in respect of the data for the sector), the BZ WBK Group's share in deposits and loans and advances to individual customers was 5.62% and 2.96%, respectively.

Distribution Channels

Branch Network

As of 31 December 2012, the BZ WBK Group had a network of 889 branches comprising 519 BZ WBK branches and 370 Kredyt Bank branches. Both networks are complementary: while the BZ WBK Group's network focuses mainly on Western and Central Poland, the Kredyt Bank Group distribution network is located mainly in Central and Eastern Poland.

The BZ WBK Group has 10 SME Centers dedicated to servicing SME customers. Through its network of branches, the BZ WBK Group offers a full range of products and services. The branches constitute the main distribution channel for the BZ WBK Group's products and services dedicated to retail customers.

Network of partner outlets

As of 31 December 2012, the BZ WBK Group's network of outlets included 109 partner outlets.

Under the partnership agreement, the partner provides the premises in the location specified by BZ WBK and covers employee costs. In return, BZ WBK shares with the partner revenues from sales of own products from the BZ WBK Group's product offer.

BZ WBK considers its network of partner outlets an important distribution channel. After the Merger, the BZ WBK Group intends to continue its cooperation with such partner outlets. In 2013, it is planned to open at least 20 new partner outlets in areas not covered by the BZ WBK Group's current branches.

Online banking

Through the BZWBK 24 service, which is an internet transaction platform, the BZ WBK Group offers a number of products, including, *inter alia,* deposits, investment products, cash loans, and comprehensive money transfer handling. The BZ WBK Group conducts sales of personal accounts in such a manner that each new customer has the opportunity to use all electronic access channels to his or her account.

As of 31 December 2012, 0.3 million retail customers were active users of KB24, an electronic banking service for Kredyt Bank's retail customers. As of 31 December 2012, 1.39 million retail customers were active users of the BZWBK 24 service, including 1.27 million individual customers and 0.12 million SME customers.

Call centers

As of the date of this Offering Memorandum, the BZ WBK Group had two call centers—in Poznań / Środa Wielkopolska and in Lublin. Both call centers focus on providing services to retail and SME customers and operate 24 hours a day through approximately 350 positions/desks. The scope of activities includes, among others: customer support for debit cards, credit cards, personal accounts and BZWBK 24 services; providing information on the offer of the BZ WBK Group and selling selected products and services, such as credit cards, cash loans, personal accounts, insurance products (inbound and outbound sales); performing activation, anti-attrition and retention campaigns and processes.

The BZ WBK Group is conducting a Telephone Banking Development Program, the aim of which is to optimize the processes and the introduction of new functionalities to its call centers in order to improve customer experience. The integration of telephone services with mobile services is also planned as part of this program.

Mobile banking

As part of mobile banking, the BZ WBK Group provides mobile banking, which is accessible through all cellular phones with mobile web browsers and applications. The BZ WBK Group mobile banking service enables customers to: access information regarding account balances and the history of operations, make money transfers, open and liquidate term deposits and access other functionalities.

As of the date of this Offering Memorandum, the BZ WBK Group is conducting a Telebanking Development Program aimed at increasing the potential of the Telebanking and Electronic Banking Center as regards sales and customer service processes.

ATM network

As of 31 December 2012, the ATM network of the BZ WBK Group consisted of 1,059 ATMs, while the ATM network of the Kredyt Bank Group consisted of 393 ATMs.

As of 31 December 2012, the customers of the BZ WBK Group had preferential access to the network of the Kredyt Bank Group's ATMs and the customers of the Kredyt Bank Group had preferential access to the network of the BZ WBK Group's ATMs. In addition, customers of the BZ WBK Group had preferential access to the ATM network of Bank Millennium S.A. (a lower standard fee of PLN 1 for cash withdrawals). Moreover, customers of the BZ WBK Group holding dedicated personal account packages and debit cards (i.e. MasterCard Payback Multi and Visa Wydajesz&Zarabiasz) may make withdrawals from all ATMs in Poland for free.

The BZ WBK Group will seek to optimize its ATM network through the possible relocation of ATMs. In addition, ATMs of the Kredyt Bank Group will be rebranded so that the entire ATM network operates under the same BZ WBK brand.

Products and Services

As part of retail banking, the BZ WBK Group offers its individual customers a broad range of banking services and products, which includes personal accounts and transactional services, payment cards, credit products, savings and investment products, mutual funds and insurance products. The BZ WBK Group also offers banking products and services dedicated specifically to SME customers, which include basic products such as business accounts, payment cards, credit products, deposit and investment products as well as more complex business products such as foreign trade products, leasing and factoring services and treasury products.

Individual Customers

Personal Accounts

Products linked to personal accounts, which include standard current accounts, savings accounts and foreign currency accounts, are among the core banking products offered to individual customers.

The BZ WBK Group offers various types of current accounts tailored to the needs of particular groups of its individual customers. The BZ WBK Group offers different types of current accounts: accounts for young customers (less than 30 years old); a universal account "*Spend & Earn*" which gives the customer 1% cashback (up to PLN 500 monthly) for payments made at supermarkets and gas stations with the payment card linked to the account; an account addressed to women which offers 1% cashback (up to PLN 500 monthly) for payments made at supermarkets and gas stations with the payment card linked to the account, an insurance package linked to the account and discounts at certain shops; an account addressed to seniors (more than 50 years old) which includes an insurance package and discounts at certain shops; accounts for VIP customers which offer concierge services, an individual pricing policy, a financial insurance package and discounts at certain shops; and the "Avocado" account, which is included in the "Avocado" package offering a combination of banking and telecommunication products and services and additional benefits for customers of the Plus telecommunications network operated by Polkomtel Sp. z o.o.

The BZ WBK Group offers its customers savings accounts. Funds deposited in savings accounts accrue interest at a higher rate than funds deposited in current accounts. The savings account offered by the BZ WBK Group allows for the deposit and withdrawal of funds from the account at any time without losing any interest. The exact interest rate depends on the amount of funds deposited in the savings account. In addition to the standard savings account, the BZ WBK Group offers a savings account with an increased interest rate (the "*a la Term Deposit*" account) as well as savings accounts in EUR and GBP.

The BZ WBK Group's range of personal accounts also includes foreign currency accounts in USD, EUR, GBP and CHF. The holders of all foreign currency accounts are not charged for running such accounts and the holders of foreign currency account in USD, EUR and GBP are not charged for the first payment card issued for each such account.

As of 31 December 2012, the BZ WBK Group's individual customers had 2,643 thousand personal accounts, including 662 thousand foreign currency accounts (excluding PLN and FX savings accounts which amounted to 690 thousand). The estimated share in the market for personal accounts of the BZ WBK Group amounted to approximately 7.4% as of 30 September 2012 according to data published by PR News.

Payment Cards

The BZ WBK Group offers debit cards linked to personal accounts, pre-paid cards and credit cards.

The BZ WBK Group offers various types of debit cards linked to personal accounts. These include Visa and Visa Electron cards (including cards with the Visa payWave system) and MasterCard Payback and MasterCard Payback Multi cards which enable customers to collect points in the Payback system for payments made with the card. The BZ WBK Group also offers MasterCard debit cards to holders of its foreign currency personal accounts in GBP, USD and EUR.

The BZ WBK Group also offers pre-paid cards, i.e. bearer cards issued without the requirement to execute a separate agreement with the BZ WBK Group. Pre-paid cards have limits thereon; however, after their expiry they can be recharged. Pre-paid cards enable customers to make transactions in shops and on the internet, as well as use ATMs to withdraw money which has been loaded onto the card. Due to the fact that a pre-paid card is a bearer card, it can be transferred to another person without additional formalities. The BZ WBK Group's product range includes various types of pre-paid cards: a pre-paid chargeable Premium; a pre-paid Payback card; a pre-paid school card, which can also take the place of a student ID card (in schools which have a partnership agreement with the BZ WBK Group); a pre-paid gift card; a pre-paid internet card, which is a virtual card (i.e. is not available as an actual, physical card); a pre-paid foreign currency card; and a pre-paid urban card, which is both a pre-paid card and an electronic urban transport card. The BZ WBK Group also offers proximity carriers in the form of watches, pendants and stickers; these are pre-paid MasterCard PayPass tokens which enable payments via the PayPass system and are complemented by a card, thus making it possible to pay in shops which do not have the PayPass system.

The BZ WBK Group offers credit cards to its individual customers, including: a MasterCard Payback credit card (which enables customers to collect points in the PayBack system that can be exchanged for gifts and includes the free-of-charge "*Safe Money*" insurance package); a World MasterCard credit card (which is linked with the World MasterCard Rewards program and enables customers to collect points and exchange those for gifts and also offers free insurance packages); a student credit card (for persons below the age of 30 years and which includes the free-of-charge "*Safe Money*" insurance package); a silver credit card (and which includes the free-of-charge "*Safe Money*" insurance package and a credit limit of up to PLN 50,000); a gold credit card (which includes the "*Safe Money*" insurance package as well as travel insurance, both of which are free of charge, and a credit limit of up to PLN 50,000); and a platinum credit card (which has a free insurance package and a package of concierge and assistance services and a credit limit of up to PLN 100,000).

As of 31 December 2012, the BZ WBK had in its portfolio 2,970,244 payment cards issued to its individual customers, including 2,018,873 debit cards linked to personal accounts, 533,565 pre-paid cards and 417,806 credit cards.

Credit Products

The BZ WBK Group's credit products for individual customers include various types of cash loans and mortgage loans.

Cash loans are the basic products in the BZ WBK Group's consumer financing products and are characterized by high margins, minimal requirements with regard to collateral or sureties, limited formalities and fast credit decisions. The standard cash loan has a maximum period of repayment of up to 72 months and is granted for a freely chosen aim, without any collateral or surety. The granting of credit is preceded by a rapidly executed credit process. A credit decision takes on average less than ten minutes. An individual customer can borrow up to 20 times their net monthly salary (up to PLN 120,000). The BZ WBK Group offers the possibility to suspend the repayment of a cash loan for up to six months, provided that the borrower has been repaying the given loan for at least six months. Additionally, the BZ WBK Group offers cash loans secured with liquid assets (the BZ WBK Group accepts as collateral term deposits in BZ WBK, funds deposited in savings and security accounts in BZ WBK, treasury bonds held in securities accounts with Dom Maklerski BZ WBK and certain investment fund units of ARKA). The maximum amount of such loans is 65% to 90% of the value of the assets put up as collateral and the maximum repayment period therefor is 60 months.

In addition to cash loans, the BZ WBK Group also offers personal account loans (available from the date of opening the account and granted for 12 months, with the possibility of extension) and loans for purchases of securities. Loans for purchases of securities are granted in order to finance the purchase of securities on the primary market. The maximum repayment period for this type of loan is four months, with the principal and accrued interest to be repaid at the end of the repayment period. Other terms of such loans are determined individually for each issuance or sale of securities.

With regard to mortgage loans for individual customers, the BZ WBK Group offers residential mortgage and mortgage-secured loans. The BZ WBK Group's residential mortgage are offered for, inter alia, the purchase of a house or flat on the primary or secondary market, the construction of a house or to purchase land, as well as the refinancing of the above-mentioned types of transactions which were performed within 12 months of the requested refinancing. A residential mortgage can be granted in PLN or in EUR and the maximum repayment period is 30 years. In principle, the BZ WBK Group requires down payments amounting to 10% (for PLN-denominated loans) and 20% (for EUR-denominated loans); however, in certain circumstances, such down payments may be decreased.

A mortgage-secured loan can be used for any purpose (except for purposes related to business activity or speculation), is granted in PLN and has a maximum repayment period of 20 years. The loan must be primarily secured by a mortgage and the maximum LTV is 60%.

The BZ WBK Group's mortgage portfolio was characterized by an average repayment period of 278 months and an average LTV of 62%.

Savings and Investment Products

The BZ WBK Group offers various savings and investment products, which include savings accounts (described in more detail in the *"Personal Accounts"* section above), term deposits, investment fund units and certificates, asset management, investment programs and structured products. In addition, the BZ WBK Group, through Dom Maklerski BZ WBK offers certain brokerage products and services (described in more detail in the *"Brokerage Products and Services"* section below).

The BZ WBK Group offers term deposits in PLN with fixed interest rates for overnight, seven days, fourteen days, and one, three, six, 12 or 24 months. The BZ WBK Group also offers the following types of term deposits in PLN: negotiable term deposits for which the customer individually negotiates the term (no longer than 24 months in the case of PLN term deposits) and for which there is a fixed interest rate; *"Impetus"* and *"24"* term deposits, for which the fixed interest rate goes up as the deposited funds become larger (such deposits are available for one, three, six, 12 and 24 months); a term deposit with the possibility of early termination without losing accrued interest (available for six, nine and 12 months); and a seven-month term deposit with the interest rate increasing each month and including monthly capitalization of interest. Term deposits are either automatically renewable or non-renewable.

The BZ WBK Group also offers foreign currency term deposits for USD, EUR, GBP and CHF with fixed interest rates for overnight, 14 days, and one, three, six, 12, 24 and 36 months. Negotiable term deposits are also available for foreign currencies.

The BZ WBK Group offers structured products in various forms, i.e. securities, investment insurance policies and structured deposits. Structured products combine the features of capital protection until maturity with investment in diverse capital markets. The terms of each product, such as the form, maturity and underlying asset, are different for each subscription.

The BZ WBK Group operates the "*In Plus BZ WBK*" investment program, which is a form of life insurance combined with insurance capital funds. The customer has the possibility to choose from 21 insurance capital funds of different types (equity securities funds, balance funds, stable growth funds, debt funds and money funds) managed by BZ WBK TFI, Aviva Investors Poland TFI, Legg Mason TFI and Union Investment TFI.

BZ WBK Asset Management provides customer portfolio management services to the BZ WBK Group's individual customers whose funds exceed PLN 1 million. The investment strategy and the term of investment are individually discussed with each customer. For information on the global reorganization of the Banco Santander Group's asset management business and its potential impact on BZ WBK asset management business in Poland see "*Major Shareholders and the Selling Shareholders—Relationship between BZ WBK and the Banco Santander Group—Global Reorganization of the Banco Santander Group's Asset Management Business*".

Brokerage Products and Services

Dom Maklerski BZ WBK is one of the leading brokerage houses operating on the WSE in terms of shares and derivatives turnover as well as number of active investment accounts according to data from the WSE. It has been present on the market since 1992.

Dom Maklerski BZ WBK offers a wide range of brokerage products and services to all types of institutional clients, including all Polish pension and mutual funds as well as foreign clients, mainly from continental Europe and the UK.

Moreover, the customers of Dom Maklerski BZ WBK are able to trade on stock exchanges all over the world.

Dom Maklerski BZ WBK is also active in the field of public offerings, where it acts, *inter alia*, as an offering agent and in the field of tender offers for shares in public companies, leading in terms of the number of executed IPOs.

Dom Maklerski BZ WBK offers a wide range of other brokerage services, including, *inter alia*, secondary market agency brokerage, market making, IPOs, ABBs, public tenders, OTC transactions, derivatives, short-selling and structured products.

Dom Maklerski's BZ WBK's experienced team of sales people, sales-traders and traders is consistently recognized as one of the top brokerage teams in Poland.

Dom Maklerski BZ WBK has a team of analysts who conduct independent analyses and prepare analytical reports for its customers. As of the date of this Offering Memorandum, the research analyst team services 80 companies, or 70% of the market capitalization of the Polish companies listed on the WSE.

Dom Maklerski BZ WBK is well respected and is regularly awarded numerous prizes.

In 2012, the equity trading turnover of Dom Maklerski BZ WBK on the WSE was PLN 29.3 billion, thus providing it with a market share of 7.8% according to data from the WSE. In 2012, the turnover of Dom Maklerski BZ WBK from futures contracts totaled nearly 2.7 million futures contracts, which constituted a market share of 11.9% according to data from the WSE.

Mutual Funds

BZ WBK TFI is one of the largest mutual fund managers in Poland, with PLN 10.6 billion in assets under management as of 31 December 2012. As of the date of this Offering Memorandum, the product portfolio of BZ WBK TFI consisted of three open-ended funds (Arka BZ WBK FIO with 12 sub-funds, Arka Prestiż SFIO with five sub-funds and Credit Agricole FIO with 5 sub-funds) and three closed-end funds. The company's open-ended funds offer a full array of strategies: from bond and/or money market through mixed to equity strategies. The broadest scope of strategies is available in Arka BZ WBK FIO, with 12 equity sub-funds specializing in different regions and markets. Arka BZ WBK FIO is generally targeted at the mass affluent segment, while Arka Prestiż SFIO is targeted at the private banking segment. Credit Agricole is a white label fund. The closed-end funds operated by the company include two property market closed-end funds and one CEE equity closed-end fund. BZ WBK TFI was the first mutual fund manager in Poland that began direct investment outside Poland in the CEE region (as of 31 December 2012, the total value of assets under management outside Poland in the CEE region and Turkey was PLN 1.2 billion and PLN 448 million, respectively).

For information on the global reorganization of the Banco Santander Group's asset management business and its potential impact on BZ WBK asset management business in Poland see "*Major Shareholders and the Selling Shareholders—Relationship between BZ WBK and the Banco Santander Group—Global Reorganization of the Banco Santander Group's Asset Management Business*".

Insurance Products

In co-operation with BZ WBK-Aviva TU Ogólnych, BZ WBK-Aviva TU na Życie, Towarzystwo Ubezpieczeń na Życie WARTA S.A., Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. and Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., the BZ WBK Group offers a wide range of insurance products, covering all of the important needs of its banking customers (financial protection, family and asset protection, future investment and savings). These products are aimed mainly at the individual and SME customers of the BZ WBK Group and include, inter alia: life insurance, insurance against permanent incapacity to work and against hospitalization, unemployment insurance, home insurance, bill protection insurance, travel insurance, payment card insurance (which covers unauthorized use of cards, theft of money withdrawn using a bank card and insurance against theft or damage to goods acquired with a card) and single premium unit-linked insurance for savings and retirement purposes.

Examples of the insurance products offered with respect to specific banking products addressed to individual customers include insurance against permanent incapacity to work and unemployment insurance offered to customers who were granted cash or mortgage loans. For example, the BZ WBK Group estimates that approximately 75% of cash loans are granted together with Spokojny Kredyt (CPI for cash loans) and more than 45% of new mortgage loans are sold along with at least one insurance package (life or unemployment).

In addition, the BZ WBK Group together with BZ WBK-Aviva TU na Życie in May 2011 launched an innovative (on the bancassurance market) life coverage product addressed to owners of SMEs (*Biznes Gwarant*). In the period of 2012, more than 30% of new SME credit customers decided to purchase such insurance.

Having more than 100 thousand home insurance (*Locum*) and bill protection (*Ochrona Płatności*) policies as well as a broad database of customers, in 2012 the BZ WBK Group decided to develop its insurance product strategy by focusing on insurance products which are not linked to loans and advances to customers. The aim of this strategy is to provide attractive products to the BZ WBK Group's customers, increase fee and commission income and take advantage of cross-selling potential.

For the year ended 31 December 2012, the BZ WBK Group generated remuneration from insurance sales of PLN 108 million, which constituted 7.8% of the BZ WBK Group's net fee and commission income.

SME Customers

Business Accounts

The BZ WBK Group offers various types of business accounts in different business packages together with basic transactional services (money transfers, non-cash payments, payment cards and electronic banking services). The BZ WBK Group offers the following business packages:

- MINI, which offers minimum costs for SME customers;
- OPTI, which offers a full scope of financial services for SME customers;
- MAXI, which offers free additional accounts, including foreign currency accounts, and additional functionalities such as cash collection, a business package for persons associated with 'independent professions' ("*wolne zawody*") and an agro package addressed to farmers;

- an NGO business package dedicated to non-governmental organizations, which offers additional assistance from advisers; and
- a foreign currency offer for business which includes the opportunity to individually negotiate exchange rates for transactions exceeding EUR 10,000 and to manage funds using the e-FX transactional platform.

The BZ WBK Group also offers foreign currency accounts in EUR, USD, CHF and GBP and escrow accounts (available in PLN, EUR, USD, CHF and GBP), including escrow accounts for real estate transactions on the secondary market with the participation of intermediaries.

As of 31 December 2012, the SME customers of BZ WBK held 183,922 business accounts.

Payment Cards

The BZ WBK Group offers payment cards linked to business accounts, including debit cards and pre-paid cards.

The BZ WBK Group offers various types of debit cards linked to business accounts, including the Visa Business Electron for the MINI, OPTI and MAXI business packages, which offer free travel insurance and the Cash Back functionality (the possibility to take up to PLN 200 in cash when making a non-cash payment in a shop). The BZ WBK Group also offers Visa Business in EUR, Visa Business Gold (offering credit limit for selected customers), Visa Business with an individual limit on expenses (enabling full control over expenses) and Visa Business Charge (with a credit limit dependent on the credit rating and free insurance).

In addition, the BZ WBK Group offers pre-paid cards for SME customers, including gift cards, Premium chargeable cards, Premium social cards and other cards.

The BZ WBK Group offers its SME customers terminals for servicing non-cash transactions.

As of 31 December 2012, the BZ WBK Group had in its portfolio 123,473 thousand payment cards issued to its SME customers.

Credit Products

The range of credit products offered to SME customers by the BZ WBK Group includes operational credit, investment credit and preferential credit.

The BZ WBK Group offers its SME customers operational credit in PLN for any business purpose. Such credit can finance 100% of an investment (up to PLN 500 thousand, or up to PLN 200 thousand without collateral) with a maximum repayment period of five years.

The BZ WBK Group also offers working capital facilities with a repayment period of three years and with the possibility of making numerous repayments and drawings. Working capital facilities are available in PLN, USD, EUR, GBP and CHF.

The BZ WBK Group's credit products offered to its SME customers also include overdrafts for any purpose relating to current business activities, revolving, available in PLN, USD, EUR, GBP and CHF with maximum repayment period of 3 years and up to PLN 200 thousand without collateral.

In addition to the above, the BZ WBK Group also offers various types of investment loans, including: mortgage loans (for any purpose connected with business activity, for up to PLN 3 million, with a maximum repayment period of 15 years, available in PLN and EUR and secured by a mortgage with a maximum LTV of 65%); investment loans (for financing the maintenance or purchase of tangible fixed assets, long-term financial assets or shares in a company and able to finance up to 95% of the value of an investment, with a maximum repayment period of 15 years, and available in PLN, USD, EUR, GBP and CHF); and credit for commercial investments for acquiring or repairing real estate for leasing purposes (financing of up to 80% of the value of an investment, an optional grace period and available in PLN, USD and EUR).

In co-operation with the Agency for Restructuring and Modernization of Agriculture ("**ARMA**"), the BZ WBK Group offers preferential loans for SME customers who run farms. Preferential investment loans are granted for investments in relation to new technologies, increases in the efficiency of a farm, improvement of the quality and promotion of agriculture products, ecology and the cultivation of plants for the purposes of the creation of biofuels. Such an investment loan can finance between 70% and 90% of the value of an investment (with a maximum of PLN 16 million), bears lower interest rates (due to subsidies from ARMA), offers a grace period and has a maximum repayment period of 15 years. The BZ WBK Group also offers loans for the resumption of production in cases of natural disasters, which have an attractive interest rate thanks to subsidies from ARMA.

Term Deposits

The BZ WBK Group offers its SME customers: (i) standard term deposits (seven days, 14 days, and one, three, six and 12 months); (ii) foreign currency term deposits available in EUR, USD, CHF and GBP (14 days, and one, three, six, 12, 24 and 36 months); and (iii) negotiable deposits (interest rate and term can be negotiated, available in PLN, USD, EUR, GBP and CHF).

Foreign Trade

The BZ WBK Group offers its SME customers various products and services facilitating the settlement of and security for transactions with foreign partners. These include payment instructions, electronic confirmation of payment instructions, transfer requests made from foreign banks, the settlement of checks, collections, letters of credit, forfaiting and bank guarantees.

Leasing

The BZ WBK Group, through BZ WBK Leasing and BZ WBK Finanse & Leasing, has different types of leasing products for its SME customers, including leasing of passenger and delivery vehicles, leasing of machinery and devices, and loans for vehicles for SMEs. Additionally, the BZ WBK Group has special leasing products for doctors, veterinary doctors and farmers.

Factoring

The BZ WBK Group, through BZ WBK Faktor, offers its SME customers factoring services, which include full factoring (with no recourse but with insurance), factoring with recourse and with a maximum limit on the counterparty, factoring with recourse and with insurance, factoring relating to export and reverse factoring.

Insurance

For information on the insurance products, please see "*—Individual Customers—Insurance Products*" above.

Other Products and Services

In addition, the BZ WBK Group offers its SME customers different types of treasury products enabling liquidity management and the management of foreign currency risk as well as interest rate risk. BZ WBK Faktor's product range covers interest rate swaps, negotiable term deposits (available in PLN, EUR, USD, GBP and CHF), negotiable spot FX transactions, FX forward transactions, FX SWAP transactions, FX call and put options, FX barrier call and put options, FX Asian call and put options, binary options and various options strategies.

Business and Corporate Banking

Overview

The Business and Corporate Banking segment pursues a strategy of providing comprehensive services dedicated to medium and large companies.

The criteria for qualifying customers in the Business and Corporate Banking segment include:

- annual sales revenue exceeding PLN 30 million (from 1 April 2013, the threshold will be increased to PLN 40 million);
- total exposure to credit products exceeding PLN 5 million;
- a total deposit portfolio exceeding PLN 10 million;
- new businesses (start-ups) established by foreign investors and owned by business and corporate customers; and

• financing for income-generating real estate and project or structure finance.

As of 31 December 2012, the BZ WBK Group serviced 4,220 customer groups in the Business and Corporate Banking segment. Additionally, as a result of the Merger, the BZ WBK Group acquired the business and corporate banking clients of the Kredyt Bank Group, which amounted to 3,383 customer groups (of which approximately 330 customer groups were customer groups common to the BZ WBK Group) as of 31 December 2012.

As of 31 December 2012, loans and advances to customers and deposits from customers in the Business and Corporate Banking segment (including leasing and factoring) amounted to PLN 17,534 billion and PLN 9,745 billion, respectively.

Distribution Channels

Business and corporate customers are serviced through the following distribution channels:

• ten (starting from 1 April 2013 - 12) Corporate and Business Banking Centers dedicated to medium and large companies with annual turnover between PLN 30 million and PLN 1 billion (from 1 April 2013, the threshold will be between PLN 40 million and PLN 500 million);

• a centralized department for large enterprises dedicated to rendering services to large companies with annual turnover above PLN 1 billion (from 1 April 2013, the threshold will be decreased to PLN 500 million); and

• a centralized department for property financing dealing with companies from the real estate sector.

Moreover, the BZ WBK Group's business and corporate banking customers are also serviced by an extended online banking system which allows them to monitor and manage basic and auxiliary accounts, payment cards and credit facilities, and to place orders for all types of transfers.

Business and corporate banking customers are provided with full relationship banking service by highly trained primary relationship managers ("**PRMs**"). The BZ WBK Group has a dedicated PRM for each customer, who is entirely responsible for each aspect of the customer relationship. Through such banking model, customers are provided with tailor-made products and services to support their business needs. Customers have evaluated the BZ WBK Group's relationship banking model as being in the top quartile for service quality amongst BZ WBK's European peers according to Deep-Insight Consulting (survey conducted in 2011). PRMs are supported by local, dedicated credit partner teams who are part of the BZ WBK Group's Risk Division and by product specialists from key product lines, such as leasing, factoring, treasury and transactional banking (including trade finance), as well as by the Central Service Team, which is a dedicated central operations function supported by a phone-based service team for customers' day-to-day banking requirements. As of 31 December 2012, services to business and corporate banking customers were provided by 123 bankers.

Products and Services

The BZ WBK Group's main products and services for business and corporate customers include transactional banking products and services (primarily business accounts, local and foreign payments, payment cards, cash services and liquidity management products), business financing products, local and foreign trade financing, treasury products, factoring, leasing and investment banking services.

Transactional Banking

The BZ WBK Group's transactional banking products feature modern professional services supporting its business and corporate customers in managing their finances. The BZ WBK Group's basic transactional banking products include business accounts, transfers (domestic and foreign), mass transfers, payment cards, cash processing services and liquidity management.

The BZ WBK Group offers its business and corporate customers business accounts with access to cash and non-cash transactions with domestic and foreign partners and with access to other services, such as term deposits and overdrafts. A business account can be accessible through the internet (via modern online and offline channels of electronic banking). The BZ WBK Group also offers current and auxiliary accounts in one of 18 currencies (being one of the widest ranges of currencies on the Polish banking market), e.g. in, *inter alia*, PLN, USD, EUR, CHF and GBP, as well as other less common currencies. In addition to the standard business account, the BZ WBK Group offers its business and corporate customers custodian accounts ("*Rachunek Powierniczy*") and escrow accounts (including escrow accounts dedicated to real estate developers).

As of 31 December 2012, the BZ WBK Group's business and corporate customers held 16.7 thousand business accounts.

Among its core transactional banking products and services, the BZ WBK Group offers transfers, including Express ELIXIR (introduced by BZ WBK as one of the first bank on the Polish market) transfers executed in a matter of seconds, currency and foreign transfers. The BZ WBK Group also offers mass transfers which include automatic identification of payments integrated with the financial and accounting systems of the relevant business entity and mass payment instructions. The BZ WBK Group offers its business and corporate customers debit, pre-paid and charge cards. As of 31 December 2012, the BZ WBK Group issued to its business and corporate customers 5.8 thousand debit and charge cards. Moreover, the BZ WBK Group offers terminals for processing non-cash transactions which can service transactions in 48 currencies and settle transactions in one day for its customers.

The cash processing services offered by the BZ WBK Group include deposits and withdrawals of cash in BZ WBK or at the premises of the customer and also through branches of the Polish Post Office.

The liquidity management instruments offered by the BZ WBK Group to its customers include virtual cash pooling, consolidation of balances, term deposits (available in EUR, USD, CHF and GBP, with negotiable interest rates and a vast choice of terms) and investment funds.

Virtual cash pooling enables the effective management and investment of customer funds without physically executing transfers between accounts covered by virtual cash pooling, and as a result, facilitates increased interest income for customers and decreased interest expenses.

The consolidation of balance service enables customers to optimally invest any excess of funds created as a result of transfers between auxiliary and current accounts and also facilitates the automatic repayment of overdrafts from one account from funds from other accounts.

Business Financing

BZ WBK offers a wide range of financing for business activities to its business and corporate customers, including overdrafts, investment loans, operational loans, payment loans, technological loans, bank guarantees and multipurpose credit lines.

Overdrafts are offered in PLN, USD, EUR, CHF and GBP for the maximum period specified in the credit decision during which period the overdraft is revolving.

An investment loan can be granted in PLN, USD, EUR, CHF and GBP and can finance up to 80% of the planned investment expenses with a repayment period of up to 15 years (however, in no case exceeding the period of the depreciation of the investment). The BZ WBK Group also offers a grace period of up to 18 months or 12 months in the case of a PLN loan or a foreign currency loan, respectively. A loan can be extended in tranches or in one payment.

Operational loans offered by the BZ WBK Group provide flexible financing of current expenses and an instrument for managing liquidity. An operational loan is a revolving loan with a repayment period of between 12 and 36 months and is available in PLN, USD, EUR, CHF or GBP.

Payment loans are offered by the BZ WBK Group to customers who need financing in order to satisfy their on-going payments. A payment loan can be granted for a maximum repayment period of 14 days, with the possibility of a five-day grace period. The maximum amount of a payment loan is 50% of the monthly inflow to the customer's account. A payment loan is granted in PLN and bears a fixed interest rate.

Technological loans can be offered for making investments in technology, i.e. the acquisition of new technology or the implementation of new own technology, and are granted in co-operation with the BGK. Part of the loan is repaid from EU funds by means of a technology premium granted by the BGK. The technology premium cannot exceed PLN 4 million.

The BZ WBK Group also offers bank guarantees tailored to the individual requirements of customer and can be granted in PLN, USD, EUR, CHF or GBP, depending on the currency of the transactions secured by the guarantee. A bank guarantee may secure, *inter alia*, the repayment of a loan, payment for commodities or services, or the performance of a contract.

The multipurpose credit line offered by the BZ WBK Group consists of the possibility to use the following banking products: overdrafts, operational loans, letters of credit and bank guarantees. The multipurpose credit line offers customers the possibility of drawing upon the above-mentioned products up to a maximum amount agreed with the BZ WBK Group, drawing upon any of the products within the credit line decreases the funds available under the credit line. The credit line is granted for 12 months with a renewal option and can be granted in PLN, EUR, USD, CHF or GBP.

The BZ WBK Group also offers loans for real estate financing, including financing for commercial, residential, office and warehouse construction. Real estate financing loans are tailored to the requirements of the given customer and depend on the scale of the investment in the given project. The BZ WBK Group may act as the sole financing entity or in a consortium with other banks.

Local and Foreign Trade

The BZ WBK Group offers its business and corporate customers various products and services facilitating the settlement of and security for transactions with foreign partners. These specifically include the settlement of checks, collections, letters of credit, forfaiting and bank guarantees and are available to a wide range of customers through its internet banking platform.

Treasury Products

The BZ WBK Group offers its business and corporate customers different types of treasury products enabling liquidity management and the management of foreign currency risk as well as interest rate risk. The BZ WBK Group's product range covers interest rate swaps, negotiable term deposits (available in PLN, EUR, USD, GBP and CHF), negotiable spot FX transactions, FX forward transactions, FX SWAP transactions, FX call and put options, FX barrier call and put options, FX Asian call and put options, binary options and various options strategies.

Factoring

The BZ WBK Group, through BZ WBK Faktor, offers its business and corporate customers factoring services, which include full factoring (with no recourse, but with insurance), factoring with recourse and with a maximum limit on the counterparty, factoring with recourse and with insurance, factoring relating to export, and reverse factoring.

Leasing

The BZ WBK Group, through BZ WBK Leasing and BZ WBK Finanse & Leasing, offers different types of leasing products for its business and corporate customers, including leasing of passenger and delivery vehicles, leasing of machinery and devices and leasing of real estate (available for real estate the value of which exceeds PLN 1 million).

Other Products and Services

In 2012, the BZ WBK Group introduced an innovative online banking platform for corporate and Global Banking & Markets customers. The platform provides full control over executed transactions and offers analytical tools that assist in business financial management.

Within one integrated online banking platform, the BZ WBK Group offers a comprehensive range of services which are available only in a few banks in Poland. In addition to a package of key operations, such as transfers and deposits, iBiznes 24 offers a multifunctional reporting system including more than 25 defined report types, which are frequently used by companies. iBiznes24 ensures flexibility in granting privileges and allows many people to work simultaneously. The trade finance module, the innovative part of the platform, allows clients to settle accounts with their business partners and operate on a global scale. Available actions are: order, execution and settlement of letters of credit and documentary collections, as well as the servicing of foreign guarantees.

For companies which expect more than just exchange rate tables, the BZ WBK Group offers the e-FX module, which enables them to view market exchange rates and transactions in real time.

Global Banking and Markets

Overview

The Global Banking & Markets segment began operating in September 2011. Global Banking & Markets is responsible for relations with the largest corporate customers of the BZ WBK Group and cooperates with the Banco Santander Group in relation to global customers of the Global Banking & Markets segment of the Banco Santander Group.

The Global Banking & Markets segment offers integrated coverage for capital groups across different countries. The customers of the Global Banking & Markets segment solely include companies that conduct their activity on an international scale or the largest business entities in Poland. This category of entities is systematically verified and modified as needed. The Global Banking & Markets segment is based on the Banco Santander Group's presence in different geographical markets, and thus its ability to obtain local currency funding, offer services in local branches, offer local infrastructure and provide systems and knowledge with regard to local markets.

As of 31 December 2012, the BZ WBK Group serviced around 550 companies (including capital groups) through its Global Banking & Markets segment.

Global Banking & Markets offers products and services to the largest clients of the BZ WBK Group as well as supports the corporate and retail segments. Products are offered by operating offices in the following manner:

- rates (treasury products, including foreign exchange transactions and derivatives) by regional offices in Warsaw, Poznań and Wrocław;
- equity products and services as well as institutional sales are covered by the Warsaw office and the retail chain of the public offering of securities is managed from the Poznań office (Dom Maklerski BZ WBK); and
- products and services regarding Credit Markets, Global Transaction Services (including cash management, basic lending and trade finance) and Corporate Finance are only distributed from the Warsaw office.

The Global Banking & Markets segment has ten relationship managers specialized in various sectors (in particular, oil & gas, energy and industry) and which are responsible for managing relationships with the customers of the Global Banking & Markets segment, which allows the BZ WBK Group to offer them products and services according to their needs.

Products and Services

The Global Banking & Markets segment offers a wide range of products and services to its customers, including:

- Credit Markets;
- Global Transaction Services;
- Treasury; and
- Investment Banking Services & Brokerage.

Credit Markets

The BZ WBK Group, through the credit markets area, offers its client loan market and debt capital market solutions, including:

- project / acquisition financing: delivering from this platform non-recourse financing either for projects or for corporate acquisitions. The main sectors in which the BZ WBK Group acts are: energy, infrastructure, telecoms and industrial;
- syndicated loans: providing corporate syndicated facilities to global clients, with a special focus on the energy, mining and infrastructure sectors;
- asset & capital structuring: providing short-term financing for developments in the infrastructure, energy and renewable energy sectors; and

- debt capital markets: arranging and structuring non-treasury bond issue programs on the Polish and Eurobond market, and acting as a bookrunner, depository and payment agent for local non-treasury bond issuances.

Global Transaction Services

The BZ WBK Group's offer includes in particular guarantees, standard corporate loans & advances, financing for international commodity trading, cash management, factoring and leasing. The Global Transaction Services segment includes cash management (transactional services associated with payments, liquidity and commercial finance), trade finance and basic finance for international institutions and corporations.

Trade Export & Commodity Finance takes a global approach, bringing together trade specialists from multiple countries with a range of product skills to provide customer-focused solutions such as:

- working capital solutions; and
- structured solutions the aim of which is to provide long-term or limited-recourse financing, mitigate business risk and optimize customers' balance sheets.

The Banco Santander Group's strategic approach to cash management services is aligned with its fundamental competitive strength: combining strong local banks that have the widest product range in each country with delivering a regional cash management solution that meets customers' needs. BZ WBK is able to offer cash management solutions tailored to each customer's centralization needs.

Treasury

The BZ WBK Group's offer includes in particular foreign exchange transactions and derivatives (FX), interest rate derivatives and bonds.

Investment Banking Services & Brokerage

The BZ WBK Group offers a wide range of investment banking services to its business and corporate customers. In co-operation with Dom Maklerski BZ WBK, BZ WBK offers financial advice with regard to equity capital markets transactions. In addition to advisory services, BZ WBK also offers soft underwriting services for the above types of transactions. The BZ WBK Group was involved in, inter alia, the following transactions: the IPO of ENEA (PLN 2 billion, 2009), the IPO of Kulczyk Oil Ventures (PLN 0.3 billion, 2010), the placement of KGHM shares (PLN 2 billion, 2010), the IPO of Kruk (PLN 0.4 billion, 2011), the placement of Eurocash shares via an accelerated book building process (PLN 0.4 billion, 2012) and the IPO of Polski Holding Nieruchomości (PLN 0.2 billion, 2013).

The BZ WBK Group's services also cover financial advice in the course of merger and acquisition processes. The BZ WBK Group may act as an advisor in the course of merger and acquisition processes carried out on both the public and private markets. In addition, the BZ WBK Group may participate in raising funds required for merger and acquisition processes. The BZ WBK Group advised, inter alia, the following entities: PGE in relation to the acquisition of wind farm assets (over PLN 1 billion, 2013), BSH in relation to the acquisition of Zelmer (PLN 0.6 billion, 2012) and the City of Warsaw in relation to its disposal of SPEC (PLN 1.4 billion, 2011).

The BZ WBK Group also offers its business and corporate customers other corporate finance services, including economic and financial analyses of companies, valuations of companies, assessments of investment projects, the preparation of business plans, business due diligence investigations and fairness opinion analyses.

The BZ WBK Group has also been involved in financing companies the intention of which was to be admitted within the subsequent three years to trading on the WSE or NewConnect (i.e. pre-IPO financing). Such financing was granted in the form of capital investments through the acquisition of shares in such companies by the BZ WBK Group, typically through a special purpose vehicle. BZ WBK Inwestycje Sp. z o.o. has invested in shares in Metrohouse & Partnerzy S.A., Krynicki Recykling S.A., i3d S.A., Invico S.A., Infosystems S.A., Masterform S.A. and Horico S.A.

For more information on Dom Maklerski BZ WBK please see "*Retail Banking—Products and Services—Individual customers—Brokerage Products and Services*" above.

ALM and Center

The ALM and Center segment covers central operations, such as the financing of other BZ WBK Group segments, including liquidity, interest rate risk and FX risk management. It also includes managing BZ WBK's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment.

For information on the BZ WBK Group's securities and trading portfolio, please see "*Operating and Financial Review—Financial Conditions—Assets*" and "*Selected Statistical and Operational Data—Securities Portfolio Analysis*".

Other Activities

Moreover, in addition to offering the products and services referred to above, the BZ WBK Group is one of the largest (in Poland) providers of services to banks and financial institutions, such as domestic and foreign trade payment transactions, cash services, personalization, issuing and processing payment cards and managing ATM networks. Based on its experience, the BZ WBK Group adjusts products and functionalities to the needs of its customers and systematically expands its offers. The BZ WBK Group proposes and implements innovative market solutions, including technologies which comply with the requirements of payment organizations (MasterCard and Visa) and of the SEPA.

The BZ WBK Group provides its customers with a modern IT infrastructure and real-time access to information on transactions, as well as high quality and safety. The personalization of cards with magnetic strips and chips is certified by international payment organizations (MasterCard and Visa).

As of 31 December 2012, the BZ WBK Group cooperates with 20 banks. Its customers also included many other financial institutions to which a wide range of services was provided. As of 31 December 2012, the BZ WBK Group managed a network of approximately 554 ATMs of other entities and for the year ended 31 December 2012 processed approximately 2.8 million Visa/MasterCard cards on behalf of third-party customers.

Description of the Kredyt Bank Group

Overview

Kredyt Bank was a universal bank which provided banking services tailored to the needs of all groups of customers. The wide scope of services provided by Kredyt Bank was addressed to individuals, business entities and local government entities. Kredyt Bank offered its customers easy access to its services through a wide network of outlets and ATMs, as well as internet banking. Kredyt Bank divided its banking services into two key segments: (i) retail; and (ii) corporate.

As a result of the Merger, most of the products which were offered by Kredyt Bank will be offered for a certain period of time by the BZ WBK Group after the Merger. For more details on the integration of the product offer and the targeted product offering of the BZ WBK Group after the Merger, please see "—Retail" and "—Corporate" below. The banking products and services described below are the most important products and services which were offered by the Kredyt Bank Group before the Merger and are to be continued to be offered by the BZ WBK Group as of the date of this Offering Memorandum.

A significant part of the product offer was provided by the companies of the Kredyt Bank Group and the KBC Group in Poland, including: in respect of leasing services, Kredyt Lease, which offers comprehensive fixed asset and property lease services to companies, the business of which was acquired by BZ WBK in the course of the Merger, as well as companies which were not acquired following the Merger, i.e. KBC TFI (investment fund services) and KBC Securities S.A. (additional services to corporate customers in the area of investment banking). In respect of KBC TFI Banco Santander agreed, in the Investment Agreement (for more details regarding the Investment Agreement please see "*Investment Agreement between Banco Santander and KBC*" in "*Major Shareholders and the Selling Shareholder*"), to use its best efforts to ensure that BZ WBK enters into a non-exclusive distribution agreement with KBC TFI. Such non-exclusive distribution agreement (for an indefinite period, terminable with a three-month notice) was concluded on 4 January 2013 between KBC TFI and Dom Maklerski BZ WBK.

Retail

Consumer banking covered a segment of individual customers and small companies whose annual sales did not exceed PLN 1 million.

Individual customers were classified into three main segments: mass customers, medium-affluent customers and affluent customers.

According to the above segmentation and additional analyses, customers were classified into sub-segments for which their potential product needs were identified, divided by existing and new customers. An example of such activity was the additional segmentation of small companies consisting of three key groups: businesses, professionals and housing communities.

Kredyt Bank differentiated its product offer for individual customers between the mass and affluent segments. Moreover, Kredyt Bank branches had, for example, dedicated advisors for affluent customers, and a telephone line had been specially dedicated to those customers as well as a marketing line under the "Concerto—New Personal Banking" brand.

The Kredyt Bank Group offered its individual customers a broad range of banking services and products, which included personal accounts and transactional services, payment cards, credit products, deposit and investment products and insurance products. The Kredyt Bank Group also offered banking products and services specifically dedicated to small companies, which included basic products such as business accounts, payment cards, credit products, deposit and investment products as well as more complex business products such as trade financing products, including guarantees, letters of credit and collections, leasing products, cash management services, autodialing (a platform enabling FX transactions) and other products.

Among the core products offered by the Kredyt Bank Group to its customers in the retail segment were mainly residential mortgage loans and savings accounts. As of 31 December 2012, the amount of residential mortgage loans was PLN 17.68 billion, or 84.29% of the retail loans portfolio. The share of funds deposited in savings accounts amounted to PLN 7.9 billion, or 45% of the amounts due to customers as of 31 December 2012.

As of 31 December 2012, Kredyt Bank serviced 1,172 thousand individual customers and small companies.

Corporate

Under the Corporate segment, the Kredyt Bank Group provided services based on the following criteria:

- the SME sub-segment (including customers with annual sales of PLN 1 million to PLN 25 million; and
- the corporate sub-segment, customers with annual sales exceeding PLN 25 million.

The products offered by Kredyt Bank to the SME and corporate customers segments covered: (i) on-going servicing of companies; (ii) credit offers and specialized financing products; (iii) deposits and investments; (iv) transaction banking products; (v) financing and servicing of trade products; and (v) treasury department transactions.

Among the core products offered by the Kredyt Bank Group to its customers in the corporate segment were loans, deposits and FX negotiable products with shares in total revenue of 40%, 26% and 11%, respectively, in 2012.

As of 31 December 2012, the Kredyt Bank Group serviced 16.7 thousand corporate customers.

Treasury Activities

Kredyt Bank was a treasury securities dealer and a money market dealer. Kredyt Bank conducted transactions on the inter-bank market, both domestic and international transactions, on its own account and on behalf of customers. The treasury products offered were constantly being expanded and ensured appropriate services both to private banking customers and medium-sized and large companies. It covered, *inter alia*, the conclusion for customers of transactions hedging market risk, currency risk, interest rate risk and risk related to prices of raw materials.

Other Operations of the Kredyt Bank Group

Moreover, the Kredyt Bank Group had established relations with domestic and foreign banks providing FX/money market, custody, trade finance and payment services.

Additionally, the Kredyt Bank Group offered trusteeship services, including the maintenance of securities accounts for both retail and corporate segment customers. For a special group of customers, i.e. investment funds, Kredyt Bank also played the role of a custodian bank and issue sponsor. Kredyt Bank held an authorization from the PFSA to maintain securities accounts; it was also a direct participant of the NDS as a custodian bank and a participant of the Securities Register managed by the NBP.

Integration of the Products and Services Offer Following the Merger

Migration of Kredyt Bank Customers and Products

The BZ WBK Group intends to consolidate the systems that provide business functionalities and improve efficiencies on the basis of the original BZ WBK IT system architecture, optionally extended to include elements of the Kredyt Bank IT architecture.

One of key objectives of the IT system integration process will be to ensure security and the undisrupted migration of customers and accounts of Kredyt Bank to the BZ WBK IT platform. The first phase of such migration, which is expected to last approximately nine months following the Merger Date, consists of preparatory actions aimed at ensuring that the ultimate IT system is able to cover a consistent product offer of the BZ WBK Group following the Merger. During this phase existing IT systems will be used.

As part of the second phase of the migration, which is expected to last approximately nine to twelve months following the completion of the first phase, a consistent product offer will be introduced. Key steps of this phase are in particular: (i) the commencement of sales of the same banking products through the entire network of the BZ WBK Group following the Merger using the BZ WBK systems; (ii) ceasing to sell products through the Kredyt Bank systems; (iii) after-sales services to customers of Kredyt Bank will only be provided by branches and call centers of Kredyt Bank (only basic, mostly informational, functionalities will be implemented in the former BZ WBK branches); and (iv) the preparation of tools for data migration.

The final migration phase consists of the following six elements: (i) preparation of the business migration of selected product categories (including debit and credit cards) to the products available in the BZ WBK IT systems; (ii) thorough testing and migration dress rehearsals; (iii) migration in selected branches which constitute a representative sample; (iv) stabilization and improvement of migration tools and system tuning; (v) mass migration; and (vi) validation of the migration and making historical data available. The process of the full migration of the data from the Kredyt Bank IT systems to the BZ WBK IT system is estimated to be completed approximately 24 months following the Merger Date.

The underlying assumption of the integration of the product offers of BZ WBK and Kredyt Bank is that the BZ WBK Group will offer its customers a comprehensive product and service offer that will be based on the offer of BZ WBK prior to Merger, which means that, gradually, Kredyt Bank's customers will switch to the new BZ WBK Group products. However, many of the products currently held by the Kredyt Bank customers in their portfolio will be migrated to the BZ WBK systems unchanged.

Retail—Individual Customers

With respect to personal accounts and deposits, the integration process assumes that the customers of Kredyt Bank will retain their rights under the agreements signed with Kredyt Bank regarding account services. Shortly after the Merger Date, the Kredyt Bank customers will be encouraged to choose products available in the BZ WBK IT systems. This process will continue until the complete migration of all products and customer data to the BZ WBK IT systems. Depending on the product, the terms of the existing agreements and regulations will be fully maintained or new agreements will be signed with selected customers. BZ WBK intends to migrate individual customers and the products offered to them to a single IT system within 24 months following the Merger Date.

Moreover, BZ WBK will harmonize the product and pricing policy of Kredyt Bank until the implementation of a comprehensive IT system to ensure that the product offering is fully consistent. After the technical migration, new products will be registered on the systems managed by BZ WBK.

The credit products of the Kredyt Bank with a defined maturity term before the date of the full technical migration will continue to function on the same terms and conditions until their expiry or maturity. All other credit products with a maturity term extending beyond the date of the technical migration or without maturity parameters will be converted to comparable BZ WBK products on the date of the technical migration. Credit cards will potentially be migrated prior to other credit products. Starting from the brand migration date, all new credit applications will be processed through BZ WBK's processes and IT systems.

The migration plan for debit cards assumes the full migration to the new offering of the BZ WBK Group through the issuance of new products as part of the standard card renewal process or as part of another card replacement process during the term of the card's validity. The BZ WBK Group also intends to harmonize the existing debit card offers. The renewal of all debit cards will take place before the technical migration of all remaining products (including current accounts) to the BZ WBK IT systems.

With regards to the harmonization of the insurance products portfolio, while fully respecting the previously acquired rights of BZ WBK and Kredyt Bank's customers, it has been assumed that products, sales support, training and insurance services for such customers will be offered primarily by the following joint-ventures: BZ WBK-Aviva TU na Życie and BZ WBK-Aviva TU Ogólnych.

Retail—SME Customers

The offer to SME customers will be based on the existing BZ WBK sales and service model. A consistent approach to the segmentation of the SME customers of both banks has been developed and will be implemented gradually, taking into account local customer portfolios and competencies of sales staff. BZ WBK intends to migrate the SME customers and the products offered to them to a single IT system on the same date as the individual customers, that is within 24 months following the Merger Date.

The terms and conditions of the Kredyt Bank savings and settlement products with a maturity until the products are migrated in full will remain unchanged. The remaining products will be converted into BZ WBK products and adjusted to the requirements of customers within 24 months of the Merger Date. Deposit products will be naturally migrated to the offering of BZ WBK given the maturities of the existing products. Capitalized products will be migrated on the terms laid down in agreements between customers and BZ WBK.

The credit process and offering of BZ WBK will be based on the solutions in place at BZ WBK. For credit facilities maturing within two years after the Merger Date, natural migration will take place, but loans with longer maturity dates will be migrated on terms set out in agreements between the customer and BZ WBK.

Business and Corporate Banking

BZ WBK assumes that the migration of customers from the Business and Corporate Banking segments will start within 12-18 months of the Merger Date. The approach to the migration will be manual or semi-manual, which means that the terms of the agreements with each of the customers will be analyzed individually. After 12 months, the customer portfolio will be reviewed to ensure that all of the customers have been assigned to an ultimate segment in line with the segmentation criteria set by BZ WBK.

BZ WBK will offer products and services to the customers of the Business and Corporate Banking segments that were available in BZ WBK prior to the Merger. However, in order to ensure high quality service, selected Kredyt Bank products and functionalities will be maintained temporarily or introduced into BZ WBK's target offer.

Global Banking and Markets

It is not envisioned that the Merger will have any major impact on the Global Banking & Markets segment as most of the business customers of Kredyt Bank belong to the Retail segment of BZ WBK as they are mostly SME customers.

The agreements entered into by Kredyt Bank with Global Banking & Markets segment-like customers will be reviewed by BZ WBK. In case an existing agreement expires, BZ WBK will provide such customer with a new offer based on the current BZ WBK agreement template.

Leasing and Factoring in Connected and Related Companies

It is the intention of BZ WBK to offer a complete range of financial services, including banking, brokerage, leasing and factoring services. If overlaps with the operations of Kredyt Bank and BZ WBK are identified, respective companies may be merged to achieve synergy. The integration process is to be completed within 18 months of the Merger Date.

Ratings

On 14 June 2012, Fitch downgraded BZ WBK's long-term issuer default rating (IDR) from "A−" to "BBB" with a stable outlook. Fitch has affirmed BZ WBK's viability rating (VR) at "bbb" and removed this rating from the observation list with a negative outlook (RWN). The change in the ratings was made as a result of the downgrading of the rating of BZ WBK's controlling shareholder, Banco Santander (currently "BBB+"/ with a negative outlook), and an assessment of the credit profile of the BZ WBK Group after the Merger. The above ratings were confirmed after the Merger Date on 10 January 2013.

The table below presents information on the ratings assigned to BZ WBK by Fitch:

Category	Fitch
Long-term foreign currency IDR	BBB$^{(1)}$ with stable outlook
Short-term foreign currency IDR	F3$^{(2)}$
Viability rating	bbb$^{(3)}$
Support rating	2$^{(4)}$
Financial strength	—

Notes:

(1) "BBB" (good credit quality) ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

(2) "F3" (fair short-term credit quality) ratings indicate that the intrinsic capacity for timely payment of financial commitments is adequate.

(3) "'bbb" (good fundamental credit quality) ratings denote good prospects for on-going viability. The bank's fundamentals are adequate, such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity.

(4) "2" rating is assigned to a bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of "BBB–".

In addition, BZ WBK was assigned an unsolicited financial strengths rating of D+ by Moody's on 13 November 2012 (according to Moody's methodology, Banks rated "D" display modest intrinsic financial strength, potentially requiring some outside support at times; such institutions may be limited by one or more of the following factors: a weak business franchise, financial fundamentals that are deficient in one or more respects, or an unpredictable and unstable operating environment) and a long-term rating of Baa1.

Outsourcing

BZ WBK outsources to external providers a certain portion of services related to the ordinary scope of activities of BZ WBK, including, *inter alia*, the provision of certain IT applications, document archiving, cash management, ATM support, maintenance of the IT environment and the delivery of IT infrastructure (hardware and software services for central and branch entities).

Furthermore, on the basis of the agency agreement entered into by Kredyt Bank and Żagiel S.A. on 31 December 2004, as subsequently amended, Kredyt Bank outsources to Żagiel S.A. the following activities (and additional activities related thereto): (i) the conclusion of consumer credit agreements; (ii) the conclusion of agreements regarding debit cards; (iii) the disbursement of loans granted by Kredyt Bank; and (iv) the conclusion of co-operation agreements with business partners and promoters.

Intellectual Property

Material Trademarks

The visual identification of BZ WBK after the Merger will be based on the current visual identification of BZ WBK. As of the date of this Offering Memorandum, the migration of the Kredyt Bank brand to the BZ WBK brand is currently in progress. The full rebranding is planned to be completed by October 2013.The BZ WBK Group has registered over 60 trademarks within the territory of Poland. In addition, the BZ WBK Group has applied for registration of nearly 20 trademarks. Such trademarks include figurative trademarks comprising BZ WBK's name and logo as well as many trademarks relating to BZ WBK's products, services and/or advertising slogans.

Information on the most material trademarks of the BZ WBK Group is presented below.

Name	Type of Mark	Application Date	Protective Right No.	Class	Entitled Entities
WBK | Bank Zachodni WBK, 24	Figurative mark	15.06.2009	R-231874	36	BZ WBK
WBK	Figurative mark	17.01.2011	R-246824	36	BZ WBK
Fundusze Inwestycyjne ARKA	Word mark	11.08.2009	R-231657	36	BZ WBK TFI

Source: BZ WBK

Furthermore, under the Use of Trademark License Agreement dated 24 June 2011, the BZ WBK Group uses the "Santander" logos for the purposes of its business activity.

Licenses

The IT systems deemed by BZ WBK to be material for the operations of the BZ WBK Group are presented in the section "*Information Technology Systems*".

As of the date of this Offering Memorandum, the BZ WBK Group does not depend on any patents or new technological processes to an extent which could be considered significant to its operations or profitability.

Website Domains

As of the date of this Offering Memorandum, the BZ WBK Group uses over 200 registered internet domains, including the www.bzwbk.pl and www.kredytbank.pl domains under which the websites of BZ WBK and the former Kredyt Bank are located.

Information Technology Sytems

Use of IT Systems and Security in BZ WBK after the Merger

In general, the IT infrastructure in BZ WBK after the Merger will be based on the current infrastructure of BZ WBK. The respective software providers have been notified of the integration of the IT systems of BZ WBK and Kredyt Bank. Such software providers have either consented to the integration of the IT systems of BZ WBK and Kredyt Bank, if such consents were required, and, in particular, have granted their consent to broadening the scope of the relevant licenses, or are in negotiations with BZ WBK with regards to the terms and conditions for such consent.

The strategic objective of all of the IT units in BZ WBK after the Merger in relation to the use of IT systems will be to continuously meet the following requirements:

- ensuring that the basic IT resources such as processing capacity, mass storage memory capacity, IT network capacity, and the accessibility and stability of the operations of the specific systems are maintained at the agreed levels; and
- ensuring the readiness of all critical and key transactional systems of BZ WBK after the Merger, in all distribution channels, for fluctuations of and significant increases in the number of customers serviced and the transactions executed thereby.

The strategic objective of the IT services of BZ WBK after the Merger will not only be to maintain the level of services provided to its business units and other service users in accordance with the requirements of industry standards and best practices, but also to apply the principle of Continual Service Improvement. To this end, the activities forming the IT services management system will be continued in compliance with the respective standards (ISO/IEC 20000 1:2005) and executed in accordance with the recommendations and rules presented in the Information Technology Infrastructure Library (ITIL). The expansion of the automation of actions will also contribute to the increased efficiency of services.

Systematic management of operating risk will be continued, and activities designed to ensure the continuity and availability of the IT system in the case of a disaster will be executed. To achieve this objective, business continuity plans will be developed and updated, and the assumptions contained therein will be verified by business recovery tests.

As of the date of this Offering Memorandum, the integration of the IT system of BZ WBK and Kredyt Bank is in progress. It is envisioned that the integration will be completed by September 2014.

IT Architecture of BZ WBK

The IT architecture of BZ WBK is fully centralized and based on the following systems:

- ICBS—the Central Branch System, which executes transaction services for banking products in branches and is made available by the NFE system;
- CIS—a real-time depository for the master data of all the customers of BZ WBK—this is the foundation for consistent customer service and CRM processes;
- KG—BZ WBK's general ledger;

- CSR—the central payment system;
- Cortex—card authorization system;
- CEKE—payment card management system;
- BZWBK24—internet access to banking services for individual customers; and
- iBiznes24—internet access to banking services for business customers.

Other business software material for the operations of the BZ WBK Group includes:

- PDK—a customer advisor's portal;
- KHD—data warehouse—a repository for data collected from the banking systems for reporting and decision-making purposes;
- SAP—human resources, payroll and e-HR portal;
- Debt Manager—debt management system (monitoring and debt collection) for overdue loans;
- Agent Transferowy—placing orders, maintaining registers and handling the orders of investment fund participants;
- Strata—decision engine—tools supporting loan-related decision making;
- Remedy—the process support system;
- Business Object—the reporting support system; and
- Symantec Endpoint—anti-virus protection.

The IT systems utilized by the BZ WBK Group are either developed internally or are utilized on the basis of respective authorizations granted by software providers.

IT systems use and security

All key systems have High Availability (HA) and Disaster Recovery (DR) environments ensuring high accessibility and are located in two of BZ WBK's own data processing centers—the main center in Wrocław and the back-up center in Poznań. Switching tests of the production applications between the processing centers are conducted twice a year.

The strategic objective of BZ WBK's IT services is to continuously improve the level of the services provided while simultaneously reducing unit costs and continuously adjusting the services to the changing needs and requirements of the business.

IT systems security is supported by the security policy approved by the Management Board of BZ WBK. The policy complies with the ISO/IEC 27001 standard.

Consistent and regular investments in new versions of the software that ensures BZ WBK's IT security allow BZ WBK to maintain the highest level of security against both external and internal security breaches.

Insurance Coverage

The BZ WBK Group maintains insurance coverage against banking risks, electronic and computer crime, civil liability towards third parties, and officers' liability insurance (D&O), almost all of which is coordinated by the Banco Santander Group. BZ WBK's current insurance coverage against banking risks, electronic and computer crime and civil liability towards third parties covers risks which may arise from the activity of BZ WBK following the Merger. Risks arising from the past activity of the former Kredyt Bank that may be discovered after the Merger are covered by an additional run-off policy (insurance coverage against banking risks, electronic and computer crime and civil liability towards third parties).

Moreover, the BZ WBK Group maintains insurance coverage for property, including, in particular, against fire, lightning, hurricane, hail, floods, earthquakes and other natural disasters, as well as theft and burglary, acts of vandalism and terrorist attacks. Insurance policies are renewed annually.

Insurance coverage is provided to each new division of the BZ WBK Group based on the terms and conditions of the applicable group policies.

As of the date of this Offering Memorandum, the insurance coverage is provided by: Generali T.U. S.A., Zurich Compagnie D'assurances SA, AIG Europe S.A. (former Chartis Europe S.A.), XL Insurance Company Limited, Alterra Europe Plc UK Branch and Great Lakes Reinsurance (Uk) Plc (Munich Re group). BZ WBK believes that its insurance coverage is in line with market practice for banks in Poland.

Tangible Fixed and Intangible Assets

Material Tangible Fixed Assets

The table below presents the balance sheet value of the BZ WBK Group's tangible fixed assets as of the dates indicated below.

	As of 31 December		
	2012	2011	2010
	(PLN thousand)	(PLN thousand)	(PLN thousand)
Land and buildings	282,058	307,954	361,139
Equipment	100,834	48,007	55,763
Transportation means	44,674	40,038	14,134
Other fixed assets	23,764	81,482	92,579
Capital expenditures	28,481	22,312	23,921
Total	**479,811**	**499,793**	**547,536**

Source: the Consolidated Financial Statements of BZ WBK.

The table below presents the balance sheet value of the Kredyt Bank Group's tangible fixed assets as of the dates indicated below.

	As of 31 December		
	2012	2011	2010
	(PLN thousand)	(PLN thousand)	(PLN thousand)
Property, plant and equipment	214,221	229,690	269,893
Land	10,809	10,958	11,036
Buildings and premises	119,659	130,605	131,123
Plant and machinery	51,942	50,855	77,170
Motor vehicles	1,095	1,415	434
Other property, plant and equipment	30,716	35,857	50,130
Construction in progress (expenditure)	9,117	30,107	20,551
Total	**223,338**	**259,797**	**290,444**

Source: the Consolidated Financial Statements of Kredyt Bank.

As of the date of this Offering Memorandum, the material, existing tangible fixed assets of the BZ WBK Group are real estate properties. The majority of such real estate properties are held by BZ WBK.

Properties

As of 31 December 2012, the real estate portfolio of BZ WBK consisted of:

- 164 plots of land, which are either owned by BZ WBK, held under usufruct or occupied under a cooperative member's ownership right to premises; and
- 466 premises and buildings leased by BZ WBK (including retail space, archives, parking and advertisement space).

As of 31 December 2012, the real estate portfolio of Kredyt Bank consisted of:

- 76 buildings and premises which were either owned by Kredyt Bank, held under usufruct or occupied under a co-operative member's ownership right to premises; and
- 358 premises and buildings leased by Kredyt Bank.

As of 31 December 2012, the total gross book value of the properties held by BZ WBK and Kredyt Bank was, respectively, PLN 218,156.4 thousand and PLN 149,564.8 thousand. Some of the real properties from both aforementioned portfolios have been encumbered with standard easements and mortgages the value of which is immaterial.

For the purposes of its business activity, BZ WBK leases certain properties where some of the premises of BZ WBK are located. Kredyt Bank had a similar policy. The lease agreement for the aforementioned leased properties were in the majority of cases entered into for a specified term (from five to ten years). Additionally, some of these agreements contain clauses regarding renewal under which the agreement is automatically extended for the period defined in the agreement.

As of 31 December 2012, the total area leased by BZ WBK is approximately 132,296.00 m^2 and the total area of Kredyt Bank's leased premises and buildings is approximately 107,389.50 m^2.

BZ WBK believes that within its real estate portfolio the following properties and premises comprise the principal offices of BZ WBK and are deemed important to its operations:

- the property situated at ul. Rynek 9/11 in Wrocław, which is owned by BZ WBK and where the headquarters of BZ WBK are situated;
- the property situated at ul. Strzegomska 8-10 in Wrocław, which is held by BZ WBK under perpetual usufruct and is used as BZ WBK's business support center;
- the premises situated at ul. Grzybowska 5 in Warsaw, which are leased by BZ WBK for use as a business support center under a standard lease agreement dated 13 May 2008. The lease agreement was concluded for a specified term and expires on 30 June 2015. Earlier termination is possible in the cases stipulated in the agreement;
- the premises situated at ul. Marszałkowska 142 in Warsaw, which are leased by BZ WBK for use as a business support center under a lease agreement dated 30 January 2009. The agreement is concluded for a five-year term (until 18 July 2017) which is automatically prolonged for a further five years after the expiry of the initial lease term unless either party terminates the agreement with one year's notice;
- the premises situated at pl. Andersa 5 in Poznań, which are leased by BZ WBK for use as a business support center under a lease agreement dated 28 September 2009. The agreement was concluded for a specified term until 31 December 2016. The agreement may be terminated prior to end of its term only in the cases specified in the agreement;
- the property situated at Krakowskie Przedmieście 37 in Lublin, where the former Kredyt Bank's headquarters are located; and
- the premises situated at ul. Giełdowa 7/9 in Warsaw, where a business support center of the former Kredyt Bank is located and which is leased under a lease agreement dated 23 December 2004. The agreement was concluded for a ten-year term (until 23 December 2014). Earlier termination is possible in the cases stipulated in the agreement.

Material Intangible Assets

As of 31 December 2012, the most significant intangible assets held by the BZ WBK Group and Kredyt Bank Group were licenses and software.

The table below presents the balance sheet value of the BZ WBK Group's intangible assets as of the dates indicated below.

	As of 31 December		
	2012	2011	2010
	(PLN thousand)	(PLN thousand)	(PLN thousand)
Licenses, patents, etc.	84,704	73,077	127,954
Other (including know-how)	—	—	13
Capital expenditures	42,634	78,089	44,594
Total	**127,338**	**151,166**	**172,561**

Source: the Consolidated Financial Statements of BZ WBK

The table below presents the balance sheet value of the Kredyt Bank Group's intangible assets as of the dates indicated below.

	As of 31 December		
	2012	2011	2010
	(PLN thousand)	(PLN thousand)	(PLN thousand)
Internally developed computer software	—	—	11
Acquired computer software	68,353	25,182	39,169
Other intangible assets, including capital expenditure	26,463	34,529	11,021
Total	**94,816**	**59,711**	**50,201**

Source: the Consolidated Financial Statements of Kredyt Bank.

Environmental Protection

The Management Board believes that environmental matters are not of material importance to the activities of BZ WBK, its financial situation or for the exploitation by it of tangible fixed assets.

Regulatory Issues

The operations of the BZ WBK Group carried out in the financial services sector (the banking sector, the investment funds association and the investment funds managed thereby, the pension fund society and the pension fund managed thereby, and brokerage activities) are regulated activities. Additionally, BZ WBK's joint ventures carry out insurance activities, which are also regulated activities.

Except for BZ WBK, within the BZ WBK Group, regulated activities are also carried out by: (i) Dom Maklerski BZ WBK; (ii) BZ WBK Towarzystwo Funduszy Inwestycyjnych; and (iii) BZ WBK Asset Management. In addition, BZ WBK's joint ventures, BZ WBK-Aviva TU Ogólnych and BZ WBK-Aviva TU na Życie, are engaged in insurance activities.

The aforementioned operations of the BZ WBK Group are subject to the strict supervision of Polish and foreign regulatory authorities, including the PFSA, and must be carried out in compliance with community regulations and the provisions of Polish law, as well as with specific recommendations, instructions, guidelines and operational and equity-related requirements (for more information on the banking sector, see "*Banking Regulations in Poland*" and "*Operating and Financial Review—Capital Adequacy*").

In the course of its business, the BZ WBK Group is subject to numerous inspections, controls, audits and investigations carried out by different regulatory authorities supervising the financial services sector and other areas of activities of the BZ WBK Group. In the case of Dom Maklerski BZ WBK, certain alleged irregularities were identified by the PFSA with respect to the conduct of its business in a report dated 30 January 2013. Dom Maklerski BZ WBK objected to most of the PFSA's findings in its reservations dated 19 February 2013 and disputed the materiality of the alleged irregularities. Dom Maklerski BZ WBK is awaiting the PFSA's response to the aforementioned reservations. As of the date of this Offering Memorandum, all material post-inspection recommendations of the regulatory authorities have either been implemented by the companies of the BZ WBK Group or are pending implementation in accordance with the relevant schedules. In a limited number of cases where the implementation of a deadline could not be met, BZ WBK obtained an extension from the relevant authority.

Legal, Administrative and Arbitration Proceedings

In the ordinary course of its business the BZ WBK Group is routinely involved in legal proceedings concerning its operational activities.

As of 31 December 2012 BZ WBK was a party to: (i) 63 pending cases brought by BZ WBK, amounting to a total of PLN 36,096 thousand; and (ii) 54 pending cases brought against BZ WBK, amounting to a total of PLN 77,957 thousand.

As of 31 December 2012, the BZ WBK Subsidiaries were parties to: (i) 61 pending cases brought by the BZ WBK Subsidiaries, amounting to a total of PLN 8,315 thousand; and (ii) 27 pending cases brought against the BZ WBK Subsidiaries, amounting to a total of PLN 3,363 thousand.

As of 31 December 2012, the value of the provisions created by the BZ WBK Group for legal risk amounted to PLN 15,912 thousand.

As of 31 December 2012 Kredyt Bank was a party to: (i) 22 pending cases brought by Kredyt Bank, amounting to a total of PLN 55,890,328; and (ii) 84 pending cases brought against Kredyt Bank, amounting to a total of PLN 50,373,381. As a legal successor of Kredyt Bank BZ WBK became a party to the above-mentioned proceedings following the Merger Date.

As of 31 December 2012, Kredyt Bank Subsidiaries were parties to: (i) 29 pending cases brought by Kredyt Bank Subsidiaries, amounting to a total of PLN 12,375,047; and (ii) 4 pending cases brought against Kredyt Bank Subsidiaries, amounting to a total of PLN 263,031.

As of 31 December 2012, the total amount of provisions for litigations created by the Kredyt Bank Group amounted to PLN 28,961 thousand.

Apart from the above, BZ WBK and its Subsidiaries participate in bankruptcy and enforcement proceedings against their debtors in the ordinary course of business; these are not included in the figures presented above.

According to information held by BZ WBK, as of the date of this Offering Memorandum, within the 12 months preceding the date of this Offering Memorandum, there were no administrative proceedings, proceedings before administrative courts or civil, criminal or arbitration proceedings pending or instituted against the BZ WBK Group or the Kredyt Bank Group which could significantly affect or have recently affected the financial standing, profitability or results of operations of the BZ WBK Group.

Below is a description of pending proceedings involving the BZ WBK Group where the disputed value, as of the date of this Offering Memorandum, exceeds PLN 50 million and the subject of which relates to competition and consumer protection.

Proceedings Regarding Competition and Consumer Protection Issues

Proceedings before the Antimonopoly Court involving a fine imposed on BZ WBK and Kredyt Bank by the President of the Antimonopoly Office regarding interchange fees

On 12 November 2008, the Antimonopoly Court issued a judgment in which it set aside a challenged decision of the President of the Antimonopoly Office on the imposition of a fine on certain Polish banks participating in the proceedings, including BZ WBK and Kredyt Bank. The court found that the banks which were involved in the proceedings, including BZ WBK and Kredyt Bank, had not participated in an illegal price fixing arrangement involving 'interchange' fees regarding transactions made with VISA and MasterCard cards in Poland. With a decision dated 25 August 2008, the Court stayed the execution of the challenged decision. The President of the Antimonopoly Office appealed against this judgment. On 22 April 2010, the Court of Appeal in Warsaw overturned the Antimonopoly Court's judgment of 12 November 2008 in favor of the banks and remanded the case to the first-instance court for reconsideration. On 8 May 2012, the Antimonopoly Court suspended the proceedings until the issuance of a final decision regarding an appeal submitted by MasterCard against the decision of the European Commission dated 19 December 2007. At the hearing held on 25 October 2012 the Court of Appeal changed the appealed decision in such manner that it dismissed the request of Master Card for the suspension of the proceedings.

Proceedings initiated on behalf of the President of the Antimonopoly Office

On 23 November 2012, two proceedings were initiated against BZ WBK and Kredyt Bank on behalf of the President of the Antimonopoly Office. The proceedings concern an alleged application by BZ WBK of practices violating collective consumer interests and an alleged application by Kredyt Bank of unfair commercial practices and practices violating collective consumer interests in connection with consumer credit. Kredyt Bank responded by asserting there were no grounds to commence the proceedings. The Banks proposed some solutions that will be implemented in order to resolve the regulatory authority's concerns over the correctness of their practices. As of the date of this Offering Memorandum, the proposed solutions are being introduced and the proceedings are pending.

Proceedings regarding unfair contractual provisions

BZ WBK is currently a party to three pending court proceedings in which it is accused of applying unfair contractual provisions.

The first proceedings were initiated with a statement of claim dated 7 July 2009, where a consumer demanded that the Antimonopoly Court determines that a certain provision of a model form of contract allegedly set up by BZ WBK and BZ WBK-Aviva TU na Życie was unfair and therefore non-binding. The challenged provision concerned life insurance available to BZ WBK's clients. The proceedings were conducted separately with regard to BZ WBK and BZ WBK-Aviva TU na Życie and separate judgments were issued with respect to these two entities. Under a judgment dated 12 June 2012 the Antimonopoly Court found that the challenged provision used by BZ WBK-Aviva TU na Życie was unfair and prohibited BZ WBK-Aviva TU na Życie from using it with respect to consumers. BZ WBK-Aviva TU na Życie filed an appeal dated 6 September 2012 against the said judgment. Under separate judgment dated 12 June 2012, the Antimonopoly Court dismissed the claim with respect to BZ WBK. The claimant filed an appeal against the judgment regarding BZ WBK and the case is pending before the court of second instance.

The second proceedings were brought by an NGO against BZ WBK with a statement of claim dated 7 May 2010. This case regards a provision subjecting BZ WBK's customers to enforcement under a bank enforcement title that could be issued with respect to, among others, the costs of the enforcement itself. With judgments dated 10 October 2011 and 15 May 2012 the courts of first and second instances, respectively, dismissed the case. The claimant filed a final appeal to the Supreme Court, dated 1 August 2012.

The third case was initiated with a statement of claim dated 31 January 2013, brought by the President of the Antimonopoly Office against Kredyt Bank. The claimant alleges that the provisions regarding credits grant Kredyt Bank rights to make a binding interpretation of the contract and envision a unilateral right to change, without good cause, material features of the performance exclusively for Kredyt Bank. The statement of claim was delivered to BZ WBK at the beginning of March 2013.

Other Proceedings

Bankruptcy proceedings involving debtors of Kredyt Bank

As of the date of this Offering Memorandum, BZ WBK as a successor of Kredyt Bank, is a creditor of three companies (including two mining companies), for which bankruptcy proceedings have been commenced and which are deemed important by BZ WBK. The receivables notified in the three aforementioned bankruptcy proceedings amount to PLN 656,935,268.79. BZ WBK's claims are secured by mortgages and registered pledges on particular assets of the companies. No legal risk provisions have been made with regard to these proceedings, since the risk is addressed by the relevant credit provisions.

Employees

Employees of the BZ WBK Group

The table below presents information on the number of employees of the BZ WBK Group as of the dates indicated below (the numbers present only employees who are active, i.e. it do not include employees who are on parental leave or unpaid holiday leave (of more than 30 days)).

	As of 31 December		
	2012	2011	2010
BZ WBK	**8,293**	**8,802**	**9,249**
Headquarters	3,343	3,519	3,588
Branches	4,950	5,283	5,661
BZ WBK Subsidiaries	**665**	**711**	**692**
Total	**8,958**	**9,513**	**9,941**

Source: BZ WBK.

The table below presents information on the number of employees of the Kredyt Bank Group as of the dates indicated below.

The numbers present only employees who are active, i.e. it do not include employees who are on parental leave or unpaid holiday leave (of more than 30 days).

	As of 31 December		
	2012	**2011**	**2010**
Kredyt Bank	**4,592**	**5,006**	**4,904**
Headquarters	2,143	2,364	2,233
Branches	2,449	2,642	2,671
Kredyt Bank Subsidiaries	**87**	**92**	**102**
Total	**4,679**	**5,098**	**5,006**

Source: BZ WBK.

As of the date of this Offering Memorandum, the Management Board does not envision group lay-offs, however, this may change in the future depending on various circumstances. Following the unification of the organizational structure of the BZ WBK Group, the Management Board plans to optimize the employment structure, especially in the Business Support Centre units. The results of such optimization will be consistent with the cost synergy plans approved for the period up to 2015.

Within the BZ WBK Group, the vast majority of the employees work on the basis of an employment agreement (*umowa o pracę).* BZ WBK also commissions certain work to be performed under mandate agreements (*umowa zlecenie*) and work performance agreements (*umowa o dzieło*).

BZ WBK and the BZ WBK Subsidiaries use standard forms for the aforementioned employment contracts. Employment agreements are concluded for both specified and unspecified terms and mandate and work performance agreements are usually concluded for specified terms. The employment agreements contain non-compete and confidentiality clauses. The non-compete clause is binding on the employees for the duration of their employment relationship and the confidentiality clauses cover the period of the employment relationship as well as varying periods after the termination of the agreement.

The employment agreements concluded by Kredyt Bank and its employees were concluded for trial periods, for specified and unspecified terms. All such agreements were based on the same basic agreement form. Contrary to the forms of agreements used by BZ WBK and the BZ WBK Subsidiaries prior to the Merger, the employment contracts concluded by Kredyt Bank did not contain non—compete clauses binding on the employees for the duration of their employment relationship and thereafter, with the exception of the agreements concluded with the members of the management board of Kredyt Bank. Due to the Merger, BZ WBK was required to propose new conditions and terms of employment and remuneration to the employees of the former Kredyt Bank who were employed on a basis other than an employment agreement. The proposed conditions and terms of employment and remuneration do not differ from those offered on a standard basis to BZ WBK's employees.

BZ WBK places a great deal of emphasis on the improvement of the knowledge and skills of its employees. Training courses are organized in response to business needs and in keeping with BZ WBK's strategic priorities. Compliance with strategic and training objectives is ensured through the central planning and co-ordination of training, a process actively supported by BZ WBK's branches and key business areas. An integrated training plan facilitates the logistical aspects and monitoring of training quality and costs. Employee training is funded from the training budget, which is a component of the employee cost budget of BZ WBK.

Trade Unions and Collective Labor Agreements

As of the date of this Offering Memorandum, four trade unions operated in the BZ WBK Group:

- Związek Zawodowy Pracowników Banku Zachodniego WBK S.A.—a representative organization since it represents more than 10% of the employees;
- Komisja Zakładowa NSZZ 'Solidarność' przy Banku Zachodnim WBK S.A.;
- Związek Zawodowy Pracowników Banku Zachodniego S.A.; and
- Organizacja Związkowa nr 07-150 Ogólnopolskiego Pracowniczego Związku Zawodowego "Konfederacja Pracy" (the trade union of the former Kredyt Bank).

As of 31 December 2012, the total number of members of trade unions was 3,734, with the majority of such members being members of Związek Zawodowy Pracowników Banku Zachodniego WBK S.A (i.e. 2,578 members), with a further 812 members being members of Organizacja Związkowa nr 07-150 Ogólnopolskiego Pracowniczego Związku Zawodowego "Konfederacja Pracy". The two other trade unions have significantly lower numbers of members.

As of the date of this Offering Memorandum, neither BZ WBK nor the BZ WBK Subsidiaries are parties to collective agreements. No other agreements have been entered into by the above-mentioned trade unions.

In the period covered by the Consolidated Financial Statements included in this Offering Memorandum, there were no strikes at the BZ WBK Group. In the aforementioned period, neither BZ WBK nor the BZ WBK Subsidiaries were parties to any collective labor disputes.

Employee Shareholding

As of the date of this Offering Memorandum, a share incentive program allowing selected key employees to subscribe for shares in BZ WBK is currently in place.

Every year from 2006 through to 2008 BZ WBK launched a three-year share incentive program for the key employees of the BZ WBK Group, i.e. the Performance Share Program (*Akcje za Wyniki*) allowing them to subscribe for incentive shares in BZ WBK on preferential terms, subject to the achievement of performance targets in the years covered by the program (2006-2008, 2007-2009, 2008-2010). The share incentive program was designed to motivate the members of the Management Board and other key employees of BZ WBK and the BZ WBK Subsidiaries to continue their efforts, inspire strong dedication to the organization's strategic objectives and, thus, ensure the high degree of competitiveness and financial efficiency of the BZ WBK Group in the long term as well as bring benefits to BZ WBK's shareholders.

The conditions for the first incentive scheme of 2006 were met and in performance of such scheme BZ WBK issued series H shares, which were registered on 26 August 2009. The second and third incentive schemes expired with no rights being exercised.

On 20 April 2011, the General Meeting launched a fourth three-year share incentive program as a continuation of the BZ WBK Group's Performance Share Program (*Akcje za Wyniki*). Under the fourth incentive scheme, similar to the previous programs, incentive shares may be subscribed for by entitled participants, depending, as a rule, on BZ WBK's performance in the years 2011-2013 as well as its performance in selected years covered by the fourth incentive program. Under this program, eligible employees may be granted the right to subscribe for shares in BZ WBK with priority over BZ WBK's shareholders and may exercise such right after the completion of a given edition of the incentive scheme (currently in 2014, after the completion of the scheme for 2011-2013).

The total number of participants who may participate in this program, including members of the Management Board, cannot exceed 500 employees of the BZ WBK Group. Having executed an agreement on participation in the three-year Performance Share Program with BZ WBK, the participants are eligible to subscribe for a defined number of shares in BZ WBK at a subscription price that is equal to the nominal value of the shares of PLN 10, provided that BZ WBK achieves a specified performance target and, as a rule, such participants are still employed by the BZ WBK Group. Under the fourth share incentive program, the maximum total cap for the issued incentive shares is 400,000. As of 31 December 2012, the number of such incentive shares to be issued and granted to the entitled employees is 315,917, and as of 31 December 2012, the total number of such shares to be granted to the members of the Management Board is 44,852.

MATERIAL CONTRACTS

The Management Board believes that, other than the agreements entered into in the ordinary course of business, the contracts listed below are material to the BZ WBK Group given their value or significant influence on the key areas of the BZ WBK Group's operations and the financing thereof. Financing agreements regarding the external financing of BZ WBK having a value of at least EUR 50 million and the issuance of the debt securities discussed below having a value of at least EUR 100 million or relating to BZ WBK's subordinated liabilities have been deemed material based on the fact that they represent an external source of funding other than deposits.

As of the date of this Offering Memorandum, BZ WBK is not dependent on any commercial or financial contracts.

Agreements on the External Financing of BZ WBK

Financial Arrangements Based on the Investment Agreements

Pursuant to the provisions of the Investment Agreement (see "*Major Shareholders and the Selling Shareholders—Investment Agreement between Banco Santander and KBC*"), Banco Santander and KBC agreed that the previous inter-company funding agreements between KBC and Kredyt Bank must be terminated in full (in principle, on the basis of the maturity or call date as provided for in a given inter-company funding agreement) and all inter-company debt arising therefrom should be promptly settled without any termination or break-up costs being applied. However, in order to continue the provision of a certain level of financing by the KBC Group to BZ WBK following the Merger, Banco Santander and KBC agreed to enter into new financing arrangements with, respectively, Kredyt Bank or BZ WBK (as the legal successor of Kredyt Bank).

As a consequence of the settlement of the inter-company debt arising from the inter-company agreements indicated in the Investment Agreement, the below-listed transactions have been executed, the total amount of which is equivalent to approximately CHF 3 billion.

CHF repurchase agreements

On 28 December 2012, KBC concluded repo transactions with: (i) Kredyt Bank; and (ii) BZ WBK. The underlying securities for the above repo transactions are the Polish sovereign debt, which also serves as collateral.

Pursuant to the repo agreements, BZ WBK (as the legal successor of Kredyt Bank) pays quarterly coupons based on 3M CHF LIBOR plus margin. BZ WBK agreed to guarantee constant overcollateralization of 11% during the tenor of the funding lines.

The total amount of the repo transaction is CHF 1,500,000,000, including CHF 1,200,000,000 already drawn (i.e. CHF 500,000,000 with a maturity date as of October 2013, CHF 350,000,000 with a maturity date as of January 2015 and CHF 350,000,000 with a maturity date as of January 2016) and CHF 300,000,000 undrawn as of the date of this Offering Memorandum.

The arrangements regarding the above were agreed in accordance with GMRA 2000 (Global Master Repurchase Agreement issued by the International Capital Market Association).

EUR/PLN cross-currency interest rate swap agreements (CCIRS)

On 29 and 30 November 2012, BZ WBK concluded cross-currency interest rate swap transactions (EUR/PLN) with KBC under which BZ WBK pays quarterly coupons based on 3M EURIBOR plus margin and receives quarterly coupons based on 3M WIBOR.

The maturity periods of the CCIRS vary from 2.5 to 3 years, with the maturity date ranging from June 2015 to January 2016.

CCIRS transactions were concluded for the total amount of EUR 420,000,000 (equivalent to approximately CHF 500,000,000).

The arrangements regarding the above were made in accordance with the 1992 ISDA Master Agreement and, subsequently, the agreement made in the form of the 2002 ISDA Master Agreement and CSA.

CHF/PLN cross-currency interest rate swap agreements (CCIRS)

On 23 November 2012, Kredyt Bank concluded cross-currency interest rate swap transactions (CHF/PLN) with KBC under which BZ WBK (as the legal successor of Kredyt Bank) pays quarterly coupons based on 3M CHF LIBOR plus margin and receives quarterly coupons based on 3M WIBOR. The maturity periods of the CCIRS vary from 3.5 up to 10 years, with the maturity date ranging from June 2016 to February 2023.

The CCIRS transactions were concluded for the total amount of CHF 1,000,000,000.

The arrangements regarding the above were made in accordance with 2002 ISDA Master Agreement and CSA.

Loan Agreements between Kredyt Bank and the EIB

Kredyt Bank concluded the following loan agreements with the EIB: (i) a loan agreement dated 4 January 2010 whereby Kredyt Bank obtained from EIB a credit line in the amount representing the equivalent of EUR 50 million to finance small and medium-sized projects promoted by small and medium-sized enterprises in the sector of industry and services; (ii) loan agreements dated 3 February 2011 whereby Kredyt Bank obtained from the EIB credit lines in the amounts of, respectively, EUR 100 million to finance small and medium-sized projects promoted by small and medium-sized enterprises in the sector of industry and services and PLN 50 million to finance small-scale projects promoted by public and private promoters; and (iii) a loan agreement dated 29 June 2012 whereby Kredyt Bank obtained a credit line in the amount representing the equivalent of EUR 100 million in CHF from the EIB to finance small and medium-sized projects promoted by small and medium-sized enterprises and/or mid-caps.

Within the framework of these credit lines, Kredyt Bank can acquire funds in tranches with maturities (falling from the day of the disbursement of the respective tranches) of:

- with regard to the loan agreement dated 4 January 2010: (i) from three to eight years in the case of a single repayment, and (ii) from four to twelve years in the case of repayment in installments;
- with regard to the EUR 100 million loan agreement dated 3 February 2011: (i) in case of a single repayment, from three years to four years (with regard to a tranche intended to finance equipment leasing projects) or eight years (with regard to a tranche intended to finance other projects), and (ii) in case of repayment in installments, from two years to seven years (with regard to a tranche intended to finance equipment leasing projects) or from four years to twelve years (with regard to a tranche intended to finance other projects);
- with regard to the EUR 50 million loan agreement dated 3 February 2011: (i) from three to twelve years in case of a single repayment, and (ii) from four to twenty years in case of repayment in installments; and
- with regard to the loan agreement dated 29 June 2012: (i) four years for tranche I (the equivalent of EUR 25 million in CHF) and seven years for tranche II (the equivalent of EUR 50 million in CHF) in case of a single repayment, and (ii) up to ten years for tranche III (the equivalent of EUR 25 million in CHF) in case of repayment in installments.

The above-mentioned loan agreements are scheduled to be disbursed in the following tranches:

- in the case of the loan agreement dated 4 January: (i) PLN 96,970,000, with the maturity date falling on 15 June 2017, and (ii) PLN 99,725,000, with the maturity date falling on 15 September 2017;
- in the case of the EUR 100 million loan agreement dated 3 February: (i) CHF 64,180,000, with the maturity date falling on 15 March 2018, (ii) CHF 32,090,000, with the maturity date falling on 15 March 2021, and (iii) CHF 32,090,000, with the maturity date falling on 15 March 2018;
- in the case of the EUR 50 million loan agreement dated 3 February 2011: (i) CHF 32,090,000, with the maturity date falling on 15 March 2018, and (ii) CHF 32,090,000, with the maturity date falling on 15 March 2021; and
- in the case of the loan agreement dated 29 June 2012: (i) CHF 30,027,500 for non-leasing financing, with the maturity date falling on 15 June 2022, (ii) CHF 60,055,000 for non-leasing financing, with the maturity date falling on 15 June 2019, and (iii) CHF 30,027,500 for non-leasing and leasing financing, including equipment leasing, with the maturity falling on 15 June 2016.

The interest rate applicable to the funds acquired: (i) in the case of the loan agreement dated 4 January 2010, either constitutes a fixed rate determined by the EIB and denominated in the currency of the respective disbursed tranche or is based, depending on the currency, on WIBOR, EURIBOR or other market rate chosen by the EIB for an amount expressed in a currency other than PLN or EUR, increased by a margin set forth in the agreement; (ii) in the case of the loan agreements dated 3 February 2011 either constitutes a fixed rate determined by the EIB and denominated in the currency of the respective disbursed tranche or is based, depending on the currency, on WIBOR, EURIBOR, CHF LIBOR or other market rate chosen by the EIB for an amount expressed in a currency other than PLN, EUR or CHF, increased by a margin set forth in the agreement; and (iii) in the case of the loan agreement dated 29 June 2012, the interest rate is based on CHF LIBOR increased by a margin set forth in the agreement.

The agreements contain clauses typical for loan agreements, including (i) a *pari passu* clause (the obligation of the borrower to ensure equal treatment of the liabilities under the loan agreement compared to any of its other existing or future, unsecured and unsubordinated obligations); (ii) negative pledge (a warranty of the borrower not to establish and to ensure that none of its affiliated entities establishes, without the prior written consent of the lender, any encumbrances on its existing or future assets which could hinder the satisfaction of the lender's claims); and (iii) a change of control clause under which the lender may cancel the loans and/or demand the repayment of the outstanding amounts of the loans together with all accrued and outstanding interest and associated amounts in case any person or group of persons acting in concert gains control of the borrower and/or in the case of the loan agreement dated 29 June 2012, Banco Santander ceases to control, directly or indirectly, more than 50% of the share capital of BZ WBK.

The claims of the EIB under the above-mentioned loan agreements have been secured by first ranking financial pledges established by Kredyt Bank over the following Polish State Treasury bonds: (i) in the case of the loan agreement dated 4 January 2010, 140,000 Polish State Treasury bonds, with a nominal value of PLN 1,000 each and a maturity date falling on 25 October 2017, established pursuant to a financial pledge agreement dated 17 March 2010; (ii) in the case of the EUR 100 million loan agreement dated 3 February 2011, 500,000 Polish State Treasury bonds, with a nominal value of PLN 1,000 each and a maturity date falling on 24 October 2015, established pursuant to a financial pledge agreement dated 11 February 2011; (iii) in the case of the EUR 50 million loan agreement dated 3 February 2011, 265,000 Polish State Treasury bonds, with a nominal value of PLN 1,000 each and a maturity date falling on 25 April 2015, established pursuant to a financial pledge agreement dated 11 February 2011; and (iv) in the case of the loan agreement dated 29 June 2012, 464,000 Polish State Treasury bonds, with a nominal value of PLN 1,000 each and a maturity date falling on 25 October 2017, established pursuant to a financial pledge agreement dated 29 June 2012.

As of 31 December 2012, the outstanding principal amounts under the above-mentioned agreements were: (i) in the case of the loan agreement dated 4 January 2010: tranche I—PLN 96,970,000, and tranche II—PLN 99,725,000, for a total of: PLN 196,695,000; (ii) in the case of the EUR 100 million loan agreement dated 3 February 2011: tranche I—CHF 64,180,000, tranche II—CHF 26,474,250, and tranche III—CHF 32,090,000, for a total of: CHF 122,744,250; (iii) in the case of the EUR 50 million loan agreement dated 3 February 2011: tranche I—CHF 32,090,000, and tranche II—CHF 26,474,250, for a total of: CHF 58,564,250; and (iv) in the case of the loan agreement dated 29 June 2012: tranche I—CHF 29,257,564.10, tranche II—CHF 60,055,000, and tranche III—CHF 30,027,500, for a total of: CHF 119,340,064.10.

As a legal successor of Kredyt Bank, BZ WBK assumes all rights and obligations arising from the above-mentioned loan agreements.

Loan Agreements between BZ WBK and the EIB

BZ WBK concluded the following loan agreements with the EIB: (i) a loan agreement dated 28 January 2010 whereby BZ WBK obtained from the EIB a credit line in the amount representing the equivalent of up to EUR 100 million to finance small and medium-sized projects promoted by small and medium-sized enterprises in the sector of industry and services; (ii) a loan agreement dated 23 September 2011 whereby BZ WBK obtained from the EIB a credit line in the amount of up to EUR 100 million to finance small and medium-sized projects promoted by small and medium-sized enterprises in the sector of industry and services; and (iii) a loan agreement dated 14 September 2012 whereby BZ WBK obtained from the EIB a credit line in the amount of up to EUR 50 million to finance small and medium-sized projects promoted by small and medium-sized enterprises in the sector of industry and service.

Within the framework of these credit lines BZ WBK can acquire funds in tranches with maturities of:

- with regard to the loan agreement dated 28 January 2010 (falling from the day of the disbursement of the respective tranches): (i) from three to eight years in the case of a single repayment; and (ii) from four to twelve years in the case of repayment in installments;
- with regard to the loan agreement dated 23 September 2011, a single repayment with maturity scheduled for 29 September 2018; and
- with regard to the loan agreement dated 14 September 2012, a single repayment with maturity scheduled for 1 October 2019.

The above-mentioned loan agreements are scheduled to be disbursed in the following tranches:

- in the case of the loan agreement dated 28 January 2010, (i) EUR 30 million with maturity falling on 15 June 2017, and (ii) EUR 70 million with maturity falling on 15 June 2017;
- in the case of the loan agreement dated 23 September 2011, EUR 100 million with maturity falling on 29 September 2018; and
- in the case of the loan agreement dated 14 September 2012, EUR 50 million with maturity falling on 1 October 2019.

The interest rate of the funds acquired: (i) in the case of the loan agreement dated 28 January 2010, either constitutes a fixed rate determined by the EIB and denominated in the currency of the respective disbursed tranche or is based, depending on the currency, on EURIBOR or other market rate chosen by the EIB for an amount expressed in a currency other than EUR, increased by a margin set forth in the agreement; (ii) in the case of the loan agreement dated 23 September 201,1 based on EURIBOR, increased by a margin set forth in the agreement; and (iii) in the case of the loan agreement dated 14 September 2012, based on EURIBOR, increased by a margin set forth in the agreement.

The agreements contain clauses typical for loan agreements, including (i) a *pari passu* clause (the obligation of the borrower to ensure equal treatment of the liabilities under the loan agreement compared to any of its other, existing or future, unsecured and unsubordinated obligations); (ii) negative pledge (a warranty of the borrower not to establish and to ensure that none of its affiliated entities establishes, without the prior written consent of the lender, any encumbrances on its existing or future assets which could hinder the satisfaction of the lender's claims); and (iii) a change of control clause under which the lender may cancel the loans and/or demand the repayment of the outstanding amounts of the loans together with all accrued and outstanding interest and associated amounts in case any person or group of persons acting in concert gains control of the borrower and/or, in the case of the loan agreements dated 23 September 2011 and 14 September 2012, Banco Santander ceases to control, directly or indirectly, more than 50% of the share capital of the borrower. The agreement dated 23 September 2011 contains a loss-of-rating event clause under which if BZ WBK's credit rating drops below a certain level BZ WBK will be obliged to provide security for the loan granted thereunder in the form of a guarantee acceptable to the EIB and a merger event clause under which if a merger, to which BZ WBK is a party, occurs or is about to occur, the EIB may cancel the undisbursed portion of the credit and demand the prepayment of the loan. A similar merger event clause, under which if a merger, to which BZ WBK is a party, occurs or is about to occur, the EIB may cancel the undisbursed portion of the credit and demand the prepayment of the loan, is included in the agreement dated 14 September 2012.

The claims of the EIB under the loan agreements have been secured by first ranking financial pledges established by BZ WBK over the following Polish State Treasury bonds: (i) in the case of the loan agreement dated 28 January 2010, 140,000 Polish State Treasury bonds, with a nominal value of PLN 1,000 each and a maturity date falling on 25 April 2013, established pursuant to a financial pledge agreement dated 31 May 2010; (ii) in the case of the loan agreement dated 23 September 2011, 296,000 Polish State Treasury bonds, with a nominal value of PLN 1,000 each and a maturity date falling on 25 October 2022, established pursuant to a financial pledge agreement dated 4 December 2012; and (iii) in the case of the loan agreement dated 14 September 2012, 133,500 Polish State Treasury bonds, with a nominal value of PLN 1,000 each and a maturity date falling on 25 April 2014, established pursuant to a financial pledge agreement dated 14 September 2012.

As of 31 December 2012, the outstanding principal amounts under the above-mentioned agreements were: (i) EUR 100 million in the case of the loan agreement dated 28 January 2010; (ii) EUR 100 million in the case of the loan agreement dated 23 September 2011; and (iii) EUR 50 million in the case of the loan agreement dated 14 September 2012.

Loan Agreement between BZ WBK Finanse & Leasing and the EBRD

On 25 May 2009, BZ WBK Finanse & Leasing and the EBRD entered into a loan agreement whereby the EBRD granted BZ WBK Finanse & Leasing a loan in an amount up to the equivalent of EUR 25 million to be disbursed upon the request of the borrower. The loan is scheduled for repayment in four annual installments (on 30 June 2011, 30 June 2012, 30 June 2013 and 30 June 2014).

The interest rate of the loan is based, depending on the currency of the disbursed tranches of the loan, on WIBOR or EURIBOR, increased by a margin set forth in the agreement.

The loan agreement includes restrictions on paying dividends and/or making distributions from the share capital of the borrower, as well as purchasing or redeeming shares in the borrower.

The agreement contains clauses typical for loan agreements, including (i) a *pari passu* clause (the obligation of the borrower to ensure equal treatment of the liabilities under the loan agreement compared to any of its other, existing or future, unsecured obligations); (ii) negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder the satisfaction of the lender's claims); and (iii) a change of control clause under which the borrower may be required to repay all outstanding loans with all outstanding interest and associated costs in case of, *inter alia*, any change of control of BZ WBK.

As of 31 December 2012, the outstanding principal amount under the above agreement was EUR 12,500,000.

Subordinated Loan Agreements between Kredyt Bank and KBC Bank

On 7 May 2009, Kredyt Bank concluded with KBC, Dublin branch a subordinated loan agreement worth up to CHF 165 million (i.e. PLN 472,708,500 based on the average exchange CHF/PLN rate published by the National Bank of Poland on 7 May 2009). The agreement was concluded on an arm's length basis and the loan is scheduled for repayment within ten years from its disbursement. Kredyt Bank may select the duration of the interest period, which may be one, three or six months. The loan accrues interest calculated on the basis of 1M/3M/6M CHF LIBOR, respectively, increased by a margin set forth in the agreement. The loan may be repaid at the request of BZ WBK at any time after the fifth anniversary of the disbursement with the approval of the PFSA. On 19 June 2009, the management board of Kredyt Bank obtained a decision issued by the PFSA dated 12 June 2009 on its consent to count the loan towards Kredyt Bank's supplementary funds.

As of 31 December 2012, the outstanding principal amount under the above agreement was CHF 165 million.

On 17 December 2008 Kredyt Bank concluded with KBC, Dublin branch a subordinated loan agreement worth up to PLN 75 million. The subordinated loan agreement was concluded on an arm's length basis and the loan is scheduled for repayment within 10 years from the disbursement of the amounts under the agreement. Kredyt Bank may select the duration of the interest period, which may be one, three or six months. The loan accrues interest calculated on the basis of 1M/3M/6M WIBOR, respectively, increased by a margin set forth in the agreement. The subordinated loan may be repaid at any time at the request of BZ WBK; however, not earlier than after the fifth anniversary of the disbursement, with the approval of the PFSA. The agreement contained a condition precedent involving the presentation to the lender, i.e. KBC, Dublin branch, by the borrower, i.e. Kredyt Bank, of the consent of the PFSA to count the subordinated loan towards the own funds of Kredyt Bank. Kredyt Bank obtained a decision issued by the PFSA dated 23 January 2009 on its consent to count PLN 75,000,000 towards the supplementary funds of Kredyt Bank in accordance with the terms and conditions of the subordinated loan agreement.

As of 31 December 2012, the outstanding principal amount under the above-mentioned agreement was PLN 75 million.

On 19 March 2008, Kredyt Bank concluded with KBC, Dublin branch a subordinated loan agreement for up to the PLN equivalent of CHF 100 million (i.e. PLN 226,460,000 based on the average CHF/PLN exchange rate published by the National Bank of Poland on 19 March 2008). The subordinated loan agreement was concluded on an arm's length basis and the loan is scheduled for repayment within ten years from the disbursement of the amounts under the agreement. Kredyt Bank may select the duration of the interest period, which may be one, three or six months. The loan accrues interest calculated on the basis of 1M/3M/6M CHF LIBOR, respectively, increased by a margin set forth in the agreement. The subordinated loan may be repaid at any time at the request of BZ WBK; however, not earlier than after the fifth anniversary of the disbursement, with the approval of the PFSA. The agreement contained a condition precedent involving the presentation to the lender, i.e. KBC, Dublin branch, by the borrower, i.e. Kredyt Bank, of the consent of the PFSA to count the subordinated loan towards the own funds of Kredyt Bank. On 3 June 2008, Kredyt Bank obtained a decision issued by the PFSA dated 26 May 2008 on its consent to count CHF 100,000,000 towards the supplementary funds of Kredyt Bank in accordance with the terms and conditions of the subordinated loan agreement.

As of 31 December 2012, the outstanding principal amount under the above agreement was CHF 100 million.

As the legal successor of Kredyt Bank BZ WBK assumes all of the rights and obligations arising from the above-mentioned subordinated loan agreements. For further information on the settlement of these agreements, please see "*Major Shareholders and Selling Shareholders—Investment Agreement between Banco Santander and KBC*".

Credit Facility Agreements between BZ WBK Leasing and BZ WBK Finanse & Leasing and PKO BP

On 22 June 2007, BZ WBK Leasing concluded with PKO BP an agreement for the following multi-purpose credit facilities: (i) a facility in a current account of up to PLN 1 million ("**Facility A**"); and (ii) a revolving facility denominated in PLN and EUR of up to PLN 150 million ("**Facility B**") (together the "**Facilities**"). The maturity date is 21 June 2013. Facility A will be applied towards the financing and refinancing of obligations resulting from the current business activity of BZ WBK Leasing. Facility B may be applied solely towards the financing and refinancing of the purchases of fixed assets which will then be leased to third parties. Facility A accrues interest based on 1M WIBOR increased by a margin set forth in the agreement and Facility B accrues interest based on 1M WIBOR and/or 1M EURIBOR, as applicable, increased by a margin set forth in the agreement. The repayment of the Facilities is secured by: (i) a security assignment of rights under existing and future leasing agreements; (ii) a compensation clause providing for the mutual set-off of receivables; (iii) submission to enforcement pursuant to Article 97 of the Banking Law; and (iv) a letter of comfort issued by BZ WBK.

As of 31 December 2012, the outstanding principal amount under the above-mentioned agreement was PLN 7,590,926.86.

On 17 March 2008, BZ WBK Finanse & Leasing concluded with PKO BP an agreement for the following multi-purpose credit facilities: (i) a facility in a current account of up to PLN 1 million; and (ii) a revolving facility of up to PLN 150 million (together the "**Facilities**"). The maturity date is 16 March 2013. The Facilities accrue interest based on 1M WIBOR increased by a margin set forth in the agreement. The repayment of the Facilities is secured by: (i) a security assignment of rights under existing and future leasing agreements; (ii) a compensation clause providing for the mutual set-off of receivables; (iii) submission to enforcement pursuant to Article 97 of the Banking Law; and (iv) a letter of comfort issued by BZ WBK.

As of 31 December 2012, the outstanding principal amount under the above-mentioned agreement was PLN 6,674,048.

Material Issuances of Securities

Subordinated Floating Rate Notes

On 29 July 2010, BZ WBK concluded with the EBRD an agreement whereby BZ WBK agreed to issue EUR 100 million of subordinated floating rate notes due 5 August 2020 (the "**Notes**") and the EBRD agreed to subscribe and pay for the Notes.

BZ WBK undertook towards the EBRD that for as long as the EBRD is a holder of some or all of the Notes, it will, inter alia, provide financing to micro, small and medium-sized enterprises and issue any other subordinated debt unless BZ WBK's obligations pursuant to such debt are expressed to be pari passu with its obligations in respect of the Notes. The Notes bear interest based on 3M EURIBOR increased by a margin.

Other Agreements

Agreements with the EBRD

On 29 March 2012, BZ WBK concluded with the EBRD an investment agreement (the "**EBRD Investment Agreement**") whereby the EBRD undertook to invest approximately PLN 332,000,000 in BZ WBK.

Pursuant to the agreement, the EBRD subscribed for 1,561,618 shares in BZ WBK under a private placement, with the exclusion of the pre-emptive rights of the existing shareholders. The share issue price was PLN 212.60.

Together with the EBRD Investment Agreement, on 29 March 2012, BZ WBK also concluded a shareholders' agreement between BZ WBK, Banco Santander and the EBRD governing, inter alia: (i) corporate governance; (ii) transfers of the Shares held by Banco Santander; and (iii) a tag along right of the EBRD (the "**Shareholders' Agreement with the EBRD**").

With regard to corporate governance, the Shareholders' Agreement with the EBRD states that from the Merger Date, as long as the EBRD holds at least 780,809 Shares, but not longer than six years from the date of the signing by the EBRD of the subscription agreement for shares in BZ WBK, Banco Santander is required to ensure that one person indicated by the EBRD is appointed as a member of the Supervisory Board. Such person was appointed to the Supervisory Board by means of a resolution of the Extraordinary Meeting of Shareholders dated 13 February 2013.

Moreover, the Shareholders' Agreement with the EBRD also sets forth a list of issues regarding which a resolution of the Supervisory Board may be adopted only if the member of the Supervisory Board nominated by EBRD has voted in favor of such resolution. Such issues include in particular: (i) any resolution to change the type, rights or form of any class of shares or create new shares in BZ WBK and a respective amendment to the Statue with respect to such resolutions, except for certain permitted increases of the share capital as indicated in the Shareholders' Agreement with the EBRD; (ii) any resolution to pay a dividend of more than 50% of BZ WBK's profit after tax in the previous financial year, save if made in accordance with the business plan as provided to the EBRD; and (iii) the approval or amendment of any agreement with Banco Santander or its affiliates, unless the material terms and conditions of such transaction are at an arm's length and such transactions are conducted in the ordinary course of business.

Furthermore, the Shareholders' Agreement with the EBRD sets forth the rules according to which an affirmative vote from the EBRD is required for a resolution of the shareholders' meeting to be effective with respect to certain matters listed in the Shareholders' Agreement with the EBRD.

Pursuant to the Shareholders' Agreement with the EBRD, Banco Santander is required to, inter alia: (i) generally comply with the PFSA's requirements; (ii) use its reasonable endeavors to procure that BZ WBK will seek the inclusion of its shares in the official stock market indices of the WSE (including the WIG, WIG20 and WIG Banking) as soon as possible after reaching a free float of 10%; and (iii) not initiate a squeeze-out of the minority shareholders of BZ WBK.

Moreover, Banco Santander agreed that until the date on which the EBRD no longer owns any Shares and unless otherwise agreed to by the EBRD, it must:

- maintain and retain legal and beneficial ownership of no fewer than two thirds of the Shares (the "**Santander Core Shares**") unless all of the Santander Core Shares are sold on terms such that the EBRD may exercise the Major Tag-Along Rights (as such term is defined below); and
- ensure that the Santander Core Shares are not subject to any lien, and Banco Santander is not subject to any contract, arrangement or law (whether conditional or unconditional) pursuant to which any lien on the Santander Core Shares may be created.

If Banco Santander proposes to transfer 5% or more of the Shares to any third party (not being an affiliate of Banco Santander) on bona fide arm's length terms in any transaction or series of related transactions, and provided that Banco Santander continues to retain legal and beneficial ownership of the Santander Core Shares, Banco Santander will provide the EBRD with an opportunity to participate proportionately in such transfer (the "**Minor Tag-Along Rights**").

Additionally, if Banco Santander proposes to transfer any Shares to any third party (not being an affiliate of Banco Santander) on bona fide arm's length terms in any transaction or series of related transactions such that Banco Santander will no longer retain legal and beneficial ownership of such number of Shares as constitute the Santander Core Shares, Banco Santander will provide the EBRD with an opportunity to participate in such transfer and the EBRD will have the right to transfer its Shares at the same price and at the same time and upon terms and conditions identical to those proposed by Banco Santander (the "**Major Tag-Along Rights**").

Sale of receivables to BEST III NSFIZ

On 26 April 2011, Kredyt Bank and BEST III Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ("**BEST III NSFIZ**"), represented by BEST Towarzystwo Funduszy Inwestycyjnych S.A., concluded an agreement for the sale of receivables, as amended by an annex dated 21 June 2011 and annex dated 14 November 2011.

The subject matter of the agreement was a portfolio of retail receivables of Kredyt Bank (the "**Portfolio**"), which included 423,841 receivables with an aggregate nominal value of PLN 1,169,706,479 as of 31 March 2011.

The net book value of the Portfolio in the books of Kredyt Bank as of 31 March 2011 amounted to PLN 137.2 million. The aggregate price for the Portfolio agreed by the parties was as of 31 March 2011 PLN 148,310,265 less any amounts of the respective receivables being the subject matter of the agreement paid to Kredyt Bank by its debtors between 1 April 2011 and the day preceding the day of the transfer of the respective receivables from Kredyt Bank to BEST III NSFIZ.

The transfer of the Portfolio took place in two parts and comprised: tranche A, transferred on 31 May 2011 for the final price of PLN 36,925,686.50; and tranche B, transferred on 26 October 2011 for the final price of PLN 84,904,771.23.

Kredyt Bank assumed liability for certain legal defects of the sold receivables for a period of two years from the date on which the last documents evidencing the receivables were transferred to BEST III NSFIZ.

As the legal successor of Kredyt Bank, BZ WBK assumed all of the rights and obligations arising from this agreement.

Risk Sharing Agreements

Pursuant to the Investment Agreement, the parties thereto undertook that the contractual documentation governing risk-sharing agreements (existing as of the date of the Investment Agreement) would be terminated and replaced in line with a new uniform text as set out in the Investment Agreement and market standards.

Such risk-sharing agreements were concluded between Kredyt Bank and a member of the KBC Group and were entered into to secure loans concluded with certain debtors.

Under such risk-sharing agreements, a participant guaranteed towards the lender that in case a debtor failed to repay its loan to the lender, the participant as a securing party will pay to the lender its participation percentage of any unsettled sum (the "**Participation Percentage**") and the participant will receive, pro rata, its Participation Percentage of the proceeds generated under the loan.

Depending on the given risk-sharing agreement, Kredyt Bank acted either as a participant or as the lender.

Following the replacement of the risk-sharing agreements existing as at the date of the Investment Agreement with a new uniform text as set out in the Investment Agreement, as a rule, the commercial terms of the former risk-sharing agreements were not changed; however, in the case of certain risk sharing agreements with respect to which Kredyt Bank acted as the lender and KBC as the participant KBC increased its Participation Percentage from 50% to 80%. As of the date of the Offering Memorandum and based on the outstanding amounts of the loans to which such amended risk sharing agreements refer, the total maximum value of the guarantee given by KBC based on such risk sharing agreements amounts to PLN 583 million.

RISK MANAGEMENT

General Information

The BZ WBK Group has an integrated risk management structure which ensures that all risks which significantly affect the BZ WBK Group's operations are identified, measured, monitored and controlled.

Risk is managed within the framework of 'three lines of defense'. The first line includes risk management and internal control mechanisms, embedded in individual processes and tasks carried out by each staff member with respect to quality and correctness of tasks. The second line of defense is provided by units that support the BZ WBK Group's management team in identifying, monitoring, controlling and managing risk. The units from the second line of defense, with the Risk Management Division as the key stakeholder, manage individual risks in the BZ WBK Group. Such units are supported by Risk Management Committees. The third line of defense is an internal audit which is responsible for an independent review of the operation of the risk management system. The risk management function is sufficiently independent of the business units which take the risk within the structure of the three lines of defense. The Management Board and the Supervisory Board are provided with up-to-date and reliable information about the risk profile and the quality of management through the three lines of defense structure.

The risk management structure supports the BZ WBK Group in achieving its strategic objectives while ensuring the security of operations. BZ WBK's objective is to manage risk in full compliance with the Banking Law, the Resolutions and the Recommendations of the PFSA.

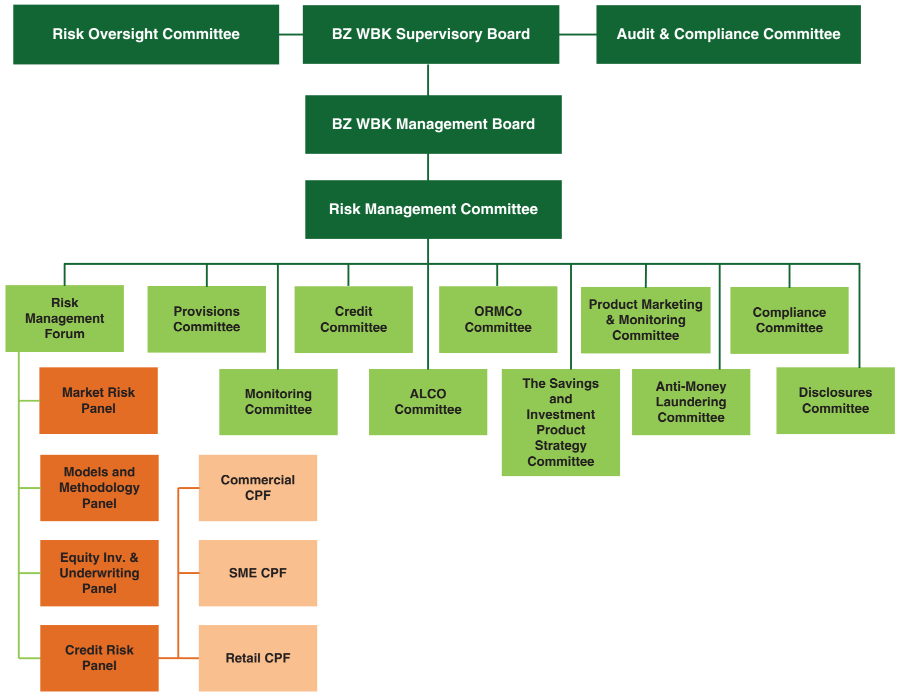
BZ WBK's operations are subject to various risks, including but not limited to: credit risk, market risk, liquidity risk, operational risk, legal and compliance risk, and reputational risk. Controlling the impact of these risks on the operations of the BZ WBK Group is one of the most important objectives in the management of BZ WBK and the BZ WBK Group. The risk level is an important factor in the planning process.

As regards Bank's risk management policy, BZ WBK benefits from the experience of Banco Santander in the identification and measurement of risks in the banking sector. Banco Santander's risk management activities involve the integrated qualification of the different types of risk which are assumed by Banco Santander's business units in their activities. In its approach to the risk management policy, BZ WBK applies certain risk management and monitoring standards in compliance with the standards of the Banco Santander Group.

Following the Merger, the BZ WBK Group unified risk management within the BZ WBK Group. Such unification was made through including the former Kredyt Bank Group into the BZ WBK Group's risk management system.

Risk Management Governance

The chart below illustrates the structure of the risk management committees in the BZ WBK Group.



In the BZ WBK Group, the Management Board and the Supervisory Board set the business direction and actively support the risk management strategies through the approval of the key risk management policies, the risk committee membership of the Management Board members, review and acceptance of the risks, and report on the risk level. Top quality of risk management and a consistent approach to risk strategy is ensured by the composition of the Risk Management Committee, with members of the Management Board.

The Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, the key risk management policies, the acceptable risk level, and monitors the utilization of internal limits in relation to the current business strategy and macroeconomic environment. It conducts reviews of the key risk areas, including the identification of threats and the process for defining and monitoring remedial actions. The Supervisory Board assesses whether the Management Board's control activities are effective and in line with the Supervisory Board's policy, including the assessment of the risk management system. The Risk Oversight Committee supports the Supervisory Board in the assessment of the effectiveness of the internal control system, the risk management system and the resources which were approved and planned in order to provide the efficient management of the material risks of the BZ WBK Group. The Audit and Compliance Committee supports the Supervisory Board in its supervisory activities. The committee annually reviews the internal controls in financial reporting, accepts the reports on the independent internal audit unit and the compliance units. The committee receives regular quarterly reports on the status of the implementation of the audit recommendations as the basis of assessment of the quality of management actions. The committee assesses the efficiency of the internal control system and the risk management system.

The Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces an organizational structure aligned with the level and profile of the risk being undertaken and a split of the responsibilities ensuring the separation of the risk measurement and control function from the operational activity. It is also responsible for the implementation and updating of the written risk management strategies and the transparency of the activities. Risk management is consistent with the risk profile resulting from the agreed general risk appetite approved by the Management Board and the Supervisory Board.

The BZ WBK Group pays special attention to the consistency of risk management processes across the BZ WBK Group, which allows for adequate control of risk exposure. The BZ WBK Subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

Risk Management Committees

The Management Board has established a number of committees directly responsible for the development of the risk management methodology and monitoring of the level of risk exposure in the following specified areas:

The Risk Management Committee identifies material risks and approves risk management structures and policies adequate for the general profile and level of the BZ WBK Group's risk. The Risk Management Committee also approves the risk appetite limits and ensures that those are adhered to. As regards its oversight function, the Risk Management Committee delegates respective authorizations to other risk committees and monitors their operations. With a comprehensive reporting procedure in place, the Risk Management Committee has a full and consistent picture of BZ WBK's current risk profile. The Risk Management Committee is composed of the Management Board and an internal auditor.

The Risk Management Forum is a committee which approves and oversees risk management policy and risk measurement methodology; it also monitors credit risk, market risk on the banking book, market risk on the trading book, structural risk for the balance sheet, and liquidity risk. The Committee consists of four panels: the credit risk panel; the market risk panel; the models and methodology panel; and the equity investments and underwriting panel. Within the credit risk panel there are forums responsible for taking decisions in the area of credit risk policy for individual segments: the credit policy forum for the retail loan portfolio; the credit policy forum for the SME loan portfolio; and the credit policy forum for the commercial loan portfolio. There are six members of the Management Board in the Risk Management Forum.

The Provisions Committee takes decisions on the recognition and de-recognition of provisions. There are seven members of the Management Board on the Provisions Committee.

The Credit Committee is responsible for taking credit decisions in accordance with the specified credit discretion levels. There are three members of the Management Board on the Credit Committee.

The Monitoring Committee is responsible for the effective monitoring of non-standardized and wholesale portfolios. There are three members of the Management Board on the Monitoring Committee.

The Operational Risk Management Committee (ORMCo) is responsible for approving and overseeing the operational risk policy and for the determination of operational risk measurement methodologies; it is also responsible for monitoring the operational risk exposure level. The Operational Risk Management Committee includes three members of the Management Board.

The Assets and Liabilities Committee (ALCO) is responsible for capital management (specifically for the capital adequacy and ICAAP process); it oversees the banking portfolio operations, takes decisions regarding the management of liquidity and interest rate risk on the banking book, and is responsible for financing and managing the balance sheet, as well as for the pricing policy. The Assets and Liabilities Committee includes seven members of the Management Board.

The Disclosure Committee is responsible for the verification of whether the financial information published by BZ WBK meets the legal and regulatory requirements therefor. There are two members of the Management Board on the Disclosure Committee.

The Marketing and Product Monitoring Committee approves new products and services which are to be launched on the market from the point of view of risks related to them. There are two members of the Management Board on the Marketing and Product Monitoring Committee.

The Compliance Committee is responsible for the compliance risk management policy and for developing the best practices which are adopted by BZ WBK. The Compliance Committee includes two members of the Management Board.

The Anti-Money Laundering Committee approves BZ WBK's policy regarding the prevention of money laundering and terrorist financing, and accepts and monitors any actions taken by BZ WBK in this regard. The Anti-Money Laundering Committee is chaired by a member of the Management Board.

The Savings and Investment Product Strategy Committee is responsible for ensuring the balanced growth of the savings and investment products portfolio.

Risk Management Division

The BZ WBK Group has a Risk Management Division ("**RMD**") to ensure effective risk management solutions and policies and to monitor and report on the risks to the respective Committees, the Management Board and the Supervisory Board.

The RMD is managed by the Chief Risk Officer, who is a member of the Management Board and is approved by the PFSA.

The Chief Risk Officer's responsibilities are:

- participation in the development of BZ WBK's business strategies and financial plans;
- evaluation of the proposed strategies in terms of optimum risk-reward balance;
- identification of key risks for BZ WBK and defining the acceptable level of risk, considering the proper allocation of internal capital;
- ensuring that the risk management process is independent, transparent and properly documented with respect to credit risk (including counterparty risk and concentration risk), operational risk, market risk (including interest rate risk on the banking book) and liquidity risk so as to maintain a high quality of the loan portfolio and ensure that the risk profile does not pose a threat to the security of the business operations;
- ensuring that the risk management process complies with all applicable law and regulatory recommendations;
- defining risk management policies and procedures;
- ensuring an effective credit delivery process (credit decision-making, monitoring and recovery of past due receivables);
- the development, implementation and periodic assessment of the efficiency of methodologies and models for the identification, measurement and pricing of risks;
- the development, implementation and periodic evaluation of the efficiency of methodologies and models for the measurement of loan impairment;
- ensuring that stress tests are adequate for the scale and complexity of the business processes;
- participation in the development of the internal capital definition and allocation methodology and confirmation that the estimated internal capital is commensurate with BZ WBK's risk profile and scale of the business;
- identification and evaluation of the risk with respect to new products, processes and systems;
- monitoring of and reporting on the risk profile to the Management Board and the Supervisory Board;
- overseeing the risk in BZ WBK's subsidiaries; and
- supervision of the operations of the risk management committees, as chairman or vice-chairman.

The structure of the Risk Management Division comprises specialized organizational units responsible for the performance of the above-mentioned tasks.

Risk Appetite

Risk appetite, which is an acceptable level of risk, is one of the fundamental aspects of the risk management process in the BZ WBK Group, The risk is managed strictly in line with the determined risk appetite, expressed in the form of quantified limits (laid down in the BZ WBK Risk Appetite Statement) approved by the Management Board and the Supervisory Board. These limits are reviewed in detail at least once a year, taking into account the existing and potential risk, market conditions, financial and capital plans, and the regulatory environment. Stress tests and scenario analyses serve as the key tools for these analyses and the limit update process. BZ WBK sets these limits to ensure that its financial position remains stable even if a downside scenario materializes. BZ WBK takes into account the maximum loss, solvency, diversification of the income stream, allowed concentration of the loan portfolio and regulatory requirements. Limits are defined for the following key risks: credit risk, concentration risk, market risk, liquidity risk and operational risk.

Credit Risk

Credit risk is defined as the risk of suffering a loss if a borrower or a contracting party has no capacity to meet, or intention of meeting, its credit obligations while the collateral in place does not enable the BZ WBK Group to fully satisfy its claims. Credit risk management involves the development of risk management methodologies and tools underlying adequate risk measurement and assessment, monitoring of risk exposure and provision of accurate management information about the quality of the loan portfolio to the BZ WBK Group's executives.

Credit risk in the BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures and on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. BZ WBK carries out its lending activity within the limits set for the level of exposure in respect of a given portfolio. The BZ WBK Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally, the BZ WBK Group uses a large set of credit risk mitigation tools, both collateral (financial and non-financial) and specific credit provisions and clauses (covenants).

The BZ WBK Group's credit risk management policies, standards and tools aim to comply with Basel requirements, IAS requirements, the PFSA's recommendations (in particular Recommendation S, T and R) and best practices. The BZ WBK Group strives to apply the advanced credit risk management tools which are used in business to calculate regulatory capital for credit risk in line with the IRB approach.

BZ WBK expands its credit business in line with the credit exposure limits defined for the combined portfolios of the BZ WBK Group and the former Kredyt Bank Group. Credit limits are set by BZ WBK taking into account the existing capital base, financing opportunities, diversification of loan portfolios and their profitability, as well as the maximum acceptable loss (estimated for stressed market conditions).

The BZ WBK Group continues to develop and implement risk-based methods of grading loans, allocating capital and measuring returns. Risk valuation models based on EVA (Economic Value Added) are used for all significant loan portfolios.

Credit Risk Management Organization

The credit risk management framework is complemented by accurate and comprehensive management information on the quality of the loan portfolio which is provided to the Chief Risk Officer, the Committees, the Management Board and the Supervisory Board. Oversight over the credit risk management framework is exercised by the Risk Management Forum—Credit Risk Panel (in terms of the credit risk management strategy and policy), the Risk Management Forum—Models and Methodology Panel (in terms of the model risk management) and the Provisions Committee (in terms of the adequate level of impairment charges). The Credit Committee, another element of the credit risk management system, takes credit decisions within the assigned lending discretions. The tasks related to credit risk management and credit delivery are fulfilled by the relevant units of the RMD.

The RMD actively drives the credit risk management strategy, recommends for approval the lending policy and the lending process, and creates the tools and methods used for taking decisions and measuring risk, thereby controlling the quality of the loan portfolio and providing comprehensive managerial information about the portfolio. The credit policies of BZ WBK refer to particular business segments, loan portfolios and banking products and 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 BZ WBK Group (e.g. 'Loan-to-Value' ratios and FX risk, in the case of foreign currency loans).

The BZ WBK Group reviews and updates the credit policies on a regular basis, aiming to bring these guidelines up to date with the BZ WBK Group's strategy, the current macroeconomic situation and changes in the legal framework and regulatory requirements.

Credit Decision Making Process

The credit decision making process is an integral part of the risk management policy and is based upon individual credit discretions vested in credit officers, commensurate with their knowledge and experience within the business segments in the organizational structure.

The credit decision making process is different for each segment of customers. For individual customers, the credit decision making process is centralized and automated. In the case of small SME customers, the process is also automated, while for large SME customers the process is carried out by specialized macroregional teams of relationship managers and local decision makers. For business and corporate customers, the credit process is carried out by local decision forums chaired by credit partners. However, credit exposures in excess of PLN 25 million are referred to the Credit Committee, which is composed of senior management and top executives. Moreover, certain cases depending on loan amount, security and risk profile are consulted with Credit Committees at the Banco Santander level.

Credit Grading

Credit delivery is underpinned by the application of ongoing scoring models as well as rating, pricing, provisioning, recovery, anti-fraud and economic capital models in respect of all main loan portfolios. The models rely on a wide scope of data, including external statistics, as well as expert judgment. The models are built in-house and based on the expertise and experience of the team of professionals applying best-in-class solutions.

The BZ WBK Group is dynamically developing credit risk assessment tools to conform to the requirements of the Basel Committee on Banking Supervision, IAS/IFRS and best market practices. The BZ WBK Group uses credit risk grading models for its key loan portfolios, including corporate customers, financial institutions, SMEs, mortgage loans, property, cash loans, credit cards and retail overdrafts. The BZ WBK Group runs a systematic verification of credit grading pursuant to the rules described in the credit manuals. Additionally, for selected models an automated process of credit grade verification is carried out based on the number of overdue days or and an analysis of customer behavior. Credit grades may also be verified at subsequent credit assessments.

Credit Reviews

The quality of the portfolio and performance of the models are systematically monitored as part of ongoing validation, which enables prompt action to be taken in response to negative trends in the BZ WBK Group's policy or model design. The BZ WBK Group performs regular reviews of the quality of the loan 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 control and assessment department, which function independently of risk-taking units.

Collateral

The BZ WBK Group has implemented a collateral model whereby the Securities Center is the unit responsible for the collateral management processes functioning correctly.

The Securities Center is responsible for ensuring (and monitoring) that the collateral provided is accurate and compliant with the credit policy for each business segment, and also for ensuring that the BZ WBK Group has consistent internal procedures on collateral management and efficient processes with regards to collateral provision, monitoring and release.

Additionally, the Securities Center supports the credit units, in terms of collateral management, in the credit decision making process and the creation of credit policies. The Securities Center collects data on collateral and provides the relevant management information.

Before a credit decision is approved, the Securities Center is responsible for the assessment of the collateral quality through:

- verification of the security interests valuation, assessment of the value;
- assessment of the legal status of the security interests;
- assessment of the investment process for properties; and
- seeking legal advice on the proposed security interests.

The Securities Center actively participates in the credit processes, executing tasks including:

- providing draft credit documentation;
- verification and assessment that the signed documentation is accurate and complete;

- registration and verification of the data in information systems;
- collateral monitoring and reporting; and
- release of the security interests.

In managing its receivables, the BZ WBK Group carries out the process of collateral execution. The selection of appropriate actions leading to the enforcement of specific collateral depends on the type of the collateral (personal or tangible). In principle, the BZ WBK Group aims at voluntary (amicable) proceedings in the course of collateral enforcement. When there is no evidence of co-operation with a collateral provider, the BZ WBK Group's rights are fulfilled in compliance with applicable law and internal regulations in bankruptcy and enforcement proceedings.

The recovery process, including, inter alia, monitoring of high risk customers and debt collection, is delivered in-house or outsourced to dedicated third-party service providers. Additionally, as part of arrears management, the BZ WBK Group from time to time considers the sale of the NPL portfolio.

Credit Risk Stress Testing

Stress testing is a part of the credit risk management process used to evaluate the potential effects of specific events or the movement of a set of financial and macroeconomic variables or the change in risk profile on the BZ WBK Group's condition. Stress tests are composed of assessments of potential changes in loan portfolio quality when faced with adverse conditions. The stress test results are presented to the Credit Risk Panel of the Risk Management Forum. The process also delivers to the management information about the adequacy of the agreed limits and the internal capital allocation.

Calculation of Impairment

Loan impairment is reflected by impairment charges recognized in line with IAS/IFRS and Recommendation R, based on impairment indicators defined in accordance with the recommendation of the Basel Committee, International Accounting Standards (IAS 39) and Recommendation R. 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 (for individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses). Twice a year, the BZ WBK Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions and amendments to the BZ WBK Group's credit policies and recovery process.

Credit Risk Concentration

The BZ WBK Group adheres to the standards provided in the Banking Law with regard to the concentration of risk-bearing exposures with respect to a single entity or a group of entities connected in terms of capital or organization. As of 31 December 2012, pursuant to Article 71 of the Banking Law, the maximum limit for BZ WBK was PLN 2,088,483 thousand (25% of the BZ WBK Group's own funds).

The policy pursued by the BZ WBK Group aims at minimizing credit concentration risk by, for example, applying rules that are more rigorous than regulatory rules in this respect, which are set out in the large exposures policy. The effect of this policy is the maintenance of a high level of diversification of exposures towards individual customers.

The table below sets forth, as of the date indicated, the BZ WBK Group's ten largest credit exposures with respect to single named borrowers.

	As of 31 December 2012
	Credit exposure amount
	(PLN thousand) (audited)
Company 1	1,069,820
Company 2	856,560
Company 3	800,818
Company 4	737,274
Company 5	732,323
Company 6	600,485
Company 7	569,648
Company 8	534,007
Company 9	473,900
Company 10	456,112
Company 11	395,638
Company 12	372,921
Company 13	357,136
Company 14	339,034
Company 15	337,971
Company 16	272,144
Company 17	261,924
Company 18	250,630
Company 19	249,718
Company 20	240,741
Total	**9,908,804**

Source: Consolidated Financial Statements of BZ WBK

Industry concentration

The credit policy of the BZ WBK Group assumes diversification of credit exposure. The risk of a particular industry affects the value of the given exposure limit. In order to ensure adequate portfolio diversification and control of the risk of overexposure to a single industry, the BZ WBK Group provides funding to sectors and groups or capital units from a variety of industries.

The following table sets forth, as of the date indicated, information on the BZ WBK Group's industry concentration of crediting activities as of 31 December 2012.

	As of 31 December 2012
	Gross exposure amount
Industry	(PLN thousand) (audited)
Property	9,146,877
Manufacturing	5,362,394
Distribution	5,825,206
Agriculture	1,143,513
Construction	1,142,668
Financial sector	920,673
Energy	843,660
Transportation	821,831
Other industries	2,349,797
Total Business Loans	**27,556,619**
Retail (including mortgage loans)	**13,750,387**
BZ WBK Group portfolio	**41,307,006**
Other receivables (commercial bonds, reverse repo)	**104,755**
Total BZ WBK Group	**41,411,761**

Source: Consolidated Financial Statements of BZ WBK

Market Risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. Market risk arises in trading activity, as well as in the ordinary course of transacting business (exchange rate products, interest rate products and equity linked trackers). The BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally, the BZ WBK Group is exposed to market risk related to the active management of the balance sheet structure (assets and liabilities management).

The key objectives of the market risk policy pursued by the BZ WBK Group are to reduce the impact of interest and FX rate changes on the BZ WBK Group's profitability and market value and to increase income within the strictly defined risk limits while ensuring the BZ WBK Group's liquidity. The BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. Risk limits are periodically reviewed to align them with the BZ WBK Group's strategy and the current objectives of the BZ WBK Group.

BZ WBK has introduced market risk management and monitoring standards consistent with the standards of the Banco Santander Group. BZ WBK meets the regulatory requirements concerning risk management as well as the best market standards concerning front-office operations.

Credit Risk Management Organization

The Inter-Bank Transactions Department (ITD), a department of the Global Banking & Markets Division, is responsible for trading interest rate risk on the trading book and FX spot risk management.

The Assets and Liabilities Committee (ALCo) is responsible for the process of managing liquidity, financing and structural risk in the balance sheet and the interest rate risk on the banking book. It is supported by the Assets and Liabilities Management Department (ALMD), a department of the Financial Management Division, which executes transactions based on the orders and strategies of the ALCo. The management boards of the subsidiaries are responsible for managing, monitoring and controlling risk in reliance upon policies and standards implemented by BZ WBK. The level of risk generated by the subsidiaries is monitored by risk units and BZ WBK's committees.

The Risk Management Division is responsible for identifying, measuring, assessing, controlling and reporting market risk to which BZ WBK is exposed, as well as for providing an independent assessment of the adequacy and efficiency of the risk management control model applied by BZ WBK.

The Financial Risk Department (within the Risk Management Division) monitors the operations of units exposed to market risk. This department is responsible for, inter alia, implementing the market risk assessment and measurement methodologies at the BZ WBK Group, for developing risk management policies and standards, for reviewing the acceptable level of market and liquidity risk, for ongoing monitoring of limit utilization, and for ensuring the analysis of the risks deriving from new products.

The process described above is overseen by the Market Risk Panel of the Risk Management Forum, which approves and oversees the market risk measurement policy and methodologies in relation to the banking book and to the trading book, and is responsible for the allocation of limits.

Market risk generated by equity instruments, which exists in the brokerage house's portfolio (shares, stock exchange indices), is managed by Dom Maklerski BZ WBK and is supervised by the Market Risk Panel of the Risk Management Forum of BZ WBK.

Assessment methods

BZ WBK Group uses several methods to assess its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, while the methods used for the trading portfolio include: Value at Risk (VaR), stop loss, sensitivity measures (PV01) and stress tests. The risk assessment methodology is subject to independent, initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

VaR is determined by means of a statistical modeling process as the difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Dom Maklerski BZ WBK.

Due to the limitations of the VaR methodology, the BZ WBK Group augments it by stress tests and by sensitivity measurement that shows how position value changes in reaction to price/profitability movements.

Interest rate risk in the banking book

The interest rate risk in the banking book is the risk of the adverse impact of interest rate changes on the BZ WBK Group's income and the value of its assets and liabilities. The main source of interest rate risk are transactions entered in the bank's branches and in the business and corporate centers, as well as the transactions made in the money market by the Financial Management 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 from the interbank market. However, all positions that generate a repricing risk are transferred for management to the Financial Management Division, where the bank's dealers enter into transactions in the interbank markets so as to manage the overall interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The bank's subsidiaries also mitigate their exposure to the interest rate risk. If there is a mismatch between the repricing of assets and liabilities, the company enters into appropriate transactions via the standard bank accounts held with the bank or makes derivative transactions with the bank, which from the transaction date manages the risk as part of the global limit of the BZ WBK Group.

The management, monitoring and control of the banking book risk exposure are based on the following measures:

- Net interest margin (NIM), which is the difference between the return on assets and the financial cost of liabilities. The effect of fluctuations in interest rates on NIM is reflected by changes in the value of income statement and balance sheet items.
- Market value of equity (MVE): MVE sensitivity is a measure that supplements NIM sensitivity. It measures the effect of the interest rate risk related to equity (own funds) by reference to the effect of fluctuations in interest rates on the current value of financial assets and liabilities. This measure is calculated as the difference between the current net value of assets and the current net value of liabilities.

The process of determining limits for the banking book and for the trading book, and that of validating the acceptable market risk level, is performed annually, simultaneously with the process carried out within the Banco Santander Group, and is coordinated by the Financial Risk Department.

The interest rate risk in the banking book is managed based on the following limits:

- NII sensitivity limit (i.e. sensitivity of the net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (i.e. sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

The Financial Risk Department is responsible for measuring NIM and MVE at the end of each month, and comparing the measures against the set limits. The results are presented in the reports for ALCo and the Risk Management Forum.

The sensitivity measures for 2012 are presented in the table below.

	NII Sensitivity	MVE Sensitivity
One day holding period	**31.12.2012**	**31.12.2012**
Maximum	90	140
Average	48	70
as of the end of the period	90	131
Limit	**75**	**150**

Source: Consolidated Financial Statements of BZ WBK

In 2012, the NII limit was exceeded. The excess was reported to Management Board, Supervisory Board and Banco Santander Group.

Interest rate risk in the trading book

The trading book contains proprietary trading transactions executed to profit from spreads between the actual and forecasted prices, FX rates, stock indexes bid/ask spread, or to hedge against various types of risk. The trading book also contains transactions effected to hedge the risk deriving from trading transactions. In the case of trading book management, the BZ WBK Group intends to, after the Merger, to continue to apply a conservative approach to risk both in terms of the size of exposures and the types of products traded.

The Head of the Rates Area within BZ WBK Global Banking and Markets is responsible for managing the interest rate and FX risks, the risk of equity instruments and credit spread. The president of Dom Maklerski BZ WBK is responsible for managing the price risk of equity instruments acquired under Dom Maklerski BZ WBK's proprietary trading.

The trading book is managed within the following limits:

- daily Value at Risk (VaR) calculated for interest and FX exposures under the Banco Santander Group's standard;
- PV01 limit set for each currency and defined re-pricing time buckets;
- maximum limit of total FX position as well as individual currencies open position limit;
- stop-loss limits set at the "desk" level.

The Financial Risk Department (the "**FRD**") is responsible for daily measurement of the market risk exposure and comparing it against the set limits. In addition, the FRD is responsible for reporting on dealer performance, for the purpose of measuring trading effectiveness, and identifying any stop-loss limit breaches. Its reports are submitted to the management of the Risk Management Division, the management of the Treasury Area, the chief dealers of the desks that manage the trading portfolio and the relevant risk units in the parent entity. The trading portfolio risk exposures are presented monthly in a report to the Risk Management Forum. A summary of the market risk exposure on the banking and trading portfolio is presented in a monthly report to the Supervisory Board.

The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

VaR is calculated for the open positions of the Global Banking and Markets by establishing the difference between the market valuation of the interest rate transactions based on the current yield curves, and the valuation based on the 'worst case' yield curve, which is calculated based on the fluctuations in the interest rates.

The 'stop-loss' mechanism is used for managing the risk of losses on the items covered by the rules of fair valuation through profit and loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of the materialization of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The table below shows risk measures at the end of 2012 for a one-day position holding period. Due to the change in the rules of market risk management and the change of VaR calculation methodology, this data is not comparable with the 2011 data.

Interest rate risk	VAR
1 day holding period	**31.12.2012**
Average	2.089
Maximum	5.261
Minimum	165
as of the end of the period	745
Limit	**7.749**

Source: Consolidated Financial Statements of BZ WBK

FX Risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in BZ WBK's trading portfolio. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of the materialization of stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, a stop-loss mechanism is used for managing the risk of losses on the trading positions.

In accordance with its policy, the BZ WBK Group does not maintain open positions on currency options. Transactions made with clients are immediately closed in the wholesale market, thus limiting the BZ WBK's exposure to the market risk on the currency options portfolio.

Open positions of subsidiaries (excluding Dom Maklerski BZ WBK) are negligible and are not included in the daily risk assessment. Dom Maklerski BZ WBK has been granted an FX VaR limit, used for managing the open positions linked to market-maker activity.

The table below illustrates the risk measures at the end of December 2012. Due to the change in the rules of market risk management and the change of VaR calculation methodology this data is not comparable with the 2011 data.

	As of 31 December 2012	
FX risk	**VAR**	**VAR Dom Maklerski BZ WBK**
	(PLN thousand)	**(PLN thousand)**
1-day holding period		
Average	613	3.8
Maximum	1,542	8.9
Minimum	142	1.4
as of end of the period	382	5.0
Limit	1,550	102.3

Source: Consolidated Financial Statements of BZ WBK

In 2012, the FX structure of the credit assets and deposit liabilities remained relatively unchanged. However, given the values expressed in original currencies, a net assets decrease was noted. The FX gap was financed mainly by the FX swap transactions and cross-currency swaps. The table below shows the currency split of BZ WBK Group's main positions as of 31 December 2012.

	As of 31 December 2012				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS					
Cash and balances with central banks	3,813,867	261,539	6,911	74,957	4,157,274
Loans and advances to banks	177,431	923,101	21,087	336,509	1,458,128
Loans and advances to customers	27,630,869	9,334,513	2,051,604	850,568	39,867,554
Investment securities	11,011,199	704,934	—	—	11,716,133
Selected assets	**42,633,366**	**11,224,087**	**2,079,602**	**1,262,034**	**57,199,089**
LIABILITIES					
Deposits from banks	735,899	587,583	2,771	24,797	1,351,050
Deposits from customers	40,622,210	5,106,393	60,863	1,287,628	47,077,094
Subordinated liabilities	—	409,110	—	—	409,110
Selected liabilities	**41,358,109**	**6,103,086**	**63,634**	**1,312,425**	**48,837,254**

Source: Consolidated Financial Statements of BZ WBK

Equity Investment Risk

The entity responsible for equity price risk management is Dom Maklerski BZ WBK. The sources of this risk are transactions executed on its own account via stock exchanges and MS CTO (shares, futures). This risk is measured using a VaR model based on the historical method.

The process of managing the market risk in Dom Maklerski BZ WBK is supervised by the BZ WBK Market Risk Committee. The Committee's responsibilities include the allocation of the VaR limit to Dom

Maklerski BZ WBK and the approval of changes in the risk measurement methodology and in the risk management process.

The table below presents the equity risk levels as of 31 December 2012.

Equity risk	As of 31 December 2012 VAR Dom Maklerski BZ WBK (PLN thousand)
1-day holding period	
Average	697
Maximum	3,074
Minimum	72
as of end of the period	138
Limit	4,029

Source: Consolidated Financial Statements of BZ WBK

Liquidity Risk

Liquidity risk is defined as the risk of failure to meet all conditional and unconditional obligations towards customers and counterparties.

Liquidity Risk Management

The liquidity management policy of the BZ WBK Group is designed to:

- ensure the availability of funds to meet claims arising from asset commitments and liability demands, both current and future, at an economic price;
- manage the structural balance sheet mismatch;
- set a scale of the liquidity risk appetite in the form of various internal limits;
- ensure the proper organization of the liquidity management process across the BZ WBK Group;
- prepare the organization for the occurrence of adverse factors, either external or internal; and
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by the BZ WBK Group in the liquidity management process is that all outflows occurring within one month in respect of deposits, current funds, loan drawdowns, guarantee payments and settlements of transactions should be at least fully covered by anticipated inflows or Qualified Liquid Assets (QLA), assuming normal or predictable conditions for BZ WBK's operations. The key categories of Qualified Liquid Assets (QLA) recognized in BZ WBK are: cash on hand, cash deposited with the NBP, and securities which may be sold or pledged under repo transactions or NBP lombard loans.

In addition, the policy aims at ensuring an adequate structure of funding the growing scale of the BZ WBK Group's 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 regards 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 loan portfolio and non-liquid assets (e.g. fixed assets).

Management and Reporting

The responsibility for the management of liquidity risk and financing rests with the ALCo and with the member of the Management Board exercising supervision over the finance division (i.e. the CFO), within which the assets and liabilities management department operates. The CFO is responsible for managing the liquidity of BZ WBK on a daily basis and for ensuring that liquidity level is consistent with the limits therefor. 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 with the parent. This means that the companies' entire cash flow is routed through BZ WBK. Short- and long-term financing of the companies' operations (particularly in the case of leasing companies) is closely supervised by the parent company. BZ WBK supports the subsidiaries in long-term transactions.

The BZ 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 responsibility for independent monitoring and control of risk rests with the Risk Management Forum and with the member of the Management Board whose appointment to the Management Board is approved by the PFSA and who exercises supervision over the Risk Management Division (i.e. the CRO), within which the Financial Risk Department operates.

The Market Risk Panel of the Risk Management Forum is responsible for, inter alia: the development of the liquidity risk management policy of the BZ WBK Group; the approval of rules and standards regarding the liquidity risk management process; the approval of liquidity risk limits; the monitoring of liquidity risk exposure across the BZ WBK Group, taking into account the use of limits; and other parameters and indices.

The financial risk management department is responsible for, inter alia: the development of the liquidity policy and recommendation thereof to the Risk Management Forum; the independent measurement, monitoring and reporting of liquidity risk measures and limits, and reporting information to the Risk Management Forum and ALCo about the use of such limits; the independent measurement, monitoring and reporting of the daily liquidity status of BZ WBK in reliance upon internal measures and regulatory measures; and for the implementation of liquidity monitoring mechanisms at the subsidiaries.

Risk Assessment

Liquidity is calculated by using a modified liquidity gap, which is determined separately for PLN and FX positions. Pursuant to the liquidity policy, the reported contractual positions are subject to various modifications based on statistical behavior of deposit and credit base, the possibility of selling or establishing a pledge over State Treasury securities under repo transactions or NBP lombard loans and the 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 the minimum values of ratios for periods of up to one week and one month. The ratios are set both for PLN and FX. In the case of a shortage of PLN or FX, a PLN or FX surplus may be converted accordingly to cover such shortages. However, the value of such conversion is limited by the assessed current capacity of the wholesale market.

The table below presents a contractual gap analysis based on remaining maturity time as of 31 December 2012.

	As of 31 December 2012							
	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	4,157,274	—	—	—	—	—	—	4,157,274
Loans and advances to banks	1,448,023	—	10,101	4	—	—	—	1,458,128
Financial assets held for trading	124,597	67,040	315,953	120,358	97,806	92,260	13,701	831,715
Loans and advances to customers	3,657,446	3,536,697	8,319,223	10,554,442	5,984,488	9,359,465	(1,544,207)	39,867,554
Investment securities	2,099,256	—	2,743,139	1,752,017	3,881,162	572,450	668,109	11,716,133
Other items	—	—	—	—	—	—	1,988,373	1,988,373
Long position	**11,486,596**	**3,603,737**	**11,388,416**	**12,426,821**	**9,963,456**	**10,024,175**	**1,125,976**	**60,019,177**
Deposits from banks	1,032,117	234,192	84,741	—	—	—	—	1,351,050
Financial liabilities held for trading	120,729	77,054	160,611	187,156	114,286	68,995	—	728,831
Deposits from customers	29,403,871	6,477,429	9,718,649	408,507	46,009	1,022,629	—	47,077,094
Subordinated liabilities	4,378	—	—	—	—	404,732	—	409,110
Other items	—	—	—	—	—	—	10,453,092	10,453,092
Short position	**30,561,095**	**6,788,675**	**9,964,001**	**595,663**	**160,295**	**1,496,356**	**10,453,092**	**60,019,177**
Gap—balance sheet	**(19,074,499)**	**(3,184,938)**	**1,424,415**	**11,831,158**	**9,803,161**	**8,527,819**	**(9,327,116)**	**—**
Contingent liabilities-sanctioned								
Financing related	160,468	527,386	3,168,368	2,041,461	1,315,048	3,646,092	(15,960)	10,842,863
Guarantees	42,129	111,557	1,117,208	508,840	124,938	317,079	(659)	2,221,092
Derivatives settled in gross terms								
Inflows	3,762,151	2,108,001	2,432,156	5,690,297	3,578,758	1,958,704	—	19,530,067
Outflows	5,242,802	2,607,920	2,912,675	5,687,380	3,690,862	1,943,246	—	22,084,885
Gap—off-balance sheet	**(1,683,248)**	**(1,138,862)**	**(4,766,095)**	**(2,547,384)**	**(1,552,090)**	**(3,947,713)**	**16,619**	**—**

Source: Consolidated Financial Statements of BZ WBK

The table below presents a modified liquidity gap analysis as of 31 December 2012.

	As of 31 December 2012		
Liquidity risk	**<1W**	**<1M**	**>1M**
Qualifying Liquid Assets	11,625,907	22,316	2,557,625
Treasury inflows	1,601,209	4,227,328	10,623,160
Other inflows	2,923,994	436,793	37,197,905
Treasury outflows	(1,238,695)	(4,380,125)	(11,211,499)
Other outflows	(5,246,928)	(276,015)	(48,862,975)
GAP	**9,665,487**	**30,297**	**(9,695,784)**
Cumulative GAP	**9,665,487**	**9,695,784**	**—**

Source: Consolidated Financial Statements of BZ WBK

Independently, parallel to BZ WBK's own quantitative methods, liquidity is measured in accordance with PFSA resolution No. 386/2008 on the liquidity standards applicable to banks.

Liquidity measurement is supplemented with liquidity stress tests, which are used to assess the exposure to liquidity risk and the maximum funding requirement if the assumed scenarios materialize over a medium and longer term base.

Operational Risk

The BZ WBK Group adopted the definition of operational risk from the Basel Committee on Banking Supervision which states that an operational risk is exposure to losses resulting from inadequate internal processes or systems, human errors or external factors. After the Merger the BZ WBK Group will apply all the operational risk management policies, standards and tools used in the BZ WBK Group.

Operational risk is inherent in almost all of the BZ WBK Group's business activities, including the outsourced functions or services provided jointly with third parties. The responsibility for the management of operational risk of the respective units rests with the heads of the business and support units. However, the prime responsibility lies with all employees of the BZ WBK Group as part of the tasks arising from their work role or the first line of defense. The objective of operational risk management is to minimize the likelihood of unexpected adverse events.

In order to manage operational risk, the BZ WBK Group maintains an operational risk policy and operational risk framework, both of which are subject to regular review. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Department ensures the independent monitoring of operational risk across the BZ WBK Group. Its role is also to develop operational risk management methodologies, ensure best practices and tools and provide the BZ WBK Group's executives with management information.

The operational risk management framework is made up of the following arrears, processes and tools:

- Operational risk self-assessment, looking at the processes, controls, valuation of inherent and residual risks. Additionally, the assessment of risk and controls as part of scenario analyses.
- Reporting and monitoring of operational incidents and losses (including near misses), as well as a lessons-learned process aimed at enhancing controls and improving processes and procedures.
- Operational risk monitoring based on a suite of indicators, such as operational risk appetite or key risk indicators.
- Fraud prevention processes, including the relevant standards and controls embedded in the business processes, as well as awareness-building initiatives and implementation of best practices.
- Information security management and data protection: specifically, the information subject to banking secrecy or personal data, ensuring integrity and availability of data supporting the business processes. The information security system is scoped for ISO27001 certification.
- Business continuity management, including processes, IT systems, premises and staff, based on comprehensive continuity planning (BCM and DR plans) and regular testing.

- Outsourcing risk management, including analysis of the standing of a vendor and operational risk, business continuity of processes, regular monitoring of quality and security of agreements and the given vendor.
- Insurance coverage for unexpected operational incidents and losses, including civil liability insurance for staff and executives.

Delivery of the operational risk management policy is monitored by the ORMCo. The ORMCo, which is appointed by the Management Board, sets the strategic direction for operational risk activities, including in the area of BCM, information security and fraud prevention. The ORMCo is a forum for official discussions on operational risk, and determines and monitors operational risk management objectives and sets priorities with regard to high risks. The effects of this work are reported to the Risk Management Committee.

Identification and estimation of operational risk

In their operational risk self-assessment process, organizational units identify risks present in their processes, systems or products, assess inherent and residual risks for the likelihood and consequences thereof and describe the existing controls. Potential threats to BZ WBK's business are identified as part of the operational risk self-assessment review which is reported to the ORMCo by the particular units after conducting a review. Risks with a high residual rating have appropriate action plans developed, the progress of which 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 is used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are utilized and that preventive and corrective measures are implemented. The lessons-learned process is a tool which aims to reinforce and facilitate operational risk management; it also ensures that decisive steps are taken if operational incidents materialize.

Analysis of risk indicators

Risk indicators are financial and operational indicators that depict the risk level present in the BZ WBK Group and provide an early warning of emerging threats and operational losses.

Business continuity management (BCM)

Each organizational unit is required to develop and update its business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption due to the unavailability of systems, premises and/or 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 back-up locations where critical processes can be restored and continued should an incident occur.

Regular reporting to the Risk Management Committee and the Supervisory Board

Operational risk issues are reported to the Risk Management Committee and the Supervisory Board, including: operational risk incidents and losses, risk indicators, and operational risk self-assessment.

Insurance

The insurance cover held by BZ WBK and the Subsidiaries includes, inter alia: bankers bond, computer crime and officers and directors.

Legal and Regulatory (Non-Compliance) Risk

In line with the Basel Committee's recommendations, legal and regulatory (non-compliance) risk is defined as the risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by the BZ WBK Group as a result of a failure to comply with applicable laws, standards or codes of conduct applicable to its business.

Risk Identification and Assessment

Within the BZ WBK Group several bodies have been assigned to manage individual processes.

The scope of the legal and compliance division's responsibilities relates to 'conduct of business' compliance obligations, including protection of customers' rights, anti-money laundering actions, and the protection of sensitive information and personal data. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to persons with specialist knowledge in those areas.

All issues regarding compliance with employment law are assigned to the HR management division, taxation law and reporting requirements to the Accounting and Financial Control Division, and prudential regulation to the Accounting and Financial Control Division and the Risk Management Division in the respective aspects thereof.

Risk management and controls

The Management Board adopted a policy statement on compliance with legal and regulatory obligations which was subsequently approved by the Supervisory Board. The policy mandates the compliance division and ensures its sufficient independence to support the management in effective compliance risk management. The compliance division reports any issues to the Risk Management Committee, to the Audit and Compliance Committee, and to the Supervisory Board.

The Audit and Compliance Committee performs periodic reviews of the key non-compliance issues identified by the compliance division in the course of the performance of its advisory and monitoring functions, inter alia, in terms of business unit operations, regulatory activities, future legislative initiatives, as well as customers complaints.

The Risk Management Committee ensures the execution of applicable regulations and approves the principles of internal control and compliance policy framework. It also ensures the independence of and sufficient resources for the compliance division.

In particular, the compliance unit's major responsibilities include (subject to the specific responsibilities of the finance management division, the accounting and financial control division, the risk management division and the HR division):

- independent identification, assessment and monitoring of compliance risk to which the BZ WBK Group is exposed (with special focus on new or modified products and issues related to confidential information, conflicts of interests and insider trading);
- providing advice and reporting to the Risk Management Committee, the Management Board and the Audit Committee on the effectiveness of the processes established to ensure compliance with applicable law and regulations within their scope;
- providing advice and guidance to the management and staff on compliance risk and on appropriate policies and procedures to mitigate such risk; and
- acting as central contact point for market regulators (the PFSA, the Antimonopoly Office, the General Inspector of Financial Information and the General Inspector for the Protection of Personal Data).

The management of the legal and regulatory (non-compliance) risk is coordinated by the compliance division, which reports to a member of the Management Board. On the BZ WBK Group level, this division oversees and co-ordinates (to the extent permitted by applicable law) the non-compliance risk management process through the relevant units operating at the subsidiaries.

Risk Monitoring and Reporting

The compliance division undertakes risk-based monitoring of compliance with the relevant policies, procedures, regulatory obligations and best practices. Monitoring can be undertaken by a dedicated risk and compliance monitoring office and compliance officers in indicated units and capital market subsidiaries, as well as by staff of other controlling units acting on behalf of the compliance division (in the branch network).

Risk prioritized annual compliance monitoring plans are prepared based on the risk assessment process. Monitoring is focused particularly on issues connected with monitoring the compliance with the MiFID.

The annual monitoring plan, which is approved by the Audit and Compliance Committee, is reviewed on a regular basis and updated to reflect new risk types, changes in the assessment of previously identified risk 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 division. The implementation of these action plans is monitored by the compliance division.

The information contained in this section has been extracted from publicly available documents and information. The source of any external information is always given if such information is used. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources, such as the PFSA or government publications, no independent verification of such has been carried out by BZ WBK or the Managers or any of their affiliates or BZ WBK's advisors in connection with the Offering. BZ WBK does not intend to, and does not warrant to, update the data concerning the market or the industry as presented in this section, subject to the duties resulting from generally binding regulations.

The Polish Economy

General Economic Situation

The Polish economy is one of the fastest developing economies in the EU. Poland, with 38.5 million residents as of 31 December 2011, is the sixth largest EU country by population. With a nominal GDP of EUR 370 billion in 2011 (according to Eurostat), it is the ninth largest EU economy. The Polish economy has recently experienced strong growth in comparison to other European countries: in 2010, Poland recorded GDP growth of 3.9%, which increased to 4.3% in 2011. Moreover, in 2009 Poland was the only country within the European Union to achieve positive GDP growth (according to Eurostat). The Polish economy continued to expand at a healthy rate in early 2012, and recorded a GDP growth of 2.0%, according to initial estimates from GUS.

Eurostat projects Polish real GDP growth of 1.2% in 2013, compared to 0.1% for the EU. The expected slower pace of growth in GDP in 2013 is mainly due to an expected slowdown in the growth of investments (including slower growth in public investments, which have contributed to GDP growth in recent years) and consumption.

The Polish government is successfully reducing the budget deficit, which, according to Eurostat, fell from 7.4% of GDP in 2009 to 5.0% of GDP in 2011 and according to estimates of the European Commission is expected to decrease to 3.5% in 2012. The country's economic performance is underpinned by a stable political and regulatory environment, strong domestic demand and a flexible foreign exchange rate regime.

The following table shows GDP, real GDP growth rate, population and government deficit for 2011 for the ten largest countries in the EU by GDP.

Rank[(1)]	Country	Nominal GDP	Real GDP Growth Rate	Population	Government Surplus (Deficit) as a percentage of GDP
		(EUR billion)	(%)	(million)	(%)
1	Germany	2,593	3.0	81.8	(0.8)
2	France	1,997	1.7	65.3	(5.2)
3	United Kingdom	1,747	0.9	63.0	(7.8)
4	Italy	1,580	0.4	60.8	(3.8)
5	Spain	1,063	0.4	46.2	(9.4)
6	Netherlands	602	1.0	16.7	(4.4)
7	Sweden	388	3.7	9.5	0.2
8	Belgium	370	1.8	11.1	(3.9)
9	Poland	370	4.3	38.5	(5.0)
10	Austria	301	2.7	8.4	(2.5)

Source: Eurostat

(1) Rank by GDP

The Polish economy is well diversified, with no single sector accounting for more than 30% of Poland's total GDP in 2011.

As of the date of this Offering Memorandum, Poland's long-term foreign currency credit rating according to Moody's is "A2" (stable outlook), according to Fitch is "A-" (positive outlook) and according to S&P's is "A-" (positive outlook). Trading levels of Poland's Sovereign Credit Default Swaps ("**CDSs**"), widely considered a measure that reflects the market's perception of sovereign risk, have been affected by global macroeconomic and market developments, including the market downturn related to the indebtedness crisis in the Eurozone. Notwithstanding that, Poland's CDSs during the above-mentioned period traded more in line with the resilient Eurozone economies, not having experienced the dramatic increase observed in Italy, Spain, Ireland, Portugal and Greece. In the last months of 2012, the price of Poland's Sovereign CDSs decreased; however, since the beginning of 2013, they have slightly increased.

The Polish government is planning to reduce its structural fiscal deficit through various initiatives, which include further changes to the pension system, selective increases of taxes, planned limits on local authorities' spending and the continuation of the privatization program. The aim of these measures is to ensure that the ratio of national debt to GDP stays below 60%, which is required under the Constitution of the Republic of Poland and is one of the eligibility criteria for accession to the Eurozone. According to data from GUS, the ratio of national debt to GDP amounted to 56.4% in 2011.

Inflation and Interest Rates

After a period of interest rate increases throughout 2011 which totaled 100 basis points, the Monetary Policy Council continued its contractionary monetary policy in the first three quarters of 2012, having raised the reference interest rate by 25 basis points in May 2012. The increases were in response to a lower than expected decrease of inflation and a limited slowdown in the economy. In view of the deterioration in business conditions in the second half of 2012, the Monetary Policy Council resolved, in November 2012 and December 2012, to ease the monetary policy and to decrease the reference interest rate by 50 basis points in total to 4.25%. In January 2013, the Monetary Policy Council resolved to further decrease the reference interest rate by 25 basis points to 4.00%. The Monetary Policy Council continued its cycle of easing the monetary policy in February 2013 and March 2013, which resulted in the reference rate being set at 3.75% and 3.25%, respectively. Moreover, the Monetary Policy Council stated in March 2013 that the decision it took in such month was part of a cycle of monetary policy easing which commenced in November 2012.

The table below shows the inflation rate and the NBP's reference rate for the period of three years ending on 31 December 2012.

Category	2012	2011	2010
Inflation rate (%)[1]	3.7	4.3	2.6
Reference rate (%)[2]	4.25	4.5	3.5

Source: NBP, GUS

(1) Average through the period

(2) As of the end of each particular period

As of the date of this Offering Memorandum, the reference interest rate was 3.25%. High NBP interest rates have translated into higher rates in the interbank market: on 31 December 2012, the WIBOR 3M rate was 4.11%.

The Polish Banking Sector

Structure of the Polish Banking Sector

The Polish banking market operates as a two-tiered system (*i.e.* commercial and co-operative banks). In the period from December 2010 to December 2011, there were no significant changes in the number of banks and branches of foreign credit institutions operating on the Polish market. According to data from the PFSA's data, as of the end of 2010 a total of 646 banks and branches of foreign credit institutions were operating in Poland, a number which fell to 642 as of the end of 2011. As of the end of 2012, the total number of banks and branches of foreign credit institutions operating in Poland was 641. As of 31 December 2012, there were 45 domestic commercial banks, 24 branches of foreign credit institutions and 572 co-operative banks operating in Poland.

The table below presents the number of banks and branches of foreign credit institutions conducting business activities.

	2012	2011	2010
Total, including:	**641**	**642**	**646**
Domestic commercial banks	45	47	49
Branches of foreign credit institutions	24	21	21
Cooperative banks	572	574	576

Source: PFSA's monthly data on the banking sector—December 2012

According to data from the PFSA data, as of the end of December 2012, banks with a majority of private capital dominated constituting 90% (577 entities) of all banking institutions operating in Poland. The sector is characterized by a significant presence of international banks, and currently seven out of the ten largest commercial banks (by a number of branches) are controlled by foreign parents.

The improving macroeconomic conditions, the constant development of banking activities and increasing demand for financial services all contributed to an increase in the number of branches. In the period from December 2010 to December 2011, the number of bank branches increased by 158 new locations and amounted to 7,087. In 2012, the number of bank branches increased by 282 locations and amounted to 7,369 as of the end of 2012.

Competitive Landscape of the Polish Banking Sector

The level of competition in the Polish banking sector is relatively high due to its low level of concentration. Among the other factors having an impact on competition is a recent trend for consolidation: e.g. the merger of BPH S.A. and GE Money Bank S.A. in 2009; the acquisition of AIG Bank Polska by Santander Consumer Bank in 2009; the acquisition of GMAC Bank Polska by Getin Bank in 2010; the finalization of the purchase of Bank Zachodni WBK by the Banco Santander Group in 2011; the finalization of the purchase of Allianz Bank Polska by Getin Noble Bank in 2011; the finalization of the sale of Polbank EFG S.A. by EFG Eurobank Ergasias to Raiffeisen Bank International in 2011; the merger of BZ WBK and Kredyt Bank in 2013; the acquisition of Dexia Kommunalkredit Polska by Getin Noble Bank S.A. in 2013; and the acquisition of the retail operations of DnB Nord Polska by Getin Noble Bank S.A. in 2013.

The table below shows the Herfindahl index (used for measuring concentration ranging from 0 to 10,000, where a higher value of the index shows higher concentration) and the share of the total assets of credit institutions in the countries of the European Union (based on 2011 data).

Country	Herfindahl index (index points)	Share of the assets of the five largest credit institutions in total assets (%)
Finland	3,700	80.9
Estonia	2,613	90.6
Netherlands	2,061	83.6
Lithuania	1,871	84.7
Belgium	1,294	70.8
Greece	1,278	72.0
Slovakia	1,268	72.2
Portugal	1,208	70.8
Malta	1,203	72.0
Denmark	1,192	66.3
Slovenia	1,142	59.3
Cyprus	1,057	61.5
Czech Republic	1,014	61.8
Latvia	929	59.6
Romania	878	54.6
Sweden	863	57.8
Hungary	849	54.6
Ireland	800	53.2
Bulgaria	766	52.6
France	601	48.3
Spain	596	48.1
Poland	**563**	**43.7**
United Kingdom	523	44.1
Austria	423	0.4
Italy	407	39.5
Luxembourg	346	31.2
Germany	317	33.5

Source: ECB

(1) Ranked by GDP

The concentration ratio of the Polish banking sector, measured by the share of total assets of the five largest banks in the total assets of the sector, as of the end of 2012 amounted to 44.9%, and the share of the five largest banks in the deposits and loans to the non-financial sector amounted to 44.2% and 39.1%, respectively, according to PFSA data. The concentration ratio in 2012 increased by 0.6 p.p. compared with 2011 in terms of total assets. In terms of deposits, the concentration decreased by 1.2 p.p. as compared with 2011. In terms of loans to the non-financial sector, the concentration has not changed as measured by the loans to non-financial sector of the five largest banks.

The table below presents the market concentration of the five largest banks.

	As of 31 December		
	2012	2011	2010
		(%)	
Assets	44.9	44.3	43.9
Deposits	44.2	45.4	46.5
Loans to non-financial sector	39.1	39.1	39.2

Source: PFSA

During the financial crisis in 2008 and 2009, Polish banks were forced to seek alternatives to foreign funding sources to enable them to continue their lending activity. In conjunction with the erosion of trust caused by the financial crisis, which restricted the availability of funding from the Polish interbank market, this development led to an increased focus of banks on gaining access to funding from deposits. This trend resulted in strong competition on the savings product market (known as the 'deposit war'). During 2010, the banks' competition for deposits became less fierce as banks had built considerable liquidity buffers, credit activity slowed down and financial market conditions eased. An escalation of competition for deposits also took place in 2012 and was connected with the changes in tax regulations which previously allowed banks to sell term deposit products to individuals under which capital gains were effectively not subject to taxation in the hands of the deposit holders. The banks' operations were aimed at attracting new customers and maintaining existing customers who, as a consequence of the legislative changes, were deprived of the possibility to keep money on tax-preferred, short-term deposits.

In 2009, competition between banks on the credit market generally decreased. Due to greater credit risks caused by worsening macroeconomic conditions, the majority of banks maintained restrictive credit policies. However, signs of improvement in the macroeconomic environment, both globally and domestically, resulted in a gradual easing of the credit policies of banks and an increase in competition with regard to mortgage loans and credit for local governments in 2010. However, retail lending growth during 2011 was negatively impacted by the implementation of the PFSA's Recommendations S and T, as well as by a change of the criteria for the "*Rodzina na swoim*" program (a government program providing an eight-year interest repayment subsidy on eligible new mortgages granted by commercial banks, aimed at increasing mortgage availability for young families, singles and single parents). At the same time, as the economy began to recover demand for business loans increased and banking sector balances started to record growth. Corporate lending was driven predominantly by investments in upgrading existing production capacity and infrastructure rather than new development projects.

Operating and Financial Review of the Polish Banking Sector

The table below presents the basic financial data for the banking sector.

	As of 31 December		
	2012	**2011**	**2010**
		(PLN billion)	
Polish banks' aggregate assets	1,353.1	1,294.6	1,159.4
Deposits from the non-financial sector	724.0	698.6	620.4
Loans to the non-financial sector	810.3	800.7	698.5

Source: PFSA

Total assets

The main structural driver for significant growth, both in the value of deposits and customer loans, is the low level of banking intermediation in Poland compared with other EU Member States. The banks' aggregate assets in the Polish banking sector as of 31 December 2010 amounted to 81.8% of Poland's GDP for the year compared with the average in the Eurozone of approximately 350%. Based on data from the PFSA, this value increased to approximately 85% in 2011.

As of 31 December 2012 and 31 December 2011, the total assets of the banking sector amounted to, respectively, PLN 1,353.1 billion and PLN 1,294.6 billion and were, respectively, 4.5% and 11.7% higher than as of 31 December 2011 and 31 December 2010 when they amounted to, respectively, PLN 1,294.6 billion and PLN 1,159.4 billion.

Loans

The "*Conditions on the credit market*" survey of 29 banks conducted by the NBP with regard to the expectations for the first quarter of 2013 conducted in December 2012 and January 2013 revealed certain trends which are discussed below. According to the survey, the banks had tightened their credit policies as regards businesses (in particular in the SME segment), especially in respect of margins and required collateral, and further tightening is expected, especially with regard to long-term loans. Demand from businesses for long-term loans decreased slightly. The banks have tightened the terms and conditions for consumer loans and increased margins thereon; as a result, demand for consumer loans has decreased recently, and a further decrease is expected in the first quarter of 2013. The unfavorable forecasts for the housing market had an additional impact on the changes in credit policy in respect of housing loans. The banks have tightened their credit policy and increased margins. Demand for housing loans has not changed significantly (on a net basis), but considerable variation in responses has been reported. A further decrease in demand for housing loans is expected in the first quarter of 2013. According to the banks, such situation has occurred mainly due to unfavorable forecasts for the housing market and changes in household consumption expenditure.

In 2011, the trend of the decreasing value of loans to businesses was reversed (compared with 2010 the value of loans granted to businesses increased by 20.4%). On the other hand, loans to households decreased. In 2012, the trend was continued; however, the rate of increase dropped.

	31 December (PLN billion)			Change (%)	
	2012	2011	2010	2012/2011	2011/2010
Loans to the non-financial sector	810.3	800.7	698.5	1.2	14.6
—to businesses	272.2	264.5	219.7	2.9	20.4
—to households:	533.2	532.0	475.4	0.2	11.9

Source: The PFSA

Amounts due from households constitute the majority of amounts due from non-financial entities. As of the end of 2011, net amounts due from households comprised 66.4% of gross amounts due from the non-financial sector and 41.1% of the banks' total assets. A year earlier, amounts due from households represented 68.1% of gross amounts due from the non-financial sector and 41.0% of the banks' total assets. Thus, the scale of changes during one year is insignificant. In 2012, no significant changes occurred in this respect, i.e. as of the end of 2012, amounts due from households accounted for 65.8% of gross amounts due from the non-financial sector and 39.4% of the assets of banks. This direction of changes in the structure of amounts due from non-financial entities corresponds with the trends currently prevailing in the banking sector of developed countries. However, the predominance of loans to households (additionally growing from year to year) in the total loans to non-financial entities is unusual for EU banking systems.

The relatively rapid growth in loans to households was also possible due to the co-operation of many banks with financial intermediaries. In the opinion of the Association of Financial Advisory Firms (*Związek Firm Doradztwa Finansowego; the "**ZFDF**"*), the companies which were members of the ZFDF intermediated in the granting of mortgage loans amounting to nearly PLN 16.9 billion in 2011. A year before, as a result of the co-operation of those entities (with the exception of Open Finance) with banks, mortgage loans amounting to almost PLN 6.3 billion were granted.

The table below shows the breakdown of loans granted to households.

	31 December (PLN billion)			Change (%)	
Breakdown of loans granted to households	2012	2011	2010	2012/2011	2011/2010
Total	533.2	532.0	475.4	0.2	11.9
Breakdown by product					
Housing	321.7	319.0	267.5	0.8	19.2
—in PLN	143.4	121.2	98.2	18.4	23.3
—in foreign currencies	178.3	197.8	169.3	(9.9)	16.9
Consumer (individuals)	123.4	130.3	134.1	(5.3)	(2.8)
—credit cards	12.6	13.5	14.7	(7.0)	(8.1)
—car installment loans	5.7	6.8	7.7	(16.1)	(12.4)
—other installment loans	41.2	45.9	46.4	(10.4)	(0.9)
—other consumer loans	64.0	64.1	65.3	(0.2)	(1.8)
Other	88.1	82.7	73.9	6.6	11.9
—operating	31.0	27.1	23.3	14.4	16.3
—investment	28.8	28.8	25.1	0.2	14.6
—other real property	9.6	8.8	8.1	8.4	9.1
—other amounts due	18.8	18.0	17.4	4.3	3.6

Source: PFSA

Improvement in the economic position of Poland in 2011 led to the increased interest of businesses in incurring new liabilities. Relatively large increases were noted in all loan segments. After several years of stability, loan volumes started growing dynamically. Growth in the amounts of operating and investment loans granted to SMEs, which in 2011 grew by 24.4% and 35.1%, respectively, was of key importance. Enterprises did not face problems related to the availability of loans: a relatively high level of acceptance of loan applications was maintained and the ratio has grown during the last year despite the deteriorating quality of amounts due from business entities. Most banks did not change their general lending criteria (defined as the minimum standard requirements regarding creditworthiness of customers needed in order to obtain a loan) significantly in 2011, but they did slightly reduce the level of margins asked and the requirements relating to security. 2012 saw a continuation of the trends prevailing in 2011. A significant factor affecting the increase in the lending volume continued to be the development of operating loans granted to small and medium enterprises, which as of the end of 2012 grew by 8.4% compared to the end of 2011.

The table below presents the breakdown of loans granted to enterprises.

Breakdown of loans granted to enterprises	31 December (in PLN billion) 2012	2011	2010	Change (%) 2012/ 2011	2011/2010
Total	272.2	264.5	219.7	2.9	20.4
Breakdown by entity and product					
1) SMEs	164.9	159.0	127.0	3.7	25.2
—operating	62.3	57.5	46.2	8.4	24.4
—investment	47.2	47.5	35.2	(0.6)	35.1
—real property	42.0	39.9	35.0	5.5	14.0
—other	13.3	14.2	10.6	(5.9)	33.1
2) Large corporations	107.2	105.5	92.7	1.7	13.8
—operating	46.9	47.9	44.2	(2.1)	8.4
—investment	34.4	36.5	30.1	(5.6)	21.2
—real property	9.2	8.4	9.2	9.5	(8.8)
—other	16.7	12.7	9.2	31.5	38.6

Source: PFSA

In the period from 2010 to 2011, the business loan portfolio increased by 20.4%, from PLN 219.7 billion as of the end of 2010 to PLN 264.5 billion as of the end of 2011. Material changes occurred in the Small and Medium Enterprise (SME) segment which increased its debt by PLN 32.0 billion (25.2%). During the period, large enterprises increased their loan liabilities by PLN 12.8 billion (13.8%), increasing their debt particularly in the area of investment financing and other types of financing. On the other hand, the business loan portfolio increased by 2.9% from PLN 264.5 billion as of the end of 2011 to PLN 272.2 billion as of the end of 2012. Similarly to previous years, significant changes occurred in the SME segment, which increased its debt by PLN 5.9 billion (3.7%). Large enterprises increased their loan liabilities over this period by PLN 1.7 billion (1.7%).

Deposits

The table below presents the deposit base of the non-financial sector.

Deposits of the non-financial sector	31 December (in PLN billion) 2012	2011	2010	Change (%) 2012/ 2011	2011/ 2010
Deposits of the non-financial sector	724.0	698.6	620.4	3.6	12.6
Businesses	191.3	206.0	182.8	(7.1)	12.7
Households	516.0	477.4	422.4	8.1	13.0
Non-commercial institutions	16.7	15.3	15.2	9.2	0.7

Source: PFSA

The systematic increase in the deposit base both in the business and individual households segments is the result of the good financial position of the entities, favorable macroeconomic conditions and relatively good market trends in the banking sector. The increase in individual customer deposits was the result of attractive conditions offered by banks to individual customer, transfers of funds from investment funds and the promotion of savings deposits which took advantage of tax privileges ("*lokaty antybelkowe*") conducted by the majority of banks operating in Poland in the years 2010-2011. Despite the fact that since 1 April 2012, as a result of the Tax Ordinance, the tax incentive to open such deposits no longer exists, according to data as of the end 2012, households continued to increase the value of their deposits.

Financial results

The table below shows the financial results of the Polish banking sector:

	31 December (in PLN billion)			Change (%)	
	2012	2011	2010	2012/2011	2011/2010
Profit on banking activities	58.8	57.3	53.1	2.6	7.9
Net profit/(loss)	16.1	15.5	11.4	3.9	36.1
ROE (%)	11.0%	12.1%	9.8%	n/a	n/a

Source: PFSA

During recent years, the Polish banking sector has shown a systematic increase in profits from banking activities. In 2011, profit from banking activities increased by 7.9%, and net profit increased by as much as 36.1%. In 2012, profit from banking activities and net profit were at a level similar to that recorded in 2011.

Impact of the Financial Crisis on Polish Banks

The financial crisis had a significant impact on the Polish banking market, influencing the quality of loan portfolios and depressing the level of earnings in the Polish banking sector, as well as putting pressure on funding for banks. However, thanks to the limited involvement of banks with 'toxic assets', no speculative asset bubbles in Poland, deposits being the main source of banks' funding (with only limited reliance on funding from financial markets), the high capital adequacy ratios of banks (with a high share of high quality, Tier 1 capital) strict regulatory supervision and the stable macroeconomic situation (no recession), the Polish banking sector went through the global financial crisis largely unscathed and in 2010 demonstrated improved financial results, which continued into 2011.

Key Trends in the Polish Banking Sector

Increasing Product Penetration in the Polish Banking Sector

There is significant potential for further growth of the banking industry in Poland. According to data from the EIU and the World Bank, bank loans in Poland amounted to 55% of Poland's GDP as compared with the average in the EU 15 of approximately 142% (based on 2011 data). The overlaying growth trend, which will be aiming to fill this gap, is still intact and will be a main factor for future asset and income growth.

Loans / GDP Penetration	2011
EU 15	142%
China	127%
Malaysia	112%
Chile	71%
Hungary	65%
Brazil	61%
Czech Republic	55%
Poland	**55%**
Romania	45%
Indonesia	32%
Mexico	26%

Source: EIU, World Bank

Shift away from FX Mortgage Lending

Expansion in mortgages slowed down throughout 2011, mostly due to the tightening of mortgage lending policies (as a result of Recommendation S) and reduced subsidies in the Government program "*Rodzina na swoim*". New origination is dominated by PLN lending, while FX mortgages are becoming an increasingly rare product offered to selected customers only, as banks seek to avoid potential difficulties of gathering FX funding.

Consolidation Trends

For a description of the consolidation trends, see "*Competitive Landscape of the Polish Banking Sector*".

Growing Importance of Alternative Distribution Channels and Products

In recent years, alternative distribution channels, in particular internet banking, have become of increasing importance. Moreover, new products, such as markets for financial advisory services, wealth management, insurance products and various investment funds, have seen significant growth and will be a significant driver for profitability in the future. This general trend is expected to continue in the coming years.

Restructuring Efforts Conducted by Smaller Banks

Several banks (Citi Handlowy, BPH, Nordea Bank Polska, DnB Nord Polska S.A. and BNP Paribas Bank Polska) have recently announced restructuring plans which will involve redundancies and branch closures. This restructuring underlines the difficulties that smaller operators face in an increasingly competitive retail segment. With the growing trend of e-banking, other banks may also decide to close branches.

BANKING REGULATIONS IN POLAND

The information included in this section is of a general nature and describes the legal environment and the changes proposed thereto as of the date of this Offering Memorandum.

Regulatory Environment

Banking operations are highly regulated. EU and Polish laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. Among the most important regulations are capital adequacy requirements and consumer protection-related regulations.

The conducting of banking activity in Poland requires a permit and is subject to a range of regulatory requirements. Banks are also required to protect banking secrets; the regulations concerning personal data protection are especially important in the retail operations of the banks in Poland.

Agreements between banks and their customers are subject to detailed regulations. The relevant provisions protecting consumer rights impose on the banks numerous obligations connected with the signing of agreements with customers (i.e. with natural persons who do not engage in business or professional activity on their own behalf).

Banks must also comply with the regulations concerning assets which come to the financial market from illegal or undisclosed sources and the counteracting of the financing of terrorism (widely referred to as 'money laundering' regulations).

Certain restrictions also apply to intermediary dealings of third parties in performing banking activities for and on behalf of a bank and to engaging in any activities related to banking operations (i.e. outsourcing).

Banks also enjoy several privileges relating to their business.

Banking Supervision

Banking supervision in Poland is exercised by the PFSA, which has extensive competencies and legal instruments at its disposal to exercise its supervision over banks.

The competencies of the PFSA include, in particular:

- granting permits for
  - the establishing of a bank and starting its operational activity,
  - amendments to a bank's statute, and
  - the appointment of two members to a bank's management board, including the president;
- issuing objections to the purchase of or subscription for shares or rights to shares or becoming a domestic bank's parent company in the case of exceeding or reaching certain percentage thresholds of total voting rights;
- supervision of banks as far as compliance with applicable law (including, in particular, with banking regulations) and the regulations stated in a given bank's statutes and with the permit issued for the establishment of the given bank;
- monitoring the financial condition of banks and the establishment of liquidity ratios and other standards of permitted risk in a given bank's operations which are binding on that bank;
- issuance of recommendations concerning the best practices in terms of the prudent and stable management of banks;
- issuance of guidelines to banks concerning taking or refraining from taking any specific actions;
- imposing penalties and designating recovery measures in case of a breach of any banking regulations, including cash penalties, suspension of management board members from their duties, restriction of the bank's business or revocation of banking permits; and
- appointment of trustee management (*zarząd komisaryczny*) for banks.

Other Polish Authorities which Exercise Material Supervision over the Activities of Banks

Specific areas of banking operations are also subject to the supervision of other administrative authorities, including, in particular:

- the President of the Antimonopoly Office, within the scope of the law of competition and consumer rights;
- the General Inspector for the Protection of Personal Data, within the scope of the collecting, processing, administration and protection of personal data; and
- the Minister competent to oversee issues related to financial institutions and the General Inspector of Financial Information, within the scope of preventing money laundering and the financing of terrorism.

European Supervision Authorities

As a part of the reform of the European financial supervision system, in January 2011 the EU's Committee of European Banking Supervisors was replaced by the European Banking Authority, which constitutes a part of a European System of Financial Supervisors. The European Banking Authority and the European System of Financial Supervision were created to improve co-operation between banking supervisors within the EU. The main objective of the European System of Financial Supervisors is to ensure that the rules applicable to the financial sector are adequately implemented so as to preserve financial stability and to ensure confidence in the financial system as a whole and sufficient protection for customers of financial services. To achieve its tasks, the European Banking Authority is entitled to, inter alia: develop draft regulatory and technical standards in relation to the specific cases referred to Regulation 1093/2010; develop drafts implementing such technical standards; issue guidelines and recommendations in certain cases; and take individual decisions addressed to the competent authorities of Member States in relation to the specific cases referred to in Regulation 1093/2010.

Furthermore, as part of the reform of the European financial supervision system of the European Union, the concept of an integrated banking union is being contemplated. Pursuant to the proposals of the European Commission, such potential banking union is to comprise four pillars: (i) more integrated banking supervision; (iii) a single rulebook in the form of capital requirements (in particular, CRD 4 regulations, as defined below); (iii) common deposit protection schemes (as indicated in the European Commission legislative proposal dated 12 July 2010 for a thorough revision of Directive 94/19/EC on deposit guarantee schemes); and (iv) a European recovery and resolution mechanism (based on the proposal for a directive dated 6 June 2012 establishing a framework for the recovery and resolution of credit institutions and investment firms).

To implement the first pillar, on 12 September 2012, the European Commission proposed a single supervisory mechanism ("**SSM**") for banks led by the ECB in order to strengthen the Economic and Monetary Union.

The proposals presented by the European Commission on 12 September 2012 concern: (i) a regulation conferring specific tasks on the ECB concerning policies related to the prudential supervision of credit institutions; (ii) a regulation amending Regulation (EU) No. 1093/2010 establishing the European Supervisory Authority (the European Banking Authority) as regards its interaction with the regulation specified in point (i) above; and (iii) the communication from the European Commission to the European Parliament and the Council of a roadmap towards a banking union.

Based on the proposals, the ECB will be exclusively competent for key supervisory tasks which are indispensable for detecting risks with regard to the viability of banks and will be authorized to require such banks to take necessary actions. The ECB will be, inter alia, the competent authority for licensing and authorizing credit institutions, assessing qualifying holdings, ensuring compliance with minimum capital requirements, ensuring the adequacy of internal capital in relation to the risk profile of a credit institution, conducting supervision on a consolidated basis, and overseeing supervisory tasks in relation to financial conglomerates. Furthermore, the ECB will also ensure compliance with provisions on leverage and liquidity, apply capital buffers and carry out, in co-ordination with resolution authorities, early intervention measures when a bank is in breach of, or is about to breach, regulatory capital requirements. The ECB will also co-ordinate and express the common position of the representatives from the competent authorities of the participating Member States in relation to the above-mentioned tasks.

Therefore, pursuant to the current proposals, the above-mentioned material supervision powers will be removed from the level of national authorities from the Eurozone and transferred to the ECB. However, all tasks not conferred on the ECB will remain with national supervisors. For example, national supervisors will remain in charge of consumer protection, anti-money laundering initiatives and the supervision of third-country credit institutions establishing branches or providing cross-border services within a Member State. Additionally, despite the number of tasks conferred on the ECB, most day-to-day verifications and other supervisory activities necessary to prepare and implement the ECB's acts can be exercised by national supervisors operating as an integral part of the SSM.

The Member States outside the Eurozone cannot fully be a part of the Single Supervisory Mechanism. Nevertheless, such countries may notify the ECB of their intention to join the SSM by establishing close co-operation between their competent authorities and the ECB. For that purpose, they will have to take all the necessary measures to ensure that their competent national authorities will abide by and implement the relevant ECB acts. According to a statement made by the Prime Minister of Poland, a decision on Poland joining the SSM will be made following internal consultations with the Minister of Finance, the NBP, the PFSA and the Bank Guarantee Fund.

As of the date of this Offering Memorandum, the proposals regarding the implementation of the four pillars of the banking union have not yet been adopted.

Capital Adequacy and Risk Management Requirements

Banks must comply with a number of regulatory requirements related to their operations. The crucial ones include the requirement for banks to manage their finances in a strictly regulated fashion and all the requirements concerning equity, capital adequacy ratio, concentration of exposures, liquidity and risk management systems.

Polish Law Requirements

All the resolutions and recommendations issued by the PFSA are also of material importance for the banks. Below are presented selected and material recommendations, resolutions and letters recently issued by the PFSA.

In February 2010, the PFSA issued Recommendation T, which is intended to improve risk management at banks, including preventing retail borrowers from becoming excessively in debt. The PFSA stated that the maximum ratio of debt servicing expense to the average income generated by a given debtor should not be greater than 50% for retail customers with an income lower than or equal to the average remuneration in the economy and for other customers not greater than 65% of their remuneration.

In February 2013, the PFSA issued a new Recommendation T. The objective of the new recommendation is to introduce certain legal solutions which will allow for an increase in the activity of the banking sector in the field of extending loans compared with the activity of non-banking entities which extend loans, while ensuring the standards required for the purposes of the management of the risk of retail credit exposures. One of the changes involves the exclusion of mortgage-secured credit exposures from the scope of Recommendation T, meaning that the recommendations regarding retail credit exposures (Recommendation T) are separated from mortgage-secured credit exposures (Recommendation S). Additionally, pursuant to the new recommendation, the PFSA simplified the terms of assessment of credit compliance with respect to low-value retail credit exposures (defined as an assessment of the amount and stability of the sources for repayment of the exposures and assessment of some features of the customer material from the perspective of the repayment). Such simplified terms may be applied to assessments of credit compliance of the following exposures by banks, provided that such banks satisfy the criteria indicated in the new recommendation: (i) installment exposures of a maximum exposure equal to four times the average monthly remuneration in the business sector (*średnie miesięczne wynagrodzenie w sektorze przedsiębiorstw*); (ii) other exposures where the given debtor has been the bank's customer (satisfying criteria specified in the new Recommendation T) for at least six months (then the maximum value of the exposure is six times the average monthly remuneration in the business sector) or when the given debtor has been the bank's customer (satisfying criteria specified in the new Recommendation T) for at least 12 months (then the maximum value of the exposure is twelve times the average monthly remuneration in the business sector) or any other exposures when a given debtor has been the bank's customer (satisfying criteria specified in the new Recommendation T) (then the maximum value of the exposure is not higher than the average monthly remuneration in the business sector). Moreover, pursuant to the new recommendation the PFSA departed, with respect to retail credit exposures, from the strict rules regarding the establishment by the PFSA of the maximum level of the maximum ratio of debt servicing expense to the average income generated by a given debtor. In accordance with the new recommendation, the PFSA expects that the new Recommendation T will be implemented no later than 31 July 2013.

In January 2011, the PFSA amended Recommendation S, which imposed limitations on Polish banks in respect of granting foreign currency mortgage loans. According to detailed recommendations concerning the financing of mortgage-secured loan exposures: (i) the bank should aim at limiting the borrower's exposure to currency risks, specifically by ensuring that the exposure is in same currency as the borrower's income; (ii) when assessing the creditworthiness of a borrower, the bank should assume a maximum repayment term of 25 years; (iii) in the assessment of creditworthiness, the bank should take into account the likely change in the borrower's income after retirement, if the repayment term goes past the age of retirement, (iv) in the case of foreign currency retail real-estate-financing loan exposures and foreign currency retail mortgage-secured loan exposures, the maximum ratio of loan service expenditure to the average net income earned by individuals required to repay the debt should not exceed 42%.

As of the date of this Offering Memorandum, further changes to Recommendation S are being considered by the PFSA. Pursuant to the draft changes to Recommendation S and a letter from the PFSA dated 20 December 2012, the following changes are being contemplated: (i) the exclusion of exposures financing real property which are not mortgage-secured credit exposures from the scope of Recommendation S, meaning that the new Recommendation S would regard only mortgage-secured credit exposures; (ii) foreign currency mortgage loans should be a niche product offered exclusively to borrowers who generate consistent income in the currency of the loan; (iii) a bank should not finance the entire value of the real property which constitutes the collateral and should determine internal thresholds of minimum down-payments required and such thresholds should be approved by the supervisory board; (iii) the extension of the maximum period assumed for the purposes of the analysis of creditworthiness from a 25-year period to 30-year period, the designation of a 25-year period as a period recommended by the PFSA for the maximum duration of a facility period and the designation of a 35-year period as the maximum permissible duration of a facility period; and (iv) a departure from the strict rules regarding the establishment by the PFSA of the maximum level of the maximum ratio of debt servicing expense to the average income generated by a given debtor.

Moreover, in June 2011, the PFSA amended Recommendation R, under which the PFSA introduced rules regarding depreciated balance sheet credit exposures, selecting impairment losses for balance sheet credit exposure and provisions for off-balance sheet credit exposure. Pursuant to this recommendation, banks are required to realize certain procedures to identify and manage the risk referred to in the above sentence, the aim of which is to limit the discrepancies in the previous practice of banks in the presentation of credit exposure which have lost value, impairment loss in view of the lost value of balance credit exposure and reserves for off-balance credit exposure in their financial statements.

In June 2011, the PFSA increased the risk weighting of retail and mortgage loans denominated in foreign currencies from 75% to 100% (Resolution 153/2011 amending resolution No. 76/2010 regarding the manner of and the detailed rules for defining equity requirements in light of specific types of risk), such regulation has been in force since 30 June 2012. Risk weighting applies to the calculation of the value of risk-weighted assets which are the basis for the calculation of banks' capital adequacy ratios. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of such type.

Additionally, the PFSA, in its letter dated 24 January 2012 addressed to Polish banks, expressed an expectation that the banks in Poland maintain a capital adequacy ratio of at least 12% and a Tier 1 ratio of at least 9%.

On 11 September 2012, the PFSA adopted a new Recommendation J addressed to banks and regulating banks' collection and processing of data regarding real estate ("**Recommendation J**"). The major changes introduced in Recommendation J include the application of Recommendation J by banks in which the share of exposure to loans secured by mortgage in their own loan portfolios exceeds 10%, the recommending of harmonized standards of collection, the processing and disclosure of data regarding the real estate market through reliable data-bases, a description of a set of features that identify the type of real estate which should be collected in the data-base, and the recommending of statistical models for the assessment of the risk of a change in the value of collateral in the form of real estate in the case of banks materially involved in loans secured by such collateral. The new Recommendation J will, in principle, come into force on 1 October 2013.

In addition, on 27 November 2012, the PFSA adopted a stance on the rules regarding the 2013 dividend policy of banks for the year 2012. In the PFSA's stance it is stated that dividend for the year 2012 may only be paid by banks which meet all of the following criteria: (i) a capital adequacy ratio of over 12%; (ii) a Tier 1 ratio of over 9%; (iii) a forecast capital adequacy ratio for late 2013 in the extreme conditions test scenarios (base, shock I and shock II) of over 12%; (iv) a forecast Tier 1 ratio for late 2013 in the extreme conditions test scenarios (base, shock I and shock II) of over 9%; (v) a BION assessment of capital level above 2.5; (vi) a BION assessment of capital consonance better than 2.5; and (vii) a general BION assessment above 2.5. Banks that do not meet one or more of the above-listed criteria will be required to retain 100% of the profit made in 2012. To ensure the secure and stable operation of the banks, the PFSA made it a rule to recommend to banks that they should not pay 2012 dividends which exceed 75% of their profits.

On 8 January 2013, the PFSA adopted new Recommendation M concerning the management of operating risk by banks ("**Recommendation M**") and Recommendation D concerning the management of risks associated with IT and telecommunications systems used by banks ("**Recommendation D**"). The objective of those changes was to present the banks with the supervisory expectations of the PFSA regarding the management of operating risk as well as the stable and prudent management of IT solutions. In respect of Recommendation D, the PFSA believes that the new recommendation will be implemented by 31 December 2014, though in respect to Recommendation M such an implementation is, as a rule, planned to take place by 30 June 2013.

In addition to the above-mentioned PFSA recommendations and letters, within the last three years the PFSA has issued certain other resolutions and communications regarding capital adequacy and risk management, in particular: (i) in October 2011, resolution No. 258/2011 regarding the detailed principles of the operation of risk management systems and internal control systems, the detailed conditions for the estimation of internal capital by banks and for reviews of internal capital retention and estimation processes, and the principles of determining policy with regard to the variable components of the remuneration of persons in managerial positions at banks; (ii) in October 2011, resolution No. 259/2011, which amended resolution No. 385/2008 regarding the detailed rules for and methods of the announcing by banks of qualitative and quantitative information concerning capital adequacy and other information subject to announcement (subsequently amended by resolution No. 326/2011 of 20 December 2011), which was followed in July 2012 by a letter from the PFSA addressed to the presidents of the management boards of banks in which the PFSA reminded the banks of the requirement to accurately comply with the disclosure requirements resulting from resolution No. 385/2008, as amended, in the said letter the PFSA also stated that compliance with the above-mentioned requirements would be subject to detailed analyses conducted by the PFSA within the scope of its supervisory duties; (iii) in June 2012, resolution No. 172/2012 of the PFSA amending resolution No. 76/2010 regarding the manner of and the detailed rules for defining equity requirements in light of specific types of risk; and (iv) in June 2012, resolution No. 173/2012 amending resolution No. 208/2011 on the detailed rules and conditions for the determination of exposure when determining compliance with limits on exposure concentration and limits on large exposures, and amending the resolution on the requirements for identifying, monitoring and controlling exposure concentrations, including large exposures.

European Law Requirements

On 24 November 2010, Directive 2010/76/EU of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for trading books and for re-securitizations, and the supervisory review of remuneration policies was adopted ("**CRD 3**"). CRD 3 increased capital requirements for certain assets that banks hold in trading books and for re-securitization instruments. It also increased disclosure obligations in several areas, such as securitization exposures in the trading book and sponsorship of off-balance sheet vehicles. CRD 3 imposed a requirement that remuneration policies be consistent with sound and effective risk management and therefore subject to supervisory oversight. As a result, supervisory authorities have to monitor the implications of remuneration policies for the risk management of financial institutions. Member States were required to implement some of the provisions of CRD 3 by 1 January 2011 and the rest by 31 December 2011.

In December 2010, at the G-20 summit in Seoul, the Basel Committee on Banking Supervision approved the Basel III Accord (which was subsequently revised in June 2011) ("**Basel III**"), which provides new capital and liquidity requirements for banks with a view to strengthening the resilience of banking sector entities.

To implement Basel III, on 20 July 2011, the European Commission initiated a European legislative procedure in connection with the adoption of two European acts which, if adopted, will influence the banking sector. These acts are: (i) a new directive on access to the activity of credit institutions and prudential supervision of credit institutions and investment firms which amends Directive 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate; and (ii) a new regulation on prudential requirements for credit institutions and investment firms (jointly, "**CRD 4**"). The aim of these proposals is to implement further possible changes to the capital requirements directives aimed at strengthening the resilience of the banking sector and the financial system as a whole.

The changes proposed under Basel III and CRD 4 include, inter alia: (i) the strengthening of capital requirements for credit risk exposures arising from derivatives, repos and securities financing activities; (ii) the introduction of a minimum liquidity standard for banks that are active internationally and allowing such banks to calculate liquidity ratios for their whole group; (iii) the promotion of more forward-looking provisioning based on expected losses; and (iv) reducing procyclicality and promoting countercyclical buffers. As of the date of this Offering Memorandum, CRD 4 has not been adopted and is currently going through the legislative process.

As of the date of this Offering Memorandum, the European Commission is working on EU laws imposing a tax on financial transactions (EU FTT), a portion of the proceeds from which will be used to fund the EU budget. As of the date of this Offering Memorandum, there is no binding information about the date on which such tax is to be imposed, if at all.

Other Law Requirements in Banking Sector

In August 2011, the Polish legislature passed an act amending the Banking Law, which came into force on 27 October 2011. Under this amendment, changes to the provisions governing the outsourcing of banking services were introduced. The aim of the act was to broaden the scope of services which may be subject to outsourcing without the approval of the PFSA. Moreover, the act regulated the institution of sub-outsourcing and liability for actions conducted by sub-outsourcing entities.

In February 2012, the PFSA published a letter addressed to the presidents of banks in which the PFSA presented its position with regard to the necessary changes to the rules of co-operation between banks and insurance companies. The letter referred to situations where a bank offering its products acts both as the insuring party and as insurance broker. In respect of such products, the PFSA recommends that a clear division of roles assigned to specific entities which participate in bancassurance must be introduced by each bank offering bancassurance products. In practice, this means the bank should act either as the insurance agent and collect commission due for procuring customers for the insurance company, or as the insuring party, whose role is simply to organize insurance coverage, while the benefits, if any, result from the fact of the borrowers having such coverage. According to the PFSA, this approach will eliminate the risk of a conflict of interest arising. The PFSA also announced its intention to adopt a recommendation regarding bancassurance. As of the date of this Offering Memorandum such recommendation has not yet been adopted and no draft thereof has been presented to the public.

The above-mentioned letter from the PFSA also mentions: (i) excessive commission received by banks for such insurance services, which according to the PFSA is grossly contradictory to the need to build customers' confidence in the financial markets, specifically as such commission is greatly different from the commission usually collected by insurance brokers; (ii) the inability of insured parties or their heirs to prosecute their claims directly against the insurance company; (iii) the restricted right of choice of insurance company; and (iv) situations where the insurance company, having paid damages to the bank, files a recourse claim against the borrower.

Furthermore, in a letter dated 26 September 2012, the PFSA identified a potential conflict of interest arising from the sale of insurance products in which a bank is both the insuring party arranging for insurance coverage for risks associated with its own products (such as the risk of default on its loans to customers) and the agent collecting commissions from the insurance company underwriting the risk. The PFSA also presented its negative opinion regarding abuse of the group insurance agreement structure so as to limit the rights of the insured party, the actual position of which corresponds to that of the insurer (party to the insurance agreement). In the said letter the PFSA also stressed the need for entities subject to its supervision to pay special attention to the need to provide customers with accurate and clear information about the investment products offered, as well as the need to adjust the investment product offered to suit the needs of customers.

Moreover, on 7 March 2013 the PFSA addressed a letter to the Polish banks in which it expressed the need to make financial statements in the banking sector mutually comparable in terms of the manner of recognizing insurance-related fees. The PFSA recommended the manner in which revenues representing the fees collected by banks for providing insurance cover and for intermediation services should be presented in the accounting books of banks (as agreed with the Ministry of Finance).

Bank Guarantee Fund

The cash deposited in individual Polish bank accounts and any cash due under receivables confirmed by documents issued by banks in favor of specific persons is covered by a statutory guarantee system: the Bank Guarantee Fund. Banks pay mandatory annual fees to the Bank Guarantee Fund. Since 2011, the Bank Guarantee Fund has materially increased the level of the mandatory annual fees, from 0.045% to 0.099%. In 2012, the mandatory annual fees were increased slightly so as to reach 0.1% (such mandatory annual fees are calculated as the product of this percentage value and a bank's regulatory capital requirement multiplied by 12.5). The compulsory guarantee system ensures that in the event of the insolvency of a bank, the cash accumulated in affected bank accounts will be reimbursed up to an amount specified in the relevant regulations. As of date of this Offering Memorandum, the guarantee system fully covers cash up to the PLN equivalent of EUR 100,000.

In addition, work is in progress on a new banking levy to be introduced into Polish law. In 2012, the Polish Minister of Finance announced his intention to introduce a banking levy, a draft of an act amending the Act on the Bank Guarantee Fund was approved by the Council of Ministers in January 2013 and passed over to the Parliament for further consideration. It has been initially proposed that a stabilization fund be established and credited with a prudence fee which is to be paid by banks. As of the date of this Offering Memorandum, it is not known whether such draft law will be adopted and, if so, when and in what form, and, consequently, if such fee will actually be introduced; moreover, the level of the fee has not been determined. Additionally, as was publicly announced in January 2013, the Ministry of Finance has commenced preliminary work on a draft regulation on the taxation of income generated by individuals from bank deposits connected with insurance policies, which may result in banks incurring additional obligations as tax remitters. However, as of the date of this Offering Memorandum, it is not known whether such regulation will be introduced, and if so, in what form.

Payment Services

On 19 August 2011, the Act on Payment Services, which influences the banking sector, was adopted. Since 24 October 2012 banks have been required to adjust their operations to the regulations of that act. The act regulates, inter alia, the terms and conditions for providing payment services, including specifically those concerning the transparency of contractual provisions and requirements in respect of information about payment services, the rights and obligations of the parties under payment services agreements, the scope of liability of the providers for the provision of payment services, as well as the regulatory, organizational, capital and reporting obligations imposed on the providers of payment services.

Moreover, in March 2012, the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards. It has been recommended that multilateral arrangements be concluded between banks and the payment card organizations, with the aim of reducing the levels of interchange fees. As of the date of this Offering Memorandum, proposals for a draft law amending the Act on Payment Services regarding interchange fees are being considered by the Polish legislature. As of the date of this Offering Memorandum, such draft law has not been adopted and is subject to change.

Consumer Protection

The Consumer Credit Act (the purpose of which is to implement Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers of 23 April 2008), the regulations of the Civil Code, and other consumer protection laws impose on banks several obligations relating to agreements with natural persons who perform actions which are not directly related to their business or professional activities (i.e. consumers). The most important of those are the requirements to inform consumers about the cost of extended credit and loans and a prohibition against including specific clauses which are unfavorable to consumers in agreements. In particular, the Consumer Credit Act introduces the Standard European Consumer Credit Information Form, which requires the creditor to quote the total cost of a loan, comprising all the costs (including interest, commissions, taxes, fees for credit intermediaries and any other fees) which the consumer has to pay in connection with a credit agreement, except for notarial costs.

The Consumer Credit Act applies, as a rule, to all consumer loans, defined as loans of no more than PLN 255,550, and also applies, to a limited extent, to mortgage loans. The Consumer Credit Act applies to all institutions granting consumer loans: not just to banks, but also to all intermediaries.

On 26 August 2011, amendments to the Consumer Credit Act were introduced granting the borrower in the case of a loan denominated or indexed to any currency other than PLN the right to make the principal and the interest repayments directly in that currency. The exercise of such right must not involve any additional cost to the borrower and the lender cannot make the borrower's exercise of such right conditional on the introduction of any additional restrictions. Specifically, it must not require the borrower to buy the currency to be used for the repayment of the loan installments, whether in whole or in part, from an entity designated thereto.

Personal Data Protection

In light of the large number of individuals serviced by banks, all the regulations concerning personal data protection are of particular importance to banking operations. Personal data may be processed exclusively in compliance with prevailing laws and regulations. Any operations performed with the use of personal data, such as collecting, recording, storing, editing, changing, making available or removing it (collectively, personal data processing), can only take place in a manner specified by the relevant regulations. A personal data administrator (including a bank) is required to employ technical and organizational measures ensuring the protection of the data being processed, in particular against being disclosed to unauthorized persons, taken away by an unauthorized person, loss, damage or destruction. Additionally, the persons to whom the data concerns should be able to access and correct their data.

Changes in the "Rodzina na swoim" Program

In July 2011, the law amending the terms for the implementation of the *"Rodzina na swoim"* program of preferential housing loans was adopted and entered into force on 31 August 2011, providing a new definition of preferential loan so as to exclusively include loans taken to satisfy the personal housing requirements of the target borrowers who benefit from financial support. The subsidies for credit facilities apply if a borrower files a request no later than by the end of the calendar year in which such borrower turns 35. State aid with regard to the repayment of a loan taken to purchase an apartment will be available not only to married couples and to persons who bring up at least one child as a single parent, but also to persons who are not married or those who do not have children. The ratio applicable to the price of one square meter of the usable floor area of real estate was decreased. Applications for preferential loans under the "*Rodzina na swoim*" program were accepted until 31 December 2012.

At a press conference held on 14 October 2012, the Minister of Transportation, Construction and the Maritime Economy presented the assumptions of the new "Mieszkanie dla Młodych" program, which is to constitute a new instrument of support in connection with the taking out of loans for the purchase of residences once the "Rodzina na swoim" program has been phased out. However, as of the date of this Offering Memorandum, neither binding assumptions for the future program nor the date when it is to come into force are known. Based on the presently available preliminary government announcements, the program will be addressed to persons of up to 35 years, including those who are not married. According to the preliminary assumptions, the subsidy may be used for up to 50 m^2 of flats with a maximum area of 75 m^2 purchased on the primary market.

Class Action Lawsuits

The ability to bring class action lawsuits was introduced into Polish law in July 2010. Class action law suits may be brought by at least ten persons whose claims are of the same type and which are based on identical or similar factual circumstances. Class action lawsuits are used specifically in matters regarding claims for the protection of consumers, liability for damages caused by any harmful product and on account of any acts in tort, excluding the infringement of personal rights. Since claims raised by customers against banks are, in principle, often of the same type and based on the same factual basis, the introduction of class action lawsuits creates the possibility of customers demanding their claims jointly (which greatly decreases the unit cost of legal services).

Bank Privileges

Polish banks benefit from certain privileges related to their business. In particular, Polish law provides for simplified procedures for taking security interests and enforcing payment of a bank's claims. Banks do not need to comply with the requirements of a specific form of establishing collateral. Additionally, banks have the right to transfer their receivables to another entity which may issue securities collateralized by the transferred receivables (securitization of bank receivables). Banks are authorized to apply simplified procedures for prosecuting claims through the issuance of bank enforcement titles (*bankowy tytuł egzekucyjny*). Moreover, documents issued by banks have, in general, the same status as official documents. However, a judgment of the Constitutional Court (Judgment of March 15, 2011, Ref. act P 7/09) declared Article 95 section 1 of the Banking Law, pursuant to which the accounting books of and extracts from the accounting books of banks have the same status as official documents in civil proceedings against a consumer, to be incompatible with the constitutional principles of a democratic state of law such as the principle of equality and the principle of consumer protection, because it guarantees the statutory superiority of a professional entity (the bank) over the consumer.

GENERAL INFORMATION ON THE BZ WBK GROUP

Basic Information on BZ WBK

BZ WBK, operating under the name of Bank Zachodni S.A., was entered in the National Court Register maintained by the District Court for Wrocław-Fabryczna in Wrocław, VI Commercial Division of the National Court Register, on 27 April 2001.

BZ WBK, operating under its current business name, was established as a result of a merger of Bank Zachodni S.A. and Wielkopolski Bank Kredytowy S.A. which was registered in the National Court Register on 13 June 2001. Both of the predecessors of BZ WBK were banks that were separated from the structures of the NBP in 1989, privatized and subsequently acquired by a common investor: AIB European Investments Ltd., which is a wholly-owned subsidiary of AIB.

In 2010, AIB decided to sell all of the shares it held in BZ WBK. As a result of Banco Santander's tender offer for the purchase of 100% of the shares in BZ WBK and a subsequent reverse squeeze-out requested by the minority shareholders, Banco Santander acquired shares representing 96.25% of BZ WBK's share capital. Thus BZ WBK became a part of the Banco Santander Group.

On 27 February 2012, KBC and Banco Santander executed the Investment Agreement, which sets forth, in particular, the terms and conditions of the Merger between BZ WBK and Kredyt Bank. Following the granting of the approval of the PFSA on 4 December 2012, BZ WBK was merged with Kredyt Bank on 4 January 2013 (the "**Merger Date**"), which is the date of the registration of the Merger by the registry court. As a result of the Merger, BZ WBK has assumed all the rights and obligations of Kredyt Bank by means of universal succession (in accordance with Article 494 § 4 of the Commercial Companies Code) and the shareholders of Kredyt Bank became, on the Merger Date, shareholders of BZ WBK.

The Merger was executed through the transfer of the entire estate (i.e. all the assets and liabilities) of Kredyt Bank to BZ WBK in exchange for the Merger Shares, i.e. 18,907,458 series J ordinary bearer shares with a nominal value of PLN 10.00 each, which were allotted to the shareholders of Kredyt Bank. The Merger Shares were granted and allotted to the former shareholders of Kredyt Bank based on the share exchange ratio of 6.96 Merger Shares in exchange for 100 shares in Kredyt Bank. The Merger Shares allotted to the former shareholders of Kredyt Bank were admitted and introduced to trading on the regulated market of the WSE starting from 25 January 2013.

Below is some further basic information on BZ WBK:

Name and legal form:	Bank Zachodni WBK Spółka Akcyjna
Registered office:	Wrocław, Poland (postal address ul. Rynek 9/11, 50-950 Wrocław, Poland)
Telephone number:	+48 (71) 370 26 08
Fax number:	+48 (22) 534 16 99
Website:	www.bzwbk.pl
Email address:	Eamonn.Crowley@bzwbk.pl
KRS (company registration number):	0000008723
REGON (statistical registration number):	930041341
NIP (tax registration number):	896-000-56-73

BZ WBK has been established for an unspecified period of time. BZ WBK operates in accordance with the Commercial Companies Code, the Banking Law, the Act on Public Offering and other rules and regulations governing banks and commercial companies, as well as the provisions of the Statute and other internal regulations.

Objective of Activities

BZ WBK's objective of activities is set forth in § 7 of the Statute.

BZ WBK is a universal bank providing comprehensive services to individuals as well as small, medium and large enterprises. The financial services of BZ WBK also include trade finance and transactions in the capital market, foreign currency exchange and money markets, as well as in derivatives. BZ WBK's own product range is complemented by specialist products offered by its affiliated companies. In co-operation with all such companies, BZ WBK offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

Share Capital of BZ WBK

As of the date of this Offering Memorandum, the share capital of BZ WBK amounts to PLN 935,450,890 and is divided into 93,545,089 shares with a nominal value of PLN 10 each, divided into:

- 5,120,000 ordinary series A bearer shares;
- 724,073 ordinary series B bearer shares;
- 22,155,927 ordinary series C bearer shares;
- 1,470,589 ordinary series D bearer shares;
- 980,393 ordinary series E bearer shares;
- 2,500,000 ordinary series F bearer shares;
- 40,009,302 ordinary series G bearer shares;
- 115,729 ordinary series H bearer shares;
- 1,561,618 series I shares; and
- 18,907,458 ordinary series J bearer shares.

The same rights and obligations are attached to all of the Shares. None of the Shares entitle the holders thereof to any preferences, specifically with regard to voting rights or dividends.

Between 1 January 2010 and the date of this Offering Memorandum there were no changes to BZ WBK's share capital, except for:

- the registration of the increase in the share capital of BZ WBK on 9 August 2012 in connection with the registration of 1,561,618 series I shares subscribed for by the EBRD;
- the registration of the increase in the share capital of BZ WBK on 4 January 2013 in connection with the registration of 18,907,458 series J bearer shares granted to the shareholders of Kredyt Bank as a result of the Merger.

All the aforementioned Shares have been admitted and introduced to public trading, dematerialized and registered in the deposit and settlement system operated by the NDS.

BZ WBK does not hold any own shares, either directly or through subsidiaries or agents acting on its behalf.

The Statute does not contain any provisions allowing BZ WBK to increase its share capital within the limits of the authorized capital or conditional capital.

However, a share incentive program allowing selected employees to subscribe for shares in BZ WBK is currently in place.

On 20 April 2011, the General Meeting of the Shareholders launched the fourth three-year share incentive program as a continuation of the BZ WBK Group Performance Share Program (*Akcje za Wyniki*). For more information, please see "*Business of the BZ WBK Group—Employees*".

Structure of the BZ WBK Group

The capital group of BZ WBK consists of BZ WBK and: (i) its direct subsidiaries, i.e. BZ WBK Finanse Sp. z o.o., BZ WBK Inwestycje Sp. z o.o., Dom Maklerski BZ WBK, BZ WBK Nieruchomości S.A., BZ WBK Asset Management and indirect subsidiaries, i.e. BZ WBK Faktor, BZ WBK Finanse & Leasing, BZ WBK Leasing and BZ WBK TFI; (ii) its associates, i.e. POLFUND- Fundusz Poręczeń Kredytowych S.A., Krynicki Recycling S.A. and Metrohouse & Partnerzy S.A.; (iii) joint ventures, i.e. BZ WBK-Aviva TU Ogólnych and BZ WBK-Aviva TU na Życie; and (iv) the companies formerly owned by Kredyt Bank which became subsidiaries of BZ WBK as a consequence of the Merger, i.e. Kredyt Lease S.A., Kredyt-Trade Sp. z o.o. in liquidation (*w likwidacji*), Lizar Sp. z o.o., and BFI Serwis Sp. z o.o.

For information on the global reorganization of the Banco Santander Group's asset management business and its potential impact on BZ WBK asset management business in Poland see "*Major Shareholders and the Selling Shareholders—Relationship between BZ WBK and the Banco Santander Group—Global Reorganization of the Banco Santander Group's Asset Management Business*".

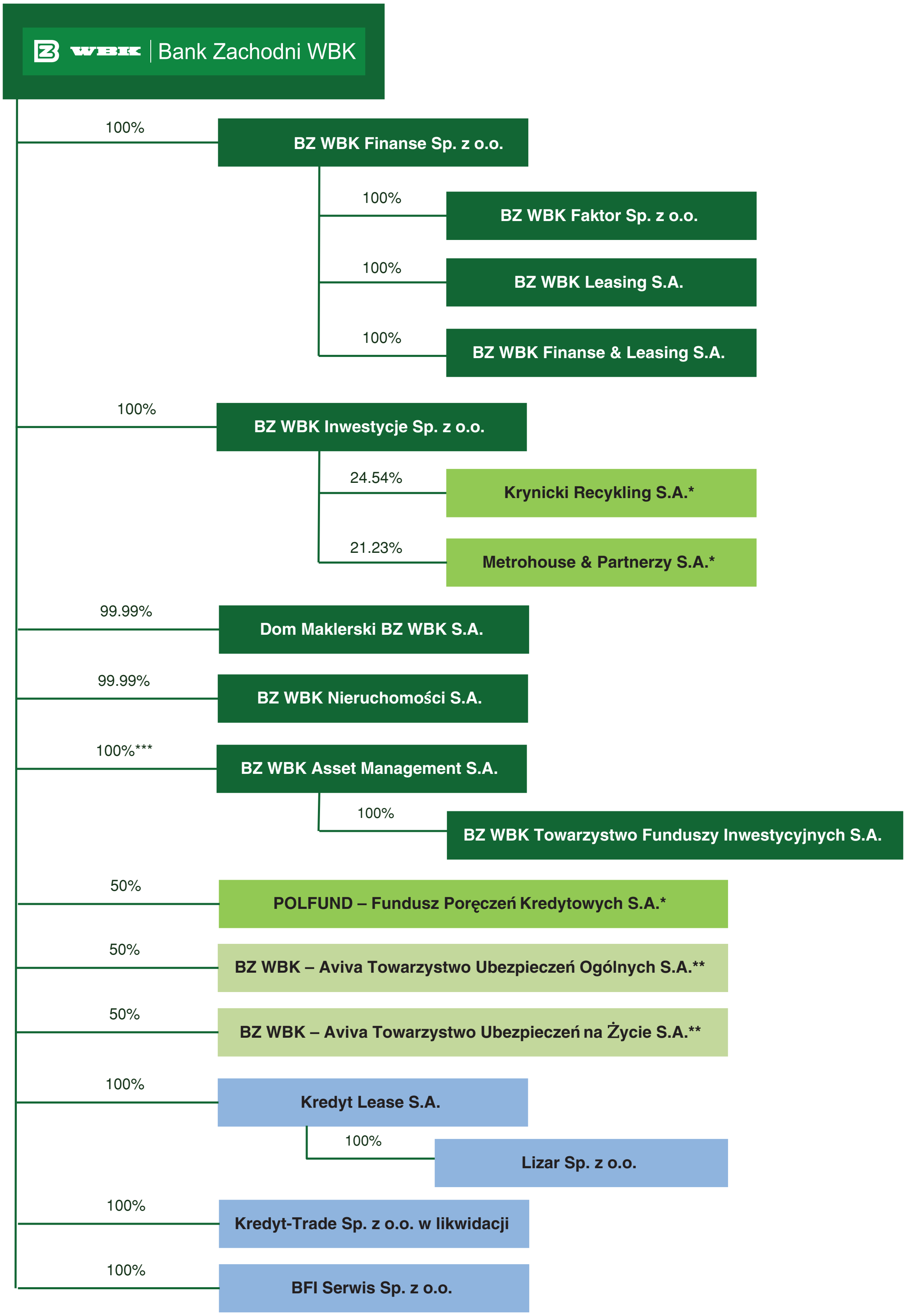
Subsidiaries are those enterprises that are controlled by BZ WBK. Control exists when BZ WBK has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when BZ WBK, directly or indirectly through subsidiaries, has more than half of the voting power in an entity. Control also exists when the parent owns half or less of the voting power in an entity when there is:

- power over more than half of the voting rights by virtue of an agreement with other investors;
- the power to govern the financial and operating policies of the entity under a statute or an agreement;
- the power to appoint or remove the majority of the members of the board of directors or an equivalent governing body and control of the entity is vested with that board or body; or
- the power to cast the majority of votes at meetings of the board of directors or an equivalent governing body and control of the entity is vested with that board or body.

Joint ventures are those entities over whose activities the BZ WBK Group has joint control, established under an agreement.

Associates are those entities in which the BZ WBK Group has significant influence, but which are not subsidiaries or joint ventures.

The chart below presents the structure of the BZ WBK Group as of the date of this Offering Memorandum.



* Associates; please note that the associated companies of one of BZ WBK's subsidiaries, BZ WBK Inwestycje Sp. z o.o., i.e., Metrohouse & Partnerzy S.A. and Krynicki Recykling S.A., were classified as associated companies since the Bank has a material influence on their business. The respective shareholdings were acquired as part of BZ WBK's strategy to build a portfolio of 'pre-IPO' investments (part of the preparations for the initial public offering).

** Joint ventures.

*** The Bank holds directly 50% of the shares and the remaining 50% of the shares are directly held by Banco Santander.

On 23 July 2012, the management board of Reliz Sp. z o.o. filed a petition for bankruptcy involving the liquidation of Reliz Sp. z o.o. with the XI Commercial Insolvency and Arrangement Division of the District Court for Poznań—Stare Miasto. On 14 August 2012, the District Court for Poznań—Stare Miasto in Poznań, XI Commercial Insolvency and Arrangement Division, issued a decision on the declaration of bankruptcy involving the liquidation of Reliz Sp. z o.o. The decision is final and non-appealable. In connection with the bankruptcy and liquidation of Reliz Sp. z o.o., BZ WBK (and the former Kredyt Bank) relinquished control over Reliz Sp. z o.o. Consequently, Reliz Sp. z o.o. was not subject to the consolidation of the Kredyt Bank Group as of 30 September 2012.

As of the date of this Offering Memorandum, Banco Santander is the controlling entity of BZ WBK.

BZ WBK's Major Subsidiaries

Presented below is information on some of the BZ WBK Subsidiaries, the share of which in the BZ WBK Group's total assets or the contribution to the operating income or net profit of the BZ WBK Group, each as of 31 December 2012, was above 1%.

BZ WBK Faktor

BZ WBK indirectly holds, via BZ WBK Finanse Sp. z o.o., 100% of the shares in the share capital of BZ WBK Faktor, which entitle it to exercise indirectly 100% of the votes at the meeting of the shareholders.

Name and legal form:	BZ WBK Faktor Sp. z o.o.
Registered seat, postal address: . .	Warsaw, Al. Jana Pawła II 23, 00-854 Warsaw
Share capital:	PLN 50,000
Principal objective of the company:	Factoring. Other financial services. Other forms of lending.

Dom Maklerski BZ WBK

BZ WBK holds 99.9% of the shares in the share capital of Dom Maklerski BZ WBK, which entitle it to exercise 99.9% of the votes at the general meeting of the shareholders. The remaining 0.1% is held by a natural person.

Name and legal form:	Dom Maklerski BZ WBK S.A.
Registered seat, postal address: . .	Poznań, ul. Plac Wolności 15, 60-967 UP-9 Poznań
Share capital:	PLN 44,973,500
Principal objective of the company:	Brokerage activities. Accepting, transmitting and executing orders to buy and sell financial instruments and offering of financial instruments.

BZ WBK Finanse & Leasing

BZ WBK indirectly holds, via BZ WBK Finanse Sp. z o.o., 100% of the shares in the share capital of BZ WBK Finanse & Leasing, which entitle it to exercise indirectly 100% of the votes at the general meeting of the shareholders.

Name and legal form:	BZ WBK Finanse & Leasing S.A
Registered seat, postal address: . .	Poznań, ul. Chlebowa 4/8, 61-003 Poznań
Share capital:	PLN 50,500,000
Principal objective of the company:	Lease of machines, machinery, equipment, computers and office equipment.

As of the date of the Offering Memorandum, the process of the legal merger of BZ WBK Finanse & Leasing and BZ WBK Leasing is underway. On 19 December 2012, a merger plan was agreed and signed by the management boards of BZ WBK Finanse & Leasing and BZ WBK Leasing. Under this merger plan, the surviving company will be BZ WBK Leasing, which will acquire BZ WBK Finanse & Leasing.

BZ WBK Leasing

BZ WBK indirectly holds, via BZ WBK Finanse Sp. z o.o., 100% of the shares in the share capital of BZ WBK Leasing, which entitle it to exercise indirectly 100% of the votes at the general meeting of the shareholders.

Name and legal form:	BZ WBK Leasing S.A.
Registered seat, postal address:	Poznań, ul. Chlebowa 4/8, 61-003 Poznań
Share capital:	PLN 121,692,000
Principal objective of the company:	Lease of means of transport for companies and individual customers.

As of the date of the Offering Memorandum, the process of the legal merger of BZ WBK Finanse & Leasing and BZ WBK Leasing is underway. For more information, please see the information contained in the above paragraph regarding BZ WBK Finanse & Leasing.

BZ WBK Asset Management

BZ WBK, together with Banco Santander, holds 100% of the shares in the share capital of BZ WBK Asset Management, which entitle both entities to exercise jointly 100% of the votes at the general meeting of the shareholders. BZ WBK controls the company and its subsidiary BZ WBK TFI, since by doing so Banco Santander implements its policy in Poland. Therefore, the company is considered to be a subsidiary. BZ WBK holds independently 50% shares in the share capital of BZ WBK Asset Management, which entitles it to exercise 50% of the votes at the general meeting of the shareholders.

Name and legal form:	BZ WBK Asset Management S.A.
Registered seat, postal address:	Poznań, ul. Plac Wolności 16, 61-739 Poznań
Share capital:	PLN 13,500,000
Principal objective of the company:	Brokerage services involving the management of customer portfolios consisting in one or more financial instruments.

BZ WBK TFI

BZ WBK indirectly holds, via BZ WBK Asset Management, 100% of the shares in the share capital of BZ WBK TFI, which entitle it to exercise indirectly 100% of the votes at the general meeting of the shareholders.

Name and legal form:	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
Registered seat, postal address:	Poznań, ul. Plac Wolności 16, 61-739 Poznań
Share capital:	PLN 13,202,000
Principal objective of the company:	Fund management activities.

Kredyt Lease S.A.

BZ WBK directly holds 100% of the shares in the share capital of Kredyt Lease S.A., which entitle it to exercise 100% of the votes at the general meeting of the shareholders.

Name and legal form:	Kredyt Lease S.A.
Registered seat, postal address:	Warsaw, ul. Kasprzaka 2/8, 01-211 Warsaw
Share capital:	PLN 27,501,000
Principal objective of the company:	Lease services, rental, and lease of rights and property, real estate trading services and trade intermediary services.

Kredyt-Trade Sp. z o.o. w likwidacji

BZ WBK holds directly 100% of the shares in the share capital of Kredyt-Trade Sp. z o.o., which entitle it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:	Kredyt-Trade Sp. z o.o. w likwidacji
Registered seat, postal address: . .	Warsaw, ul. Kasprzaka 2/8, 01-211 Warsaw
Share capital:	PLN 64,179,400
Principal objective of the company:	Administrative services, involving specifically the lease of real property and equipment.

MANAGEMENT AND CORPORATE GOVERNANCE

In accordance with the Commercial Companies Code and the Banking Law, BZ WBK is managed and supervised by the Management Board and the Supervisory Board. The description of the Management Board and the Supervisory Board provided herein has been prepared based on the Commercial Companies Code, the Banking Law, the Statute, and the Rules of the Management Board and the Supervisory Board as of the date of this Offering Memorandum.

Management Board

The governing body of BZ WBK is the Management Board.

Composition

Pursuant to the Statute, the Management Board must have at least three members, including the president of the Management Board. Members of the Management Board may perform the functions of the first vice-president and other vice-presidents of the Management Board.

Members of the Management Board are appointed for a joint three-year term. The Supervisory Board appoints and dismisses, by secret vote, the president of the Management Board, and the other members of the Management Board. The appointment of two members of the Management Board, including the president of the Management Board and the member of the Management Board who exercises supervision over the risk management division of BZ WBK, requires the consent of the PFSA. The Supervisory Board applies to the PFSA for consent to the appointment of these two members the Management Board. Furthermore, the Supervisory Board notifies the PFSA about the composition of the Management Board and any changes thereto immediately after an appointment or change to its composition. The Supervisory Board also informs the PFSA which members of the Management Board are specifically responsible for the management of credit risk and the internal audit unit. Currently, the consent of the PFSA to the performance of the functions of the Management Board has been granted to the president of the Management Board, Mateusz Morawiecki and to Andrzej Burliga, who is responsible for risk management at BZ WBK.

Additionally, in accordance with the Statute, at least half of the members of the Management Board, including the president of the Management Board, must: (i) have a higher education; (ii) have a good knowledge of the Polish banking market; (iii) be permanent residents of Poland; (iv) speak Polish; and (v) have sufficient experience on the Polish market, which may be used to manage BZ WBK on the Polish market.

The Supervisory Board has the right to suspend, for important reasons, either all or selected members of the Management Board from the performance of their duties, and may delegate authority, for up to three months, to members of the Supervisory Board to temporarily perform the duties of the members of the Management Board who were dismissed, have resigned or are unable to perform their duties for other reasons.

A member of the Management Board may also be dismissed or suspended from his duties by virtue of a resolution of the General Meeting.

Powers of the Management Board

The Management Board manages BZ WBK's affairs and represents BZ WBK. The authority of the Management Board includes all matters not reserved under the provisions of law or the Statute for the authority of other governing bodies of BZ WBK.

The Management Board will, in particular: (i) define the mission of BZ WBK; (ii) define the long-term operational plans and strategic objectives of BZ WBK; (iii) determine the assumptions of the business and financial plans of BZ WBK; (iv) approve and monitor the performance of BZ WBK's plans; (v) regularly inform the Supervisory Board of BZ WBK's situation within the scope and on the dates agreed with the Supervisory Board; (vi) appoint regular and ad hoc committees and appoint persons responsible for the management thereof; and (vii) make decisions to incur liabilities or dispose of assets the aggregate value of which, with respect to one entity, exceeds 5% of BZ WBK's equity, although such decisions may also be adopted by the respective committees of BZ WBK or other persons, based on authorizations granted by the Management Board by virtue of a resolution.

The Management Board makes decisions by way of resolutions. Resolutions of the Management Board will be specifically required for the following matters: (i) decisions to be submitted to or approved by the Supervisory Board or the General Meeting; (ii) matters determined in recommendations of the Supervisory Board or the General Meeting; and (iii) motions made by members of the Management Board and chairmen of the respective committees.

The Commercial Companies Code prohibits the General Meeting and the Supervisory Board from issuing binding instructions to the Management Board as to the conduct of BZ WBK's affairs. Furthermore, Management and Supervisory Board members are liable to BZ WBK for any damage caused through negligence or any action that is against applicable law or in breach of the Statute.

Powers of the President of the Management Board

The powers of the president of the Management Board include, specifically, managing the work of the Management Board, convening meetings of the Management Board, determining the agenda of meetings of the Management Board and presiding over meetings of the Management Board. In the case of a tied vote, the president of the Management Board has a casting vote.

In particular, the president of the Management Board is responsible for the matters related to supervision over the internal audit unit.

During the absence of the president of the Management Board, his duties are carried out by the first vice-president, and subsequently any other member of the Management Board appointed by the president of the Management Board.

Functioning

The Management Board operates in accordance with the Rules of the Management Board adopted by the Supervisory Board.

Resolutions of the Management Board are passed by an absolute majority of the votes cast by those present at the meeting of the Management Board, provided all the Management Board members have been properly informed of the meeting, except for a resolution on the appointment of a commercial proxy, which requires all of the members of the Management Board to vote in favor thereof. In the case of a tied vote, the president of the Management Board has a casting vote.

If necessary, resolutions of the Management Board may be adopted by way of a written procedure. Resolutions adopted by way of written procedure are presented for approval to all of the members of the Management Board and come into force once they have been signed by at least a half of the Management Board members, including its president. In exceptional circumstances, Management Board meetings can be held without the need to gather all of the Management Board members in one location, but through the use of telecommunication and audio-visual equipment to ensure concurrent communication between all of the individuals taking part in the meeting. The rules underlying the organization of such meetings are defined in the Rules of the Management Board.

Moreover, members of the Management Board may participate in passing resolutions by means of a written proxy vote through another member of the Management Board. A written vote may not be cast in the case of matters introduced to the agenda during a Management Board meeting. The rules regarding voting using this procedure are determined by the Rules of the Management Board.

Representations on behalf of BZ WBK are made by: (i) the president of the Management Board acting individually; (ii) two members of the Management Board acting jointly; (iii) one member of the Management Board acting jointly with a registered proxy; or (iv) two registered proxies acting jointly.

Members of the Management Board

As of the date of this Offering Memorandum, the Management Board consists of ten members.

The table below presents a list of the current members of the Management Board, their ages, positions and the dates on which their current term began.

Name	Age	Position	Date on which the current term began
Mateusz Morawiecki	45	President of the Management Board	10 May 2012
Andrzej Burliga	46	Member of the Management Board	10 May 2012
Michael McCarthy	46	Member of the Management Board	10 May 2012
Piotr Partyga	47	Member of the Management Board	10 May 2012
Marcin Prell	49	Member of the Management Board	10 May 2012
Mirosław Skiba	47	Member of the Management Board	10 May 2012
Juan de Porras Aguirre	49	Member of the Management Board	10 May 2012
Feliks Szyszkowiak	49	Member of the Management Board	10 May 2012
Eamonn Crowley	43	Member of the Management Board	10 May 2012
Marco Antonio Silva Rojas	44	Member of the Management Board	3 September 2012

The term of office of all the members of the Management Board expires upon the holding of the General Meeting at which the financial statements for the financial year ended 31 December 2014 are approved.

A brief description of the qualifications and professional experience of the members of the Management Board is presented below.

Mateusz Morawiecki

Mateusz Morawiecki has been associated with the BZ WBK Group since 1999; in 1999, he was a member of the management board of Bank Zachodni S.A. supervising the international sector; subsequently he was the managing director, and, following the merger of Bank Zachodni and Wielkopolski Bank Kredytowy S.A., in 2001 he became a member of the management board of Bank Zachodni WBK S.A. Since May 2007, he has been the president of the Management Board. In 1998, he was the deputy director of the accession negotiation department in the European Integration Committee. Between 1993 and 1996, he held the position of the financial director of Enter Marketing—Publishing Ltd, and from 1992 until 1993 he held the position of the economic director of Cogitto sp. z o.o.

Mr Morawiecki graduated from the faculty of history at the University of Wrocław, completed Business Administration Studies at the Technical University of Wrocław and Central Connecticut State University, and MBA studies at the Academy of Economics in Wrocław. He also completed post-graduate studies in European law and business integration at the University of Hamburg, holds a Master of Advanced European Studies from the University of Basel and completed the Executive Program at the Kellogg School of Management of Northwestern University.

Michael McCarthy

Michael McCarthy has worked in banking and financial services for 29 years. He has worked extensively in retail, corporate and commercial banking, holding a number of senior positions in both the UK and Ireland. From 2002 to 2009, he was managing director of AIB's card services UK and Ireland business, where he represented AIB on the boards of VISA UK and MasterCard Northern Europe.

He joined Bank Zachodni WBK in early 2009, when he was appointed management board member in charge of the business and corporate banking division, which comprises the business, mid-cap and large-cap customer segments, managed through a network of 17 corporate centers across Poland as well as centralized real estate and large corporate teams based in Warsaw. In addition, he is a member of the supervisory boards of BZWBK Leasing, BZWBK Faktor and BZ WBK Finanse & Leasing.

Mr McCarthy is a graduate of Manchester University, from where he holds an MBA, and of the Institute of Bankers in Ireland.

Piotr Partyga

Piotr Partyga started his professional career in Norway as a financial analyst and controller in Orkla Media AS. After returning to Poland in 1995, he became a fund manager and subsequently the investment director in Creditanstalt-SCG Fund Management S.A., where he was responsible for a portfolio of between five and seven large companies, operating mainly in the grocery and building material sectors. Between 1999 and 2012, he conducted his own business in the area of human resources and organizational advisory services (conducted since 2007 as part of Aretes Consultants sp. z o.o.) and he was a member of the Supervisory Board from 2010 until 2012.

Mr Partyga graduated from the Norwegian High School of Commerce (Norges Handelshoyskole) in Bergen.

Marcin Prell

Marcin Prell joined the BZ WBK Group in 1993 and since 2006 he has served as a member of the Management Board. Between 2001 and 2006, as the director of BZ WBK, he headed the legal area. In the years 2000 to 2001, he was a member of the management board of Wielkopolski Bank Kredytowy S.A. Between 1997 and 2000, Mr Prell was a director of Wielkopolski Bank Kredytowy S.A., and before that a deputy director of the legal department of Wielkopolski Bank Kredytowy S.A. Between 1993 and 1994, he worked as a legal advisor at Wielkopolski Bank Kredytowy S.A. In addition, in 1993, Mr Prell acted as counsel to the president of Wielkopolski Bank Rolniczy S.A. In the years 1992 to 1993, he held the position of legal consultant at Wojtczak Investment. Between 1991 and 1992, he worked as a legal specialist at Bank Staropolski S.A.

Mr Prell graduated from the Faculty of Law at the Adam Mickiewicz University in Poznań, where he earned a degree in law in 1989, and has completed several specialist courses in finance and management, including the Advanced Management Program at the Wharton School of the University of Pennsylvania.

Mirosław Skiba

Mirosław Skiba has been professionally associated with Wielkopolski Bank Kredytowy S.A. since 1992 and subsequently with BZ WBK. He has been, inter alia, a branch director, the director for the Wielkopolska Północ Region, the director for the Poznań macroregion and subsequently the Warsaw macroregion, and, since 2008, a member of the Management Board.

Mr Skiba graduated from the Technical University of Poznań and completed post-graduate banking studies at the Academy of Economics in Poznań.

Feliks Szyszkowiak

Feliks Szyszkowiak has been involved in the banking sector since 1991. From 1991 until 1996, he worked in the branch banking division, and from 1998 until 2001, he managed the IT and development section of Wielkopolski Bank Kredytowy S.A. From 2001 until 2003, he managed the B1 Program, which was designed to implement a new branch banking model and a centralized IT system in BZ WBK. Since 2003, he has been a member of the Management Board, where he was first (until July 2007) responsible for the risk management segment and presently the business support segment.

Mr Szyszkowiak graduated from the Technical University of Poznań and the Academy of Economics in Poznań, as well as the Wharton University (Advanced Management Program).

Juan de Porras Aguirre

Juan de Porras Aguirre has been involved in the banking sector since 1989. From 1989 until 1998, he was employed by, inter alia, Commerzbank and Lloyds Bank. From 1997 until 2004, he worked for Societe Generale, where he held the position of deputy head of corporate & investment banking. In 2004, he was employed in Rabobank in Madrid as the senior relationship manager, and between October 2005 and January 2007 he was the managing director of the energy, oil and gas sector of the Royal Bank of Scotland in Madrid. From 2007 until 2011 he was the managing director of Banco Santander.

Mr de Porras Aguirre graduated from Universidad de Granada and holds an MBA degree from Escuela Superior de Administración y Dirección de Empresas in Barcelona; he also graduated from the Investment Banking Executive Program at Northwestern University in Chicago.

Eamonn Crowley

Eamonn Crowley has been working in the banking and financial services sector for 26 years. From 1987 to 1991, he was employed by Irish Intercontinental Bank, a subsidiary of KBC Bank as an assistant accountant. From 1991 to 1994, he worked with a subsidiary of American International Group in Dublin and London as head of operations. In 1994, he joined the Allied Irish Banks Group and left that company in 2011. From 1994 to 2002, he was the head of customer services and finance director for AIB

International Financial Services, from 2002 to 2007 he was divisional director for AIB's Poland division, from 2007 to 2008 he was head of investment banking, Poland for AIB's capital markets division and from 2008 to 2011 he was head of operations in AIB's Central and Eastern Europe division.

Mr Crowley graduated from University College Dublin, and holds an MBA degree. In 1992, he became a member of the Association of Chartered Certified Accountants (F.C.C.A.), and in 1994 a member of the Association of Corporate Treasurers (A.M.C.T.).

Andrzej Burliga

Andrzej Burliga has been associated with BZ WBK (previously with Bank Zachodni S.A.) since 1995. Initially, he worked in the treasury department, where he worked as a dealer, a chief dealer, and the deputy director of the treasury department. From 2001 until 2006, he managed the risk management department of BZ WBK, and in 2006 became the deputy head of the risk management segment.

Mr Burliga graduated from the Faculty of Theoretical Mathematics of the University of Wrocław. He has completed the INSEAD International Executive Development Program and BZ WBK's Development Program for Executives.

Marco Antonio Silva Rojas

Marco Antonio Silva Rojas started his banking career in Banco Santander Chile in 1995 and since then has been with the Banco Santander Group. For three years, until 1998, he worked as Santander's Leasing & Factoring financial director at the Chile-based branch office of the Banco Santander Group. In 1999, he was appointed SME planning director in Banco Santander Chile and in 2002 he took up the role of management control director, which he performed for four years. In the years 2007 to 2012, he was the America division's planning and management control director in the Banco Santander Group. In January 2011, he was appointed the financial controller of Banco Santander Totta in Portugal.

Mr Silva Rojas graduated from the Faculty of Economics of Gabriela Mistral Universidad. He also completed MBA studies at Adolfo Ibañez Universidad (both universities are in Santiago de Chile).

The business address of all the Management Board members is Grzybowska 5a, 00-132 Warsaw.

Positions Held by the Members of the Management Board in Other Companies and Partnerships

The table below presents information on other companies and partnerships in which, during the last five years, the current members of the Management Board: (i) held positions in management or supervisory bodies; (ii) held shares (in the case of companies listed on the WSE or on any other regulated market in Poland or abroad, in a number representing more than 1% of the votes at the general meeting of such company); or (iii) were partners.

Name	Name of the company	Position	Does the Management Board member continue to serve in this capacity?
Mateusz Morawiecki . . .	Dom Maklerski BZ WBK	Chairman of the supervisory board	Yes
	BZ WBK Asset Management	Chairman of the supervisory board	Yes
	BZ WBK Inwestycje sp. z o.o.	Chairman of the supervisory board	Yes
	BZ WBK TFI	Chairman of the supervisory board	Yes
	BZ WBK Finanse & Leasing	Member of the supervisory board	No
	BZ WBK-Aviva TU Ogólnych	Chairman of the supervisory board	Yes
	BZ WBK-Aviva TU na Życie	Chairman of the supervisory board	Yes
Andrzej Burliga	Wro-Inwestycje sp. z o.o.	Shareholder	Yes

Name	Name of the company	Position	Does the Management Board member continue to serve in this capacity?
	BZ WBK Faktor	Member of the management board	No
	BZ WBK Faktor	Member of the supervisory board	No
Michael McCarthy	BZ WBK Leasing	Chairman of the supervisory board	Yes
	BZ WBK Faktor	Chairman of the supervisory board	Yes
	BZ WBK Finanse sp. z o.o.	Chairman of the supervisory board	Yes
	Kredyt Lease S.A.	Member of the supervisory board	Yes
	BZ WBK Finanse & Leasing	Member of the supervisory board	Yes
Piotr Partyga	Alreh Medical sp. z o.o.	Shareholder	Yes
	Alreh Medical sp. z o.o.	President of the management board	No
	Arpio 3 sp. z o.o.	Shareholder	No
	Arpio 3 sp. z o.o.	President of the management board	No
	Arpio 2 sp. z o.o.	Shareholder	No
	Arpio 2 sp. z o.o.	President of the management board	No
	Arpio 1 sp. z o.o.	Shareholder	No
	Aretes Consultants sp. z o.o. sp.k.	President of the management board	No
	Aretes Consultants sp. z o.o. sp.k.	Shareholder	No
	Aretes Consultants sp. z o.o.	President of the management board	No
	Aretes Consultants sp. z o.o.	Shareholder	No
	Wisene sp. z o.o.	Shareholder	Yes
	Robotics Inventions sp. z o.o.	Shareholder	Yes
	Telesto sp. z o.o.	Shareholder	No
	Telesto sp. z o.o.	Member of the supervisory board	No
	Ekspert Recruitment sp. z o.o.	Shareholder	No
	Jet Partner sp. z o.o.	Shareholder	No
	Expert Resources sp. z o.o. sp. komandytowa w likwidacji	Shareholder	No
	Export Resources sp. z o.o.	Shareholder	No
	Bank Zachodni WBK S.A.	Member of the supervisory board	No
Marcin Prell	BZ WBK Asset Management	Member of the supervisory board	Yes
	BZ WBK Nieruchomości S.A.	Member of the supervisory board	No
Mirosław Skiba	Heye Polska sp. z o.o.	Shareholder	Yes

Name	Name of the company	Position	Does the Management Board member continue to serve in this capacity?
	BZ WBK Leasing	Chairman of the supervisory board	No
	BZ WBK Leasing	Member of the supervisory board	No
	BZ WBK Finanse & Leasing	Chairman of the supervisory board	Yes
	BZ WBK Asset Management	Member of the supervisory board	Yes
	BZ WBK TFI	Member of the supervisory board	Yes
	Fundusz Poręczeń Kredytowych Polfund S.A.	Chairman of the supervisory board	No
Feliks Szyszkowiak	Wro-Inwestycje sp. z o.o.	Shareholder	Yes
	Wro-Inwestycje sp. z o.o.	Member of the management board	No
	BZ WBK Finanse & Leasing	Member of the supervisory board	No
	BZ WBK Asset Management	Member of the supervisory board	No
Eamonn Crowley	Camcor sp. z o.o.	Shareholder	Yes
	Alawana Holdings Ltd.	Shareholder	Yes
	Dom Maklerski WBK S.A.	Member of the supervisory board	Yes
	Ireland Poland Business Association	Member of the supervisory board	Yes
	BZ WBK Asset Management	Member of the supervisory board	No
	AIB European Investments Ltd.	Member of the supervisory board	No
	AIB European Investments Ltd. (Oddział w Polsce)	Branch director	No
	Camcor sp. z o.o.	Member of the management board	No

Supervisory Board

The Supervisory Board exercises regular supervision over BZ WBK's operations.

Membership

Pursuant to the Statute, the Supervisory Board must have at least five members, who are appointed for a joint three-year term. Members of the Supervisory Board, including the chairman of the Supervisory Board, are appointed and dismissed by the General Meeting, by secret vote. The Management Board informs the PFSA of the composition of the Supervisory Board. The Supervisory Board appoints the deputy chairman from among its members and may appoint a secretary.

Pursuant to the Statute, at least two members of the Supervisory Board need to meet the criteria of being independent from BZ WBK and entities with significant connections with BZ WBK. The criteria for independence of Supervisory Board members are defined in the Rules of the Supervisory Board, in accordance with the criteria defined in the Best Practices. However, based on Banco Santander's undertakings towards the PFSA, Banco Santander undertook that at an agreed point in time, at least half of the members of the Supervisory Board will be independent members and the Statute will be amended to reflect such requirement (for information regarding the commitments, please see "*Major Shareholders and Selling Shareholders—Banco Santander's Commitments towards the PFSA*").

Additionally: (i) at least half of the Supervisory Board members, including the independent members, must have knowledge of the reality of the Polish market in order to supervise BZ WBK's operations; (ii) at least two independent members of the Supervisory Board must be permanent residents of Poland and speak Polish.

Pursuant to the Investment Agreement concluded on 27 February 2012 between Banco Santander and KBC, Banco Santander is required to appoint a representative indicated by KBC as a member of the Supervisory Board; moreover, at the request of KBC, Banco Santander will use its corporate powers to dismiss such member and appoint such other member as is indicated by KBC. Such obligation applies from the Merger Date as long as KBC holds 5% or more of the Shares.

Moreover, pursuant to the Shareholders' Agreement with the EBRD, from the Merger Date, as long as the EBRD holds at least 780,809 Shares, but not longer than six years from the date of the subscription for Shares in BZ WBK by the EBRD, Banco Santander is required to ensure that one person indicated by the EBRD is appointed as a member of the Supervisory Board.

Powers

The Supervisory Board exercises regular supervision over BZ WBK's operations in all areas of its activity. The responsibilities of the Supervisory Board include an assessment of the Management Board's report on the operations of BZ WBK and an assessment of the financial statements of BZ WBK for the previous financial year with regard to their compliance with the books of account and other documents, as well as their actual status. The Supervisory Board is also responsible for an assessment of the Management Board's motions regarding the distribution of profits or coverage of losses and the submission to the General Meeting of an annual written report on the results of such assessment.

Pursuant to the Statute, the powers of the Supervisory Board also include, in addition to the powers and duties provided for in applicable law, the adoption of resolutions related to, in particular, the following matters:

(i) the approval of annual and long-term development plans for BZ WBK and financial plans for its operations prepared by the Management Board, BZ WBK's business strategy and the rules of prudent and stable management of BZ WBK; (ii) the approval of motions of the Management Board concerning the establishment and liquidation of BZ WBK's branches abroad; (iii) the approval of capital investments by BZ WBK, if (a) the value of such investment exceeds the PLN equivalent of EUR 4,000,000 (where the 'investment value' means the purchase price or sale price of a particular asset) or (b) the value of such investment exceeds EUR 400,000 and at the same time if as a result of such investment BZ WBK's shareholding in another entity is equal to 20% of the total votes or exceeds 20% of the votes or drops below the level of 20% of the votes at the general meeting or the meeting of the shareholders (where 'value of investment' means the purchase price or the sale price of a given asset, except for underwriting agreements for securities) if the total exposure of BZ WBK arising from such agreement does not exceed one tenth (1/10) of the total equity of BZ WBK (capital investment means, in particular, accessions by BZ WBK and exits from joint ventures, i.e. incorporation and dissolution of commercial law companies, accessions to and exits from commercial law companies, including making contributions to limited partnerships or limited joint stock partnerships; acquisitions of shares with a guarantee of their repurchase by another entity do not constitute a capital investment); (iv) approval of the acquisition, disposal or encumbrance of fixed assets (as defined in the Accounting Act), in particular any property, if the value of such fixed asset exceeds the PLN equivalent of EUR 4,000,000, except for BZ WBK seizing a property as a mortgage creditor, as a result of an ineffective auction conducted under enforcement proceedings or as a result of repossessing another fixed asset or securities by BZ WBK as the creditor secured by a registered pledge in line with the regulations on registered pledges and the pledge register or a creditor secured by repossession of security in line with the regulations of the Banking Law; (v) the determination of remuneration of the president of the Management Board and the Management Board members; (vi) the conclusion of contracts on behalf of BZ WBK falling within the authority of the Supervisory Board, including employment contracts or management contracts with members of the Management Board, where the Supervisory Board may appoint its chairperson or another Supervisory Board member to submit a declaration of will in this respect; (vii) the adoption of the Rules of the Management Board and other banking regulations as set forth in the Statute and other legal regulations and the approval of BZ WBK's rules of organizational procedure and policy with regard to the internal control system; (viii) the appointment of an entity authorized to audit the financial statements and to perform audit services for BZ WBK; (ix) the submission of applications to the PFSA for consent to the appointment of two members of the Management Board, including the president thereof; (x) informing the PFSA about the other Management Board members and, each time, about changes to the Management Board's composition and those Management Board members who, based on the internal division of responsibilities, are responsible for the operation of the internal audit unit and for credit risk management; (xi) the appointment and dismissal of the president of the Management Board and other members of the Management Board; (xii) the suspension of Management Board members from office, for important reasons, and the delegation of members of the Supervisory Board to temporarily perform the duties of those Management Board members who cannot perform their duties; (xiii) the presentation of a concise assessment of BZ WBK's standing to the ordinary General Meeting on an annual basis, including an evaluation of the internal control system and the material risk management system; (xiv) the approval of BZ WBK's business activity risk management policy as defined by the Management Board and the acceptable total risk exposure; (xv) the approval of the internal capital estimation and maintenance policy as defined by the Management Board; and (xvi) the approval of the internal audit policy as defined by the Management Board.

Additionally, the Supervisory Board issues opinions on any motions and matters which require a resolution of the General Meeting, except for matters that exclusively involve the Supervisory Board. The Supervisory Board makes recommendations to the Management Board, in particular, those regarding financial and organizational restructuring of BZ WBK, and the conclusion by the Management Board of long-term agreements binding on BZ WBK.

For more information regarding the Supervisory Board's powers, see "*Business of the BZ WBK Group—Material Contracts—Other Agreements—Agreements with the EBRD*" and "*Major Shareholders and the Selling Shareholders—Investment Agreement between Banco Santander and KBC*".

Functioning

The Supervisory Board operates pursuant to the Statute and the Rules of the Supervisory Board as adopted by the Supervisory Board itself.

Meetings of the Supervisory Board are convened by the chairman or vice-chairman of the Supervisory Board at their own initiative, upon a motion from the Management Board or at the request of a member of the Supervisory Board. Meetings of the Supervisory Board may also be held without the need to gather all the members in one place, i.e. by using telecommunications or audio-visual means that enable simultaneous communication of all the participants of the meeting. The rules of organizing meetings according to this procedure are set out in the Rules of the Supervisory Board. Meetings are convened when necessary; however, at least three times in a given financial year.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes of the Supervisory Board members if at the relevant meeting at least half of the members of the Supervisory Board are present and all of the members have been validly notified of such meeting. In the case of a tied vote, the chairman of the Supervisory Board has a casting vote. If necessary, resolutions of the Supervisory Board may be adopted by way of a written procedure. Resolutions adopted by written procedure are presented for approval to all members of the Supervisory Board, and become effective once they have been signed by at least half of the Supervisory Board members, including its chairman. Members of the Supervisory Board may participate in the adoption of resolutions by means of a written proxy vote through another member of the Supervisory Board. A written vote may not be cast in the case of matters introduced to the agenda during the meeting of the Supervisory Board. The rules of voting by means of this procedure are determined pursuant to the Rules of the Supervisory Board.

The Supervisory Board adopts resolutions in an open vote. However, a secret vote will be ordered: (i) in cases specified by law; (ii) in personnel matters; (iii) at the request of at least one member of the Supervisory Board, accepted by the Supervisory Board in a secret vote.

Pursuant the Rules of the Supervisory Board, any affected member of the Supervisory Board must inform the other members of the Supervisory Board that a conflict of interest has arisen and will refrain from participating in discussions and from voting on resolutions regarding the issue in which the conflict of interest has arisen.

Committees of the Supervisory Board

Pursuant to the Statute, the Supervisory Board is entitled to appoint, from among its members, an audit committee and other committees in order to support and streamline the operations of the Supervisory Board. The detailed scope of activity of a given committee will be set forth in the rules adopted by the

Supervisory Board. The role of a given committee is to facilitate the on-going operations of the Supervisory Board through the preparation, on an annual basis, of proposed decisions of the Supervisory Board with respect to its own motions to be submitted for approval to the Management Board. Each committee is composed of members of the Supervisory Board but the Supervisory Board may also invite other persons to participate in its committees.

As of the date of this Offering Memorandum, the following committees operate within the Supervisory Board: (i) the Audit and Compliance Committee; (ii) the Risk Oversight Committee; and (iii) the Remuneration and Nominations Committee.

The Audit and Compliance Committee was established on 20 April 2011 pursuant to a resolution of the Supervisory Board in order to exercise regular supervision over financial reporting in BZ WBK and ensure top quality of financial reports and disclosure practices and compliance with the accounting policies. The Audit and Compliance Committee also assesses the effectiveness of the internal control system and the financial and non-financial risk management frameworks. Furthermore, it ensures that the chartered auditor and the entity authorized to audit the financial statements are independent. The committee members receive reports from an external auditor and participate in regular meetings with representatives from the internal and external audit teams, which are not attended by the Management Board members, as well as with the Management Board member in charge of the Legal and Compliance Division and the Risk Management Division. The Audit and Compliance Committee is composed mostly of independent Supervisory Board members. As of the date of this Offering Memorandum, the composition of the Audit and Compliance Committee was as follows: John Power, Witold Jurcewicz, Jose Manuel Varela, Jerzy Surma and David R. Hexter. John Power, Witold Jurcewicz, Jerzy Surma and David R. Hexter are members who comply with the independency criteria. Additionally, John Power has expertise and competencies in accounting and auditing.

The Risk Oversight Committee was established on 20 April 2011 pursuant to a resolution of the Supervisory Board in order to present to the Supervisory Board conclusions and recommendations on the existing risk exposure (review of the risk appetite statement), the general risk management framework and the most effective strategy in this regard. As of the date of this Offering Memorandum, the composition of the Risk Oversight Committee was as follows: John Power, Witold Jurcewicz, Jose Manuel Varela, Jerzy Surma and David R. Hexter.

Throughout the year, the Audit and Compliance Committee and the Risk Oversight Committee convene at least four times on dates adjusted to the reporting and audit cycle. Additional meetings are held if the chairpersons or the members find it necessary. The quorum for each committee is two.

The Remuneration and Nominations Committee was established on 20 April 2011 pursuant to a resolution of the Supervisory Board in order to recommend appropriate remuneration policies and practices for the Management Board and senior management, review and monitor market trends with regard to the policies and practices governing the remuneration system in BZ WBK and the BZ WBK Subsidiaries. In particular, the Remuneration and Nominations Committee defines the individual terms and conditions as part of the remuneration packages for each Management Board member. It also performs annual reviews of the system of paying bonuses to members of the Management Board and submits relevant recommendations to the Supervisory Board in this scope. As of the date of this Offering Memorandum, the composition of the Remuneration and Nominations Committee was as follows: Gerry Byrne, Jose Antonio Alvarez and Jose Luis De Mora. The Remuneration and Nominations Committee convenes at least three times a year. The quorum is two.

Members of the Supervisory Board

As of the date of this Offering Memorandum, the Supervisory Board consists of nine members.

The table below presents a list of the current members of the Supervisory Board, their ages and positions, the dates on which their current term began and the expiration date of their current term of office.

Name	Age	Position	Date on which the current term began	Expiration of the term of office
Gerry Byrne	57	Chairman of the Supervisory Board	20 April 2011	20 April 2014
José Antonio Alvarez	53	Member of the Supervisory Board	20 April 2011	20 April 2014
Witold Jurcewicz	59	Member of the Supervisory Board	20 April 2011	20 April 2014
José Luis De Mora	46	Member of the Supervisory Board	20 April 2011	20 April 2014
John Power	52	Member of the Supervisory Board	20 April 2011	20 April 2014
José Manuel Varela	66	Member of the Supervisory Board	20 April 2011	20 April 2014
Jerzy Surma	49	Member of the Supervisory Board	10 May 2012	20 April 2014
David R. Hexter	63	Member of the Supervisory Board	13 February 2013	20 April 2014
Guy Libot	49	Member of the Supervisory Board	13 February 2013	20 April 2014

A brief description of the qualifications and professional experience of the current members of the Supervisory Board is presented below.

Gerry Byrne

Gerry Byrne has been involved with the Allied Irish Banks Group since 1973, where, in the years 2009 to 2010, he was managing director for Central and Eastern Europe, in 2001 to 2008 managing director of the Polish Division and in 1997 to 2000 managing director of ARK Life Assurance Company Limited. Previously, between 1973 and 1997, he held a number of managerial positions in the AIB Group.

Mr Byrne graduated from the Harvard Business School, the Irish Management Institute and the Institute of Bankers in Ireland.

The business address of Gerry Byrne is: ul. Grzybowska 5a, 00-132 Warsaw.

José Antonio Alvarez

José Antonio Alvarez started his professional career as an analyst in Instituto Nacional de Industria in Spain. He gained professional experience in Spanish financial institutions such as Banco de Crédito Industrial, Finanpostal Gestión Fondos de Inversión y Pensiones, Banco Hipotecario de España, Argentaria and BBVA. Since 2002, he has been involved with Banco Santander, first as the head of the finance section and presently as the CFO.

He graduated from the Faculty of Administration and Economics of the University of Santiago de Compostela and from the University of Chicago, where he earned an MBA degree.

The business address of José Antonio Alvarez is: Ciudad Financiera Santander, Avenida de Cantabria s/n Edificio Pereda, 28660 Boadilla del Monte, Madrid, Spain.

Witold Jurcewicz

Witold Jurcewicz is currently a partner at Daniłowicz, Jurcewicz i Wspólnicy spółka komandytowa. From 1993 to 2012 was a legal counsel at White & Case W. Daniłowicz, W. Jurcewicz i Wspólnicy—Kancelaria Prawna sp.k. From 1977 until 1989 he was an academic at, inter alia, the Institute of the State and Law of the Polish Academy of Sciences, the Litigation Law Research Institute in Warsaw and the Countryside and Agriculture Development Institute (*Instytut Rozwoju Wsi i Rolnictwa*). Between 1986 and 1990, he worked as an independent legal counsel.

Witold Jurcewicz graduated from the Faculty of Law and Administration of the University of Wrocław and holds a Ph.D. in law from the Institute of the State and Law of the Polish Academy of Sciences. He also completed legal training to become a judge.

The business address of Witold Jurcewicz is Daniłowicz, Jurcewicz i Wspólnicy spółka komandytowa, ul. Mysłowicka 5, 01-612 Warsaw.

José Luis De Mora

José Luis De Mora started his professional career with such institutions as the Bank of Spain and Daiwa Securities. From 1994 until 1998, he worked for Dresdner Kleinwort, and between 1998 and 2003 for

Merrill Lynch. Since 2003, he has been the head of the corporate development division of Banco Santander.

José Luis De Mora is a Certified Financial Analyst (CFA). He graduated from the faculty of law and economics of Instituto Católico de Administración y Dirección de Empresas and holds an MBA degree from Boston College.

The business address of José Luis De Mora is: Ciudad Financiera Santander, Avenida de Cantabria s/n Edificio Pereda, 28660 Boadilla del Monte, Madrid, Spain.

John Power

John Power worked for the AIB Group from 1979 until 2004, where he held a number of senior positions including general manager for enterprise information and reporting, divisional director for AIB's Poland division, deputy managing director for AIB international financial services and head of finance & compliance officer for AIB corporate finance. Since 2004 he has provided consultancy services to the master franchisee of Roche Bobois.

John Power is a Fellow of both the Institute of Chartered Certified Accountants (FCCA) and the Institute of Chartered Secretaries & Administrators (FCIS).

The business address of John Power is 7 Castlepark Road, Sandycove, Co. Dublin, Ireland.

José Manuel Varela Uña

José Manuel Varela Uña has held the position of deputy managing director of Banco Santander since 2007. Previously, between 1987 and 2007, he was the senior vice president of the Banco Santander Group. From 2007 until 2010, he was the head of the Asian markets division. Between 1978 and 1987, he was the head of the representative offices of Banco Exterior de España in Venezuela and Colombia. He has also held the position of general director of Bank Extebandes (Colombia, Venezuela, Peru, Bolivia, and Ecuador) and general director of Banco Exterior U.S. Branch (New York, Florida, California).

José Manuel Varela Uña graduated from the faculty of economics of the Complutense University of Madrid.

The business address of José Manuel Varela Uña is Ciudad Financiera Santander, Avenida de Cantabria s/n Edificio Arrecife, 28660 Boadilla del Monte, Madrid, Spain.

Jerzy Surma

From 2003 until 2005, Jerzy Surma was the business consulting director of IMG Information Management Polska and, from 1998 until 2002, the software director of T-Systems Poland. Since 2006, he has been an assistant professor at the Warsaw School of Economics. In the academic year 2011/2012, he was a visiting scholar at Harvard Business School.

Mr Surma graduated from the Faculty of Information Technology and Management of the Technical University of Wrocław. He received a Ph.D. in economics from the Faculty of Management and Information Technology of the Wrocław University of Economics. He completed postgraduate studies in Value Based Management at Warsaw School of Economics and the IFP Program at the IESE Business School and the Executive Program at the MIT Sloan School of Management.

The business address of Jerzy Surma is the Warsaw School of Economics, al. Niepodległości 162, 02-55 Warsaw.

David R. Hexter

David Hexter became a chief credit officer in 1986. From 1989 until 1992, he was responsible for business development at Citibank in Central and Eastern Europe, including Poland. In the years 1992 to 2004, he worked at the EBRD, where he held the position of director of the department of banking for financial institutions and subsequently deputy vice president, chairman of the capital investments committee and member of the investment committee. Since 2004, he has served on the boards of many companies, as well as banks and investment funds, including a large logistics company listed on the London Stock Exchange, where he is also the chairman of the audit committee.

Mr Hexter graduated from Oxford University and also holds an MBA from the Cranfield School of Management. He also holds a Master's degree from Birkbeck University of London.

The business address of David R. Hexter is 157 Holland Park Avenue, London.

Guy Libot

Guy Libot has more than 20 years' experience in banking. He started his career in Kredietbank NV, originally at a branch in the United States and then in the Netherlands. From 1995 until 2000, Guy Libot was a branch general manager of the KBC branch in Singapore, where he was, inter alia, responsible for corporate banking. From 2000 until 2003, he was the chief executive officer of KBC in the Netherlands. From 2003 until 2006, he held the position of deputy president of Kredyt Bank, where he was responsible for the credit risk division. In 2006, he became the deputy chief executive officer of K&H Bank Zrt. in Hungary, where he was responsible for, inter alia, loans, human resources and corporate banking. Since 2010, Guy Libot has been associated with KBC Global Services NV, first as general manager and subsequently as senior general manager in charge of banking in Central and Eastern Europe and senior general manager in charge of banking corporate change and support and international markets.

Mr Libot graduated from the University of Antwerp.

The business address of Guy Libot is KBC Bank NV, Havenlaan2, 1080 Brussels.

Positions Held by the Members of the Supervisory Board in Other Companies and Partnerships

The table below presents information on other companies and partnerships in which, during the last five years, current members of the Supervisory Board: (i) held positions in management or supervisory bodies; (ii) held shares (in the case of companies listed on the WSE or on any other regulated market in Poland or abroad in a number representing more than 1% of the votes at the general meeting of such company); and (iii) were partners.

Name	Name of company	Position	Does the Supervisory Board member continue to serve in that capacity?
Gerry Byrne	Bulgarian American Credit Bank AD	Chairman of the supervisory board	No
José Antonio Alvarez . .	Bolsas y Mercados Espanoles S.A.	Director	Yes
	Banco Santander Brasil S.A.	Director	Yes
	Santander Consumer Bank AG	Director	Yes
	Santander Consumer Bank Holding GmbH	Director	Yes
	Santander Global Property S.L.	Director	Yes
	Santander Holdings USA Inc.	Director	Yes
	Santander Consumer Finanse	Director	Yes
Witold Jurcewicz	J'TiM sp. z o.o.	Shareholder	Yes
	J'TiM sp. z o.o. sp.k.	Shareholder	Yes
	Biblioteka Akustyczna sp. z o.o.	Shareholder	No
	Daniłowicz Jurcewicz i Wspólnicy sp. k.	Shareholder	Yes

Name	Name of company	Position	Does the Supervisory Board member continue to serve in that capacity?
	White & Case W. Daniłowicz, W. Jurcewicz i wspólnicy kancelaria prawna sp. k.	Shareholder	No
	White & Case (Poland) sp. z o.o.	Member of the management board	No
José Luis De Mora	Sovereign Bank N.A.	Director	Yes
	Santander Consumer USA Inc.	Director	Yes
John Power	Dom Maklerski BZ WBK	Member of the supervisory board	Yes
	BZ WBK Asset Management	Member of the supervisory board	Yes
	Bulgarian American Credit Bank AD	Member of the supervisory board	No
	Ireland Poland Business Association Ltd	Director	Yes
	Lelewela Enterprises Ltd.	Shareholder, Director	Yes
José Manuel Varela Uña	Santander Private Banking s.pa.	Member of the board	Yes
	Hipica Eresma, S.L.	Shareholder	Yes
Jerzy Surma	One-2-One S.A.	Member of the supervisory board	No
	UNIT4 Teta S.A.	Member of the supervisory board	No
	Kęty S.A.	Member of the supervisory board	Yes
David R. Hexter	Private Equity New Markets 1 Limited Partnership	Member of the supervisory board	Yes
	Private Equity New Markets 2 Limited Partnership	Member of the supervisory board	Yes
	Private Equity New Markets 3 Limited Partnership	Member of the supervisory board	Yes
	Isc Trans Telecom Astana CJSC	Member of the supervisory board	Yes
	Isc Trans Continental OJSC	Director	Yes
	Kaspi Bank OJSC	Member of the advisory board	Yes
Guy Libot	K&H Bank Zrt.	Director	Yes
	ČSOB a.s. (Czech Republic)	Member of the supervisory board	Yes
	ČSOB a.s. (Slovakia)	Member of the supervisory board	Yes
	Cibank AD	Member of the supervisory board	Yes

Name	Name of company	Position	Does the Supervisory Board member continue to serve in that capacity?
	Absolut Bank (ZAO)	Director	Yes
	KBC Banka ad	President of the board of directors	Yes

Other Information on the Members of the Management Board and the Supervisory Board

According to the representations made by the members of the Management Board and the Supervisory Board, apart from the exceptions described in this section, during the last five years no member of the Management Board or Supervisory Board:

- has held any interest or stock in any capital company or was a partner in a partnership;
- has been a shareholder of a public company holding shares representing more than 1% of the votes at the general meeting of such company;
- has carried out any business activity other than his/her business activity at BZ WBK which could be material to BZ WBK;
- has been convicted of a fraud-related crime;
- has been subject to proceedings or sanctions imposed by any state authority or other supervisory body (including a trade organization);
- has been subject to a prohibition issued by a court from performing functions in administrative, governing or supervisory bodies of companies or a prohibition from performing managerial functions or managing the business of any company; or
- has been a member of an administrative, governing or supervisory body or an executive in any company where a receivership was established with respect to such company, or with respect to which bankruptcy, liquidation or similar proceedings were conducted.

Family Relationships

There are no family relationships between the members of the Management Board and the members of the Supervisory Board.

Administrative, Management or Supervisory Functions in Other Entities

Apart from the exceptions described above, no member of the Management Board or the Supervisory Board performs administrative, supervisory or management duties in any other company or performs any important functions outside BZ WBK which might be material to BZ WBK.

Conflict of Interest

White & Case W. Daniłowicz, W Jurcewicz i Wspólnicy Kancelaria Prawna sp.k., where Witold Jurcewicz held the position of "Partner of Counsel", provided legal advisory services to the BZ WBK Group several times a year. Witold Jurcewicz did not participate in the said law firm's profits and was not involved in any work performed by the law firm for the BZ WBK Group.

Other than the conflicts of interest described above, with respect to all members of the Management Board or the Supervisory Board, there are no actual or potential conflicts of interest arising from their personal interests and duties or obligations towards BZ WBK.

Information about Proceedings with the Participation of the Members of the Supervisory Board

Witold Jurcewicz received a reprimand imposed by the disciplinary court of the Regional Bar of Legal Advisors in connection with the fact that in 2006 White & Case W. Daniłowicz, W Jurcewicz i Wspólnicy Kancelaria Prawna sp.k., where he was "Partner of Counsel", agreed to provide legal services against an entity which was previously the said law firm's client.

Transactions and Agreements with the Members of the Management Board or the Supervisory Board

Within the period covered by the Consolidated Financial Statements of BZ WBK and until the date of this Offering Memorandum, BZ WBK has not entered into other transactions with members of the Management Board or members of the Supervisory Board or concluded any remuneration agreements in connection with holding offices in the management or supervisory bodies of BZ WBK or in connection with providing services to BZ WBK, as described in this section, except for the transactions indicated in "*Related-party transactions—Transactions with the Members of the Supervisory Board and the Management Board*".

Transactions and Agreements with Major Shareholders, Customers, Service Providers or Other Persons on the Basis of which any Member of the Management Board or the Supervisory Board Was Appointed as Member of the Management Board or the Supervisory Board

Pursuant to the Investment Agreement concluded on 27 February 2012 between Banco Santander and KBC, Banco Santander is required to appoint a representative indicated by KBC as a member of the Supervisory Board; moreover, at the request of KBC, Banco Santander will use its corporate powers to dismiss such member and appoint such other member as indicated by KBC. Such obligation applies from the Merger Date as long as KBC holds 5% or more of the Shares following the Merger.

Moreover, pursuant to the Shareholders' Agreement with the EBRD, from the Merger Date as long as the EBRD holds at least 780,809 Shares, but not longer than six years from the date of the subscription for the series I shares, Banco Santander is required to ensure that one person indicated by the EBRD is appointed as a member of the Supervisory Board.

There are no other agreements or understandings with BZ WBK's major shareholders, customers, service providers or other entities on the basis of which any member of the Management Board or the Supervisory Board was appointed as member of the Management Board or the Supervisory Board.

Participation of the Members of the Management Board or the Supervisory Board in the Offering

As of the date of this Offering Memorandum, the members of the Management Board and the Supervisory Board do not intend to participate in the Offering.

Shares or Stock Options Owned by the Members of the Management Board and the Supervisory Board

As of the date of this Offering Memorandum, the current members of the Management Board hold: (i) Shares; and (ii) the right to subscribe for a specific number of Shares under BZ WBK's fourth share incentive program titled the Performance Share Program (*Akcje za Wyniki*) granted to them in accordance with the information presented in the table below.

Name	Number of Shares held	Number of Shares to which members of the governing bodies of BZ WBK acquired rights under the fourth share incentive scheme
Mateusz Morawiecki	3,591	10,120
Andrzej Burliga	1,606	4,282
Eamonn Crowley	—	4,003
Michael McCarthy	—	4,875
Piotr Partyga	—	2,855
Marcin Prell	2,530	3,704
Mirosław Skiba	1,575	4,282
Juan de Porras Aguirre	—	—
Feliks Szyszkowiak	1,755	4,449
Marco Antonio Silva Rojas	—	—

Except for the information provided in the table above, no other member of the Management Board or the Supervisory Board owns any Shares or any stock options involving BZ WBK.

Members of the Management Board are entitled to subscribe for Shares under a share incentive program. On 21 April 2011, the General Meeting adopted a resolution on the commencement of the fourth edition of the share incentive program titled the Performance Share Program (*Akcje za Wyniki*). For more information on the share incentive scheme, please see "*Business of the BZ WBK Group—Employees*").

Pursuant to the internal regulations of BZ WBK, inter alia, the members of the Management Board and of the Supervisory Board cannot effect any opposite transactions involving securities of the BZ WBK Group within 30 days of the date of the acquisition or sale thereof (securities of the BZ WBK Group mean, inter alia, shares or bonds issued or guaranteed by BZ WBK and other securities issued by any issuer in which the sole or basic instrument are such shares or bonds).

As of the date of this Offering Memorandum, there are no restrictions on the disposal of the Shares held by members of the Management Board and the Supervisory Board.

Independence of Certain Members of the Supervisory Board

Pursuant to the representations submitted by the Supervisory Board members, Witold Jurcewicz, John Power, Jerzy Surma and David R. Hexter meet the criteria required of independent members listed in Best Practices including requirements of Annex II to Commission Recommendation (2005/162/EC) of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of (supervisory) boards.

Remuneration and Terms of Agreements on the Provision of Services

Remuneration of the Members of the Management Board

The members of the Management Board are employed on fixed-term employment contracts, i.e. contracts that are executed for the term of office of the Management Board and terminate on the expiry date of a given member's term of office.

In consideration for the performance of their duties, members of the Management Board receive a monthly base salary, which is reviewed each April by the Supervisory Board. Irrespective of the base salary, the Supervisory Board may award a member of the Management Board, in accordance with its own rules, an annual bonus, payable once the members of the Management Board have been granted discharge for the performance of their duties by the ordinary General Meeting held to approve the financial statements for the previous financial year. The payment of annual bonuses is dependent on BZ WBK's results and on the performance of tasks individually assigned to each member of the Management Board. In addition, members of the Management Board are entitled to use additional benefits, including, but not limited to: insurance coverage (without a pension option); a private medical care package; and, in the case of the members not residing in Poland, costs of accommodation. Pursuant to specific provisions of the employment agreements, the members of the Management Board may also be granted severance payments when their mandate as a Management Board member expires.

Moreover, the members of the Management Board are covered by D&O liability insurance for members of management boards and supervisory boards which provides for the payment of indemnity, as well as the reimbursement of any warranty costs (property bonds, other bonds) and of the costs of any lawsuits, in respect of any negligent acts committed by members of the Management Board in the course of the performance of their managerial functions. The premium for such D&O liability insurance is paid by Banco Santander.

Furthermore, the members of the Management Board sign agreements regarding non-competition following the termination of their employment relationship whereunder they covenant not to become involved in any competitive activities for a period of four months following the termination or expiry of their employment relationship without obtaining the prior written approval of the Supervisory Board or going beyond the scope of any such approval, if such is granted. In consideration for their compliance with the covenant not to compete, members of the Management Board are entitled to receive compensation in the total amount representing the base salary specified in the employment contract for the four months preceding the month in which their employment contract was terminated or expired.

In addition, during the term of their contracts members of the Management Board are not allowed, without the prior written approval of the Supervisory Board, to: (i) directly or indirectly engage in any competitive business activity on their own account under their sole proprietorship; (ii) participate in an entity engaged in any competitive business activity in the form of a civil-law partnership or a partnership or as a member of a governing body of any company (*spółka kapitałowa*); (iii) serve as members of a governing body of an entity engaged in such competitive business activity; (iv) hold in a competitive company (*spółka kapitałowa*) at least 10% of its interest or have the right to appoint at least one member of the management board; and (v) perform work in the framework of an employment relationship or perform services under a contract of mandate, or under a similar legal relationship, to any entity engaged in any competitive business activity.

Pursuant to their employment contracts, members of the Management Board are additionally required to submit, within seven days from executing an employment contract or performing a specific legal action, a statement on conducting or launching business activity and on holding shares in companies. With respect to publically listed companies in Poland, the submission of such statement is compulsory if the shareholding in a single company represents more than 5% of that company's share capital.

Pursuant to the Statute, the remuneration of the president and the members of the Management Board is determined by the Supervisory Board, having due regard to the recommendations of the Remuneration and Nominations Committee.

BZ WBK is required to comply with the principles of determining the policy for the variable components of the remuneration of persons in managerial positions at BZ WBK, set out in Resolution No. 258/2011 of the PFSA dated 4 October 2011, which took effect on 31 December 2011. Pursuant to one of the principles laid down in that policy, the remuneration of persons in managerial positions at BZ WBK must consist of fixed and variable elements in order to promote strong and effective risk management. In performance of the provisions of the said resolution of the PFSA, the Supervisory Board has approved the policy of variable remuneration components payable to persons in managerial positions at the BZ WBK Group. The policy promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the bank; it is in line with the business strategy and prevents any potential conflict of interests. The policy determines, inter alia, the rules of granting variable remuneration components, including payments in shares and deferred payments.

As of the date of this Offering Memorandum, BZ WBK has established an employment relationship with the following members of the Management Board:

Name	Effective date of the establishment of an employment relationship in relation to serving on the Management Board	Term for which the employment relationship was established	Position
Mateusz Morawiecki	10 May 2012	Term of office as a member of the Management Board	President of the Management Board
Andrzej Burliga	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Eamonn Crowley	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Michael McCarthy	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Piotr Partyga	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Marcin Prell	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Mirosław Skiba	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Juan de Porras Aguirre	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Feliks Szyszkowiak	10 May 2012	Term of office as a member of the Management Board	Member of the Management Board
Marco Antonio Silva Rojas	1 November 2012	Term of office as a member of the Management Board	Member of the Management Board

The following table sets forth the amount of the base salary, annual bonuses and additional benefits paid to individual members of the Management Board (the current members and those who performed their functions in 2012) by BZ WBK in 2012. In 2012, the members of the Management Board did not receive any remuneration from the Subsidiaries.

Name	Base salary	Annual bonus paid in 2012**	Additional benefits***
	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)
Mateusz Morawiecki	1,563	1,870	75
Andrzej Burliga	952	850	87
Eamonn Crowley	887	778	46
Michael McCarthy	1,070	1,004	332
Piotr Partyga	599	—	30
Marcin Prell	892	799	72
Mirosław Skiba	952	850	82
Juan de Porras Aguirre	1,280	—	300
Feliks Szyszkowiak	979	864	70
Marco Antonio Silva Rojas	388	—	50
Justyn Konieczny	409	1,026	31
Janusz Krawczyk	2,586*	925	—
Total	**12,557**	**8,966**	**1,175**

* Including severance payment in connection with the end of the term in the Management Board and compensation for non-competition.

** Such amounts do not include the part of the bonuses which were granted and not paid in 2012 but were deferred to be paid in 2013.

*** Additional benefits include, in particular: insurance coverage (without a pension option); a private medical care package; and, in the case of the members not residing in Poland, costs of accommodation and travel expenses.

In 2012, selected members of the Management Board were payment in lieu of holiday in a total amount of PLN 927 thousand.

Moreover, in 2011, Management Board members were granted the right to subscribe for a specific number of Shares as a result of the exercise of the fourth edition of the share incentive program titled the Performance Share Program (*Akcje za Wyniki*). For more information, please see "*Management and Corporate Governance—Other Information on Members of the Management Board and the Supervisory Board—Shares or Stock Options Owned by Members of the Management Board and the Supervisory Board*" and "*Business Overview—Employees*".

Remuneration of Members of the Supervisory Board

Pursuant to the Statute, the remuneration of the Supervisory Board members is determined by the General Meeting. As of the date of this Offering Memorandum, the remuneration of the Supervisory Board was determined under resolution No. 35 of the General Meeting dated 20 April 2011.

Under this resolution, the remuneration per month of: (i) the President of the Supervisory Board was set at PLN 20,000; (ii) the remaining members of the Supervisory Board domiciled in Poland was set at PLN 10,000; and (iii) the remaining members of the Supervisory Board not domiciled in Poland was set at EUR 2,500. Moreover, the following additional remuneration was established for the members of the Supervisory Board who are members of individual committees thereon. Such remuneration is paid for participation in each meeting of the following committees: (i) PLN 10,000 per meeting for an Audit Committee Chairman domiciled in Poland; (ii) EUR 2,500 per meeting for an Audit Committee Chairman not domiciled in Poland; (iii) PLN 7,000 per meeting for other members of the Audit Committee domiciled in Poland; (iv) EUR 1,750 per meeting for other members of the Audit Committee not domiciled in Poland; (v) PLN 4,000 per meeting for members of the Nominations and Remuneration Committee domiciled in Poland; (vi) EUR 1,000 per meeting for members of the Nominations and Remuneration Committee not domiciled in Poland; (vii) PLN 7,000 per meeting for members of the Risk Oversight Committee domiciled in Poland; and (viii) EUR 1,750 per meeting for members of the Risk Oversight Committee not domiciled in Poland.

As of the date of this Offering Memorandum, under the resolution, the following Supervisory Board members are not remunerated: (i) Jose Manuel Varela; (ii) Jose Antonio Alvarez; (iii) Jose Luis De Mora; (iv) Gerry Byrne; and (v) Guy Libot.

Moreover, the members of the Supervisory Board are covered by D&O liability insurance for members of management boards and supervisory boards which provides for the payment of indemnity, as well as the reimbursement of any warranty costs (property bonds, other bonds) and of the costs of any lawsuits, in respect of any negligent acts committed by members of the Supervisory Board in the course of the performance of their functions. The premium for such D&O liability is paid by Banco Santander.

The following table sets forth the annual remuneration of the members of the Supervisory Board for 2012 (the current members and those who performed their functions in 2012). In 2012, the members of the Supervisory Board did not receive any remuneration from the Subsidiaries, apart from Mr Power, who was granted PLN 47 thousand by the BZ WBK Subsidiaries.

Name	Salary (in PLN thousand)
Gerry Byrne	—
José Antonio Alvarez	—
Witold Jurcewicz	176
José Luis De Mora	—
John Power	210
José Manuel Varela	—
Piotr Partyga	81
Jerzy Surma	95
David R. Hexter	—
Guy Libot	—
Total	**562**

Additionally, Mr Power received additional remuneration for supervision over the Merger on behalf of the Supervisory Board in the amount of PLN 746 thousand.

Best Practices

In accordance with the WSE Rules, as a public company listed on the Warsaw Stock Exchange BZ WBK should observe the principles of corporate governance set out in the WSE Best Practices. The WSE Best Practices is a set of recommendations and rules of procedure for governing bodies of publicly listed companies and their shareholders. The WSE Rules and the resolutions of the WSE's management board and its council set forth the manner in which publicly listed companies disclose information on their compliance with corporate governance rules and the scope of information to be provided. If a certain rule is not complied with by a publicly listed company on a permanent basis or has been breached incidentally, such publicly listed company is required to disclose this fact in the form of a report published by such company. Furthermore, a publicly listed company is required to attach to its annual report information on the scope in which it complied with the WSE Best Practices in a given financial year.

BZ WBK strives to ensure maximum transparency of its operations, the best quality of communication with its investors and the protection of its shareholders' rights, also in the fields which are not governed by law. Therefore, BZ WBK has taken the necessary actions to observe all of these rules to the fullest extent possible.

In 2012, BZ WBK duly complied with all the corporate governance rules included in the updated Best Practices. In this period (as well as on the date of this Offering Memorandum), no breaches of the corporate governance rules have been identified.

MAJOR SHAREHOLDERS AND THE SELLING SHAREHOLDERS

Major Shareholders

As BZ WBK is a publicly listed company with the Shares listed on the main floor of the WSE, BZ WBK does not have detailed information regarding the shareholding structure existing as of the date of this Offering Memorandum. The information regarding BZ WBK's shareholding structure described below is based on the information provided by the major shareholders of BZ WBK (those holding at least 5% of the total voting rights at the General Meeting) in accordance with Article 69 of the Act on Public Offering and the list of shareholders of BZ WBK present at the last extraordinary General Meeting. In accordance with the above, the major shareholders holding at least 1% of the total number of votes at the General Meeting are:

- Banco Santander, a public company organized and existing under the laws of Spain, with its registered office at Paseo de Pereda No. 9 to 12, Santander, Spain and its operating headquarters at Avda de Cantabria s/n, 28660 Boadilla del Monte (Madrid) Spain, which holds 70,334,512 Shares, constituting 75.19% of BZ WBK's share capital and representing 75.19% of the total voting rights at the General Meeting;
- KBC, a limited liability company incorporated under the laws of Belgium with its registered office at Havenlaan 2, 1080 Brussels, Belgium, which holds 15,125,964 Shares, constituting 16.17% of BZ WBK's share capital and representing 16.17% of the total voting rights at the General Meeting;
- OFE PZU Złota Jesień, which holds 1,900,000 Shares, constituting 2.03% of BZ WBK's share capital and representing 2.03% of the total voting rights at the General Meeting; and
- the EBRD, which holds 1,561,618 Shares, constituting 1.67% of BZ WBK's share capital and representing 1.67% of the total voting rights at the General Meeting.

The table below sets forth certain information regarding BZ WBK's shareholding structure before the Offering.

Shareholder's name	Shares / Votes	(%)
Banco Santander	70,334,512	75.19
KBC	15,125,964	16.17
OFE PZU Złota Jesień	1,900,000	2.03
EBRD	1,561,618	1.67
Other shareholders	4,622,995	4.94
Total	**93,545,089**	**100.0**

Control over BZ WBK

As of the date of this Offering Memorandum, Banco Santander, as the controlling entity of BZ WBK, exercises the shareholder rights set forth in the Commercial Companies Code and in the Statute. Banco Santander is able to exercise corporate control over BZ WBK due to its share in the share capital of BZ WBK and, consequently, due to the total number of votes it holds at the General Meeting.

Since the Management Board members are appointed and dismissed by the Supervisory Board, which is appointed by the General Meeting, Banco Santander, as the entity which controls the majority of the Shares, can also indirectly influence the composition of the Management Board.

The Statute does not contain provisions which specifically prevent the possible abuse of control by BZ WBK's majority shareholder.

The provisions of the Commercial Companies Code and the Act on Public Offering which constitute the legal basis for the protection of minority shareholders are, in particular, those regarding: (i) the convocation of the General Meeting and requests for certain matters to be put on the agenda of the General Meeting; (ii) the right to put certain matters on the agenda of the General Meeting; (iii) the right to propose draft resolutions regarding matters put on the agenda of the relevant General Meeting; (iv) the right to request that the Supervisory Board is elected by groups of shareholders; (v) the right to appoint a special purpose auditor; and (vi) the qualified majorities of votes required for the most important resolutions of the General Meeting (see "*Management and Corporate Governance*" and "*Rights and Obligations Related to Shares and General Meetings*").

Relationship between BZ WBK and the Banco Santander Group

Position of BZ WBK within the Banco Santander Group

BZ WBK is a subsidiary of Banco Santander and belongs to the Banco Santander Group. The Banco Santander Group is the Eurozone's leading bank and is among the top 15 financial institutions worldwide in terms of market capitalization, which amounted to EUR 63 billion at the end of 2012. Founded in 1857, the Banco Santander Group manages EUR 1.4 trillion in funds. With approximately 187,000 employees, the Banco Santander Group is the leading financial institution in Spain and Latin America and holds significant positions in the United Kingdom, Portugal, Germany, Poland and the northeastern United States. In addition, its consumer finance division operates in 13 European countries, including those of Scandinavia.

As of the date of this Offering Memorandum, shares in Banco Santander are listed on the stock markets of Spain, New York, London, Lisbon, Mexico, Sao Paulo, Buenos Aires and Milan.

The Banco Santander Group's business model is based on retail banking activities which provide services to 102 million customers through 14,400 offices in ten core countries worldwide as of the end of 2012, as well as through multi-channeling. The distribution of those activities is facilitated by the Banco Santander Group's geographical diversification in Europe, Latin America and the United States through local, legally independent and autonomous entities in terms of capital and liquidity. This business model ensures recurring results and a strong balance sheet in times of economic crisis. The model is complemented by global activities in wholesale banking, asset management, private banking, insurance, payment methods and consumer finance.

Co-operation between the BZ WBK Group and the Banco Santander Group

The BZ WBK Group's management teams co-ordinate certain business policies with the Banco Santander Group's global divisions that bring best knowledge and practices developed by the Banco Santander Group to the BZ WBK Group. This allows BZ WBK Group to combine its local know-how and capacity with the best international practices developed by the Banco Santander Group, which provides an edge over local competitors.

The Banco Santander Group provides strategic focus in certain commercial areas, including providing training to the BZ WBK Group's personnel in order to further increase the commercial effectiveness of front office functions.

Co-operation with the Banco Santander Group is especially close and aligned with respect to the following key areas:

- *Risk management*: (i) benchmarking and guidance for implementation of risk best practices; (ii) models to manage global clients; (iii) global tools and systems (always locally validated and customized); (iv) training to blend local and global risk culture (the Santander Risk School); and (v) cross-experience with other Banco Santander Group units (internships and secondments).
- *Procurement*: (i) the BZ WBK Group's procurement model is supported by the Banco Santander Group's negotiations team; (ii) the Banco Santander Group's model regarding freezing savings from procurement negotiations has been implemented; and (iii) sharing knowledge within the Banco Santander Group regarding vendors and purchased products and tools.
- *Auditing*: co-operation is based on the exchange of skills and experiences, as well as in support of substantive audit work performed and discussion of solutions. Moreover, the Internal Audit Division of the Banco Santander Group supports the development of the BZ WBK Group's auditors by incorporating them into training sessions and workshops organized at the Banco Santander Group level, engaging them in group-wide audits and delivering advanced IT tools supporting the then current work. The performance of the audit follows the BZ WBK Internal Audit Methodology, which is adapted from the Banco Santander Group's methodology. This Methodology is primarily aimed at determining some basic unified procedures which are considered in the development of the different phases of work. Along with the work methodology are programs for particular audit reviews which verify the existence and sufficiency of controls and procedures to evaluate and mitigate the risks.
- *Compliance*: compliance processes are managed with the aim of aligning them with the existing model of the Banco Santander Group, which involves co-operation in the following key areas: anti-money laundering, monitoring of new products, business ethics and the flow of sensitive information (including

especially prevention of misuse of inside information, including monitoring staff personal transactions, as well as management of conflicts of interests).

- *IT:* there is multifaceted co-operation on various levels between various IT divisions and units of the Banco Santander Group and their respective equivalents within the BZ WBK Group. The BZ WBK Group's IT personnel also look to the Banco Santander Group for consultancy and advice in various IT fields, and take part in exchange of experience and ideas within specialized groups from the Banco Santander Group.

The BZ WBK Group's financial results are reflected in the consolidated financial statements of the Banco Santander Group and, therefore, the BZ WBK Group complies with the Banco Santander Group's internal accounting reporting rules and standards.

Global Reorganization of the Banco Santander Group's Asset Management Business

As of the date of this Offering Memorandum, the Banco Santander Group is in the process of globally reorganizing its asset management business. Such reorganization will include the transfer of a significant number of the Banco Santander Group's asset management businesses to a holding company that will be a subsidiary of Banco Santander and which will centralize the Banco Santander Group's asset management business. Though no decision has yet been approved by the governing bodies of BZ WBK or Banco Santander regarding their asset management business in Poland conducted by BZ WBK Asset Management (BZ WBK and Banco Santander each hold a 50% stake) and BZ WBK TFI (subsidiary of BZ WBK Asset Management), it is likely that this unit will be affected by such reorganization in the near future (after obtaining all the legal, contractual and regulatory consents and approvals, including the approval from the PFSA).

Banco Santander's Undertakings towards the PFSA

In connection with obtaining approval from the PFSA for the Merger, Banco Santander has made, in particular, the following undertakings with regards to the BZ WBK Group:

- *Streamlining the structure and operations of the subsidiaries of the Banco Santander Group in Poland*: Banco Santander undertook to use available means to cause Santander Consumer Bank to become a direct subsidiary of BZ WBK by 31 March 2014, as well as: (i) to cause Santander Consumer Finanse to become a direct subsidiary of Santander Consumer Bank no later than nine months from the date of the introduction of the amendment of Recommendation T ensuring a level playing field for the consumer finance industry (for more information regarding new Recommendation T, please see "*Banking Regulation in Poland*"); or (ii) to cease the consumer finance activity currently pursued by Santander Consumer Finanse. Banco Santander undertook to refrain from pursuing such activity in the future other than through Santander Consumer Bank or through BZ WBK (or their directly held units); given the fact that members of the Banco Santander Group are not the only shareholders of BZ WBK, Santander Consumer Bank and Santander Consumer Finanse, all decisions concerning the two latter entities will have to be made jointly with the other shareholders pursuant to the agreements concluded therewith. Any resulting transactions will, however, at all times be carried out on an arm's-length basis.

- *The position of BZ WBK within the Banco Santander Group*: Banco Santander undertook that, subject to undisputable economic factors, BZ WBK will remain an entity directly held by Banco Santander.

- *Governing bodies of BZ WBK:* Banco Santander undertook that at an agreed point in time at least half of the members of the Supervisory Board will be independent members and the Statute will be amended to reflect such requirement.

- *Listing of the Shares on the WSE and their free float*: Banco Santander undertook to increase the free float of the Shares on the WSE to at least 25% by 1 April 2013 and 30% (or, eventually, to a level exceeding 30%) by 31 December 2014, and, subsequently, to maintain the free float at that level, and thereafter consider the possibility of increasing the free float up to 40%. Such measures will only be implemented if they do not entail an unjustified financial loss for Banco Santander or if implementing such measures is not impossible for other reasons.

In addition, in connection with the issuance by the PFSA of a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Shares representing more than 50% of the voting rights at the General Meeting in February 2011, Banco Santander has made towards the PFSA certain undertakings with regards to the BZ WBK Group concerning: (i) the composition of the

Management Board; (ii) the stable liquidity and capital management of BZ WBK; (iii) the organizational, management and financial autonomy of BZ WBK within the Banco Santander Group; (iv) dividend policy; (v) the maintenance of the listing of BZ WBK on the regulated market operated by the WSE and at least a 25% free float level; (vi) compliance with all regulatory requirements concerning the FX exposures of retail clients; and (vii) non-competition between BZ WBK and other entities from the Banco Santander Group in Poland.

Based on Banco Santander's understanding of its undertakings towards the PFSA, Banco Santander is, as of the date of this Offering Memorandum, in compliance with its undertakings towards the PFSA.

Santander Consumer Bank and Santander Consumer Finanse

The Banco Santander Group entered the Polish market in 2002 and currently carries out its consumer finance business in Poland through three companies: Santander Consumer Bank, Santander Consumer Multirent and Santander Consumer Finanse.

Santander Consumer Bank was established in 1997, initially under the name Bank of America Polska S.A., and was acquired by Santander Consumer Finance Madrid, a direct subsidiary of Banco Santander, in 2002. Santander Consumer Bank started to operate under the Santander Consumer Bank brand in 2006. In 2010, Santander Consumer Bank acquired a controlling stake in AIG Bank Polska (established in 1992 under the name Bank Podlaski S.A. and acquired by the AIG Consumer Finance Group Inc. in 1998). In 2011, Santander Consumer Bank merged with AIG Bank Polska and significantly increased the scale of its operations.

Santander Consumer Bank is one of two leading banks providing new vehicle financing and is one of the leading players on the cash loans market. The product portfolio of Santander Consumer Bank also includes credit cards, deposits for individual and corporate clients, insurance and financing for car dealers.

As of 31 December 2012, Santander Consumer Bank had 1,155 million customers, who were serviced by 233 branches across the country, as well as through phone and Internet services. Selected products and services of Santander Consumer Bank, including, in particular, car loans, are also available at 1,304 dealers of new and used cars. As of 31 December 2012, Santander Consumer Bank had 2,245 employees.

As of 31 December 2012, Santander Consumer Bank had total assets of PLN 11.6 billion and total equity of PLN 1.9 billion.

Santander Consumer Multirent, a wholly owned subsidiary of Santander Consumer Bank, operates on the leasing market. Santander Consumer Multirent was founded in 2007 and since then has significantly strengthened its position. At the end of 2012, Santander Consumer Multirent was among top 12 leasing companies in Poland in the field of vehicle financing (GCW>3.5t) in terms of number of leased cars according to data from the Central Vehicle and Driver Register.

Santander Consumer Finanse specializes in hire purchase and cash loans. In 2012, Santander Consumer Finanse acquired, from KBC, Żagiel, a financial broker which specializes in providing credit facilities to individual clients. Santander Consumer Finanse and Żagiel merged in January 2013. Since that merger, Santander Consumer Finanse has been the one of the largest players on the hire purchase market in Poland and has more than 30,000 point-of-sale partners across Poland.

As of 31 December 2012, the total assets of Santander Consumer Finanse constituted less than 2% of the BZ WBK Group's total assets.

Santander Consumer Bank and Santander Consumer Finanse are sister companies under the control of Santander Consumer Finance Madrid, a direct subsidiary of Banco Santander, which holds 70% of the shares in both companies. The remaining 30% of the shares in both Santander Consumer Bank and Santander Consumer Finanse is held by AIG Consumer Finance Group Inc.

Investment Agreement between Banco Santander and KBC

The Investment Agreement, which was concluded on 27 February 2012, as amended, between KBC and Banco Santander, governs the pre-Merger and post-Merger rights and obligations of the parties. With regard to pre-Merger issues, it regulates the parties' co-operation in order to carry out the Merger and satisfy the conditions therefor as indicated in the Investment Agreement. With regard to the post-Merger covenants, the Investment Agreement regulates, inter alia: (i) corporate governance of BZ WBK following the Merger; (ii) financing granted by KBC to Kredyt Bank/BZ WBK; (iii) risk sharing agreements concluded between Kredyt Bank and a member of the KBC Group; (iv) competing restrictions regarding KBC; (v) use of the KBC name by BZ WBK Group; (vi) co-operation in connection with the secondary public offering of BZ WBK and (vii) the tag-along right of KBC.

Corporate governance covenants

The corporate governance covenants identified in this sub-section apply from the Merger Date for as long as KBC holds 5% or more of the Shares.

Pursuant to the Investment Agreement, Banco Santander is required to appoint a representative indicated by KBC as a member of the Supervisory Board. Moreover, at the request of KBC, Banco Santander will use all its corporate powers to dismiss such member and appoint such other member as indicated by KBC. Based on the joint understanding of Santander and KBC, as of the date of this Offering Memorandum, such right of KBC may be transferred to a third party holding more than 5% as a consequence of a transfer of KBC's Shares in BZ WBK to such third party; provided, however, that such third party does not conduct any business in Poland competing with the business of the Banco Santander Group in Poland as of the date of such transfer and as long as such third party holds at least 5% of the Shares. Such right transferred to the third party expires three years after that transfer. The right transferred to such third party may not be further transferred. Under the Investment Agreement, if Banco Santander objects to such third-party acquisition of KBC's Shares exceeding 5%, Banco Santander is obliged to purchase, or procure the purchase by another entity of, such Shares offered to the third party.

Under the Investment Agreement, in addition to other matters reserved by law, the Supervisory Board has the right to take decisions on certain matters, including: (i) save for certain exemptions, the approval of an acquisition and/or the disposal of any subsidiary, business or assets, or a merger with a transaction value above the threshold set forth in the Investment Agreement; (ii) save for certain exemptions, the approval of the entry into any related-party transactions (and any amendments thereto) between BZ WBK or any member of the BZ WBK Group and a member of the Banco Santander Group with a transaction value above the threshold set forth in the Investment Agreement; and (iii) deciding on amendments to the by-laws, rules or procedures in connection with the above-mentioned matters (the "**Supervisory Board Reserved Matters**"). Supervisory Board resolutions on the Supervisory Board Reserved Matters require the approval of the member of the Supervisory Board appointed by KBC.

Pursuant to the Investment Agreement, Banco Santander undertook to consult with KBC on BZ WBK's business plan and any decision on the appointment, resignation, suspension, dismissal and remuneration of the management of BZ WBK. KBC does not have veto rights on such matters.

Moreover, under the Investment Agreement, certain matters which are subject to the competencies of the General Meeting require KBC to vote in favor thereof in order to be passed, including in particular, certain share capital increases above certain thresholds and resolutions approving the distribution of more than 50% of the profits obtained in a given year.

Financing granted by KBC to Kredyt Bank

Under the Investment Agreement, the parties agreed that the previous inter-company funding agreements between a member of the KBC Group and Kredyt Bank must be terminated in full (in principle, on the basis of the maturity/call date as provided for in a given inter-company funding agreement) and all inter-company debt arising therefrom should promptly be settled without any termination or break-up costs being applied. However, in order to continue certain financing from the KBC Group to BZ WBK following the Merger, the parties to the Investment Agreement decided to enter into new financing agreements. For information on the material provisions of such financing agreements, please see "*Material Contracts—Agreements on the External Financing of BZ WBK*".

However, in relation to the three subordinated loans agreements dated, respectively, 19 March 2008, 17 December 2008 and 7 May 2009 for, respectively, CHF 100,000,000, PLN 75,000,000 and CHF 165,000,000, Banco Santander undertook to ensure that BZ WBK repays the whole of the relevant loan (including the costs, interest and fees as applicable, but excluding any break-up, termination or any other fees related to premature termination or repayment of such loan) prior to or on the last day of the relevant interest period following the fifth anniversary of the drawdown date of the relevant loan.

Risk Sharing Agreements

Pursuant to the Investment Agreement, the contractual documentation governing risk-sharing agreements existing as of the date of the Investment Agreement between Kredyt Bank and a member of the KBC Group was replaced in line with a new uniform text as set out in the Investment Agreement. Following such replacement, the commercial terms of the risk-sharing agreements remained unchanged, except for certain financing identified in the Investment Agreement where the percentage for which KBC participates in each given incidence of risk-sharing was raised from 50% to 80%. For information on the material provisions of such agreements, please see "*Material Contracts—Other Agreements*".

Competing restrictions of KBC

The Investment Agreement provides certain competing restrictions for the KBC Group, in accordance with which no member of the KBC Group will, for a period of two years from the Merger Date, carry on or be engaged in any business in Poland competing with the business of BZ WBK as it existed at 27 February 2012 (comprising savings and retail banking, leasing services and consumer finance), subject to certain exceptions in favor of the KBC Group as set out in the Investment Agreement.

Use of the KBC name

Banco Santander undertook to procure and ensure that each member of the BZ WBK Group will, no later than nine months after the Merger Date (the "**Cessation Period**"), cease to use or display any name, mark or logo (including "KBC") which is the same as or similar to, or is likely to be confused or associated with, any name, mark or logo of any member of the KBC Group. The Cessation Period may be extended by a period of up to three months and in the case of credit cards until the expiry date of such cards at the sole discretion of BZ WBK or Banco Santander if BZ WBK or Banco Santander, acting diligently, face difficulties in the fulfillment of the obligations referred to herein within the initial Cessation Period.

Co-operation in connection with the secondary public offering

Under the Investment Agreement, KBC is authorized to request that a secondary public offering of the Merger Shares takes place on the WSE (the "**Secondary Public Offering**"). Upon receipt of a respective notice from KBC concerning the commencement of the Secondary Public Offering, Banco Santander must promptly take, and use its best efforts to ensure that BZ WBK takes, any and all steps which are required to implement such Secondary Public Offering in accordance with KBC's request. Banco Santander must offer to sell such amount of its Shares during the Secondary Public Offering that (i) the total amount of the Shares owned by KBC (as determined in the notice provided by KBC to Banco Santander), (ii) the amount of Merger Shares in BZ WBK to be sold by Banco Santander and (iii) the amount of shares in BZ WBK owned by any third parties other than KBC and Banco Santander, constitute together at least 25% of the entire number of shares in BZ WBK. For the avoidance of doubt, Banco Santander will not be required to sell any of its Shares should its required market conditions not be met or should it suffer any financial or economic loss. Furthermore, Banco Santander is required to provide, and ensure that BZ WBK provides, assistance and support as may be requested by KBC in order to effect the Secondary Public Offering.

Tag-along right of KBC

Pursuant to the Investment Agreement, and subject to certain exceptions set forth in the Investment Agreement, if Banco Santander intends to transfer any part of its Shares to a third party, KBC will have the right to transfer its Shares in the proportion agreed together with Banco Santander (the "**Tag-Along Right**"). If Banco Santander breaches the Tag-Along Right, Santander is required to buy KBC's Shares which KBC would sell under the Tag-Along Right.

The Tag-Along Right applies from the Merger Date for as long as KBC holds 5% or more of the Shares following the Merger.

Selling Shareholders

[REDACTED]

Shareholding Structure Following the Offering

[REDACTED]

RELATED-PARTY TRANSACTIONS

BZ WBK has entered into and in the future intends to enter into transactions with related parties within the meaning of IAS 24.

BZ WBK conducts transactions with the following related parties:

- its subsidiaries;
- its associates and joint ventures;
- its shareholders and affiliates of the shareholders of BZ WBK;
- members of the Management Board and Supervisory Board;
- persons close to members of the Management Board and the Supervisory Board.

In the period from 1 January 2010 to 31 December 2012, except for the transactions described in this section, BZ WBK has not entered into any other transactions with related parties which, from BZ WBK's perspective, were material, either separately or in aggregate.

In BZ WBK's opinion, all agreements with related parties were concluded on an arm's-length basis. Most of the transactions of BZ WBK with related parties are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.

Due to the fact that transactions between BZ WBK and its subsidiaries have been eliminated during the consolidation process, they are not presented in this Offering Memorandum.

Transactions Between BZ WBK and its Associates and Joint Ventures

The table below shows information on transactions between BZ WBK and its associates and joint ventures as of the dates and for the periods specified in the table below.

	As of and for the year ended 31 December		
	2012	2011	2010
	(PLN thousand) (audited)		
Transactions with associates and joint ventures			
ASSETS	**788**	**742**	**514**
Loans and advances to customers	—	259	492
Other assets	788	483	22
LIABILITIES	**480,770**	**392,882**	**361,038**
Deposits from customers	480,588	392,418	360,985
Other liabilities	182	464	53
INCOME	**114,472**	**65,405**	**61,013**
Interest income	24,266	8,421	1,037
Fee and commission income	89,893	55,662	59,714
Gains (losses) from other financial securities	21	(21)	—
Other operating income	292	1,343	262
EXPENSES	**25,787**	**20,236**	**24,235**
Interest expenses	22,439	17,881	21,921
Fee and commission expenses	1,572	711	604
Operating expenses incl.:	1,776	1,644	1,710
General and administrative expenses	*1,768*	*1,644*	*1,710*

Source: The Consolidated Financial Statements of BZ WBK

In the period from 1 January 2010 to 31 December 2012, interest income and fee and commission income was mainly generated from transactions with BZ WBK-Aviva TU na Życie and BZ WBK-Aviva TU Ogólnych relating to the distribution of insurance products. In the same period, other operating income was primarily attributable to re-invoiced rent and service charges, as well as consultancy services.

Interest expenses and fee and commission expenses in the period from 1 January 2010 to 31 December 2012 were primarily generated by transactions with BZ WBK-Aviva TU na Życie and BZ WBK-Aviva TU Ogólnych relating to deposits and current accounts, balance-sheet settlement balances, distribution of insurance products. General and administrative expenses contain mainly costs of insuring payment cards incurred by BZ WBK.

Transactions Between BZ WBK and its Shareholders and Affiliates of the Shareholders of BZ WBK

Transactions between BZ WBK and the Banco Santander Group

The table below shows information on transactions between BZ WBK and the Banco Santander Group.

	As of 31 December	
	2012	2011
	(PLN thousand) (audited)	
Transactions with Banco Santander Group		
ASSETS	**335,686**	**117,976**
Loans and advances to banks, including:	283,789	81,701
deposits	*197,009*	*70,557*
current accounts	*86,780*	*11,144*
Financial assets held for trading	48,729	35,230
Hedging derivatives	3,109	1,045
Loans and advances to customers	2	—
Other assets	57	—
LIABILITIES	**167,326**	**46,625**
Deposits from banks including:	36,328	178
current accounts	*36,328*	—
deposits	—	*178*
Hedging derivatives	—	—
Financial liabilities held for trading	121,440	46,446
Deposits from customers	9,089	—
Other liabilities	469	1
INCOME	**(24,131)**	**(22,327)**
Interest income	14,964	1,010
Fee and commission income	307	301
Other operating income	591	230
Net trading income and revaluation	(39,993)	(23,868)
EXPENSES	**5,873**	**946**
Interest expenses	319	946
Operating expenses including:	5,554	—
Bank's staff, operating expenses and management costs	*5,554*	—
CONTINGENT LIABILITIES	**259,418**	**63,648**
Sanctioned:	158,175	49,999
—guarantees	*158,175*	*49,999*
Received:	101,243	13,649
—guarantees	*101,243*	*13,649*
DERIVATIVES' NOMINAL VALUES	**11,079,645**	**3,415,369**
Cross-currency interest rate swaps—purchased amounts	1,872,728	—
Cross-currency interest rate swaps—sold amounts	1,909,243	—
Single-currency interest rate swaps	1,748,351	656,927
Options	468,004	45,542
FX swap—purchased amounts	1,808,349	564,471
FX swap—sold amounts	1,882,817	572,762
FX options—purchased	663,176	694,939
FX options—sold	719,912	877,099
Spot-purchased	3,508	1,813
Spot-sold	3,557	1,816

Source: The Consolidated Financial Statements of BZ WBK

BZ WBK's transactions with the Banco Santander Group in the period between 31 March 2011 and 31 December 2012 included mainly the following categories of products and types of settlements: interest income and expense connected with mutually held deposits and current accounts; instrument nominal values, as well as profits and losses on derivative transactions from the trading and hedging portfolio (Spot/Forward, FX options, single-currency and cross-currency interest rate swaps); interbank settlements; the expenses related to the operation and maintenance of IT systems; commission income charged for maintaining accounts; other operating income accounted for by re-invoiced rental fees; and contingent liabilities related to provided guarantees.

Transactions between BZ WBK and the AIB Group

The table below shows information on transactions between BZ WBK and the AIB Group.

Transactions with the AIB Group	31 December 2010
Assets	**130,969**
Loans and advances to banks, including:	93,399
current accounts	*93,399*
Financial assets held for trading	36,968
Other assets	602
Liabilities	**463,030**
Deposits from banks including:	326,117
repo transactions	*289,270*
deposits	*36,847*
Hedging derivatives	887
Financial liabilities held for trading	124,466
Other liabilities	11,560
Income	**(41,125)**
Interest income	1,957
Fee and commission income	2,183
Other operating income	1,917
Net trading income and revaluation	(46,009)
Gains (losses) from other financial securities	(1,173)
Expenses	**42,897**
Interest expense	16,528
Operating expenses including:	26,369
Bank's staff, operating expenses and management costs	*26,369*
Derivatives' nominal values	**4,611,239**
Cross-currency interest rate swaps—purchased amounts	372,205
Cross-currency interest rate swaps—sold amounts	362,070
Single-currency interest rate swaps	3,092,517
Options	25,616
FX swap—purchased amounts	186,807
FX swap—sold amounts	205,653
FX options—purchased	122,520
FX options—sold	127,976
spot-purchased	58,387
spot-sold	57,488

Source: The Consolidated Financial Statements of BZ WBK

BZ WBK's transactions with the AIB Group in the period between 1 January 2010 and 31 December 2010 included primarily interest income and expense connected with: mutually held deposits and current accounts; instrument nominal values, as well as profits and losses on derivative transactions from the trading and hedging portfolio (Spot, FX options, FRA, single-currency and cross-currency interest rate swaps); interbank settlements presented under other liabilities; expenses and balance-sheet settlement balances related to remuneration, the group equity-based remuneration program and business trips incurred in connection with designated employees of the controlling entity; incomes, expenses and balance-sheet settlement balances connected with mutually provided IT system development services; commission income charged for maintaining accounts; and contingent liabilities (financing-related / guarantees) related to provided guarantees.

Transactions with Members of the Management Board and the Supervisory Board

Remuneration

The table below shows information on remuneration received by the members of the Management Board and the Supervisory Board from BZ WBK.

	Year ended 31 December		
	2012	2011	2010
	(PLN thousand)		
Management Board	13,732	11,347	12,789
—base salaries*	12,557	9,681	10,360
—additional benefits**	1,175	1,666	2,439
Supervisory Board	562	899	1,204

Source: BZ WBK

* Including severance payment in connection with the end of the term in the Management Board and compensation for non-competition.

** Additional benefits in particular, insurance coverage (without a pension option), a private medical care package and, in the case of the members not residing in Poland, costs of accommodation and travel expenses.

In addition:

- In 2012, the BZ WBK Group paid out: (i) bonuses to the members of the Management Board for 2011; (ii) a deferred remuneration component for 2010, i.e. part of the bonuses granted for 2010; (iii) additional remuneration for John Power for individual supervision over the Merger process and remuneration for John Power granted by BZ WBK Subsidiaries; and (iv) payment of equivalent for holidays for Management Board members, the aggregate sum of which amounted to PLN 10,686 thousand.
- In 2011, the BZ WBK Group paid out: (i) bonuses to the members of the Management Board for 2010; (ii) remuneration for John Power granted by BZ WBK Subsidiaries; and (iii) remuneration for Gerry Byrne, who provided services to BZ WBK in 2011 and 2010 (the services provided by Mr Byrne involved the exercise of supervision over the optimum implementation of the sales process and of the change of a strategic shareholder of BZ WBK in a manner safeguarding the interests of all of the shareholders of BZ WBK), the aggregate sum of which amounted to PLN 19,888 thousand.
- In 2010, the BZ WBK Group paid out: (i) bonuses for the members of the Management Board for 2009; and (ii) remuneration for John Power granted by BZ WBK Subsidiaries, the aggregate sum of which amounted to PLN 8,946 thousand.

Credit, Loans, and Guarantees

The table below shows information on credit, loans and guarantees granted to the members of the Management Board and the Supervisory Board from BZ WBK.

	Year ended 31 December		
	2012	2011	2010
	(PLN thousand)		
Loans and advances	9,797	10,322	8,798
Finance lease receivable provided by the subsidiaries and associates	0	0	6

Source: BZ WBK

The members of the Management Board have not received loans from the Company Social Benefit Fund.

Transactions with Persons Close to Members of the Management Board and the Supervisory Board

BZ WBK renders various standard financial services in favor of persons close to members of the Management Board and members of the Supervisory Board, including maintaining bank accounts, accepting deposits or the sale of financial instruments. In the opinion of BZ WBK, those transactions are entered into on an arm's-length basis. The amounts of the transactions (jointly or separately) are immaterial to BZ WBK's operations.

RIGHTS AND OBLIGATIONS RELATED TO SHARES AND THE GENERAL MEETING

The information contained in this section is of a general nature and was prepared in accordance with the laws and regulations applicable as of the date hereof and in accordance with the Statute. Therefore, investors should carefully examine the Statute and consult their legal advisors for detailed information on the rights and obligations attached to the Shares and General Meetings. Moreover, any reference in this section to deadlines stated in business days, in the context of rights exercised through the NDS, must be understood as deadlines which are counted in accordance with §5 of the NDS Rules, thus excluding any days classified as holidays under the relevant laws and regulations as well as Saturdays, provided that the management board of the NDS may, if such is necessary for the deposit and clearing system, adopt a resolution which introduces certain additional business days that are to be excluded for the purposes of the calculation of the respective deadlines or which designates such additional days classified as holidays and Saturdays which will be included for the purposes of the calculation of the deadlines (the management board of the NDS is required to notify all NDS participants at least one month in advance of any such change resulting from any such resolution).

Rights and Obligations Related to Shares

The rights and obligations related to the Shares are determined by the Polish Commercial Companies Code, the Banking Law, the Act on Trading in Financial Instruments, the Act on Public Offering, and the Statute.

Right to Dispose of Shares

BZ WBK's shareholders have the right to dispose of their Shares. The disposal of Shares includes the sale (transfer of ownership) and other forms of disposal, including the establishment of a pledge, the right of use or lease over Shares.

The Statute does not contain provisions regarding restrictions on the transfer of Shares.

The obligations related to the purchase and sale of shares in Polish companies listed on the WSE are described in "*The Capital Market in Poland and the Obligations Related to the Purchase and Sale of Shares*".

Dividend

Right to Dividend

BZ WBK's shareholders have the right to a share in the profit which is reflected in the annual, stand-alone financial statements audited by an independent auditor and approved under a resolution of the General Meeting to be paid out to BZ WBK's shareholders (i.e. the right to a dividend).

The governing body that decides on profit distribution and dividend payment is the annual General Meeting. At the annual General Meeting resolutions are adopted with respect to whether and what amount of the profit reflected in the financial statements audited by an independent auditor will be allocated for distribution. An annual General Meeting must be held within six months of the end of a financial year (which, in the case of BZ WBK, corresponds to the calendar year), i.e. by the end of June.

The annual General Meeting also determines the dividend date and the dividend payment date. The dividend date may be determined as the date of the adoption of the resolution on the distribution of profit or within the three months immediately following such date. The record date and the dividend payment date are determined in accordance with the regulations of the NDS.

The amount allocated for distribution among BZ WBK's shareholders may not exceed the profit for the previous financial year, increased by undistributed profits from previous years and by such amounts transferred from the supplementary capital and reserve capitals created out of profit which may be allocated for payment of dividend. However, such amount must be reduced by uncovered losses from previous years, own shares held, and such portions of profit from the preceding financial year which, according to the Commercial Companies Code or the Statute, need to be assigned to the supplementary capital and reserve capitals.

Pursuant to Article 129, section 3 of the Banking Law, the allotment, for distribution among BZ WBK's shareholders, of an amount that exceeds the profit for the most recent financial year, less any uncovered losses, treasury shares and amounts that cannot be designated for dividend, requires the consent of the PFSA.

Under § 50.3 of the Statute, dividends may be paid in the form of cash or securities. Dividends paid to the State Treasury, as a shareholder (if applicable), must be paid in cash.

The Management Board may make an interim payment of an anticipated dividend for the end of a financial year to the shareholders, provided that BZ WBK has sufficient funds for such payment. The payment of an interim dividend requires the consent of the Supervisory Board. BZ WBK may pay an interim dividend if its approved financial statements for the previous financial year show profits. The interim dividend may not exceed half of the profits generated by the end of the previous financial year shown in the financial statements audited by an auditor, increased by the reserve capitals created out of the profit which can be disposed of by the Management Board, and reduced by unaccounted losses from previous years and own shares held.

Persons who have Shares registered on their securities accounts as of the dividend day and persons appropriately authorized with regard to the dematerialized Shares registered in an omnibus account have the right to dividend.

A shareholder's claim against BZ WBK for payment of dividend may be enforced within ten years from the date of the adoption by the annual General Meeting of the resolution on designating all or some of BZ WBK's profits for payment to the shareholders. After such time, BZ WBK is not required to make payment of dividend on account of the statute of limitations.

Procedure for the payment of dividends

The principles of the payment of dividends to BZ WBK's shareholders are those applicable to public companies. A resolution on the payment of a dividend must indicate the date of determining the right to dividend (the record date) and the date of the dividend payment. Subject to the applicable provisions of the Detailed Rules of the Operation of the NDS, the dividend day may be fixed as any day within three months after the adoption of the resolution, such period being calculated from the date on which the resolution was adopted. The dividend will be paid on the date specified in the resolution of the General Meeting; if the resolution of the General Meeting fails to specify such date, the dividend payment is made on the date determined by the Supervisory Board.

The Management Board makes a decision on making interim dividend payments at least four weeks prior to the payment date and announces, in the Court and Business Gazette (*Monitor Sądowy i Gospodarczy*), the date on which the financial statements were prepared, the amount allocated for payment and the interim dividend record date, which can be any date within seven days prior to the interim dividend payment date.

Pursuant to §9 of section 3 of Chapter XIII of the Detailed Exchange Trading Rules, BZ WBK is required to immediately notify the Warsaw Stock Exchange if a resolution on the allocation of profit for payment of dividend has been taken, as well as on the value of the dividend, the dividend per share, the dividend record date and the dividend payment date. Moreover, under section 106 of the Detailed Rules of the Operation of the NDS, BZ WBK is required to inform the NDS, at least five days before the dividend record date, about the value of the dividend, the dividend record date, and the dividend payment date. According to section 106 Clause 2 of the Detailed Rules of Operation of the NDS, the dividend payment date may be no earlier than the tenth day after the dividend record date. These regulations apply to interim dividend accordingly, with the exception that the interim dividend payment date may be no earlier than the fifth day after the interim dividend record date.

Dividends and interim dividends are paid to holders of book-entry shares through the depository system of the NDS. The NDS transfers the funds representing the given dividend to the accounts of the NDS participants, who will subsequently transfer the received funds to the cash accounts of BZ WBK's shareholders kept by the respective brokerage houses. The dividend due to the persons entitled thereto under dematerialized shares in BZ WBK registered in an omnibus account will be transferred to their holders by the entity maintaining such account.

Pre-emptive Rights

The shareholders have the right to subscribe for newly-issued shares in BZ WBK pro rata to the number of Shares already held by them (i.e. they have a pre-emption right). BZ WBK's shareholders also have a priority right to subscribe for new Shares in the case of an issuance of securities convertible into Shares or incorporating the right to subscribe for Shares. A resolution adopted on the increase of BZ WBK's share capital must indicate the date of determining the pre-emptive right of BZ WBK's shareholders to new

Shares (the pre-emptive right record date). The pre-emptive right record date must be set before the lapse of the six-month period which starts on the date on which the resolution was adopted. The agenda of the General Meeting at which such resolution is adopted must specify the proposed pre-emptive right record date.

The pre-emptive right may be excluded only if doing so is in the interest of BZ WBK and provided that such item has been included in the agenda of the General Meeting. The Management Board presents to the General Meeting a written opinion justifying the reasons for the exclusion of the pre-emptive right and the proposed share issue price or the method of determining such price. A four-fifths majority is required to adopt a resolution on the exclusion of the pre-emptive right of the existing shareholders.

The four-fifths majority of votes is not required for the adoption of resolutions on the exclusion of the pre-emptive right of BZ WBK's existing shareholders if:

- the resolution to increase the capital provides that the new Shares are to be subscribed for solely by a financial institution (underwriter) with the obligation to offer the Shares to BZ WBK's shareholders so as to enable them to enforce their pre-emptive rights according to the conditions determined in the resolution;
- the resolution provides that the new Shares are to be subscribed for by the underwriter if BZ WBK's shareholders, who have pre-emptive rights, fail to subscribe for a part of or all the Shares offered to them.

Right to a Share in the Assets of BZ WBK in the Case of the Liquidation of BZ WBK

If BZ WBK is liquidated, the assets remaining after the satisfaction or securing of the creditors of BZ WBK will be distributed among BZ WBK's shareholders pro rata to the contributions to the share capital made by each of them.

Pursuant to Article 151 of the Banking Law, if the PFSA adopts a decision pursuant to Article 147 of the Banking Law on the merger of a bank with another bank following the consent of the surviving bank, upon the satisfaction or securing the claims of the creditors of the acquired bank, the surviving bank will make payments to the shareholders of the acquired bank from the remaining assets in proportion to the previously held share capital or delivers treasury shares to such bank's shareholders. Treasury shares will be delivered at the agreed issue price, which cannot be greater than the book value of the shares.

Rights and Obligations Related to the General Meeting

Right to Participate in the General Meeting and the Right to Vote

Right to vote

Shareholder may exercise their right to vote at the General Meetings. Pursuant to the Commercial Companies Code, General Meetings may be annual (ordinary) (annual General Meetings) or extraordinary (extraordinary General Meetings).

Participation in the General Meeting and the manner in which the voting right is exercised

BZ WBK's shareholders may participate in the General Meeting and exercise their voting rights in person or by proxy. A shareholder of BZ WBK which intends to participate in the General Meeting by proxy must grant a relevant power of attorney to their proxy in writing or in electronic form. The form of the relevant power of attorney must be included by BZ WBK in the announcement on the convocation of the General Meeting. Moreover, a shareholder who has granted a power of attorney in electronic form is required to inform BZ WBK thereof by using the means of electronic communication indicated in the notice convening the General Meeting. BZ WBK will be required to take relevant actions aimed at establishing the identity of BZ WBK's shareholder and its proxy in order to verify the validity of the power of attorney granted in electronic form. A detailed description of the manner in which the validity of a power of attorney granted in electronic form is verified must be included in the notice convening the General Meeting.

Shareholder of BZ WBK which hold Shares registered in more than one securities account may appoint several proxies, i.e. one to exercise the rights attached to the Shares registered in each of the securities accounts.

If a proxy is a member of the Management Board, a member of the Supervisory Board, a receiver, an employee of BZ WBK, or a member of the governing bodies or an employee of one of BZ WBK's subsidiaries, the power of attorney must authorize the proxy to represent the principal at one General Meeting. The proxy is required to disclose to BZ WBK's shareholder the existence or possibility that a conflict of interest may arise. In such case, the proxy must not grant any further powers of attorney. A proxy must vote in line with the instructions provided by BZ WBK's shareholder.

Pursuant to § 22, section 1 of the Statute, each Share entitles its holder to one vote at the General Meeting.

The Statute does not provide for any shares with a voting preference.

Resolutions of the General Meeting are adopted by an absolute majority of votes, unless the Commercial Companies Code or the Statute provides otherwise.

A shareholder may vote in a different manner from each of its Shares. One proxy may represent more than one shareholder of BZ WBK and vote in a different manner from the Shares held by each shareholder of BZ WBK he represents.

A shareholder of BZ WBK may not vote personally or through a proxy, on resolutions regarding such shareholder's liability against BZ WBK on any account, including the discharge of duties, release from liability towards BZ WBK and regarding a dispute between the shareholder and BZ WBK. The aforementioned restriction does not apply to a shareholder of BZ WBK voting as the proxy of another shareholder on the above-mentioned resolutions concerning the shareholder voting as a proxy.

Pursuant to § 19a of the Statute, a shareholder may participate in the General Meeting using electronic means of communication. The detailed rules governing such shareholder participation in the General Meeting are specified by the Management Board and the By-Laws of the General Meeting.

Persons authorized to participate in the General Meeting and to exercise voting rights

The right to participate in the General Meeting is vested only with the persons who are shareholders of BZ WBK sixteen days before the date of the General Meeting (the date of registration of the General Meeting's participants).

In order to participate in a General Meeting, the eligible holders of dematerialized bearer Shares in BZ WBK must instruct the entity maintaining their securities account to issue a document bearing their name and confirming their right to participate in the General Meeting. This instruction cannot be presented before the notice convening the General Meeting is delivered and not later than on the first business day after the date of registration of the General Meeting's participants.

Persons entitled to vote under registered shares, and pledgees and users entitled to vote, also have the right to participate in the General Meeting if they are entered into the share register on the date of registration of the General Meeting's participants.

A list of the shareholders authorized to attend the General Meeting must be prepared by BZ WBK based on the list provided by the entity maintaining the depositary of securities pursuant to the Act on Trading in Financial Instruments and the information disclosed in BZ WBK's share register on the date of registration of the General Meeting's participants. The aforementioned list is displayed at BZ WBK's registered office for the three business days preceding the date of the General Meeting, as well as at the venue of and during the General Meeting. A shareholder of BZ WBK may request copies of the list of shareholders entitled to participate in the General Meeting to be sent by electronic mail to the email address he provided, free of charge.

With respect to shares registered in an omnibus account, the certificate confirming the right to participate in the General Meeting will be a document with the appropriate wording issued by the holder of such account. If the omnibus account is not maintained by the NDS (or an entity that the NDS has retained for the purposes of the duties related with the operation of a securities depository), the holder of such account needs to be indicated to the NDS (or the entity that the NDS has retained for the purposes of the duties related with the operation of a securities depository) by the entity which maintains the omnibus account therefor prior to the first issuance of such document.

Based on the documents referred to above, the holder of the omnibus account will make a list of persons authorized to participate in the General Meeting. If the holder of an omnibus account is not a participant of the NDS (or a company which NDS has retained for the purposes of the duties related with the operation of a securities depository), the list of persons authorized to participate in the General Meeting is delivered through a participant of the NDS (or a company which NDS has retained for the purposes of the duties related with the operation of a securities depository).

A shareholder of BZ WBK may transfer their Shares in the period between the date of registration of the General Meeting's participants and the date of the closing of the General Meeting.

Convocation of the General Meeting

Entities authorized to convene a General Meeting

The General Meeting is convened by the Management Board. The Supervisory Board may convene the annual General Meeting if the Management Board fails to convene it on time. The Supervisory Board may convene an extraordinary General Meeting if the Management Board fails to convene such within two weeks of the submission of a request therefor from shareholders representing at least one tenth of the share capital or at any other time the Supervisory Board deems an extraordinary General Meeting to be necessary. The right to convene an extraordinary General Meeting is also vested with the shareholders of BZ WBK representing at least one half of BZ WBK's share capital or at least one half of the total number of votes. In such event, BZ WBK's shareholders will appoint the chair of such General Meeting.

Furthermore, a shareholder or shareholders representing at least one twentieth of BZ WBK's share capital may request that an extraordinary General Meeting be convened and that certain matters be placed on the agenda of such General Meeting. Such request to convene the extraordinary General Meeting must be submitted to the Management Board in writing or in electronic form. If within two weeks from the submission of such request to the Management Board the extraordinary General Meeting has not been convened, the registry court may authorize BZ WBK's shareholders submitting such request to convene an extraordinary General Meeting. In such case, the chair of the general Meeting will be appointed by the court.

Right to place particular matters on the agenda

A shareholder or shareholders representing at least one twentieth of BZ WBK's share capital may request that particular matters be placed on the agenda of the next General Meeting. Such a request must be presented to the Management Board at least 21 (twenty-one) days before the date for which the General Meeting is scheduled. Such request may be made in electronic form. The Management Board is required to immediately announce all the amendments to the agenda introduced at the request of BZ WBK's shareholders, but no later than 18 (eighteen) days before the date of the General Meeting. The amendments should be announced in the same manner as in the notice of convocation of the General Meeting.

Manner in which the General Meeting is convened

The General Meeting is convened by way of an announcement published on BZ WBK's website and in the manner required for the publication of current reports pursuant to the Act on Public Offering. The announcement must be made at least 26 (twenty-six) days before the date of the given General Meeting. The announcement of the General Meeting must include, specifically: (i) the date, time and venue of the General Meeting, as well as its detailed agenda; (ii) a precise description of the procedures for participation in the General Meeting and for voting, (iii) the date of the registration of the General Meeting's participants; (iv) information that only the persons being the shareholders of BZ WBK on the date of the registration of the General Meeting's participants have the right to attend the General Meeting; (v) information on where and how a person authorized to attend the General Meeting can obtain the full documentation to be presented to the General Meeting as well as the draft resolutions or, if no resolutions are to be adopted, the comments of the Management Board or the Supervisory Board concerning the matters placed on the agenda of the General Meeting or matters to be placed on the agenda before the date of the General Meeting; and (vi) an indication of the website address at which information concerning the General Meeting can be found.

Pursuant to the Reports Regulation, BZ WBK must publish, by way of a current report, inter alia, the date, hour and venue of a General Meeting, including the detailed agenda therefor. Moreover, if an amendment to the Statute is planned, the current report must include the provisions of the Statute to be amended, the text of the proposed amendments, and, if required, taking into account the scope of the proposed amendments, BZ WBK may decide to include a full consolidated text of the Statute, including a specification of the newly amended provisions. In addition, the text of the draft resolutions and appendices to the draft resolutions to be discussed at the General Meeting must be included in the current report, if they are material.

Right to propose draft resolutions to BZ WBK

A shareholder or shareholders representing at least one twentieth of the share capital may, before the date of the General Meeting, propose to BZ WBK draft resolutions regarding matters placed on the agenda of the General Meeting or matters to be placed on the agenda, in writing or electronically. BZ WBK must immediately publish the said draft resolutions on its website.

Right to demand the delivery of copies of requests

Each of BZ WBK's shareholders has the right to demand the delivery of a copy of the requests concerning the matters on the agenda of the next General Meeting. Such demand must be filed with the Management Board. Copies of the requests must be delivered no later than within one week prior to the General Meeting.

Right to Information

The Management Board is required at the request of a shareholder to provide such shareholder with information regarding BZ WBK during the General Meeting if such information is required for the assessment of the matter included on the agenda. If the request is appropriately justified, the Management Board may provide such information in writing outside the General Meeting. In such event, the Management Board is required to disclose such information no later than two weeks from the date on which the shareholder made such request for the information.

The Management Board may refuse to provide requested information if providing such information would be detrimental to BZ WBK, a related company, a subsidiary company or a relevant co-operative, particularly if such information would result in the disclosure of any technical, trade or organizational secrets of BZ WBK. A member of the Management Board may refuse to disclose requested information if providing such information would make a member of the Management Board subject to criminal, civil or administrative liability.

The information provided to the shareholder must be announced publicly in the form of a current report.

Powers of the General Meeting

The powers of the General Meeting include:

- consideration and approval of the Management Board's report on BZ WBK's operations and the financial statements for the previous financial year;
- granting a vote of approval to members of BZ WBK's authorities with respect to the performance of their duties;
- decisions regarding claims for redress of injuries caused while establishing BZ WBK or exercising management or supervision;
- sale or lease of the enterprise or an organized part thereof and the establishment of a limited property right thereon;
- issuance of convertible shares or shares with pre-emptive rights and the issuance of subscription warrants;
- acquisition of treasury shares in the circumstances referred to in Article 362, §1.2 of the Commercial Companies Code and the authorization to acquire such in the events referred to in Article 362, §1.8 of the Commercial Companies Code;
- execution of the agreement referred to in Article 7 of the Commercial Companies Code;
- appointment and dismissal of members of the Supervisory Board.

For more information regarding the General Meeting's powers, see "*Material Contracts—Other Agreements—Agreements with the EBRD*", "*Major Shareholders and the Selling Shareholders – Investment Agreement between Banco Santander and KBC*".

Right to Request the Election of the Supervisory Board by Separate Groups

At the request of shareholders representing at least one fifth of the share capital, the Supervisory Board must be appointed at the next General Meeting by voting in separate groups, even if the Statute provides for other ways of appointing the Supervisory Board. In such a case, the procedure provided for in the Statute will not be applied and the shareholders will follow the procedure provided for in the Commercial Companies Code. The mechanism of such appointment is as follows: the total number of shares in BZ WBK is divided by the total number of members of the Supervisory Board appointed in the voting by separate groups procedure. The shareholders who represent such number of shares may form a separate group to elect one Supervisory Board member and cannot vote to elect the other members. If following the voting by separate groups procedure there are any vacancies on the Supervisory Board, the shareholders who did not participate in the formation of any group will be entitled to elect the remaining Supervisory Board members by absolute majority.

Right to Appeal Against the Resolutions of the General Meeting

BZ WBK's shareholders have the right to appeal against resolutions passed by the General Meeting. Such appeal can take the form of an action for the revocation of a resolution or an action for declaring a resolution to be invalid.

Action to revoke a resolution

A resolution of the General Meeting which is in breach of the Statute or good customs and is harmful to the interest of BZ WBK or is aimed at harming a shareholder may be appealed by way of an action to revoke the resolution. Such action is brought against BZ WBK.

An action to revoke a resolution of the General Meeting must be filed within a month after the resolution is disclosed to a given person, but in no case later than three months after the date of the adoption of the resolution.

Action to declare a resolution invalid

A resolution of the General Meeting which breaches any applicable law may be appealed against by filing a court action against BZ WBK to declare the resolution invalid.

An action to declare a resolution of the General Meeting invalid must be filed within 30 (thirty) days after the resolution is announced, but in no case later than one year after the date of the adoption of the resolution.

Entities authorized to challenge resolutions of the General Meeting

The following persons have the right to file an action for revocation of a resolution or an action to declare a resolution of the General Meeting invalid:

- the Management Board, the Supervisory Board and individual members of such boards;
- any shareholder who voted against the resolution and upon the passing of the resolution requested that their objection thereto be included in the minutes of the General Meeting;
- any shareholder who was not permitted to participate in the General Meeting without a good reason therefor;
- any shareholder who was not present at the General Meeting, but only if the General Meeting was improperly convened or in case of a resolution which was not included on the agenda.

Change of the Rights Vested with the Shareholders of BZ WBK

Any change to the rights of the shareholders requires a resolution of the General Meeting, adopted with a majority of three fourths of the votes and registration in the Register of Business Entities of the National Court Register. Furthermore, a resolution on adopting an amendment to the Statute which (i) increases the obligations of the shareholders or (ii) diminishes the rights granted individually to shareholders, requires the consent of all BZ WBK's shareholders involved.

Pursuant to Article 34, section 2 of the Banking Law, any amendment of the Statute regarding the preference or restrictions attached to Shares with respect to voting rights requires the consent of the PFSA.

Right to issue bonds

Pursuant to §17 of the Statute, BZ WBK may issue bonds convertible into Shares. The terms of the issuance of such bonds will be defined by a resolution of the General Meeting.

Redemption of Shares

Pursuant to §12 of the Statute, Shares may be redeemed with the consent of the shareholder(s) whose Shares are to be redeemed. A shareholder whose Shares have been redeemed is entitled to receive remuneration for such Shares. The remuneration therefor cannot be lower than the value of the net assets assigned pro rata with respect to such Shares based on the financial statements for the most recent financial year, less the amount designated for distribution among the shareholders. With the given shareholder's consent, the redemption may be effected on a free-of-charge basis.

BZ WBK may purchase Shares in order to redeem such no earlier than after the General Meeting adopts a resolution granting consent to such redemption. The resolution should state the legal grounds for the redemption, the minimum value of the fee due to the shareholder who owns the redeemed Shares or reasoning in support of redeeming the Shares without any fee, the manner of decreasing the share capital and the source of financing the redemption, the maximum number of Shares which BZ WBK may acquire for the purposes of redemption, the maximum total price of acquisition of those Shares and the period during which the Shares need to be purchased.

The Management Board must announce the acquisition of Shares for the purposes of redemption no later than 30 days after the deadline stated in the resolution referred to in the preceding sentence, while simultaneously convening the General Meeting to adopt resolutions on the redemption of the acquired shares and a decrease of the share capital.

If BZ WBK fails to execute any agreement to purchase Shares for the redemption thereof within the time referred to in the resolution of the General Meeting, the Management Board must announce, no more than 30 days from the date on which such deadline has lapsed, that such deadline has lapsed ineffectively.

Pursuant to Article 34, section 2 in connection with Article 31, section 3 of the Banking Law, the amendment of the Statute regarding a decrease of BZ WBK's share capital requires the consent of the PFSA.

Right to Request the Appointment of a Special Purpose Auditor

Pursuant to Article 84 of the Act on Public Offering, at the request of a shareholder or shareholders who hold at least five percent of the total number of votes, the General Meeting may pass a resolution to appoint an auditor, at the expense of BZ WBK, to audit a specific matter related to the establishment of BZ WBK or the management of its affairs. The shareholder(s) may request that an extraordinary General Meeting be convened for that purpose, or request that the adoption of such resolution be included in the agenda of the next General Meeting. If the shareholders decide to use the first option and within two weeks after submitting a request to the Management Board to convene such General Meeting the Extraordinary General Meeting is not convened, the registry court may authorize BZ WBK's shareholders filing such request to convene the Extraordinary General Meeting. The court will appoint the chair of such General Meeting. If the shareholders decide to use the second option and request the passing of such resolution to be included on the agenda of the next General Meeting, such request must be filed with the Management Board, in writing, no later than twenty-one days before the proposed date of the General Meeting.

The resolution of the General Meeting on the appointment of a special purpose auditor must include, in particular:

- identification of the special purpose auditor, and such auditor should be approved in writing by the requesting shareholder;
- the subject and the scope of the audit, which must comply with the contents of the request, unless the requesting party has consented in writing to the change of the subject and scope of the audit;

• the types of documents that must be made available to the auditor by BZ WBK; and

• the starting date of the audit, which shall not be later than three months from the date of adoption of the resolution.

If the General Meeting fails to adopt a resolution in accordance with the request or adopts such resolution in breach of Article 84 clause 4 of the Act on Public Offering, the requesting parties may, within 14 days of the date of the adoption of the resolution, request the registry court appoints the identified entity as a special purpose auditor.

The special purpose auditor can only be an entity with the professional knowledge and qualifications necessary for auditing the matter specified in the resolution of the General Meeting, which will ensure the preparation of a reliable and objective audit report. The special purpose auditor may not be an entity which provided services to BZ WBK or its dominant or dependent company, or its dominant entity or a major investor, within the meaning of the Accounting Act, in the period subject to the audit. Also, the special purpose auditor may not be an entity within the same capital group as an entity that provided the services mentioned above.

The Management Board and the Supervisory Board are required to make available to the special purpose auditor such documents as have been specified in the resolution of the General Meeting on the appointment of the special purpose auditor, or in the decision of the court on appointing the special purpose auditor, and to provide the auditor with the explanations necessary for carrying out the audit.

The special purpose auditor is required to present to the Management Board and the Supervisory Board a written report on the audit's results. The Management Board is required to announce the report in the form of a current report. The report of the special purpose auditor may not disclose information that constitutes technical, trade or organizational secrets of BZ WBK, unless such disclosure is necessary for justifying the position provided in the report.

The Management Board is required to file a report on the consideration of the audit findings at the next General Meeting.

Public take-over bids

On 10 September 2010, the Board of Directors of AIB decided to sell to Banco Santander S.A. all the Shares held by it (i.e. 70.36% of the share capital). On 7 February 2011, Banco Santander S.A. launched a tender offer for 100% of the Shares, offering PLN 226.89 per Share. On 18 February 2011, the PFSA issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of the Shares representing more than 50% of the voting rights at the General Meeting.

Having accepted subscriptions deposited in response to the tender offer, Banco Santander S.A. acquired Shares representing 95.67% of BZ WBK's share capital. By the same, BZ WBK joined the Banco Santander Group.

As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of the shareholders of Bank, the non-controlling shareholders became entitled to demand that their Shares be acquired by the majority shareholder. Based on the requests from the shareholders, Banco Santander acquired an additional 421,859 Shares, thus increasing its share in the share capital and voting power at the General Meeting to 96.25%.

[REDACTED]

SELLING RESTRICTIONS

This Offering Memorandum has been prepared on the basis that the promotion of the Offering and the promotional activities with respect to the Offer Shares will be made pursuant to the exception under the Prospectus Directive (as implemented in the Member States) from the requirement to prepare and have any prospectus or other offering memorandum for offering of shares approved by or notified to the competent authority and then published. Accordingly, any person making or intending to make any offering, sale or other transfer within the EEA of the Offer Shares may only do so in circumstances under which no obligation arises for BZ WBK, the Selling Shareholders or the Managers to present an approved prospectus or other offering memorandum for such offering. None of BZ WBK, the Selling Shareholders or the Managers have authorized, nor will any of them authorize, the making of any offer of the Offer Shares through any financial intermediary, other than under this Offering Memorandum.

In connection with the Offering, certain limited promotional actions may be taken to provide information about the Offering to Qualified Institutional Buyers in the United States pursuant to Rule 144A of the U.S. Securities Act and outside the United States pursuant to Regulation S under the U.S. Securities Act, as well as the relevant provisions of law in the jurisdictions where such promotion of the Offering will be conducted. Such limited promotional actions must be in compliance with the applicable provisions of law in any jurisdiction in which such actions will be taken.

The distribution of this Offering Memorandum and the promotion of the Offering in certain jurisdictions may be restricted by law. Therefore, persons into whose possession this Offering Memorandum comes should inform themselves about and observe any such restrictions on the promotional activity related to the Offering or the distribution of this Offering Memorandum and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

This Offering Memorandum does not constitute an offer to subscribe for or buy any of the Offer Shares directed at any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Offering Memorandum has not been approved and will not be approved by any authority in any jurisdiction.

No action has been or will be taken by BZ WBK, the Selling Shareholders or the Managers in any jurisdiction that would permit a public offering of the Offer Shares, or the possession or distribution of this Offering Memorandum or any other offering material relating to BZ WBK or the Offer Shares in any jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Offering may be distributed or published, in, or from, any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Poland

The Offer Shares are being offered and sold in Poland to "qualified investors" as defined in Article 8 of the Act on Public Offering or investors each of whom acquires Offer Shares of a value, calculated on the basis of the Sale Price, of at least EUR 50,000 as of the day on which the Sale Price is set forth.

United States

Neither the Offer Shares nor any other securities of BZ WBK described in this Offering Memorandum have been or will be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and, subject to certain exceptions, may not be offered or sold within the United States except under an exemption from the registration requirements of the U.S. Securities Act. In connection with the Offering, information concerning the Offering will be provided only: (i) outside of the United States in offshore transactions (as defined in Regulation S) in accordance with Regulation S; and (ii) to QIBs in the United States as defined under and in accordance with Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements thereof. In addition, until 40 days after the commencement of the Offering, any offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than pursuant to the exemption from the registration requirement provided for under the U.S. Securities Act.

Neither the U.S. Securities and Exchange Commission nor any state securities commission nor any non-US securities authority has approved or disapproved the Offer Shares offered in the Offering or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offence.

European Economic Area

The Offering may be promoted in a Member State based on this Offering Memorandum under certain exemptions from the obligation to prepare a prospectus under the Prospectus Directive, if such exemptions have been implemented in that Member State, provided that any such offering will not result in a requirement to publish a prospectus by BZ WBK, or any of the Selling Shareholders or the Managers under Article 3 of the Prospectus Directive or any relevant implementing legislation.

In relation to each Member State of the European Economic Area (other than Poland) which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Member State (the "**Relevant Implementation Date**"), there will be no offer of the Offer Shares to the public in that Relevant Member State, other than:

- to a legal entity which is a qualified investor (as defined in the Prospectus Directive);
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided in each case that no such offer of the Offer Shares will require BZ WBK to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the Offer Shares to the public" in relation to any Offer Shares in any Relevant Member State means the communication, in any form and by any means, of sufficient information on the terms of the Offering and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, while the scope and form of such communication may vary in individual Relevant Member States due to measures implementing the Prospectus Directive in such a Relevant Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

This Offering Memorandum and any other material in relation to the Offer Shares described herein is only being distributed in the United Kingdom to, and is only directed at, persons that are qualified investors ("**qualified investors**") within the meaning of Article 2(1)(e) of the Prospectus Directive (as defined above): (i) that also have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); or (ii) that fall within Article 49(2)(a) to (d) of the Order; or (iii) to which it may otherwise be lawfully communicated (all such persons together being referred to as "**relevant persons**"). The Offer Shares are only available in the United Kingdom to, and any invitation, offer or agreement to purchase or otherwise acquire the Offer Shares will be engaged in only with, the relevant persons. This Offering Memorandum and its contents are confidential and must not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person must not act or rely on this Offering Memorandum or any of its contents.

Canada

This Offering Memorandum does not constitute or may not under any circumstances constitute a prospectus, communication or a public offer concerning the securities described in this Offering Memorandum, in any provinces of or in Canada. No securities authority or any similar authority in Canada has audited or issued any decision concerning this Offering Memorandum, or made any assessment of the securities described in this Offering Memorandum. Any representation to the contrary is a criminal offence.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the "**FIEL**"). The Offer Shares are not and may not be the subject of an indirect or direct offering or sale in the territory of Japan or to a Japanese resident (such term as used herein includes any corporation or other entity organized under the laws of Japan), or to others for direct or indirect offering or sale, directly or indirectly, in Japan or to a resident of Japan, except: (i) pursuant to an exemption from the registration requirements of the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

The Offer Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (SIX) or on any other stock exchange or regulated trading facility in Switzerland. This Offering Memorandum has been prepared without regard to the disclosure standards for issue prospectuses under Article 652a or Article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under Article 27 of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Offer Shares or the Offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Memorandum nor any other offering or marketing material related to the Offering, BZ WBK or the Offer Shares has been filed or will be filed with or approved by any Swiss regulatory authority. In particular, this Offering Memorandum will not be filed with, and the offer of the Offer Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (the "**FINMA**"), and the offer of the Offer Shares has not been authorized and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (the "**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of the Offer Shares.

Dubai International Financial Center

This Offering Memorandum relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**"). This Offering Memorandum is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set forth herein and has no responsibility for this Offering Memorandum. The shares to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Offer Shares should conduct their own due diligence on the Offer Shares. If you do not understand the contents of this Offering Memorandum, you should consult an authorized financial advisor.

In relation to its use in the DIFC, this Offering Memorandum is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Offer Shares may not be offered or sold directly or indirectly to the public in the DIFC.

TRANSFER RESTRICTIONS

Prospective purchasers are advised to contact legal counsel prior to making any resale, pledge or transfer of the Offer Shares.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. This Offering is being made within the United States only to QIBs in reliance on Rule 144A and outside the United States in reliance on Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

Each purchaser of the Offer Shares, by accepting the delivery of this Offering Memorandum will be deemed to have represented, agreed and acknowledged that:

- The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory of any state of the United States and are subject to certain restrictions on transfer and, unless so registered, the Offer Shares may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable state securities laws, pursuant to an exemption therefrom, or in any transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth herein.
- It is not an "affiliate" (as defined in Rule 144 of the U.S. Securities Act) of BZ WBK or acting on behalf of BZ WBK and it is either: (a) (i) a QIB; (ii) aware, and each beneficial owner of such Offer Shares has been advised, that the sale of such Offer Shares to it is being made in reliance on Rule 144A; and (iii) acquiring such Offer Shares for its own account or for the account of the QIB, or (b) purchasing the Offer Shares in an offshore transaction in reliance on Regulation S.
- It will not (or, if it is acting for the account of another person, such person has confirmed to it that such person will not) offer, resell, pledge or otherwise transfer such Offer Shares except: (a) to a person that it and any person acting on its behalf reasonably believe to be a Qualified Institutional Buyer purchasing for its own account or for the account of the Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A; (b) in an offshore transaction in reliance on Regulation S; or (c) pursuant to an exemption from registration under the U.S. Securities Act provided by Rule 144A thereunder (if available), in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States.
- It is purchasing the Offer Shares for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any state securities laws, subject to its or their ability to resell such Offer Shares pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act.
- Each holder of the Offer Shares issued in reliance on Rule 144A (the "**Rule 144A Shares**") agrees on its own behalf and on behalf of any investor account for which it is purchasing the Offer Shares, and each subsequent holder of the Rule 144A Shares by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Offer Shares prior to the date (the "**Resale Restriction Termination Date**") that falls one year after the later of the date of allotment and the last date on which the Selling Shareholders or any of their affiliates were the owners of such Offer Shares (or any predecessor thereto) only: (i) to the Selling Shareholders or any subsidiary thereof; (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (iii) for so long as the Offer Shares are eligible for resale pursuant to Rule 144A, to a person it reasonably believes to be a QIB that is purchasing for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A; (iv) pursuant to offers and sales that occur outside the United States in compliance with Regulation S; or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to and in compliance with any applicable state securities laws, and any applicable local laws and regulations. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. If it purchases the Offer Shares, it will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Offer Shares, as well as to holders of these Offer Shares.

- Notwithstanding anything to the contrary in the foregoing paragraphs, the Offer Shares may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank, unless and until such time as those Offer Shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act.
- BZ WBK, the Selling Shareholders and the Joint Global Coordinators and their respective affiliates will rely upon the truthfulness and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs and agree that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by the purchaser of the Offer Shares is no longer accurate, it will promptly notify the Managers thereof. If it is acquiring the Offer Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the Offer Shares may be relying on the exemption from the provisions of section 5 of the U.S. Securities Act provided by Rule 144A.

THE CAPITAL MARKET IN POLAND AND THE OBLIGATIONS RELATED TO THE PURCHASE AND SALE OF SHARES

Information included in this section is of a general nature and describes the legal status as of the date of this Offering Memorandum. Therefore, investors should review the relevant regulations and consult their own legal advisors about the laws and regulations concerning the purchase, ownership and sale of the Offer Shares.

Warsaw Stock Exchange

The Polish financial instruments exchange market is managed by the Warsaw Stock Exchange. The WSE runs its business pursuant to applicable laws, including the Act on Trading in Financial Instruments and its internal regulations, including the articles of association of the WSE and the WSE Rules.

The exchange market operated by the WSE constitutes a regulated market for the purposes of the relevant regulations of community law and the Act on Trading in Financial Instruments. Moreover, the WSE organizes and operates an Alternative Trading System which is a non-regulated market. The exchange market operated by the WSE includes the main floor (the official stock exchange market) and the parallel market.

According to the WSE's website (www.gpw.pl), as of 15 March 2013, shares in 438 companies were listed on the main and parallel market of the WSE (43 of which were foreign). The total capitalization of the companies listed on the main and parallel markets of the WSE was approximately PLN 740,5 billion.

Conversion of Securities to Book-entry Form

Securities which are subject to a public offering within the territory of Poland or those subject to admission to trading on the regulated market in Poland cease to exist in certificate form upon their registration and exist henceforth only in book-entry form pursuant to an agreement with the NDS (the Polish deposit and clearing institution), except for the securities offered to the public which will not be subject to admission to trading on the regulated market or introduced exclusively to an alternative trading system, which may keep their certificate form if the issuer so decides. Rights attached to such dematerialized securities arise and are vested at the moment of their recording for the first time in the securities account of the holder of such account. Securities registered in omnibus accounts constitute an exception from the above rule: in such case the holder of the account is not entitled to those securities. The person entitled to the securities registered in the omnibus account is the person so indicated to the entity maintaining such account by the holder thereof, who will be so entitled with respect to the number of securities so indicated. An agreement setting forth the obligation to transfer dematerialized securities conveys the title to such securities when the appropriate entry is made in the relevant securities account.

The entity retaining a given securities account, such as a brokerage house, custodian or custodian bank, will issue, at the request of the given account holder, a separate registered deposit certificate for each type of securities which are registered in the account. With respect to securities entered in the omnibus account, a depository certificate will be a document having identical wording as in the case of a depository certificate, prepared for the holder of the account, issued in Polish or in English by the holder of such account. The deposit certificate confirms the power to exercise those rights attached to the securities indicated in its content that are not, or may not be, exercised exclusively on the basis of entries in the securities account, except to participate in the general meetings of shareholders. Deposit certificates may be issued by brokerage houses, banks conducting brokerage operations, trustee banks, foreign investment companies and foreign legal entities conducting brokerage operations in Poland, by the NDS and the NBP, provided that the relevant accounts are designated in a manner sufficient to identify the persons vested with the rights attached to the securities.

From the moment of the issuance of a registered deposit certificate, the securities, in the number indicated in the registered deposit certificate, may not be traded until the end of the validity period of the registered deposit certificate or until the certificate is returned to the issuer, whichever occurs first. During that period, the issuer of the registered deposit certificate will block the appropriate number of securities in that account. The same securities may be indicated in the contents of several registered deposit certificates, provided that the purpose of the issuance of each of these registered deposit certificates is different. In such case, information is also placed in individual registered deposit certificates as to the blocking of the securities due to the earlier issuance of other registered deposit certificates.

Settlement

Under current regulations, all transactions on the regulated WSE market are on a delivery-versus-payment basis, with the transfer of rights to securities occurring upon settlement on a T+3 basis. In principle, each investor must hold a securities account and a cash account with an investment firm or a custodian in Poland, and each investment firm and custodian must hold relevant accounts *(konta and rachunki*) with the NDS and a main cash account with a clearing bank. Entities authorized to maintain securities accounts may also maintain, within the scope of a security deposit or a securities registration system maintained by the National Bank of Poland, omnibus accounts, i.e. accounts in which it is possible to register dematerialized securities which are not owned by the persons for whom such accounts are maintained, but owned by another person or persons. Omnibus accounts may be maintained exclusively for the entities listed in the Act on Trading in Financial Instruments.

In accordance with the rules and regulations of the WSE and the NDS, KDPW CCP S.A., a subsidiary of the NDS, is required to arrange, based on a list of transactions provided by the WSE (compiled post-session), the settlement of transactions effected by WSE members. In turn, WSE members co-ordinate settlements with the investors on whose account transactions were executed.

Stock Exchange Trading Mechanisms

As of the date of this Offering Memorandum, WSE sessions are held regularly from Monday to Friday, from 8:30 a.m. to 5:35 p.m., Warsaw time, unless the management board of the WSE decides otherwise.

Depending on the market on which the relevant securities are listed, quotations are made in a continuous trading system (the main floor) or in a single-price system with one or two auctions (the parallel market). In addition, for large blocks of securities, what are referred to as block transactions outside of the public order book in the continuous trading system or a single-price system are possible.

Information as to price, trading volume and any specific rights (pre-emptive or dividend rights) attached to the relevant securities is available on the WSE's official website at www.gpw.pl.

Brokerage commissions in Poland are not fixed by the WSE or other regulatory bodies and are set by the brokerage house executing the given transaction.

Capital Market Regulations

The principle regulations governing the Polish securities market are three acts dated 29 July 2005, i.e.: (i) the Act on Public Offering, (ii) the Act on Trading in Financial Instruments, and (iii) the Act on Capital Market Supervision. Since 19 September 2006, supervision over the capital markets has also been regulated by the Act on Financial Supervision. Furthermore, the Polish capital market is governed by regulations provided for in secondary legislation adopted on the basis of the above-mentioned laws and community rules, which, similarly to EU regulations, apply directly in Poland.

The authority which oversees the capital market in Poland is the PFSA.

The Act on Public Offering: Rights and Obligations Related to the Acquisition and Sale of Significant Blocks of Shares

BZ WBK is a public company for the purposes of Article 4 section 20 of the Act on Public Offering. Consequently, any acquisition and sale of Shares is subject to, in particular, the requirements listed below.

Obligation to Notify the PFSA about the Acquisition or Transfer of Shares

Pursuant to the Act on Public Offering, anyone who:

- has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% of the total number of votes in a public company, or
- holds at least 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%, 75% or 90% of the total number of votes in such company, and as a result of reducing that share, has reached respectively 5%, 10%, 15%, 20%, 25%, 33%, 33⅓%, 50%,75% or 90% or fewer of the general number of votes,

is required to immediately notify the PFSA and the relevant public company no later than four business days after the date on which it acknowledged the change in its share in the total number of votes or, with due diligence could have acknowledged such change, and in the case where the change results from the purchase of shares in a public company in a transaction concluded on the regulated market, no later than six trading days after such transaction. Trading days are days specified by the company managing the regulated market (in the case of BZ WBK, the WSE) in its rules, pursuant to the Act on Trading in Financial Instruments and announced by the PFSA on its website.

The duty to notify the PFSA and the public company also applies if:

- there is a change in the previously held shareholding of more than 10% of the overall number of votes by at least:
    - 2% of the overall number of votes in a publicly listed company the shares in which are admitted to trading on an official stock exchange trading market (as of the date of this Offering Memorandum, such market is the main market of the WSE),
    - at least 5% of the overall number of votes in a publicly listed company the shares in which are admitted to trading on a regulated market other than an official stock exchange trading market;
- there is a change in the previously held shareholding of more than 33% of the overall number of votes in a public company by at least 1% of the overall number of votes.

The duty to make the aforesaid notification does not arise when, upon the settlement by the depository for securities of the several transactions concluded on the regulated market on the same day, the change of the share in the total number of votes in a public company as of the end of the settlement day does not result in the achievement or excess of the threshold for the total number of votes with regard to which the duty arises.

The aforementioned notification may be made in English.

Following receipt of the aforementioned notice, the public company is required to immediately and simultaneously make the information public and deliver it to the PFSA and the company which operates the regulated market on which the shares in that company are quoted.

The PFSA may release a public company from the obligation to make the information public if the disclosure of such information could:

- harm the public interest, or
- result in major harm to the interest of the company, unless the lack of the relevant information will result in most investors being misled with regard to the assessment of the value of the securities.

Tender Offers

Purchase of shares authorizing their holder to more than 5% or 10% of the total number of votes in a relevant period

The purchase of shares in a public company in a number resulting in the increase of the share in the total number of votes by more than:

- 10% of the total number of votes in a period shorter than 60 days, by the entity whose share in the total number of votes in such company is less than 33%, or
- 5% of the total number of votes in a period shorter than 12 months, by a shareholder whose share in the total number of votes in the company amounts to at least 33%,

can take place solely as a result of launching a tender offer for the sale or exchange of such shares in a number not less than respectively 10% or 5% of total number of votes in the company.

Exceeding the threshold of 33% of the total number of votes in a public company

Exceeding the threshold of 33% of the total number of votes in a public company may take place solely by launching a tender offer for the sale or exchange of the shares in such company in a number allowing for the achievement of 66% of the total number of votes, except for the case when an excess of 33% of the total number of votes takes place as a result of launching a tender offer for the sale or exchange of all the remaining shares in the company.

If the threshold of 33% of the total number of votes was exceeded as a result of an indirect acquisition of shares, subscription for or shares of new issue or in consequence of a public offering, or as a result of an in-kind contribution to a company, or a merger or a split of companies, or as a result of a change of a company's articles of association, expiry of preference to shares or the occurrence of a legal event other than a legal action, the relevant shareholder, within three months of exceeding 33% of the total number of votes, is required to do the following:

- launch a tender offer for the sale or exchange of shares in the company in a number resulting in the achievement of 66% of the total number of votes, or
- sell shares in a number resulting in the holding of not more than 33% of the total number of votes,

unless in that three-month period the share of the shareholder in the general number of votes will change to not more than 33% of the total number of votes as a result of the share capital increase, change to the company's articles of association or expiry of the preference of shares, respectively.

If the excess of 33% of the total number of votes results from inheritance, the duty to announce the tender offer applies solely if after such acquisition of shares the share in the total number of votes will further increase. The period for the fulfilling of such duty will be counted from the date on which the event resulting in an increase in the share in the total number of votes occurred.

Exceeding the threshold of 66% of the total number of votes in a public company

Exceeding the threshold of 66% of the total number of votes in a public company may take place solely by way of launching a tender offer for the sale or exchange of all the remaining shares in the company.

If the threshold of 66% of votes was exceeded as the result of an indirect acquisition of shares, an acquisition of shares of a new issue, an acquisition of shares in a public offering or by way of an in-kind contribution to a company, or merger or split of a company, or as a result of a change of the company's articles of association, expiry of the preference of shares or the occurrence of a legal event other than a legal action, the shareholder or the entity which has indirectly acquired the shares in question is required, within three months of exceeding 66% of the total number of votes, to launch a tender offer for the sale or exchange of all the remaining shares in the company, unless in that three-month period the share of the shareholder or the entity which has indirectly acquired the shares in question in the general number of votes will change and it will not have more than 66% of the total number of votes as a result of the share capital increase, a change of the company's articles of association or the expiry of the preference of shares, respectively.

Terms of the tender offer

A tender offer is launched and made through an entity conducting brokerage activity in Poland, which is required (no later than 14 business days before the date of the commencement of the subscription) to simultaneously notify the PFSA and the company managing the regulated market on which the given shares are listed about the intent to announce the tender offer. This entity attaches a copy of the tender offer to the notification. A copy of the tender offer is subsequently published in at least one national newspaper.

A tender offer may be launched only after establishing collateral of a value of not less than 100% of the value of the shares that are to be subject to the tender offer. The collateral should be documented with a certificate issued by a bank or other financial institution providing the collateral or intermediating its provision.

It is not possible to withdraw from a launched tender offer unless after launching the tender offer a third party launches a tender offer regarding the same shares. A withdrawal from a tender offer announced with regard to all the remaining shares in a public company is permitted only when another entity announces a tender offer for all the remaining shares in the company at a price not lower than the price in the former tender offer.

Upon receipt of the notification announcing a tender offer, the PFSA may, no later than three business days before the beginning of the subscription, request necessary changes and supplements in the text of the tender offer or for the provision of explanations regarding the text of the tender offer, at the date determined in the request, however, such date may not be sooner than two days after such request is made.

The beginning of the subscription determined in the tender offer is suspended for the time needed to complete the activities mentioned in the aforesaid request by the company which is required to announce the tender offer.

Following the completion of the tender offer, the offeror is required to announce, in the manner as set forth in Article 69 of the Act on Public Offering, the number of shares purchased under the tender offer and the share in the total number of votes which has been reached under the tender offer.

In the period between the announcement of a tender offer and the completion of the tender offer, the entity required to announce the tender offer and all of its subsidiaries, dominating entities or entities which are party to any arrangements therewith concerning the acquisition of the shares in the public company by such party or entities which are party to any understanding therewith concerning voting in concert at any general meeting or exercising a standing policy with respect to the company:

- may acquire shares in the company that the tender offer applies to exclusively within the scope of that specific tender offer and in the manner defined therein,
- cannot sell shares in the company that the tender offer applies to and nor can they enter into any agreements which would require them to sell any such shares during the term of the tender offer,
- cannot indirectly acquire the shares in the public company that the tender offer relates to.

Price of shares in a tender offer

If any of the shares in a company are subject to trading on the regulated market, the price of the shares proposed in the tender offer may not be lower than:

- the average market price in the period of six months preceding the tender offer announcement during which the shares were traded on the main market, or
- the average market price in a shorter period if the trading of the shares on the main market was shorter than the period determined in the above clause.

The price of the shares proposed in the tender offer may also not be lower than:

- the highest price for which the shares subject to the tender offer were purchased within 12 months prior to the tender offer announcement by the entity required to announce the tender offer, its subsidiaries or by the parent entity of the same, or by an entity being a party to an arrangement concluded with the entity required to announce the tender offer with regard to the purchase by the said entity of the shares in the public company or voting in concert at the general meeting regarding the affairs of the company or exercising a standing policy with respect to the company; or
- the highest value of the assets or rights issued by the entity required to announce the tender offer or the entities mentioned in clause above in exchange for the shares subject to the tender offer within 12 months prior to the tender offer announcement.

The price of the shares proposed in a tender offer for the sale or exchange of all the remaining shares in a public company can also not be lower than the average market price within the past three months of trading of the shares on the regulated market preceding the tender offer announcement.

In a case where the average market price of shares determined in accordance with the above-mentioned rules significantly differs from the fair value of these shares due to:

- the granting to the shareholders of a pre-emptive right, a right to dividend, a right to acquire shares in the acquirer in connection with the division of a public company by divesting or other property rights connected with the possession of shares in a public company, or
- a significant decrease in the financial or proprietary situation as a result of events or circumstances which cannot be predicted or prevented by the company, or
- the company being threatened by permanent insolvency,

the offeror may apply to the PFSA for consent to propose a price in the tender offer which does not comply with the criteria set forth above. The PFSA may give its consent thereto, provided that the proposed price is not lower than the fair value of these shares and the call for tender does not breach the legitimate interests of the shareholders. The PFSA may determine the period in which the announcement of the tender offer should take place at a price indicated in the given consent.

In a case where it is not possible to determine the price pursuant to the rules set forth above or in the case of a company involved in composition proceedings or bankruptcy proceedings, the share price cannot be lower than the fair value of the shares.

The price of the shares proposed in the tender offer mentioned in Articles 72 to 74 of the Act on Public Offering may be lower with regard to shares constituting at least 5% of all the shares in the company that will be purchased within the tender offer from an identified person replying to the tender offer, should the company required to announce the tender offer and the said person so decide.

Squeeze-out

The shareholder of a public company who independently or jointly with subsidiaries, dominating entities or entities being a party to an arrangement regarding the purchase by such entities of the shares in the public company or voting in concert at the general meeting regarding the affairs of the company or exercising a standing policy with respect to the company achieved or exceeded 90% of the total number of votes in the company has the right to, no later than within three months from the date of achieving or exceeding this threshold, claim from the other shareholders the sale of all the shares possessed by them (i.e. execute a forced squeeze-out).

The price of shares subject to a squeeze-out is determined according to the principles set out in Article 79 sections 1 to 3 of the Act on Public Offering regarding the determination of the share price in a tender offer. If reaching or exceeding the 90% threshold of the total number of shares has occurred as a result of the tender offer for the sale or exchange of all the remaining shares in the company, the squeeze-out price cannot be lower than the share price proposed in such tender offer.

A squeeze-out can be announced only after establishing collateral of a value of not less than 100% of the value of the shares that are to be subject to the squeeze-out. The collateral should be documented with a certificate issues by a bank or other financial institution providing the collateral or intermediating its provision.

A squeeze-out is announced and carried out through an entity running brokerage activities in the territory of Poland, which is required, no later than 14 business days before the commencement of the squeeze-out, to simultaneously notify the PFSA and the company managing the regulated market on which the given shares are listed. If the shares are listed on several regulated markets, all of the companies managing such regulated markets shall be notified about the squeeze-out. The entity attaches to the notification the information about the forced squeeze-out.

Withdrawal from the squeeze-out once announced is not allowed.

Reverse Squeeze-out ("Sell out")

A shareholder of a public company may request that another shareholder who has reached or exceeded 90% of the total number of votes in such company purchases the shares held by it. The request must be filed in writing within three months from the date on which the threshold was reached or exceeded by the other shareholder; in a case where the information on reaching or exceeding the threshold of 90% of the total number of shares has not been made public in the manner set forth in the Act on Public Offering, the deadline for making such demand starts from the day on which the shareholder of a public company who may demand the reverse squeeze-out of shares learned or should have learned with due diligence that such threshold had been reached or exceeded by the other shareholder.

Both the shareholder who achieved or exceeded 90% of the total number of votes, and its dependent or dominating entities are jointly and severally liable for satisfying such a claim within 30 days from the date of the submission of the claim. The duty to purchase the shares from the shareholders is also jointly vested in each of the parties to an arrangement on the purchasing by the members of such arrangements shares in a public company or voting in concert at the general meeting with regard to the major affairs of the public company or exercising a standing policy with respect to the company, should the members of such arrangement possess jointly with their dominating or dependent entities at least 90% of the total number of votes.

The price of shares subject to a reverse squeeze-out is determined according to the principles set out in Article 79 sections 1 to 3 of the Act on Public Offering regarding the determination of the share price in a tender offer. If the reaching or exceeding the 90% threshold of the total number of shares has occurred as the result of a tender offer for the sale or exchange of all the remaining shares in the given company, the shareholder demanding the reverse squeeze-out is entitled to receive a price which is no lower than the share price proposed in such tender offer.

Entities Holding Duties with Respect to Significant Blocks of Shares

The duties determined in the provisions regarding the notification to the PFSA about reaching or exceeding a particular threshold of the total number of votes in a public company, tender offers, squeeze-outs or sell-outs are vested also in:

- an entity that achieved or exceeded the threshold of the total number of votes determined by law due to the purchase or sale of depositary receipts issued in connection with the shares in such public company;
- an investment fund, also in the case when the achievement or exceeding of a given threshold of total number of votes determined in the relevant regulations takes place with regard to the joint possession of shares by other investment funds managed by the same investment fund company or other investment funds established outside of the territory of Poland and managed by the same entity;
- any entity in the case of which the achievement or exceeding of a given threshold of total number of votes set out in the provisions of the Act on Public Offering takes place in reference to the possession of shares by (i) a third party in its own name but to the order or for the benefit of such entity (excluding shares purchased within the execution of activities which involve the buying and selling of broker's financial instruments for the benefit of person giving the order), (ii) within the framework of activities which involve management of a portfolio that includes one or a greater number of financial instruments, determined in the Act on Trading in Financial Instruments and Investment Funds Act, in reference to the shares included in the managed securities portfolios, for which the entity as a management company may enforce the right of vote in the general meeting on behalf of the ordering parties, or (iii) a third party with whom the entity has concluded an agreement the subject of which is the transfer of the right to vote at general meetings;
- any proxy who within a power of attorney to represent the shareholder at the general meeting was authorized to vote from the shares in a public company if the shareholder has not issued any binding orders as to the method of voting;
- jointly all entities which are bound by a written or oral arrangement regarding the purchasing by the said entities of the shares in a public company or voting in concert at the general meeting regarding the major affairs of the company or the exercising of a standing policy with respect to the company if at least one of such entities carried out or planned to carry out activities resulting in the origin of such duties;
- entities that have concluded the arrangement mentioned in the section above possessing the shares in a public company in a number which ensures the joint achievement or exceeding of the given threshold of the total number of votes determined in the relevant regulations.

In the cases mentioned above in the two latest sub-items, the duties determined in the regulations regarding major stakes of shares in public companies may be fulfilled by one of the parties to the arrangement identified by the parties to the arrangement.

The obligations set forth in the provisions concerning the notification to the PFSA about the reaching and exceeding of specified thresholds of votes in a public company, tender offers, squeeze-outs or sell-outs also arise in the case where voting rights are related to securities deposited or registered with an entity that may dispose of them at its own discretion.

The Act on Trading in Financial Instruments

Manipulation

The Act on Trading in Financial Instruments prohibits manipulation involving financial instruments, which is defined as meaning:

- placing orders or executing transactions which are or may be misleading as to the actual supply of, demand for or price of a financial instrument, unless the reasons behind such activities are legitimate and the placed orders or executed transactions are not in breach of the established market practice on the relevant regulated market;
- placing orders or executing transactions which result in the price of one or more financial instruments moving to an abnormal or artificial level, unless the reasons behind such activities are legitimate and the placed orders or executed transactions are not in breach of the established market practice on the relevant regulated market;

- placing orders or executing transactions with the intention of producing legal effects other than the actual objective of a given legal transaction;
- the dissemination, through the media, including the Internet, or by any other means, of false or inaccurate information or rumors which are or may be misleading as regards financial instruments (a) by a journalist if he failed to exercise due professional care or if he obtained financial or personal gain for himself or another person by disseminating such information, even when acting with due professional care, or (b) by another person if the person knew or, acting with due care could have known, such information was false or misleading;
- placing orders or executing transactions while simultaneously misleading market participants, or using the fact that market participants are being misled, as regards the price of financial instruments;
- securing control over the demand for or supply of a financial instrument in breach of the principles of fair trading or in a manner resulting in the direct or indirect fixing of the purchase or selling prices of financial instruments;
- the acquisition or disposal of financial instruments at the close of trading with the effect of misleading investors, who act on the basis of closing prices; and
- deriving financial gain from the influence of opinions concerning financial instruments or their issuers, expressed in the media on an occasional or a regular basis, on the price of the financial instruments held, unless an existing conflict of interest has been fully and reliably disclosed to the public.

Anyone who engages in market manipulation is liable to a fine of up to PLN 5,000,000 or a penalty of imprisonment for a period from three months to five years, or to both those penalties jointly. Anyone who engages in collusion with other persons for the purpose of market manipulation is liable to a fine of up to PLN 2,000,000. Additionally, the PFSA may, in some cases of manipulation, impose a pecuniary penalty of up to PLN 200,000 or a pecuniary penalty of up to ten times the financial benefit gained, or both.

Insider Trading

Confidential information is any information of a precise nature relating, directly or indirectly, to one or more issuers of financial instruments, one or more financial instruments or acquisitions or disposals of such instruments, which has not been made public and which, if made public, would be likely to have a significant effect on the prices of financial instruments or related derivative financial instruments.

The following persons are prohibited from using confidential information: (i) anyone who acquires confidential information by virtue of membership of the governing bodies of a company or other entity, by virtue of an interest in the share capital of the company or other entity, or as a result of having access to confidential information in connection with employment, the practice of a profession, or a mandate or any other legal relationship of a similar nature; (ii) anyone who is in possession of confidential information as a consequence of any crime; or (iii) anyone who is in possession of confidential information acquired otherwise than as provided in (i) and (ii), if such person knew, or could have known if he had exercised duly diligent efforts, that it was confidential information. Actions considered as prohibited use of confidential information include:

- purchasing or selling, on one's own account or on the account of a third party, financial instruments based on confidential information held by such person or taking, on one's own account or on the account of a third party, any other legal actions that result in or could have resulted in the disposal of such financial instruments,
- recommending or inducing other persons to purchase or sell any financial instruments affected by the confidential information, and
- disclosing, enabling or facilitating the acquisition of confidential information by unauthorized persons regarding (i) one or more issuers (*emitentów* or *wystawców*) of financial instruments admitted to trading on the regulated market in Poland or any other Member State or subject of the seeking of such admission, (ii) one or more such financial instruments or (iii) the acquisition or sale of such financial instruments.

Any person using confidential information in violation of applicable law may be guilty of an offence punishable by imprisonment, a fine or both. The maximum fine that can be imposed is PLN 5 million; the length of imprisonment ranges from three months to eight years.

Obligations Related to the Purchase or Sale of Shares During Restricted Periods

Another restriction introduced under the Act on Trading in Financial Instruments applies exclusively to members of the management board, supervisory board, commercial proxies or attorneys-in-fact of an issuer (*emitent* or *wystawca*) and any of its employees, statutory auditors or other persons which are retained by such issuer (*emitent* or *wystawca*) on the basis of a mandate or any other similar legal grounds (persons who have level one access to confidential information), who, during a restricted period, cannot acquire or dispose of, on their own account or for the account of any third party, shares in the issuer, any derivatives related to shares in the issuer or any other financial instruments related therewith or to perform, on their own account or for the account of any third party, any other legal actions which do or could result in any disposal of such financial instruments.

Additionally, during any restricted period, persons with level one access to confidential information cannot, if they act in a capacity as members of the governing bodies of a legal entity, take action aimed at the acquisition or transfer by such legal person, acting in its own name or on the behalf of a third party, of the issuer's securities, derivative rights relating to shares in the issuer or any other financial instruments related thereto, or take any action which does or could result in the disposal of such financial instruments by that legal person, in its own name or on the behalf of a third party.

The above-referenced restrictions do not apply to any transactions executed: (i) by any entity conducting brokerage services which was retained by a person to manage a financial instruments portfolio in a manner excluding any interference of that person in the investment decisions taken on its behalf; or (ii) in performance of an agreement containing a requirement to transfer or purchase shares in an issuer, derivative rights attached to shares in the issuer and any other financial instruments related thereto, such agreement being made in writing with a certified date (*data pewna*) prior to the commencement of a restricted period; or (iii) in result of a person with level one access to confidential information having responded to a public tender offer to subscribe for the sale or exchange of shares, in accordance with the Act on Public Offering; or (iv) in connection with the requirement for the person with level one access to confidential information to announce a public tender offer to subscribe for the sale or exchange of shares in accordance with the Act on Public Offering; or (v) in connection with the exercise by an existing shareholder of the issuer of its pre-emptive rights; or (vi) in relation to an offering addressed to the employees or persons who are members of the corporate authorities of the issuer, provided that the information regarding such offering was publicly available prior to the commencement of the relevant restricted period.

Restricted periods are: (i) the period between an insider gaining inside information concerning the issuer or the financial instruments and the time such information is made public; (ii) in the case of an annual report, the period of two months preceding the publication of such report, or if shorter, the period between the end of the given financial year and the publication of such report; (iii) in the case of a semi-annual report, the period of one month preceding the publication of such report, or if shorter, the period between the end of the given half year and the publication of such report; and (iv) in the case of a quarterly report, the period of between the end of the two weeks preceding the publication of such report, or if shorter, the period between the end of the given quarter and the publication of such report. The periods referred to in (ii) to (iv) are not considered as restricted periods if the person who has level-one access to confidential information did not have access to the financial data used as the basis for the preparation of the given report.

If an insider with level-one access to confidential information violates this prohibition during the restricted periods, the PFSA may impose a fine of up to PLN 0.2 million.

In addition, persons who are members of governing or supervisory bodies of issuers or are the issuer's proxies, as well as persons holding managerial positions, who have permanent access to confidential information of the issuer, are required to notify the PFSA and the issuer of their transactions involving shares in the issuer or related financial instruments. This obligation also applies to transactions involving relatives of the persons indicated above, in accordance with the definition provided for in Article 160 section 2 of the Act on Trading in Financial Instruments. Breach of the aforementioned obligations is subject to a fine of up to PLN 0.1 million.

The Banking Law

Duty To Notify The PFSA on Reaching or Exceeding Certain Threshold Percentages of Total Voting Rights

Pursuant to Article 25 section 1 of the Banking Law, a person who intends to, directly or indirectly, acquire or subscribe for shares or rights attached to shares in a domestic bank allowing for the achievement or exceeding of 10%, 20%, one-third, 50% of the total number of votes at the general meeting of the bank or in its share capital is required each time to notify the PFSA of their intention to acquire or subscribe. A person who intends, directly or indirectly, to become the parent company of a domestic bank in a manner other than by acquisition or subscription for shares or rights attached to shares in a domestic bank which entitle the exercise of a majority of the total number of votes at a general meeting must notify the PFSA of such intention.

Pursuant to Article 25 section 4 of the Banking Law, the notification obligation described above also applies to:

- the holders of a pledge and/or usufruct if in accordance with Article 340 section 1 of the Commercial Companies Code they are entitled to exercise voting rights from the shares,
- a person who reached the right to vote at the general meeting at the levels set out in Article 25 section 1 of the Banking Law as a result of events other than the subscription for or acquisition of the shares or rights for the shares in a domestic bank, in particular as a result of changes in statutes or following the expiry of privileged shares or restrictions as to voting rights, as well as the acquisition of shares or rights to shares in a domestic bank allowing for the achievement of or exceeding of the levels set out in Article 25 section 1 of the Banking Law with regard to the total number of votes at a general meeting or on share capital as a result of inheritance.

The provisions of Article 25 Section 1 of the Banking Law do not apply where the acquisition or subscription for the shares in a domestic bank is made by a domestic bank, credit institution, brokerage house or investment firm established in another Member State in implementation of an investment underwriting agreement referred to in the Act on Public Offering, if:

- the rights attached to the shares are not exercised to intervene in the management of the domestic bank, and
- the shares in the domestic bank are disposed of within one year from the date of the purchase or subscription thereof or therefor.

The above-mentioned notification, with all necessary attachments, must be prepared in Polish or translated into Polish. The translation must be made by a sworn translator or by a competent consul of the Republic of Poland.

The PFSA will promptly after receiving notification (no later than within two working days) acknowledge in writing receipt thereof.

The PFSA may issue, in the form of a decision, an objection to the purchase or subscription for shares or rights from shares or becoming a domestic bank's parent company, if:

- the person making the notification fails to supplement any deficiencies in the notification or in the documents and information attached thereto within the deadline determined by the PFSA;
- the person submitting the notification does not send the additional information or documents requested by the PFSA;
- such objection is justified by the need for prudent and stable management of the domestic bank, due to the possible influence of the entity submitting the notification on a domestic bank or because of the assessment of the financial situation of the notifying person.

In the event of an acquisition or taking of shares or rights attached to shares in violation of the obligations discussed above, such acquirer will not be entitled to exercise of the voting rights attached to such shares under Article 25.1 of the Banking Law. Resolutions of a general meeting of a domestic bank adopted in violation of the obligations discussed above are null and void, unless the resolutions satisfy the quorum and majority requirements without taking into account the invalid votes.

Moreover, members of the management board of a domestic bank appointed by the controlling entity or who are members of the management board, proxies or persons fulfilling managerial functions in the controlling entity cannot participate in the acts relating to the representation of a domestic bank. If it is impossible to determine which members of the management board were appointed by a controlling entity, the appointment of the management board is ineffective as of the day on which that entity obtained the rights of a controlling entity with regard to the domestic bank, subject to Article 25m of the Banking Law. Actions relating to the representation of a domestic bank taken with the participation of such members of the management board are null and void.

In the cases mentioned above, the PFSA may order that the shares in the domestic bank be transferred within a stated period. If the shares are not transferred within such time period, the PFSA may impose on the given shareholder of a domestic bank a pecuniary penalty of up to PLN 10,000,000, establish mandatory management (*zarząd komisaryczny*) in the domestic bank or rescind the permit to establish the bank and make a decision to liquidate the bank.

Duty to Notify a Bank about Exceeding or Reaching Certain Threshold Percentages of Total Voting Rights

A person that directly or indirectly acquires or subscribes for shares in or rights for shares in a domestic bank, if such shares, together with the shares acquired or subscribed for previously, result in the reaching or exceeding of the threshold of 5%, 10%, 20%, 25%, one-third, 50%, 66% and 75% of the total number of votes at a general meeting, or became the parent company of a domestic bank, is required to immediately notify the given bank thereof.

The bank must send the notification to the PFSA within 14 days from the date of the receipt thereof.

Duty to Notify the PFSA about the Sale of a Block of Shares

All persons are required to notify the PFSA of any intention to dispose of, directly or indirectly, a block of shares in a domestic bank

- that entitles the holder thereof to exercise more than 10% of the total number of votes at a general meeting, or
- that after the disposal will entitle such person to exercise less than 10%, 20%, one-third or 50% of the total number of votes at a general meeting.

Obligations Regarding Certain Indirect Acquisitions or Disposals of Shares in Brokerage Houses and Investment Funds

Duty to Notify the PFSA of Indirectly Reaching or Exceeding Certain Threshold Percentages of the Total Voting Rights of a Brokerage House

Any entity intending to indirectly purchase or acquire shares or rights to shares in a brokerage house in a number which will ensure that it will hold 10%, 20%, one-third or 50% of the total number of votes at the general meeting of the brokerage house or its share capital is required each time to notify the PFSA of its intention to acquire such shares or rights to shares. Any individual who intends to indirectly become the parent entity of a brokerage house in a manner other than by acquisition or subscription for shares or rights attached to shares in a brokerage house which entitle the holder thereof to exercise a majority of the total number of votes at a general meeting must notify the PFSA of such intention.

A parent entity of an entity directly acquiring or subscribing for shares or rights attached to shares in a brokerage house, as well as an entity that takes actions resulting in it being a parent entity of the parent entity of the brokerage house or an entity that holds shares or rights attached to the shares in the brokerage house, will be deemed an indirect parent entity of the brokerage house or an entity which indirectly acquires or subscribes for shares or rights attached to shares.

The obligatory notification also applies to:

- the holders of a pledge and/or usufruct if in accordance with Article 340 section 1 of the Commercial Companies Code they are entitled to exercise voting rights attached to the pledged shares; and
- a person who achieved the right to vote at the general meeting at the levels requiring notification (as indicated above, i.e. as set out in Article 106.1 of the Act on Trading in Financial Instruments) as a result of events other than a subscription for or acquisition of shares or rights to shares in a brokerage house, in particular as a result of changes in statute or following the expiry of privileged shares or restrictions as to voting rights, as well as the acquisition of shares or rights to shares in a brokerage house allowing for the achievement or exceeding of the limits in the total number of votes at the general meeting as set out

in Article 106.1 of the Act on Trading in Financial Instruments or a participation in share capital as a result of inheritance.

The PFSA may issue, in the form of a decision, an objection to the purchase or subscription for shares or rights to shares or becoming a brokerage house's parent company, if:

- the person filing the notification fails to supplement any deficiencies in the notification or in the documents and information attached thereto within the deadline determined by the PFSA;
- the person submitting the notification does not send the additional information or documents requested by the PFSA; or
- such objection is justified by the need for prudent and stable management of the brokerage house due to the possible influence of the entity submitting the notification on the brokerage house or because of the assessment of the financial situation of the notifying person.

In the event of an acquisition or takeover of shares or rights attached to shares in violation of the obligations discussed above, the rights attached to such shares will not be exercisable. Resolutions of a general meeting of a brokerage house adopted in violation of the obligations discussed above are null and void, unless the resolutions satisfy the quorum and majority requirements without taking into account the invalid votes.

Moreover, members of the management board of a brokerage house appointed by the controlling entity or who are members of the management board, proxies or persons fulfilling managerial functions in the controlling entity cannot participate in the acts relating to the representation of a brokerage house. If it is impossible to determine which members of the management board were appointed by a controlling entity, the appointment of the management board is ineffective as of the date in which such entity obtained its rights as a controlling entity with regard to the brokerage house, subject to Article 106m of the Act on Trading in Financial Instruments. Actions relating to the representation of a brokerage house taken with the participation of such members of the management board are null and void.

In the cases mentioned above, the PFSA may order that the shares in the brokerage house be transferred within a stated period. If the shares are not transferred within the time period set by the PFSA, the PFSA may impose on the given shareholder of the brokerage house a pecuniary penalty of up to PLN 1,000,000 or revoke the brokerage license of such brokerage house.

Duty to Notify a Brokerage House about Exceeding or Reaching Certain Threshold Percentages of Total Voting Rights

A person that indirectly acquires or subscribes for shares in or rights to shares in a brokerage house, under Article 106.1 of the Act on Trading in Financial Instruments, is required to notify the given brokerage house thereof within 14 days from such acquisition or subscription.

Duty to Notify the PFSA and a Brokerage House about the Disposal of a Block of Shares

Any entity intending to indirectly dispose of shares or rights attached to shares in a brokerage house is required to notify the PFSA about each such case no later than 14 days from the planned disposal if as a result of the disposal:

- its share in the total number of votes at the general meeting or in the share capital will respectively drop below 10%, 20%, one-third or 50%; or
- the entity will cease to be the parent entity of the brokerage house.

The above notification obligation does not apply to shares in a brokerage house which have been admitted to trading on a regulated market.

Moreover, an entity disposing of shares or rights attached to shares in a brokerage house is required to notify such brokerage house of the disposal of its shares therein not later than 14 days from the disposal thereof.

The rules regarding notification of the PFSA and brokerage houses, respectively, discussed above in this section apply respectively to the indirect disposal and acquisition of shares or rights to shares in an investment fund under Article 54 and subsequent provisions of the Investment Funds Act.

Commercial Companies Code—Duty to Notify a Company about its Controlling Position

A controlling company within the meaning of Article 4 section 1 item 4 of the Commercial Companies Code is required to notify its subsidiary (joint stock company or limited liability company) of its controlling position within two weeks of attaining such position. Otherwise the exercise of the voting rights from the shares representing more than 33% of the subsidiary's share capital will be suspended.

A resolution of the general meeting which was adopted in breach of the notification obligation is invalid unless in adopting such resolution the quorum and voting majority requirements were fulfilled without counting invalid votes.

Concentration Control Regulation No. 139/2004

The requirements regarding the control of concentration also arise from the Concentration Control Regulation. This regulation governs concentrations having a Community dimension and therefore applies to undertakings and their related parties which exceed specific thresholds of sales of goods and services. The Concentration Control Regulation only encompasses those concentrations as a result of which a permanent change arises in the ownership structure of the enterprise. Community concentrations are subject to notification of the European Commission before their final implementation.

A concentration of undertakings has a Community dimension if:

- the total global turnover of all the undertakings in the concentration amounts to more than EUR 5 billion, and
- the total turnover in the EU of each of at least two undertakings in the concentration amounts to more than EUR 250 million, unless each of the undertakings in the concentration achieves more than two-thirds of its total turnover in the EU within a single Member State.

A concentration of enterprises that does not satisfy the above criteria also has a Community dimension if:

- the total global turnover of all the enterprises in the concentration amounts to more than EUR 2.5 billion, and
- in each of at least three Member States, the total turnover of all the enterprises in the concentration amounts to more than EUR 100 million, and
- in each of at least three Member States, specified for the purposes indicated above, the total turnover of each of at least two of the enterprises in the concentration amounts to at least EUR 25 million, and
- the total turnover in the European Community of each of at least two of the enterprises in the concentration amounts to more than EUR 100 million,
- unless each of the enterprises in the concentration achieves more than two-thirds of its total turnover in the Community in one and the same Member State.

The Antimonopoly Act

The Antimonopoly Act sets forth special requirements regarding, inter alia, the purchase of shares.

Merger Clearance

The intention of undertakings to merge is subject to the notification of the President of the Antimonopoly Office if the total global turnover of the undertakings taking part in the concentration of the financial year preceding the notification exceeds the equivalent of EUR 1 billion or the total turnover in Poland of the undertakings taking part in the concentration of the financial year preceding the notification exceeds EUR 50 million. These turnover figures apply both to the undertakings directly involved in the concentration and to the undertakings belonging to their groups.

The President of the Antimonopoly Office will consent to a concentration that does not materially limit competition on the market, especially through the establishment or strengthening of a dominant market position.

The provisions of the Antimonopoly Act regarding concentration apply to undertakings, including persons that are entrepreneurs (as defined in the Business Activity Freedom Act), and to individuals exercising control over at least one entity through holding, directly or indirectly, a majority of votes at the given shareholders' meeting or at the general meeting, also as a pledgee or usufructuary or in the management board of another undertaking (a subsidiary), and also under arrangements with third parties if they take further actions which are subject to merger clearance under the Antimonopoly Act, even if such individuals do not engage in business activity as defined in the Business Activity Freedom Act.

The duty to notify the President of the Antimonopoly Office of the intention to concentrate applies to the intention:

- of two or more companies to merge;
- to acquire, through the acquisition or purchase of shares, other securities, all or a part of the assets or otherwise, direct or indirect control over the whole or a part of one or more undertakings on behalf of one or more undertakings;
- to establish a joint-venture by undertakings;
- to acquire the assets of another undertaking, in whole or in part, provided that the turnover generated by the assets in any of the two financial years preceding the notification exceeded in the territory of Poland the equivalent of EUR 10 million.

The Antimonopoly Act defines the assumption of control as being all forms of direct or indirect acquisition of rights which separately or jointly enable a decided influence to be exerted over a specific enterprise, while taking into account all legal and actual circumstances.

The Antimonopoly Act does not require notification be made of an intended concentration if the turnover in Poland of the undertaking to be taken over and its subsidiaries did not exceed EUR 10,000,000 in either of the two fiscal years preceding the notification.

Furthermore, pursuant to Article 14 of the Antimonopoly Act, notification is not required with regard to an intended concentration: (a) consisting of a temporary purchase or acquisition of shares by a financial institution for the purpose of their resale, if the institution's business activity includes investing in the shares in other undertakings in its own name or on commission, provided that such resale takes place before one year from the date of purchase or acquisition, and provided that (i) the institution does not exercise the rights vested in such shares other than the right to dividends and (ii) it only exercises these rights for the purpose of preparing to sell all or part of the enterprise, its assets or the said shares; (b) consisting of a temporary purchase or acquisition of shares by an undertaking as security against receivables, provided that the entity does not exercise the rights vested in those shares, other than the right to sell them; (c) of entities from the same group; (d) arising as an effect of insolvency proceedings, excluding the cases where control is to be taken over by the competitor or a participant of the capital group to which competitors of the entity to be taken over belong.

Pursuant to Article 97 of the Antimonopoly Act, entities involved in the concentration that is subject to notification are required to refrain from completing the concentration until the President of the Antimonopoly Office issues a merger clearance or as long as the time limit during which such a decision needs to be issued has not lapsed. However, the implementation of the public offering to purchase or exchange shares, of which the President of the Antimonopoly Office has been notified, does not constitute a breach of the statutory obligation to refrain from completing the concentration before President of the Antimonopoly Office's merger decision or before the lapse of the time limit during which such decision should be issued if the purchaser does not exercise the voting rights vested in the shares or does so solely for the purpose of preserving the full value of its capital investment or to prevent a material loss that might affect the undertakings involved in the concentration.

Administrative Sanctions for Breaching the Law

The President of the Antimonopoly Office may, inter alia, impose a fine on an entity, by virtue of a decision, in an amount not higher than 10% of the revenues generated in the reporting year preceding the year of the imposing of the fine, if an entity made a concentration without the consent of the President of the Antimonopoly Office.

TAXATION

This information is of a general nature and does not constitute an exhaustive analysis of the tax results related to the acquisition, holding or disposal of the Shares under Polish tax law. Therefore, the Investors should, in individual cases, consult their own tax, financial or legal advisers. The term "dividend" used below, as well as any other term applied in this information, has the meaning ascribed thereto under Polish tax law.

Personal Income Tax and Corporate Income Tax

Capital Gains Realized by Individuals Who Are Polish Tax Residents (i.e. Subject to Unlimited Tax Liability in Poland)

Pursuant to Article 3 section 1 of the Personal Income Tax Act (the "**PIT Act**"), individuals who reside within the territory of the Republic of Poland are required to pay tax on all their worldwide income (revenue) regardless of the location of the source of revenue (unlimited tax liability). A person is deemed to be 'residing within the territory of the Republic of Poland' if: (i) such person's center of personal or economic interests (the center of vital interests) is within the territory of the Republic of Poland; or (ii) such person stays within the territory of the Republic of Poland more than 183 days in any tax year. The above rules are applied subject to the relevant treaties on avoiding double taxation to which the Republic of Poland is a party (Article 4a of the PIT Act).

Pursuant to Article 30b section 1 of the PIT Act, income from the transfer of the ownership of securities (including shares and pre-emptive rights) in exchange for consideration is taxed at a flat rate of 19%. Taxable income from the disposal of securities in exchange for consideration is calculated as the difference between the proceeds earned in a given tax year from the disposal of securities (the value of the securities at the price set forth in the contract for sale) and the tax-deductible costs (in principle, the expenditure related to the acquisition of these securities or their subscription) which are deductible at the time when the revenue on the sale of securities is generated. The revenue from the sale of securities for consideration is the revenue due therefor, even if it is not actually received. If a taxpayer disposes of, against consideration, securities acquired at different prices and it is impossible to determine the acquisition price of the securities being transferred, the rule that applies when determining the income from such transfer is that each transfer will be made in respect of the securities acquired at the earliest date (this rule applies separately for each securities account). Where the price of securities expressed in a contract is without sound reason significantly different from the market value thereof, revenue from the disposal of securities in exchange for consideration will be determined by a tax authority or tax inspection authority in the amount that reflects the said market value. Such income is not aggregated with income from other sources and is taxed separately. During the tax year, individuals who earn income from the disposal of securities in exchange for consideration are not required to make any income tax prepayment. Tax (or tax prepayment) on the above-mentioned transaction is not withheld by the tax remitters. However, after the end of a given tax year, which in the case of individuals is the same as the calendar year, tax payers earning income from the disposal of securities in exchange for consideration are required to disclose such income in their annual tax return, calculate the due amount of tax and pay it to the account of the relevant tax office.

In the case of a tax loss incurred on the disposal of securities in a given tax year, such loss may decrease the income generated from such source (i.e. from the disposal of securities) in the next five consecutive tax years; however, the amount of such decrease in any particular year cannot exceed 50% of the loss. The tax loss incurred on the disposal of securities is not combined with the tax losses incurred by the tax payer from other titles (sources of revenues).

Annual tax returns are prepared by tax payers by the end of April of the year immediately following the tax year in which the gains are made and based on the personal information on the amount of the income earned, delivered by the end of the February of the following tax year, by sole traders, legal persons and their organizational units as well as organizational units which are not legal persons.

The above regulations do not apply if securities are sold as a result of the performance of any business activities, as in such case the revenues from the sale of securities should be qualified as originating from the performance of such activities and should be settled according to general terms.

Capital Gains Realized by Individuals Who Are Not Polish Tax Residents (i.e. Subject to Limited Tax Liability in Poland)

In accordance with Article 3, section 2a of the PIT Act, individuals who do not reside within the territory of the Republic of Poland are required to pay tax exclusively on income (revenue) obtained within the territory of the Republic of Poland (limited tax liability). According to Article 4a of the PIT Act, the above-mentioned regulation is applied taking into account double tax treaties to which the Republic of Poland is a party.

Individuals subject to limited tax liability who earn income from the disposal of securities in Poland need to follow the same taxation rules governing the disposal of securities as specified above, save as otherwise stated in the relevant double tax treaties to which the Republic of Poland is a party. In light of Article 30b section 3 of the PIT Act, the application of a tax rate resulting from the appropriate double tax treaty or the non-payment of tax under such treaty is possible, provided that the tax payer proves his place of residence for tax purposes with a relevant certificate of tax residence.

Income (revenue) from Dividends and Other Revenue from a Share in the Profits of Legal Persons Earned by Individuals Who Are Polish Tax Residents (i.e. Subject To Unlimited Tax Liability in Poland)

Pursuant to Article 30a section 1 item 4 of the PIT Act, income (revenue) from dividends and other revenue from a share in the profits of legal persons (e.g. revenue generated on the redemption of shares and revenue generated on the receipt of the legal person's assets due to its liquidation) seated in the Republic of Poland earned by individuals subject to unlimited tax liability are subject to taxation at a flat rate of 19% of the income (revenue) earned. Income (revenue) from dividends and other revenue from a share in the profits of legal persons is the income (revenue) actually earned on such share. Pursuant to Article 41 section 4 of the PIT Act, a flat rate of income tax on payments made or cash or pecuniary values placed at the tax payer's disposal (such as dividend payments and other income from a share in the profits of legal persons) is withheld by the entities which perform such actions. Under Article 41 section 4d of the PIT Act, tax on dividends is withheld by entities keeping securities accounts for tax payers, in their capacity as tax remitters, if the income (revenue) is earned in the territory of Poland and is associated with the securities registered in these accounts, and, further, if relevant payments are made to the tax payers through those entities. Under the Article 41 section 10 of the PIT Act, in the case of dividend payments connected with the securities registered in omnibus accounts, flat-rate income tax is collected and remitted by the entities keeping the omnibus accounts, through which the payments are made. The tax is withheld on the date when a dividend payment is released to the omnibus account holder.

Tax remitters must pay tax amounts by the twentieth day of the month following the month in which the tax was withheld to the account of the relevant tax office. By the end of January of the year following the tax year, the tax remitters referred to in Article 41 of the PIT Act are required to send to the tax office territorially competent for the registered office of the tax remitters an annual tax return in a standard form. Income (revenue) from dividends and other revenue from a share in the profits of legal persons seated in Poland where a flat rate tax was withheld is not aggregated with income from any other sources and is not disclosed in the annual tax return. Nevertheless, pursuant to Article 45, section 3b of the PIT Act, if the remitter does not withhold the tax, the individual is required to settle the tax in its annual tax return filed by the end of April of the year following a given financial year.

Under Article 30a section 2a of the PIT Act, with respect to income (revenue) from dividends transferred to tax payers holding rights attached to securities registered in omnibus accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such tax payers through the omnibus account holder. Annual tax returns regarding this income are filed by the tax remitter (i.e. by the entities keeping the omnibus accounts) with the tax office relevant for the taxation of foreign persons. Under Article 45 section 3c of the PIT Act tax payers are required to disclose the amount of dividend in their annual tax return if securities were registered in an omnibus account and the tax payer's identity was not revealed to the tax remitter. As far as such tax payers are concerned, the remitter is not required to prepare or to send any individual information regarding the value of the income.

Income (revenue) from Dividends and Other Revenue from a Share in the Profits of Legal Persons Earned by Individuals Who Are Not Polish Tax Residents (i.e. Subject to Limited Tax Liability in Poland)

Pursuant to Article 30a, section 1 item 4, and in connection with Article 3, section 2a of the PIT Act, income (revenue) from dividends and other revenue from a share in the profits of legal persons seated in Poland earned by individuals subject to limited tax liability in Poland is subject to taxation at a flat rate of 19% of the income earned; however, in the case of the said category of tax payers the taxation rules are applied taking into account with the provisions of the double tax treaties concluded by Poland. Pursuant to Article 41 section 4 of the PIT Act, a flat rate of income tax on payments made, or cash or pecuniary values placed at the tax payer's disposal (such as dividend payments), is withheld by the entities which perform such actions. The application of a tax rate resulting from the appropriate double tax treaty or the non-payment of tax under such treaty is possible, provided that the tax payer proves his place of residence for tax purposes with a relevant certificate of tax residence. Under Article 41 section 4d of the PIT Act, tax on dividends is withheld by entities keeping securities accounts for tax payers, in their capacity as tax remitters, if the income (revenue) is earned in the territory of Poland and is associated with the securities registered in such accounts, and, furthermore, if relevant payments are made to the tax payers through those entities. Under the adopted Article 41 section 10 of the PIT Act, in the case of dividend payments registered in omnibus accounts, flat-rate income tax is collected and remitted by the entities keeping the omnibus accounts through which the payments are made. The tax is withheld on the date when a dividend payment is released to the omnibus account holder.

Tax remitters must pay tax amounts by the twentieth day of the month following the month in which the tax was withheld to the account of the relevant tax office. By the end of January of the year following the tax year the tax remitters referred to in Article 41 of the PIT Act are required to send to the tax office territorially competent for the registered office of the tax remitter, an annual tax return in a standard form. Additionally, the tax remitters are required by the end of February of the year following the tax year to send to the tax payers and to the tax offices competent for the taxation of foreign entities personal information prepared in a standard form. Moreover, the tax remitters will, at the written request of a tax payer, within 14 days from the date of filing such request, be required to make and to deliver the written information referred to above to the tax payer and to the tax office relevant for the taxation of foreign persons.

Under Article 30a section 2a of the PIT Act, with respect to income (revenue) from dividends transferred to tax payers holding rights attached to securities registered in omnibus accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such tax payers through the omnibus account holder. Annual tax returns regarding this income are filed by the tax remitter (i.e. by the entities keeping the omnibus accounts) with the tax office relevant for the taxation of foreign persons. With respect to such tax payers, the tax remitter is not required to make or deliver any personal information about the value of the income.

Capital Gains Realized by Persons subject to Corporate Income Tax Having Their Registered Office or Management Board within the Territory of the Republic of Poland (i.e. Subject to Unlimited Tax Liability in Poland)

The payers of the corporate income tax are legal persons, companies in organization and organizational units having no legal personality, except for partnerships.

In accordance with Article 3 section 1 of the Corporate Income Tax Act (the "**CIT Act**"), tax payers which have their registered office or management board within the territory of the Republic of Poland are required to pay tax on all of their income, irrespective of the location of the source of revenues (unlimited tax liability).

Gains on the disposal of securities by a legal person having its registered office or management board within Poland are subject to taxation under the general rules stipulated in the CIT Act. Taxable income is the difference, generated in a tax year, between the proceeds from the disposal of securities (the price for securities determined in the sale agreement) and tax-deductible costs (in principle, the expenditure related to the acquisition of these securities), which are deductible at the time when the revenue on the sale of securities is generated. If the price of the securities expressed in the contract is, without a justified reason, significantly different from the market value thereof, revenue from the disposal of securities in exchange for consideration will be determined by a tax authority or tax inspection authority at a level that reflects the said market value. Income from the disposal of securities in exchange for compensation is aggregated with the income of the tax payer earned from other sources to form the taxable base. Pursuant to Article 19 section 1 of the CIT Act, the income of a corporate income tax payer is taxed at a rate of 19% of the taxable base.

Capital Gains Realized by Persons subject to Corporate Income Tax Not Having their Registered Office or Management Board within the Territory of the Republic of Poland (i.e. Subject to Limited Tax Liability in Poland)

Pursuant to Article 3, section 2 of the CIT Act, tax payers which do not have their registered office or management board within the territory of the Republic of Poland are required to pay tax exclusively on income earned within the territory of the Republic of Poland (limited tax liability). The provisions of the CIT Act also apply to income earned within the territory of the Republic of Poland by partnerships having their seats or management offices in other countries if they are treated as legal persons under the tax law provisions of a given country and they are liable to tax on the total amount of their income, irrespective of the place where those are earned (Article 1 section 3 of the CIT Act).

The persons subject to corporate income tax and subject to limited tax liability who earn income in Poland from the disposal of securities in exchange for compensation need to follow the same taxation rules governing the disposal of securities as specified above, save as otherwise stated in the relevant double tax treaties to which the Republic of Poland is a party. Such tax payers may be required to present a tax residency certificate to document the legitimacy of the application of a tax rate based on a relevant double tax treaty or lack of tax in accordance with such treaty.

Income (revenue) from Dividends and Other Revenue from a Share in the Profits of Legal Persons Having Their Registered Office or Management Board within the Territory of the Republic of Poland Earned by Persons Subject to Corporate Income Tax Having Their Registered Office or Management Board within the Territory of the Republic of Poland (i.e. Subject To Unlimited Tax Liability in Poland)

Pursuant to Article 22 section 1 of the CIT Act, income (revenue) from dividends and other revenue from a share in the profits of legal persons (e.g. revenue generated on the redemption of shares and revenue generated on the receipt of the legal person's assets due to its liquidation) which have their registered office or management in Poland earned by persons subject to corporate income tax which have their registered office or management board in Poland is subject to taxation at a flat rate of 19% of the income earned. Income (revenue) from dividends and other revenue from a share in the profits of legal persons is the income (revenue) actually earned on such share.

Under Article 22, section 4 of the CIT Act, income (revenue) from dividends and other revenues from participation in profits generated by legal persons is tax exempt if all of the following conditions are satisfied jointly: (i) the entity paying the dividends and other revenues from participation in profits generated by legal persons is a company which pays income tax and has its registered office or management board within the territory of Poland; (ii) the entity receiving income (revenue) from dividends and other revenues from participation in profits generated by legal persons, as referred to in section (i), is a company required to pay income tax in the Republic of Poland with respect to its entire income, irrespective of the place where such is generated; (iii) the company referred to in section (ii) has at least a 10% direct shareholding in the share capital of the company which pays out the dividend or other income from a share in profits of a legal person; and (iv) the entity described in point (ii) above is not exempt from income tax on its entire income, regardless of the location of the source thereof.

The exemption referred to above applies if: (a) the holding of shares (referred to in item (iii) above) results from ownership by a tax payer (referred to in point (ii) above); (b) with respect to income obtained from shares held through (A) ownership or (B) otherwise than through ownership, provided that the income (revenue) would be exempt from tax if the holding of such shares had not been transferred.

The exemption referred to above applies if the company gaining income (revenue) from dividends and other revenues from participation in profits generated by legal persons having their registered office or management board within the territory of the Republic of Poland has at least a 10% shareholding in the company paying out dividends (or other income from a share in profits of a legal person) uninterruptedly for two years. The exemption also applies if the two-year period of uninterrupted holding of shares in the required number by a company generating income (revenue) from participation in profits generated by a legal person having its registered office or management board within the territory of the Republic of Poland ends after the date of obtaining such income (revenue). In the case of a failure to satisfy the condition of holding shares in the required number uninterruptedly for two years, the tax payer will be required to pay tax, including default interest, on the income (revenues) at 19% of such income (revenues) by the twentieth day of the month following the month in which it was deprived of the right to such exemption. Interest is calculated as of the day following the day on which the tax payer first exercised the right to the exemption.

Pursuant to Article 26 section 1f of the CIT Act, the application of the above-mentioned exemption is possible provided that the company generating income (revenue) provides a written representation that all the exemption requirements set forth in Article 22 section 4 item 4 of the CIT Act have been fulfilled with respect to the proceeds from dividends, i.e. the company receiving the dividend does not benefit from income tax exemption on all of its income, irrespective of the source of revenues.

Under Article 26 sections 1 and 3 of the CIT Act, the above-mentioned entities which make dividend payments and other payments on account of participation in profits generated by legal persons are required, as tax remitters, to withhold a flat rate of income tax on the payment day. The tax amounts must be transferred by the seventh day of the month following the month in which they were withheld to the account of the relevant tax office. On the date of paying the due tax, the tax remitters are also required to send to the tax payers information on the amount of tax collected, prepared in a standard form. Additionally, according to Article 26a of the CIT Act, by the end of the first month of the year following the year in which the obligation to pay the tax arose, the tax remitters described in Article 26 of the CIT Act are required to send an annual declaration to the tax office relevant for the tax payer using a specified form.

Pursuant to Article 26 section 2a of the CIT Act, if dividend payments or other payments on account of participation in profits generated by legal persons are made to tax payers holding rights attached to shares registered in omnibus accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released by the tax remitter for the benefit of all such tax payers through the omnibus account holder. According to Article 26 section 3 of the CIT Act, tax remitters, in the scope described in Article 26 section 2a of the CIT Act, will not be required to send to the tax payers information concerning all the withdrawals made thereby and the withheld tax.

Income (revenue) from Dividends and Other Revenue from a Share in the Profits of Legal Persons Having Their Registered Office or Management Board within the Territory of the Republic of Poland Earned by Persons Subject to Corporate Income Tax Not Having Their Registered Office or Management Board within the Territory of the Republic of Poland (i.e. Subject To Limited Tax Liability in Poland)

Persons subject to limited tax liability earning dividends in Poland or other income (revenues) from participation in profits generated by legal persons which have their registered office or management board in Poland must follow the same taxation rules as applicable to persons subject to unlimited tax liability, save as otherwise stated in the relevant double tax treaties.

Additionally, under Article 22 section 4 of the CIT Act, income (revenue) from dividends and other revenues from participation in profits generated by legal persons is tax exempt if all of the following conditions are satisfied jointly: (i) the entity paying the dividends and other revenues from participation in profits generated by legal persons is a company which pays income tax and has its registered office or management board within the territory of Poland; (ii) the entity receiving income (revenue) from dividends and other revenues from participation in profits generated by legal persons, as referred to in section (i), is a company required to pay income tax with respect to its entire income, irrespective of the place where such is generated, in a Member State other than the Republic of Poland or a country belonging to the EEA; (iii) the company referred to in section (ii) has at least a 10% direct shareholding in the share capital of the company which pays out the dividend; and (iv) the entity described in point (ii) above is not exempt from income tax on its entire income, regardless of the location of the source thereof.

The exemption referred to above applies if: (a) the holding of shares (referred to in item (iii) above) results from the ownership by a taxpayer (referred to in point (ii) above); (b) with respect to income obtained from shares held through (A) ownership or (B) otherwise than through ownership, provided that the income (revenue) would be exempt from tax if the shares had not been transferred.

The exemption referred to above applies if the company gaining income (revenues) from dividends and other revenues from participation in profits generated by legal persons which have their registered office or management board within the territory of the Republic of Poland has at least a 10% shareholding in the company paying out dividends (or other income from a share in profits of a legal person) uninterruptedly for two years. The exemption also applies if the two-year period of uninterrupted holding of shares in the required number by a company generating income (revenue) from participation in profits generated by a legal person which has its registered office or management board within the territory of the Republic of Poland ends after the date of obtaining such income (revenues). In the case of a failure to satisfy the condition of holding shares in the required number uninterruptedly for two years, the tax payer will be required to pay tax, including default interest, on the income (revenues) at 19% of the income (revenues) by the twentieth day of the month following the month in which it was deprived of the right to such exemption. Interest is calculated as of the day following the day on which the tax payer first exercised the right to the exemption.

The above exemption also applies, respectively: to co-operatives established on the basis of Regulation 1435/2003/EC on the Statute for a European Co-operative Society (SCE) (Official Journal EC L 207 dated 18 August 2003); to income (revenues) from dividends and other revenues from shares in profits generated by legal persons and paid to companies which are subject to income tax with respect to their entire income (regardless of where such income originated) in the Swiss Confederation, provided that the above-referenced percentage share in the share capital of the company which pays the dividend and other revenues from participating in profits of legal persons amounts to at least 25%; to income paid (attributed) to a permanent establishment, located in EU Member State or EEA, of a company that fulfills the above mentioned conditions for exemption (the existence of a foreign permanent establishment should, however, be documented by the company benefiting from the exemption with a certificate issued by a relevant tax administration authority of a country where it has its registered office or the management board, or by a competent tax authority of the state where the permanent establishment is situated); and to the entities listed in schedule No. 4 of the CIT Act, although in the case of the Swiss Confederation the exemption applies to entities which are subject to income tax in the Swiss Confederation with respect to their entire income (regardless of where such income originated), provided that the above-referenced direct shareholding in the company which pays the dividend and other income from participation in profits of legal persons amounts to at least 25%.

According to Article 26 section 1c item 1 of the CIT Act, the application of the above-mentioned exemption is possible if a taxpayer proves its tax residency with a certificate of tax residency. Pursuant to Article 26 section 1f of the CIT Act, the application of the above-mentioned exemption is possible if the company generating income (revenue) provides a written representation that all the exemption requirements set forth in Article 22 section 4 item 4 of the CIT Act have been fulfilled with respect to the proceeds from dividends, i.e. the company receiving the dividend does not benefit from income tax exemption on all of its income, irrespective of the source of revenues.

According to Article 26 section 1g of the CIT Act, if the entity generating income (revenue) from dividends is (i) an undertaking for collective investment in transferable securities which has its registered office in an EU Member State other than the Republic of Poland or a country belonging to the EEA which fulfills the requirements set forth in Article 6 section 1 item 10a of the CIT Act or (ii) a tax payer which has its registered office in an EU Member State other than the Republic of Poland or a country belonging to the EEA which operates a pension scheme which involves the collection of savings for retirement purposes and complies with the requirements set forth in Article 6 section 1 item 11a of the CIT Act, the aforementioned exemption can be applied, provided that such entity proves its tax residency with a certificate of tax residency and provides a written representation that it is the beneficial owner of the dividends paid out by the tax payer and complies with the requirements set forth in Article 6 section 1 item 10a and item 11a of the CIT Act.

Under Article 26 sections 1 and 3 of the CIT Act, the above-mentioned entities which make dividend payments and other payments on account of participation in profits generated by legal persons are required, as tax remitters, to withhold a flat rate of income tax on the payment day. However, the application of a tax rate resulting from the appropriate double tax treaty or the failure to pay tax under such treaty is possible, provided that the tax payer proves its place of residence for tax purposes with a relevant certificate of tax residence.

Tax amounts must be transferred by the seventh day of the month following the month in which they were withheld to the account of the relevant tax office. The tax remitters are required to send to the tax payers and the tax office information concerning all the withdrawals made thereby and the withheld tax in the agreed form. Such information must be delivered by the tax remitter by the end of the third month following the tax year in which the withdrawals were made. Additionally, at the written request of the tax payer, the tax remitter, within 14 days from the date of such a request, is required to prepare and to deliver to the tax payer and the tax office competent to deal with matters of the taxation of foreign persons, information about all the withdrawals and the collected tax, in an agreed form.

Moreover, pursuant to Article 26a section 1 of the CIT Act, by the end of the first month of the year following the tax year in which the obligation to pay tax arose, the tax remitters referred to in Article 26 of the CIT Act are required to deliver to the relevant tax office the annual tax returns prepared in an agreed form.

Pursuant to Article 26 section 2a of the CIT Act, if payments of dividend or other income from a share in profits of a legal person are made to tax payers holding rights attached to shares registered in omnibus accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in

Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released by the tax remitter for the benefit of all such tax payers through the omnibus account holder. In such a case, and in the case of dividend payments registered in omnibus accounts made to corporate income tax payers subject to the limited tax obligation in Poland, tax must be withheld by the entities keeping the omnibus accounts through which the payments are made. The tax is withheld on the date when a payment is released to the omnibus account holder. According to Article 26 section 3 of the CIT Act, tax remitters, in the scope described in Article 26 section 2a of the CIT Act, will not be required to send to the tax payers and tax office information concerning all the withdrawals made thereby and the collected tax.

Tax on Civil Law Transactions

Pursuant to Article 1, section 1, item 1, letter a) in conjunction with Article 1, section 4 of the Transfer Tax Act, tax on civil law transactions applies to agreements for the sale or exchange of property and property rights. These transactions are taxable if their subjects are:

(i) property located in Poland or property rights exercisable in Poland;

(ii) property located abroad or property rights exercisable abroad if the purchaser's place of residence or registered office is in Poland and the civil law transaction was carried out in Poland.

As a rule, the sale of shares in companies with their registered offices in Poland is considered to be the sale of property rights executable in Poland and is subject to the tax on civil law transactions at a flat rate of one percent. Tax liability arises when a civil law transaction (a transfer) is concluded and such liability is the sole responsibility of the buyer in the case of a sale agreement. The taxable base is the market value of the property or property right. The market value of the subject of a civil law transaction is assessed based on the average prices applied in the trade in property of the same kind and sort, allowing for its location, condition and its wear and tear, and in the trade in property rights of the same kind, applicable on the day of such transaction, without deducting debts or charges. Taxpayers are required to, without being summoned by the tax office, file a tax return on tax on civil law transactions and calculate and pay the due amount of the tax within 14 days of the tax liability arising, unless the tax is collected by a tax remitter who is a notary public in the case of civil law transactions concluded in the form of a notarial deed.

Simultaneously, under Article 9 item 9 of the Act on Tax on Civil Law Transactions, the sale of property rights that are financial instruments: (i) to investment firms (including foreign investment firms), or (ii) through the intermediation of investment firms (including foreign investment firms), or (iii) through organized trading, or (iv) outside organized trading by investment firms (including foreign investment firms) if such financial instruments were acquired by such companies as part of organized trading, within the meaning of the Act on Trading in Financial Instruments, is exempt from tax on civil law transactions.

Taxation of Gifts and Inheritance

Pursuant to Article 1 section 1 of the Act on Tax on Inheritance and Donations, tax on inheritance and donations is paid by natural persons who received title to property located in Poland or property rights exercised in Poland by right of succession, as legacy, further legacy, testamentary instruction, donation or the benefactor's instruction. The tax is paid by the heir, successor or beneficiary. The taxable base is the value of the property or property rights received after deducting the debts and encumbrances (net value), assessed based on the condition of the property and property rights on the day of their receipt and based on the market prices applicable as of the day when the tax liability arose. The tax base is computed according to the tax group to which the recipient was assigned. A relevant tax group is assigned according to the recipient's personal relationship to the person from whom the property or the property rights were received or inherited. Inheritances and donations are taxed at a progressive rate from 3% to 20% of the taxable base depending on the tax group to which the recipient was assigned. There are certain amounts exempt from tax in each group. Tax payers are required, except for cases in which the tax is charged by the tax remitter, to file with the competent head of the tax office, within one month from the date when the tax liability arose, a tax return specifying the receipt of the property or property rights in a standard form. The tax return should be accompanied by documents that may influence the determination of the tax. The tax is paid within 14 days from the receipt of the decision issued by the head of the tax office assessing the amount of the tax liability.

Under Article 4a, section 1 of the Act on Tax on Inheritances and Donations, the acquisition of property or property rights (including securities) by a spouse, descendant, ascendant, stepson, siblings, stepfather or stepmother are tax exempt provided that they notify the competent head of the tax office of acquisition of the property or property rights within six months from the date when the tax liability arose, and in the case of receipt by right of succession, within six months from the date when the court decision acknowledging the acquisition of the inheritance becomes final and binding. The above exemption applies if at the time of the acquisition the acquirer was a Polish citizen or a citizen of one of the EU Member States or a country belonging to EEA, or had his place of residence within the territory of Poland or within any of such states. In the case of failure to meet the above conditions, the acquisition of the property or property rights is subject to taxation on the general terms specified for persons assigned to the first tax group.

Additionally, acquisition of movable property located within the territory of the Republic of Poland or property rights subject to execution in the territory of the Republic of Poland (including securities) is not subject to tax, provided that on the receipt date neither the heir nor the testator nor benefactor were Polish citizens and did not have a permanent place of residence or a registered office within the territory of the Republic of Poland.

Remitter's Liability

Under Article 30 of the Tax Ordinance, a tax remitter failing to fulfill its duty to calculate, withhold or pay tax to a relevant tax authority is liable for the tax that has not been withheld or that has been withheld but not paid, up to the value of all its assets. The tax remitter is not liable if the relevant provisions provide otherwise or the tax has not been withheld due to the tax payer's fault. In such a case, the relevant tax authority issues a decision concerning the tax payer's liability.

Certain U.S. Federal Income Tax Considerations

[REDACTED]

ADDITIONAL INFORMATION

Documents Available for Inspection

The English translation of the following documents will be made available during the validity period of this Offering Memorandum on BZ WBK's website (www.bzwbk.pl): (i) the Statute; (ii) a current excerpt from the National Court Register regarding BZ WBK; (iii) the By-laws of the Management Board, the By-laws of the Supervisory Board and the By-laws of the General Meeting; and (iv) the Consolidated Financial Statements.

Independent Certified Auditors

Independent Certified Auditors of BZ WBK

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (former Deloitte Audyt Sp. z o.o.), with its registered office in Warsaw (and postal address Al. Jana Pawła II 19, 00-854 Warsaw), audited the consolidated financial statements of the BZ WBK Group for the years ended 31 December 2012 and 31 December 2011 and issued unqualified audit opinions on the aforementioned financial statements. Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. is registered in the register of auditors under No. 73.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k., with its registered office in Warsaw (and postal address ul. Chłodna 51, 00-867 Warsaw), audited the consolidated financial statements of the BZ WBK Group for the year ended 31 December 2010 and issued an unqualified audit opinion on the aforementioned financial statements. KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. is registered in the register of auditors under No. 3546.

There were no events of resignation or dismissal of a certified auditor appointed to audit the financial statements of BZ WBK or the BZ WBK Group in the period covered by the Consolidated Financial Statements of BZ WBK. During this period, BZ WBK changed its statutory auditor from KPMG Audyt sp. z o.o. sp. k. to Deloitte Audyt sp. z o.o. The circumstances underlying the change are not material in the opinion of BZ WBK.

In accordance with the Statute, an auditor authorized to audit the financial statements of BZ WBK and the consolidated financial statements of the BZ WBK Group is appointed by the Supervisory Board.

Independent Certified Auditors of Kredyt Bank

Ernst & Young Audit sp. z o.o., with its registered office in Warsaw (and postal address Rondo ONZ 1, 00-124 Warsaw), audited the Consolidated Financial Statements of Kredyt Bank and issued an unqualified audit opinion on the consolidated financial statements of the Kredyt Bank Group as of and for the year ended 31 December 2011 and 2010 financial statements as well as a qualified audit opinion on the Consolidated Financial Statements of Kredyt Bank for 2012. The qualification related to the lack of sufficient evidence presented to Ernst & Young, on the reasonableness of approximetely PLN 333 million of the total PLN 577 million adjustment to impairment allowances of the additional loan impairment allowances of the Kredyt Bank Group as of 31 December 2012, the corresponding impairment charge in the profit and loss for the year ended 31 December 2012, as well as approximately PLN 61 million of deferred tax asset that has been recognized in relation to such additional loan impairment allowances. In addition, the part of the above loan impairment allowances relating to losses incurred but not recorded and collective impairment amounting to PLN 258 million has been presented in a non-compliant way in liabilities in line, "Provisions". The full text of the qualification and the auditor's opinion issued by Ernst & Young is attached to this Offering Memorandum. The line items in the Consolidated Financial Statements of Kredyt Bank for 2012 affected by the above qualifications include "*net operating income*", "*impairment losses on loans and advances to customers*", "*deferred tax assets*", "*total assetsj*", "*provisions*", "*total liabilities*", "*equity attributable to the shareholders of Kredyt Bank*", "*total equity*", "*total equity and liabilities*", "*net impairment losses on financial assets, other assets and provisions*", "*profit, (loss) before tax*", "*income tax expense (credit)*", "*net profit (loss)*" and "*capital adequacy ratio*" and "*Tier 1 ratio (calculated based on primary funds)*".

For more information on the above, please see "*Operating and Financial Review—Operating and Financial Review of the Kredyt Bank Group—Selected Specific Factors Affecting Financial and Operating Results of the Kredyt Bank Group*" and note number 4 to the Consolidated Financial Statements of Kredyt Bank for 2012 as well as the auditor's opinion of Ernst & Young related thereto.

Ernst & Young Audit sp. z o.o. is registered in the list of entities authorized to audit financial statements under no. 130.

Entities Involved in the Offering

[REDACTED]

Information from Experts

There is no information being expert representations or reports used in this Offering Memorandum.

ABBREVIATIONS AND DEFINITIONS

Accounting Act	The Polish Accounting Act, dated 29 September 1994 (unified text: Journal of Laws of 2009 No. 152, item 1223, as amended).
Act on BGF	The Polish Act on the Banking Guarantee Fund, dated 14 December 1994 (unified text: Journal of Laws of 2009, No. 84, item 711, as amended).
Act on Capital Market Supervision	The Polish Act on Supervision over the Capital Market, dated 29 July 2005 (Journal of Laws of 2005, No. 183, item 1537, as amended).
Act on Combating Money Laundering and Terrorism Financing	The Polish Act on Combating Money Laundering and Terrorism Financing, dated 16 November 2000 (unified text: Journal of Laws of 2010, No. 46, item 276, as amended).
Act on Financial Market Supervision	The Polish Act on Supervision over the Financial Market, dated 21 July 2006 (Journal of Laws of 2012, No. 200, item 1149, as amended).
Act on Payment Services	The Polish Act on Payment Services, dated 19 August 2011 (Journal of Laws of 2011, No. 199, item 1175, as amended).
Act on Public Finance	The Polish Act on Public Finance dated, 27 August 2009 (Journal of Laws of 2009, No. 157, item 1240, as amended).
Act on Public Offering	The Polish Act on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, dated 29 July 2005 (unified text Journal of Laws of 2009, No. 185, item 1439, as amended).
Act on Tax on Inheritances and Donations	The Polish Act dated 28 July 1983 on Tax on Inheritances and Donations (unified text: Journal of Laws of 2009 No. 93, item 768, as amended).
Act on Trading in Financial Instruments	The Polish Act on Trading in Financial Instruments, dated 29 July 2005 (unified text: Journal of Laws of 2010, No. 211, item 1384, as amended).
AIB	Allied Irish Banks plc.
AIG Bank Polska	AIG Bank Polska S.A., with its registered office in Wrocław, merged with Santander Consumer Bank in 2011.
AIG Consumer Finance Group	A company organized under the laws of Delaware, with its statutory office at 2711 Centreville Road, Suite 400, Wilmington, DE 19080, United States of America.
ALM	Assets and Liabilities Management.
Amendments to the Banking Law	The Polish Act of 29 July 2011 Amending the Banking Law and Certain Other Acts (Journal of Laws of 2011, No. 165, item 984).
Antimonopoly Act	The Polish Act on the Competition and Consumer Protection dated 16 February 2007 (Journal of Laws of 2007 No. 50, item 331, as amended).
Antimonopoly Court	The Regional Court in Warsaw, the Court for Competition and Consumer Protection (*Sąd Ochrony Konkurencji i Konsumentów*).
Antimonopoly Office	The Polish Office for Competition and Consumer Protection (*Urząd Ochrony Konkurencji i Konsumentów*).

Auditors Act	The Act on Registered auditors and Their Self-government, Registered Audit Companies and on Public supervision, dated 7 May 2009 on registered auditors and their self-government (Journal of Laws of 2009, No. 77, item 649, as amended).
Banco Santander	Banco Santander S.A., with its operational headquarters at Avda de Cantabria s/n 28660 Boadilla del Monte (Madrid), Spain and with its registered office at Paseo de Pereda, numbers 9 to 12, Santander, Spain.
Banco Santander Group	Banco Santander and its subsidiaries.
Bank, BZ WBK	Bank Zachodni WBK Spółka Akcyjna, with its registered office in Wrocław.
Banking Law	The Polish Act dated 29 August 1997, the Banking Law (unified text: Journal of Laws of 2012 No. 232, item 1376, as amended).
Basel II	The New Capital Accord of 26 June 2004 published by the Basel Committee on Banking Supervision: a set of provisions setting out new rules for the calculation of capital requirements and the management of banking risk. In Poland, Basel II was implemented by way of an amendment to the Banking Law and the adoption of resolutions 1 to 6/2007 of the Commission for Banking Supervision of March 2007, which became binding upon Polish banks as of 1 January 2008 (with the assumption of the exercise of the option contained in § 14 clause 1 of resolution No. 1/2007 of the Commission for Banking Supervision).
Basel III/Basel III Accord	Two documents published by the Basel Committee on Banking Supervision on 16 December 2010 titled "Basel III: A global regulatory framework for more resilient banks and banking systems" and "Basel III: International framework for liquidity risk measurement, standards and monitoring": a set of provisions introducing fundamental reforms to the regulatory capital framework and capital requirements. The implementation of the Basel III reforms began on 1 January 2013; however, the requirements are subject to a series of transitional arrangements and will be phased in over a period of time and will not become fully effective until 2019. Basel III has not yet been implemented in Poland.
BGF	The Bank Guarantee Fund.
BIG	The Business Information Bureau (*Biuro Informacji Gospodarczej*).
BIK	The Bureau of Information Regarding Credit and Loans (*Biuro Informacji Kredytowej*).
BION	Supervisory review and assessment (*badanie i ocena nadzorcza*), one of the supervisory tools that support prudent supervision based on risk analysis, understood as an organizational idea that subordinates procedures, organizational solutions and resource allocation to risk level assessment.
BPV	Basis Point Value, a measure used to calculate the amount that the present value of a given position (cash flow, instrument, portfolio) changes as a result of a one-basis-point upward movement of the interest rate.
Business Activity Freedom Act . .	The Polish Business Activity Freedom Act, dated 2 July 2004 (unified text: Journal of Laws of 2010, No. 220, item 1447 as amended).
By-laws of the Supervisory Board	The by-laws of the Supervisory Board of BZ WBK.
BZ WBK Asset Management . . .	BZ WBK Asset Management S.A. with its registered office in Poznań.

BZ WBK—Aviva TU na Życie	BZ WBK—Aviva Towarzystwo Ubezpieczeń na Życie S.A., with its registered office in Poznań.
BZ WBK—Aviva TU Ogólnych	BZ WBK—Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., with its registered office in Poznań
BZ WBK Faktor	BZ WBK Faktor Sp. z o.o., with its registered office in Warsaw.
BZ WBK Finanse & Leasing	BZ WBK Finanse & Leasing Sp. z o.o., with its registered office in Poznań.
BZ WBK Group	Either: (i) BZ WBK and the BZ WBK Subsidiaries (including former subsidiaries of Kredyt Bank) following the Merger if there is no reference to any period, reference is made to the date of this Offering Memorandum or the context implies that reference is made to a period following the Merger; or (ii) BZ WBK and the BZ WBK Subsidiaries (excluding former subsidiaries of Kredyt Bank) prior to the Merger if reference is made to a period before the Merger or the context implies that reference is made to a period prior to the Merger.
BZ WBK Leasing	BZ WBK Leasing S.A., with its registered office in Poznań.
BZ WBK Subsidiaries	Either: (i) the subsidiaries of BZ WBK following the Merger if there is no reference to any period, reference is made to the date of this Offering Memorandum or the context implies that reference is made to a period following the Merger, i.e. BZ WBK Finanse Sp. z o.o., BZ WBK Faktor, BZ WBK Inwestycje Sp. z o.o., Dom Maklerski BZ WBK, BZ WBK Finanse & Leasing, BZ WBK Leasing, BZ WBK Nieruchomości S.A., BZ WBK Asset Management S.A., BZ WBK TFI, POLFUND- Fundusz Poręczeń Kredytowych S.A., Krynicki Recycling S.A., Metrohouse & Partnerzy S.A., BZ WBK-Aviva TU Ogólnych and BZ WBK-Aviva TU na Życie and former subsidiaries of Kredyt Bank, i.e. Kredyt Lease S.A., Kredyt-Trade Sp. z o.o. in liquidation (*w likwidacji*), Lizar Sp. z o.o. and BFI Serwis Sp. z o.o.; or (ii) only the subsidiaries of BZ WBK prior to the Merger (excluding former subsidiaries of Kredyt Bank) if relevant reference is made to a period before the Merger or the context implies that reference is made to a period prior to the Merger.
BZ WBK TFI	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Poznań.
CEB	The Council of Europe Development Bank.
CEE	Central and Eastern Europe.
CHF	The Swiss Franc, the lawful currency of the Confederation of Switzerland.
CIRS	Cross Currency Interest Rate Swap.
CIT Act	The Polish Corporate Income Tax Act, dated 15 February 1992 (unified text: Journal of Laws of 2011 No. 74, item 397, as amended).
Civil Code	The Polish Act dated 23 April 1964, the Civil Code (Journal of Laws of 1964, No. 16, item 93, as amended).
Code	The United State Internal Revenue Code of 1968, as amended.
Commercial Companies Code	The Polish Act dated 15 September 2000, Code of Commercial Companies and Partnerships (Journal of Laws of 2000, No. 94, item 1037, as amended).
Consolidated Financial Statements	The Consolidated Financial Statements of BZ WBK and the Consolidated Financial Statements of Kredyt Bank.

Consolidated Financial Statements of BZ WBK . . . . The audited consolidated financial statements of the BZ WBK Group for the years ended 31 December 2012, 2011 and 2010.

Consolidated Financial Statements of Kredyt Bank . . . . . The audited consolidated financial statements of the Kredyt Bank Group for the years ended 31 December 2012, 2011 and 2010.

Consolidated Financial Statements of Kredyt Bank for 2012 . . . . The audited consolidated financial statements of the Kredyt Bank Group for the year ended 31 December 2012.

Constitutional Court . . . . The Polish Constitutional Court (*Trybunał Konstytucyjny*).

Consumer Credit Act . . . . The Polish Consumer Credit Act, dated 12 May 2011 (Journal of Laws of 2011, No. 126, item 715, as amended).

Consumer Credit Directive . . . . . Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers of 23 April 2008.

CRD . . . . Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions.

CRD 2 . . . . Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated with central institutions, certain own funds items, large exposures, supervisory arrangements and crisis management.

CRD 3 . . . . Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitizations, and the supervisory review of remuneration policies.

CRD 4 . . . . Further possible changes to the CRD with regard to which the European Commission launched a public consultation in February 2010.

CSA . . . . The Schedule (*Credit Support Annex*) to the ISDA Master Agreement which defines the procedure applied to obtaining additional insurance coverage for the valuation of derivative instruments which are subject to transactions executed on the basis of the ISDA Master Agreement.

Detailed Exchange Trading Rules The Detailed Exchange Trading Rules adopted by the WSE Management Board under resolution No 4/2006 dated 10 January 2006, as amended.

Detailed Rules of the Operation of the NDS . . . . The Detailed Rules of the Operation of the National Depository of Securities (prevailing as of 28 September 2012, made available on the website of the NDS).

Dom Maklerski BZ WBK . . . . . . Dom Maklerski BZ WBK S.A. with its registered office in Poznań.

EBA . . . . The European Banking Authority.

EBA Recommendation On Temporary Capital Buffers . . . . . The European Banking Authority Recommendation on the Creation and Supervisory Oversight of Temporary Capital Buffers to Restore Market Confidence (EBA/REC/2011/1).

EBRD	The European Bank for Reconstruction and Development.
ECB	The European Central Bank.
ECJ	The European Court of Justice.
EEA	European Economic Area.
EIB	The European Investment Bank.
EIR	Effective Interest Rate.
EIU	The Economist Intelligence Unit.
Ernst & Young	Ernst & Young Audit sp. z o.o.
EU	The European Union.
EURO, EUR	The lawful currency of the Eurozone.
Eurozone	The currency union of the following member states which have adopted the euro as their sole legal tender: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.
Fitch	Fitch Ratings, Inc.
FRA	An agreement used to determine the interest rate applicable in the future with respect to a specific amount expressed in a transaction currency for a period determined in advance.
FTE	Full-Time Equivalent.
FX	Foreign Exchange.
GBP	The British pound, the lawful currency of the United Kingdom of Great Britain and Northern Ireland.
GDP	Gross Domestic Product.
General Meeting	The general meeting of the shareholders of BZ WBK.
GUS	The Polish Central Statistical Office (*Główny Urząd Statystyczny*).
IAS	International Accounting Standards as adopted by the EU.
IAS 24	International Accounting Standard 24 *"Related Party Disclosures"*.
IASB	The International Accounting Standards Board.
IFRS	International Financial Reporting Standards, as adopted by the EU.
IMF	The International Monetary Fund.
ING Bank Śląski	ING Bank Śląski with its registered office in Katowice.
Investment Agreement	The investment agreement dated 27 February 2011 concluded between Banco Santander and KBC.
Investment Funds Act	The Polish Investment Funds Act dated 27 May 2004 (Journal of Laws of 2004, No. 146, item 1546, as amended).
ISDA Master Agreement	The standard master agreement regulating the terms and conditions of transactions executed on the derivative instruments market.
KBC	KBC Bank NV, a limited liability company incorporated under the laws of Belgium, with its registered office at Havenlaan 2, 1080 Brussels, Belgium, registered with the Register of Legal Entities ("*rechtspersonenregister*") of Brussels under number 0462.920.226.

KBC Group	KBC and its holding company and any subsidiary of KBC or KBC's holding company, but excluding, unless the context requires otherwise, the members of the Kredyt Bank Group.
KBC TFI	KBC Towarzystwo Funduszy Inwestycyjnych S.A.
KNB or Commission for Banking Supervision	The Commission for Banking Supervision, succeeded from 1 January 2008 by the PFSA.
KRD, National Debt Register	The National Debt Register (*Krajowy Rejestr Długów*).
Kredyt Bank	Kredyt Bank S.A., a public joint stock company incorporated under the laws of Poland with its registered office at Kasprzaka 2/8, Warsaw 01-211, Poland, entered in the Register of Business Entities of the National Court Register maintained by the District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register, under KRS N°19597, which was merged with BZ WBK.
Kredyt Bank Group	Kredyt Bank and Kredyt Bank Subsidiaries.
Kredyt Bank Subsidiaries	The subsidiaries of Kredyt Bank from time to time.
KRS, National Court Register	The National Court Register (*Krajowy Rejestr Sądowy*).
LIBOR	The London Interbank Offered Rate, a daily reference rate based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money market.
LTV	Loan to value of collateral securing a loan.
Management Board	The management board of BZ WBK.
Member State	A Member State of the EEA.
Merger	The merger of BZ WBK with Kredyt Bank, by virtue of the resolution of the General Meeting dated 30 July 2012 and the resolution of the general meeting of Kredyt Bank dated 30 July 2012, which became effective on 4 January 2013.
Merger Date	4 January 2013.
Merger Shares	18,907,458 series J bearer shares in BZ WBK with a nominal value of PLN 10 each.
MIFID Directive	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.
Monetary Policy Council	The Polish Monetary Policy Council (*Rada Polityki Pieniężnej*), a body of the NBP.
Moody's	Moody's Investors Service, Inc.
NBP	The National Bank of Poland (*Narodowy Bank Polski*).
NDS	The National Depositary of Securities in Poland (*Krajowy Depozyt Papierów Wartościowych S.A.*), with its registered office in Warsaw, and the depository system operated thereby.
NDS Rules	The rules of the NDS constituting an attachment to the resolution of the supervisory board of the NDS No. 8/58/98 dated 24 July 1998, as amended.
New EU Member States	Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Romania, Poland, Slovakia and Slovenia.

NIM	Net interest margin.
NPL	Non-performing loans.
OFE	Polish open pension funds (*otwarte fundusze emerytalne*).
OFE PZU Złota Jesień	Otwarty Fundusz Emerytalny PZU Złota Jesień managed by Powszechne Towarzystwo Emerytalne PZU S.A.
Offering Memorandum	This Offering Memorandum.
Order	Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended.
p.p.	Percentage Point.
Patent Office	The Patent Office of Poland *(Urząd Patentowy Rzeczypospolitej Polskiej).*
PBA	The Polish Bank Association (*Związek Banków Polskich*).
Peer Group	Polish banks with a market capitalization of above PLN 5.5 billion as of 31 December 2012, i.e. PKO BP S.A., Bank Pekao S.A., Bank Handlowy w Warszawie S.A., BRE Bank S.A., ING Bank Śląski and Bank Millennium S.A.
PFSA	The Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*).
PIT Act	The Polish Personal Income Tax Act, dated 26 July 1991 (unified text: Journal of Laws of 2012, item 361, as amended).
PKD	The Polish Classification of Activities (*Polska Klasyfikacja Działalności*).
PLN, Polish zloty, zloty	The lawful currency of the Republic of Poland.
Polish Civil Procedure Code	The Polish Act dated 17 November 1964, Code of Civil Procedure (Journal of Laws of 1964, No. 43, item 296, as amended).
Polish Criminal Code	The Polish Act dated 6 June 1997, Criminal Code (Journal of Laws of 1997, No. 88, item 553, as amended).
President of the Antimonopoly Office	The President of the Polish Office of Competition and Consumer Protection.
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of the European Union of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC.
PSD	Directive 2007/64/EC of the European Parliament and the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.
Qualified Institutional Buyers, QIBs	Qualified institutional buyers in the United States of America as defined in, and in reliance on, Rule 144A under the US Securities Act.
Recommendation M	A document drafted and updated by the KNB (the predecessor of the PFSA), and since 2008, by the PFSA, regarding the management of operating risk in banks.
Recommendation S	A document drafted and updated by the KNB (the predecessor of the PFSA), and since 2008 by the PFSA, containing a list of best practices for banks in relation to mortgage lending.

Recommendation T	A recommendation of the PFSA of February 2010 regarding best practices for retail credit risk exposure management, to be replaced by new recommendation T issued by the PFSA in February 2013.
Regulation No 44/2001	Council Regulation No. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters.
Regulation S	Regulation S promulgated under the U.S. Securities Act.
Reports Regulation	A regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as being equivalent to information required by the legal regulations of a state which is not an EU member state (Journal of Laws of 2009 No. 33, item 259).
Resolution 383/2008	Resolution No. 383/2008 of the PFSA dated 17 December 2008 on the detailed rules of risk management and the internal control system, the calculation of internal capital by banks and the supervision of the internal capital calculation and maintenance process (the PFSA's Official Journal of 2008, No. 8, item 37).
Resolution 76/2010	Resolution No. 76/2010 of the PFSA dated 10 March 2010 on the scope of and detailed rules for determining capital requirements for individual risk types (the PFSA's Official Journal of 2010, No. 2, item 11, as amended).
ROA	Return On Assets.
ROE	Return On Equity.
RoAE	Return on Average Equity.
Rule 144A	Rule 144A under the U.S. Securities Act.
S&P	Standard & Poor's Financial Services LLC
Santander Consumer Bank	Santander Consumer Bank S.A., with its registered office in Wrocław.
Santander Consumer Finance Madrid	A company organized under the laws of the Kingdom of Spain and having its registered office at Boadilla del Monte (Madrid), Avenida de Cantabria s/n, Spain.
Santander Consumer Finanse	Santander Consumer Finanse S.A., with its registered office in Wrocław.
Santander Consumer Multirent	Santander Consumer Multirent Sp. z o.o., with its registered office in Wrocław.
Selling Shareholders	KBC and Banco Santander.
Shareholders' Agreement with the EBRD	A shareholders' agreement concluded on 29 March 2012 between BZ WBK, Banco Santander and the EBRD.
Shares	All of the shares in BZ WBK.
SME	Small and Medium Enterprises.
Stabilization Regulation	Commission Regulation (EC) No. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programs and the stabilization of financial instruments.
Statute	The statute of BZ WBK.

Supervisory Board	The supervisory board of BZ WBK.
SWAP	An agreement concerning the exchange of future cash flows.
SWK	A system for supporting loan sales.
Tax Ordinance	The Polish Act dated 29 August 1997, the Tax Ordinance (unified text: Journal of Laws of 2012, No. 125, item 749, as amended).
Tier 1 Banks	PKO BP S.A., Bank Pekao S.A. and BZ WBK
Transfer Tax Act	The Polish Act dated 9 September 2000 on Civil Law Transactions (unified text: Journal of Laws of 2010 No. 101, item 649, as amended).
Treaty	The Treaty on the Functioning of the European Union.
U.S. Securities Act	The United States Securities Act of 1933, as amended.
Unaudited Pro Forma Financial Information	The unaudited pro forma condensed consolidated financial information prepared in connection with the merger of BZ WBK and Kredyt Bank which comprises the unaudited pro forma condensed consolidated statement of financial position as of 31 December 2012 and the unaudited pro forma condensed consolidated income statement for the year ended 31 December 2012
USD, US$, dollars	The U.S. dollar, the lawful currency of the United States of America.
WIBOR	The Warsaw Interbank Offered Rate, a daily reference rate based on the interest rates at which banks borrow unsecured funds from other banks on the Warsaw wholesale money market.
WSE	The Warsaw Stock Exchange (*Giełda Papierów Wartościowych w Warszawie S.A.*).
WSE Best Practices	The Code of Best Practice for WSE listed companies (attachment to Resolution No. 19/1307/2012 of the Exchange Board dated 21 November 2012 and adopted in accordance with §29.1 of the Exchange Rules), being a set of rules and recommendations concerning corporate governance prevailing on the WSE.
WSE Rules	The Warsaw Stock Exchange Rules of 4 January 2006, as amended.
Żagiel	Żagiel S.A., with its registered office in Lublin, merged with Santander Consumer Finanse in 2013.

INDEX TO FINANCIAL STATEMENTS AND UNAUDITED PRO FORMA FINANCIAL INFORMATION

THE DOCUMENTS LISTED BELOW AND INCLUDED IN THE FOLLOWING F-PAGES OF THIS OFFERING MEMORANDUM HAVE BEEN ORIGINALLY ISSUED IN POLISH. THE POLISH ORIGINALS ARE THE ONLY BINDING VERSIONS.

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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 2010, the consolidated income statement and the consolidated statement of comprehensive income, the movements on consolidated equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated 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 and preparation of the Report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

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, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 2010 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.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

....
Certified Auditor No. 12032
Magdalena Grzesik

Signed on the Polish original

....
Limited Liability Partner with power of attorney
Stacy Ligas

1 March 2011
Warsaw

CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR 2010

2010

Bank Zachodni WBK S.A.

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Consolidated income statement

for reporting period:		01.01.2010-31.12.2010	01.01.2009-31.12.2009	01.01.2008-31.12.2008
Interest income		3 130 301	3 226 088	3 232 124
Interest expense		(1 308 126)	(1 662 897)	(1 597 019)
Net interest income	Note 6	**1 822 175**	**1 563 191**	**1 635 105**
Fee and commission income		1 555 258	1 534 413	1 606 669
Fee and commission expense		(210 597)	(220 101)	(232 854)
Net fee and commission income	Note 7	**1 344 661**	**1 314 312**	**1 373 815**
Dividend income	Note 8	54 514	96 592	70 306
Net trading income and revaluation	Note 9	258 731	270 256	52 802
Gains (losses) from other financial securities	Note 10	12 408	(6 085)	58 152
Net gain/(loss) on sale of subsidiaries and associates	Note 11	-	-	(196)
Other operating income	Note 12	47 339	49 702	67 999
Impairment losses on loans and advances	Note 13	(420 754)	(481 034)	(364 551)
Operating expenses incl.:		(1 766 345)	(1 644 764)	(1 682 075)
Bank's staff, operating expenses and management costs	*Notes 14, 15*	*(1 600 592)*	*(1 498 316)*	*(1 547 174)*
Depreciation/amortisation		*(128 767)*	*(123 473)*	*(107 331)*
Other operating expenses	*Note 16*	*(36 986)*	*(22 975)*	*(27 570)*
Operating profit		**1 352 729**	**1 162 170**	**1 211 357**
Share in net profits (loss) of entities accounted for by the equity method		4 452	(334)	(777)
Profit before tax		**1 357 181**	**1 161 836**	**1 210 580**
Corporate income tax	Note 17	(316 612)	(222 614)	(256 294)
Profit for the period		**1 040 569**	**939 222**	**954 286**
of which:				
attributable to owners of BZ WBK S.A.		*974 223*	*885 258*	*855 446*
attributable to non-controlling interests		*66 346*	*53 964*	*98 840*
Net earnings per share (PLN/share)	Note 18			
Basic earnings per share		13,33	12,11	11,72
Diluted earnings per share		13,28	12,06	11,68

Consolidated statement of comprehensive income

for reporting period:	01.01.2010-31.12.2010	01.01.2009-31.12.2009	01.01.2008-31.12.2008
Profit for the period	**1 040 569**	**939 222**	**954 286**
Other comprehensive income:			
Available-for sale financial assets valuation	11 867	61 681	(5 313)
Cash flow hedges valuation	97	26 590	(24 673)
Other comprehensive income for the period, net of income tax	**11 964**	**88 271**	**(29 986)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 052 533**	**1 027 493**	**924 300**
Attributable to:			
owners of BZ WBK S.A.	*985 352*	*971 756*	*829 000*
non-controlling interests	*67 181*	*55 737*	*95 300*

Notes presented on pages 15 – 104 constitute an integral part of these Financial Statements.

Consolidated statement of financial position

as at:		31.12.2010	31.12.2009	31.12.2008
ASSETS				
Cash and balances with central banks	Note 19	2 534 463	2 660 658	3 178 107
Loans and advances to banks	Note 20	619 655	664 211	1 365 132
Financial assets held for trading	Note 21	2 239 055	1 344 809	3 224 867
Hedging derivatives	Note 22	14 768	10 801	347
Loans and advances to customers	Note 23	32 838 296	34 569 513	35 136 613
Investment securities	Note 24, 25	13 395 355	13 292 572	12 916 041
Investments in associates and joint ventures	Note 26	87 360	81 887	72 221
Intangible assets	Note 27	172 561	181 620	173 934
Property, plant and equipment	Note 28	547 536	596 154	637 486
Current income tax due		-	43 373	-
Net deferred tax assets	Note 29	309 164	278 227	210 495
Other assets	Note 30	395 658	341 200	517 826
Total assets		**53 153 871**	**54 065 025**	**57 433 069**
LIABILITIES				
Deposits from central bank	Note 31	-	1 519 208	1 242 574
Deposits from banks	Note 32	2 526 082	3 830 776	4 095 477
Hedging derivatives	Note 22	16 441	32 933	68 562
Financial liabilities held for trading	Note 21	578 611	736 050	3 153 932
Deposits from customers	Note 33	41 970 454	41 222 871	42 810 727
Debt securities in issue	Note 34	-	-	153 918
Subordinated liabilities	Note 35	395 230	-	-
Current income tax liabilities		82 858	-	13 638
Other liabilities	Note 36	810 620	686 717	681 800
Total liabilities		**46 380 296**	**48 028 555**	**52 220 628**
Equity				
Equity attributable to owners of BZ WBK S.A.		**6 623 056**	**5 928 132**	**4 972 569**
Share capital	Note 37	730 760	730 760	729 603
Other reserve funds	Note 38	4 344 640	3 566 999	2 716 687
Revaluation reserve	Note 39	433 134	422 005	335 507
Retained earnings		140 299	323 110	335 326
Profit of the current period		974 223	885 258	855 446
Non-controlling interests in equity		**150 519**	**108 338**	**239 872**
Total equity		**6 773 575**	**6 036 470**	**5 212 441**
Total equity and liabilities		**53 153 871**	**54 065 025**	**57 433 069**

Notes presented on pages 15 – 104 constitute an integral part of these Financial Statements.

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 in equity	Total
Opening balance as at 31.12.2009	**730 760**	**3 566 999**	**422 005**	**1 208 368**	**108 338**	**6 036 470**
Total comprehensive income	-	-	11 129	974 223	67 181	1 052 533
Transfer to other capital	-	775 765	-	(775 765)	-	-
Dividend relating to 2009	-	-	-	(292 304)	(25 000)	(317 304)
Other	-	1 876	-	-	-	1 876
As at 31.12.2010	**730 760**	**4 344 640**	**433 134**	**1 114 522**	**150 519**	**6 773 575**

As at the end of the period revaluation reserve in the amount of PLN 433 134 k comprises of debt securities and equity shares classified as available for sale of PLN 19 839 k and PLN 411 280 k respectively and additionally cash flow hedge activities of PLN 2 015 k. The revaluation reserve relates to the securities designated as available-for-sale.

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Opening balance as at 31.12.2008	**729 603**	**2 716 687**	**335 507**	**1 190 772**	**239 872**	**5 212 441**
Adjustment due to changes in accounting policies	-	-	-	(18 149)	-	(18 149)
Adjusted balance as at 01.01.2009	**729 603**	**2 716 687**	**335 507**	**1 172 623**	**239 872**	**5 194 292**
Total comprehensive income	-	-	86 498	885 258	55 737	1 027 493
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	-	-	-	(748)	-	(748)
As at 31.12.2009	**730 760**	**3 566 999**	**422 005**	**1 208 368**	**108 338**	**6 036 470**

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. The revaluation reserve relates to the securities designated as available-for-sale.

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	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. The revaluation reserve relates to the securities designated as available-for-sale.

Notes presented on pages 15 – 104 constitute an integral part of these Financial Statements.

Consolidated statement of cash flows

for reporting period:	01.01.2010-31.12.2010	01.01.2009-31.12.2009	01.01.2008-31.12.2008
Profit before tax	**1 357 181**	**1 161 836**	**1 210 580**
Total adjustments:	**4 209**	**(951 053)**	**1 647 976**
Share in net profits (losses) of entities accounted for by the equity method	(4 452)	334	777
Depreciation/amortisation	128 767	123 473	107 331
Impairment losses	(186)	(233)	3 465
Gains (losses) on exchange differences	(99 467)	(6 339)	60 420
Interests and similar charges	(5 739)	74 090	23 338
Dividend received	(54 514)	(96 592)	(70 306)
(Profit) loss from investing activities	(11 691)	4 147	(60 229)
Change in provisions	43 834	24 078	(66 804)
Change in trading portfolio financial instruments	(217 087)	(284 798)	311 834
Change in loans and advances to banks	(1 058)	(553)	18 920
Change in loans and advances to customers	1 731 217	573 424	(11 300 361)
Change in deposits from banks	(1 676 441)	578 396	362 219
Change in deposits from customers	367 259	(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	28 310	236 162	(405 323)
Paid income tax	(224 849)	(381 098)	(333 749)
Other adjustments	306	800	1 152
Net cash flow from operating activities	**1 361 390**	**210 783**	**2 858 556**
Inflows	**1 768 129**	**4 674 429**	**2 441 177**
Sale of shares or interests in subsidiaries, associates and joint ventures	-	-	3 021
Sale/maturity of investment securities	1 711 548	4 575 394	2 350 787
Sale of intangible assets and property, plant and equipment	2 057	2 433	17 053
Dividend received	54 514	96 592	70 306
Proceeds from other investments	10	10	10
Outflows	**(3 575 518)**	**(3 825 266)**	**(5 040 584)**
Purchase of subsidiaries, associates and joint ventures	(41)	(10 000)	(38 131)
Purchase of investment securities	(3 504 194)	(3 722 853)	(4 745 050)
Purchase of intangible assets and property, plant and equipment	(69 535)	(90 849)	(255 758)
Other investments	(1 748)	(1 564)	(1 645)
Net cash flow from investing activities	**(1 807 389)**	**849 163**	**(2 599 407)**
Inflows	**806 230**	**442 447**	**974 792**
Drawing of long-term loans	414 160	441 290	974 792
Proceeds from issuing bonds / shares	-	1 157	-
Increase of subordinated liabilities	392 070	-	-
Outflows	**(1 551 696)**	**(1 263 052)**	**(933 619)**
Repayment of long-term loans	(1 163 213)	(821 359)	(384 445)
Debt securities buy out	-	(150 182)	(99 533)
Dividends and other payments to shareholders	(317 304)	(187 271)	(309 036)
Other financing outflows	(71 179)	(104 240)	(140 605)
Net cash flow from financing activities	**(745 466)**	**(820 605)**	**41 173**
Total net cash flow	**(1 191 465)**	**239 341**	**300 322**
Cash at the beginning of the accounting period	**5 558 274**	**5 318 933**	**5 018 611**
Cash at the end of the accounting period*	**4 366 809**	**5 558 274**	**5 318 933**

*Cash components are presented in Note 46.

Notes presented on pages 15 – 104 constitute an integral part of these Financial Statements.

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. includes bank's stand alone financial information as well as information from its subsidiaries (all together called Group), share of net assets of associated entities and joint ventures.

The direct parent of Bank Zachodni WBK SA 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.

On 10 September 2010, the Board of AIB resolved to sell the entire stake in Bank Zachodni WBK and 50% of shares in BZ WBK AIB Asset Management S.A. to Banco Santander.
On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

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 securities,
- leasing,
- factoring,
- asset/ fund management,
- insurance services,
- trading in stock and shares of commercial companies.

Group of Bank Zachodni WBK consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2010	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100	100	-
2.	BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o	100
3.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100	100
4.	Dom Maklerski BZ WBK S.A.	Poznań	99,99	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% 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% 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	99,99
8.	BZ WBK AIB Asset Management S.A.*	Poznań	50	50	50
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.	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 31.12.2010	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50	50	50
2.	Metrohouse & Partnerzy S.A.*	Warszawa	21,23	35,38	35,38
3.	Krynicki Recykling S.A.*	Warszawa	24,65	30,37	-

*Metrohouse & Partnerzy S.A. and Krynicki Recycling S.A are the associates of BZ WBK Inwestycje Sp. z o.o - bank's subsidiary. They are accounted for using the equity method. Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

Joint ventures:

	Joint ventures	Registered office	% of votes on AGM 31.12.2010	% 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	50	50
2.	BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	50	50	50

2. Basis of preparation of financial statements

Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2010 have been prepared in accordance with the 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 BZ WBK Group.

Changes in accounting policies

Correction of prior periods

As at 30 June 2010 Group conducted analysis of a insurance premium recognition policy for income gained together with joint ventures entities. As a result of this analysis, the Group assured consistency of recognition of the income across the Group. Aiming accurate presentation of the insurance product proceeds disclosed in the prior years, the Group adjusted previously reported financial data in line with requirements of IAS 8. The potential adjustment was deemed to have an immaterial impact on the previous reporting periods. The table below presents reconciliation of adjustments applied to the consolidated statement of comprehensive income and consolidated statement of financial position:

		Fee and commission income	Profit before tax	Corporate income tax	Profit after tax	Deferred tax asset	Other liabilities	Equity
01.01.2009 - 31.12.2009	prior adjustment	1 535 565	1 162 988	(222 832)	940 156	-	-	-
	adjustment	(1 152)	(1 152)	218	(934)	-	-	-
	after adjustment	1 534 413	1 161 836	(222 614)	939 222	-	-	-
31.12.2009	prior adjustment	-	-	-	-	273 751	663 158	5 947 215
	adjustment	-	-	-	-	4 476	23 559	(19 083)
	after adjustment	-	-	-	-	278 227	686 717	5 928 132

Comparability with results of previous periods
To ensure comparability, the following substantial changes were made to the presentation of financial data:

a) in consolidated statement of financial position:
As a result of changes in the Group's policy concerning presentation of derivative instruments, as at 31.12.2009 the items 'Financial assets held for trading' and 'Financial liabilities held for trading' have been increased by the amount of PLN 2 189 k.

b) in segmental reporting, consolidated income statement – comparative information:
In the profit and loss account for 2009 and for 2008, recovery of provisions for centrally written down loans was shown in the central segment, with appropriate adjustments made to the net balance of provisions (net impairment charges for loans) in the Retail Banking and Business Banking segments. Changes were made in accordance with the Bank's segment reporting policy.

Changes in judgments and estimates
In 2010, Bank Zachodni WBK S.A. revised the spreads adopted for mark-to-market valuation of CIRS with a view to making fair value of these derivatives more accurate. The total fair value adjustment to these derivatives was PLN (14 469) k at the end of the reporting period. These instruments are a source of funding net FX assets 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. Other significant judgment and key sources of estimation uncertainty have not been changed.

New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZWBK Group and are not yet effective or have neither been implemented earlier

IFRS	Description of changes	Effective from	Impact on the Group
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	Amendments will not have material impact over 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	Amendments will not have material impact over financial statement
IAS 24 Related Party Disclosures	Change relating to simplified definition of a related party and removal of certain internal inconsistencies.	1 January 2011	Amendments will not have material impact over financial statement
IFRS 7 Financial instruments: disclosures	The change requires disclosure of information so that the readers of the financial statements may: understand the relation between the transferred financial asset which has not been fully excluded from the financial statements and the underlying financial obligations; assess the nature of the asset, associated risks and exposure towards the excluded asset. The change includes definition of "continous engagement" to ensure compliance with disclosure requirements.	1 July 2011	Amendments will not have material impact over financial statement

IFRS 7 Financial instruments: disclosures "Changes to International Financial Reporting Standards 2010"	Amended requirements of quantitative credit risk disclosures.	1 January 2011	Amendments will not have material impact over financial statement
IAS1 Presentation of financial reporting "Changes to International Financial Reporting Standards 2010"	Amended method of presenting components of movements in equity.	1 January 2011	Amendments will not have material impact over financial statement
IAS 34 Interim financial statements "Changes to International Financial Reporting Standards 2010"	Guidelines to disclosing the following information: -circumstances that may affect fair value of financial instruments and their classification, -transfer of financial instruments in fair value hierarchy, -changes in asset and financial liabilities classification.	1 January 2011	Amendments will not have material impact over financial statement
IFRIC 13 "Changes to International Financial Reporting Standards 2010"	Fair value of loyalty points.	1 January 2011	Amendments will not have material impact over financial statement

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 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 principles

Use of judgments and estimates

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 BZWBK 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 BZWBK 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 are driven by the following key factors:

- EP-Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Group,
- PD - Probability of default, based on historical observations together with EP is considered to be best indicator of incurred but not reported losses,
- 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,
- 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.

Impairment loss on 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.

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

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

Asset held for sale are recorded at the lower of its 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 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 BZWBK 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 accounted for in accordance 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 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 positive 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 factoring receivables of Faktor Companies.

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, debt securities in issue and subordinated liabilities.

Recognition
The Group recognises a financial asset or a financial liability in 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 as contingent liabilities.

A regular way purchase or sale of a financial asset is 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 from 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 is 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.

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.

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 the statement 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.

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 ("repo transaction") 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 repo transaction") 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 also to the hedged item, which otherwise would be measured at amortised cost and presented as 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 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 establishing 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 in 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 half-year, 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 for 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 the 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. The owner-occupied property acquired through 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 part of an item of property, plant and equipment. 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 initial date of classification of non-current assets as assets held-for-sale, the Group measures them at the lower of 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 is 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 their 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.
Revaluation reserve is not distributable.
Non-controlling interests are 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 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 disability pension bonus is estimated using actuarial valuation method. The valuation of those accruals is updated at least once a year.

Profit Sharing Scheme
BZWBK 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 conditional obligation to dispose shares at a price different from the fair value of shares. Resulting from the classification of the scheme BZWBK 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 corresponding with employee related expenses.

Share based payments
BZWBK 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 programme value in the costs of 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 are dependent on 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 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 points 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 of impairment of a financial asset, interest income is accrued based on the carrying amount of the receivable (this is the value reduced by revaluation charge) using 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 recognized on a straight-line basis in the profit and loss account.

Other fees and charges, which are not settled according to the effective interest rate, are included in 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 incomes 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 their sale price.
Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity 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. Segment reporting

Operational activity of the BZ WBK S.A. 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 sale and service of products or 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 regulated by segments on a mutual basis, according to single rates for specific services or agreements concerning the breakdown of total income and/or cost.
Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

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.

Retail Banking

Retail Banking segment includes products and services targeted at individual 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 provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit 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 Brokerage House and asset management services within investment funds and private portfolios.

Treasury

Treasury is responsible for the management of the bank's liquidity, interest rate risk and foreign exchange rate risks. It also provides interest rate and fx risk management products to the bank's customer base. Through its presence in the wholesale markets, it also generates revenues from interest rate and fx risk positioning activity.

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.

Consolidated income statement (by business segments)

31.12.2010	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest income	**1 203 493**	**638 803**	**24 459**	**(93 806)**	**49 226**	**1 822 175**
incl. internal transactions	-	(65 900)	46 228	-	19 672	-
Other income	**849 737**	**95 385**	**343 796**	**326 300**	**47 921**	**1 663 139**
incl. internal transactions	120 625	41 087	(86 609)	(85 699)	10 596	-
Dividend income	**-**	**-**	**54 514**	**-**	**-**	**54 514**
Operating costs	**(1 192 024)**	**(198 411)**	**(151 948)**	**(40 830)**	**(54 365)**	**(1 637 578)**
incl. internal transactions	5 123	(42 626)	(5 563)	22 939	20 127	-
Depreciation/amortisation	**(102 489)**	**(12 564)**	**(9 275)**	**(3 161)**	**(1 278)**	**(128 767)**
Impairment losses on loans and advances	**(373 583)**	**(67 181)**	**-**	**-**	**20 010**	**(420 754)**
Share in net profits (loss) of entities accounted for by the equity method	**2 555**	**-**	**1 897**	**-**	**-**	**4 452**
Profit before tax	**387 689**	**456 032**	**263 443**	**188 503**	**61 514**	**1 357 181**
Corporate income tax						(316 612)
Non-controlling interests						(66 346)
Profit for the period						**974 223**

Consolidated statement of financial position (by business segment)

31.12.2010	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	15 868 881	16 888 035	61 182	-	20 198	32 838 296
Investments in associates and joint ventures	32 496	-	54 864	-	-	87 360
Other assets	7 116 426	4 430 708	1 160 592	6 348 032	1 172 457	20 228 215
Total assets	**23 017 803**	**21 318 743**	**1 276 638**	**6 348 032**	**1 192 655**	**53 153 871**
Deposits from customers	32 532 318	8 624 360	781 201	32 575	-	41 970 454
Other liabilities and equity	2 312 899	4 640 248	333 969	2 557 595	1 338 706	11 183 417
Total equity and liabilities	**34 845 217**	**13 264 608**	**1 115 170**	**2 590 170**	**1 338 706**	**53 153 871**

*includes individual customers and small & micro companies

Consolidated income statement (by business segments)

Data converted as descried in the note 2 'Comparability with results of previous periods'

31.12.2009	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest 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	**831 070**	**86 309**	**302 374**	**344 016**	**64 416**	**1 628 185**
incl. internal transactions	103 714	33 442	(65 764)	(74 350)	2 958	-
Dividend income	**-**	**-**	**96 592**	**-**	**-**	**96 592**
Operating costs	**(1 121 479)**	**(185 678)**	**(141 331)**	**(39 056)**	**(33 747)**	**(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	**(338 811)**	**(162 012)**	**2 331**	**-**	**17 458**	**(481 034)**
Share in net profits (loss) of entities accounted for by the equity method	**(837)**	**-**	**503**	**-**	**-**	**(334)**
Profit before tax	**308 236**	**248 543**	**277 912**	**238 999**	**88 146**	**1 161 836**
Corporate income tax						(222 614)
Non-controlling interests						(53 964)
Profit for the period						**885 258**

Consolidated statement of financial position (by business segment)

Data converted as descried in the note 2 'Comparability with results of previous periods'

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	-	11 706	34 569 513
Investments in associates and joint ventures	31 277	-	50 610	-	-	81 887
Other assets	7 006 518	4 355 138	1 102 630	5 829 725	1 119 614	19 413 625
Total assets	**22 458 004**	**23 425 269**	**1 220 707**	**5 829 725**	**1 131 320**	**54 065 025**
Deposits from customers	31 919 150	8 514 438	765 983	23 300	-	41 222 871
Other liabilities and equity	1 967 091	5 301 295	335 914	4 688 601	549 253	12 842 154
Total equity and liabilities	**33 886 241**	**13 815 733**	**1 101 897**	**4 711 901**	**549 253**	**54 065 025**

*includes individual customers and small & micro companies

In thousands of PLN

Consolidated income statement (by business segments)

Data converted as descried in the note 2 'Comparability with results of previous periods'

31.12.2008	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest 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	**(147 761)**	**(227 011)**	**15**	**-**	**10 206**	**(364 551)**
Share in net profits (loss) of entities accounted for by the equity method	**(1 417)**	**-**	**640**	**-**	**-**	**(777)**
Profit before tax	**433 857**	**126 872**	**409 891**	**153 578**	**86 382**	**1 210 580**
Corporate income tax						(256 294)
Non-controlling interests						(98 840)
Profit for the period						**855 446**

Consolidated statement of financial position (by business segment)

Data converted as descried in the note 2 'Comparability with results of previous periods'

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	10 777	35 136 613
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	1 307 709	22 224 235
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 equity and liabilities	**34 200 558**	**15 239 765**	**787 928**	**6 001 643**	**1 203 175**	**57 433 069**

*includes individual customers and small & micro companies

4. Risk management

BZ WBK Capital Group is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that BZ WBK Group continues to take risk in a controlled way in order to enhance shareholder value. Risk is a possibility that some events would materialise, which would impact the achievement of the BZ WBK Group's strategic goals.

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set appropriate risk limits, which restrict the risk exposure. BZ WBK Group continues to modify and enhance its risk management practices to reflect changes in Bank's risk profile, economic environment, regulatory requirements and evolving best practice.

Risk management in BZ WBK Group is governed by the „tone at the top" rule. This means that the Management Board and Supervisory Board set the business direction and actively support the risk management strategies. It is executed by the approval of the key risk management policies, risk committee membership of the Management Board Members, review and acceptance of the risks and reports on the risk level.

Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies, the acceptable risk level and monitors the utilisation of the internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring of remedial actions. The Supervisory Board assesses if the Management Board control activities are effective and aligned with the Supervisory Board policy, including the assessment of the risk management system.

Audit Committee supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports on independent internal audit unit and compliance units. The Committee receives the regular quarterly reports on the status of the implementation of audit recommendations as the basis of the assessment of the quality of management actions. The Audit Committee assesses the efficiency of the internal control system and the risk management system.

Risk Oversight Committee supports the Supervisory Board in assessment of the effectiveness of the internal control system and risk management system and the resources, which were accepted and planned in order to provide the efficient management of the material risks of the Group.

Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, is responsible for implementation and updating of the written risk management strategies, and transparency of the activities. The Management Board reviews the financial results of the Group.

The Management Board established the suite of committees directly responsible for the development of the risk management methodology and monitoring of the level of risk exposure.

Risk Management Committee sets the direction of the risk management strategy in BZ WBK Group. The Risk Management Committee supervises the committees responsible for management of different risks. The Committee allows for integration of risks present in several areas, which supports a comprehensive and concise view of those risks and systematises the top management reporting on risk management across BZ WBK Group.

Credit Policy Forum undertakes key decisions on credit risk, approves credit policies, classification systems, credit risk limits and system of credit discretions.

Credit Risk Measurement Committee is responsible for direct oversight of the independent development and validation of credit risk models in BZ WBK Group.

Credit Committee approves credit transactions exceeding the credit discretions allocated in BZ WBK Group.

Provisions Committee decides on the amount of impairment provisions for credit exposures and the legal provisions. The Committee approves the methodology and the parameters used for calculation of impairment charge on a portfolio level for BZ WBK Group.

Operational Risk Management Committee (ORMCo) sets the strategic activities within the operational risk management in BZ WBK Group, including business continuity management, information security and fraud prevention.

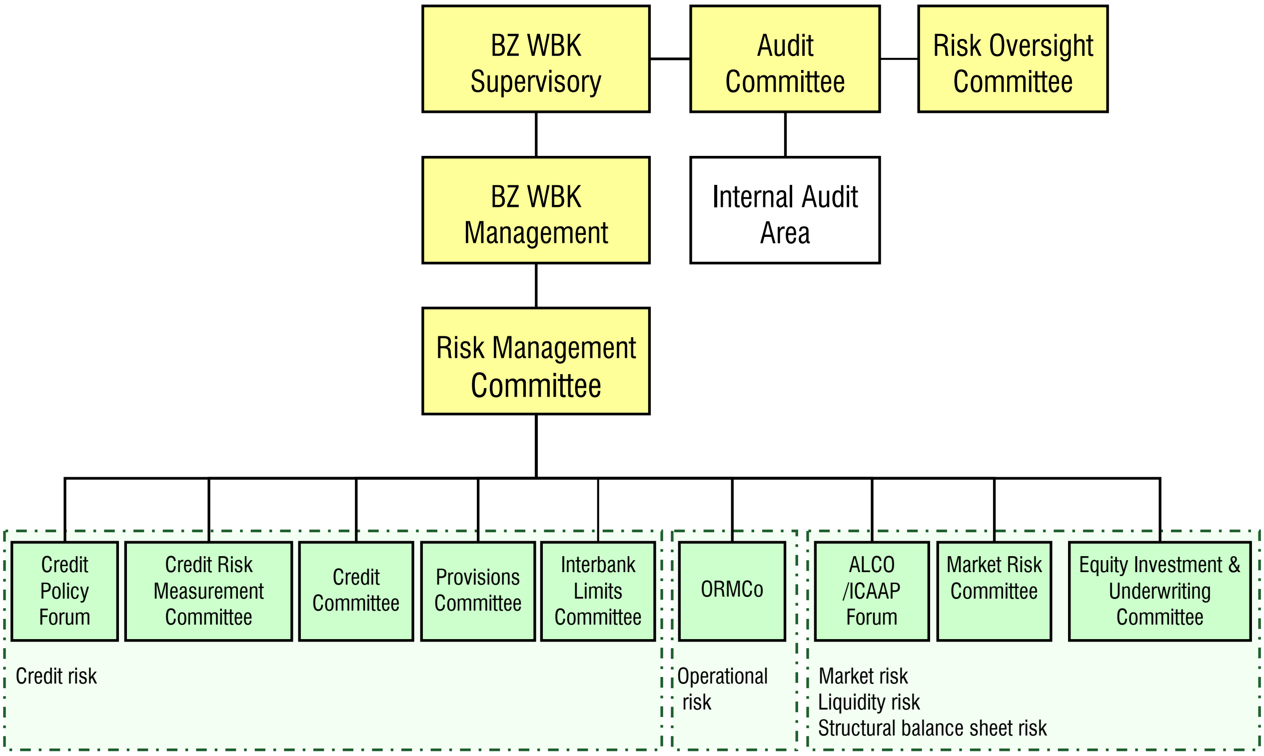
Market Risk Committee oversees the risk management and the policies on the market risk in BZ WBK Group, including the strategies on treasury and brokerage activities and monitors relevant parameters on market risk.

Equity Investment and Underwriting Committee accepts transactions on commercial equity investments and underwriting transaction and approves the policies on management and oversight of investment risk in BZ WBK Group.

Interbank Limits Committee formulates and recommends to the Management Board the policies on the credit risk arising from interbank activity. The Committee approves the maximum tenors and maximum exposure limits for the interbank market.

ALCO/ICAAP Forum supervises the policies on capital management and liquidity risk. The tasks related to capital strategy are executed by the ALCO sub-committee. When complemented with other representatives, the ALCO plays the role of ICAAP Forum. As ICAAP Forum the Committee is responsible for the internal capital adequacy assessment process (ICAAP) and supervision of the ICAAP process across BZ WBK Group.

The below picture presents the corporate governance in relation to the risk management process.



Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee.

In BZ WBK Group the level of acceptable risk has been defined in the form of quantitative limits constituting the „Risk Appetite Statement", approved by the Management Board and accepted by the Supervisory Board. Based on the global limits, adequate watch limits are defined as well as the risk management policies.

BZ WBK Group is exposed to a variety of risks impacting the strategic goals. The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the BZ WBK Group are the following:

- credit risk,
- concentration risk,
- market risk,
- liquidity risk,
- operational risk,
- compliance risk.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

Credit risk

BZ WBK Group'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 that a borrower will fail 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 in BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank 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 Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models based on EVA (Economic Value Added) are used for all significant credit portfolios.

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 2010 the Group has taken the following actions:

- the credit risk management structure has been reviewed resulting in implementation of the relevant changes enhancing the process and providing the better effectiveness of the risk oversight. The outcome of the review is the document „Responsible Lending" – governing the rules of the credit process and credit risk management in BZ WBK Group,
- continuously verifying its approach to credit risk management by adopting methods of risk assessments to new parameters and adjusting existing credit policies,
- the Group implemented new and refitted application models for credit risk assessment and models supporting collection and monitoring processes for cash loans,
- the Group reviewed the requirements of the Recommendation T (issued by the Polish Financial Supervision Authority to improve the quality of retail credit risk management in Poland) and implemented necessary changes to the credit risk processes and credit risk assessment to provide solutions that optimally address the regulatory recommendations,
- the prudential management of the property loan portfolio has been continued, orientated at strict monitoring of credit risk limits and appropriate credit quality of the portfolio.

Credit Policy Forum

The credit risk oversight in BZ WBK Group is performed by Credit Policy Forum (CPF). Its key responsibilities comprise development and approval of the best sectoral practice, analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. Based on the current strategic goals of the Bank and the need to enhance the management processes, three sub-committees were established to be responsible for key customer segments: retail segment, Small-and Medium Entities segment and business and corporate segment.

Credit Risk Measurement Committee

The oversight of the credit risk models has been discharged to the newly created Credit Risk Measurement Committee. The Committee is responsible for the approval of the methodology of setting the credit risk limits, development of the rating systems, approval of the methodology and results of the credit risk stress tests and the approval of the EVA (Economic Value Added) methodology.

Credit Division

The main goal of the Credit Division is the effective management of the credit risk, aimed at providing robust and efficient credit process and the highest quality and growth of the loan portfolio. Within the Credit Division there are separate units responsible for creation and implementation of credit risk policies, ongoing monitoring and reporting of the loan portfolio quality, units responsible for credit grading and high-risk loans units.

Risk Management Division

Risk Management Division actively drives the Group's risk management strategy. The main goal of the Risk Management Division in relation to credit risk is to propose optimal solutions supporting realisation of the Group's goals through delivery of improved analyses, internal models and decision tools.

Credit Policies

Credit policies refer to particular business segments, loan portfolios, banking products and 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 the level acceptable to the Group (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates the credit policies on a regular basis, aiming to bring these guidelines up to date with the Group's strategy, current macroeconomic situation, changes in legal framework and regulatory requirements.

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 within the business segments. 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.

The BZ WBK Group continually strives to ensure best quality credit service to meet the borrowers' expectations and satisfy 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.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the KNF requirements, International Accounting Standards/ International Financial Reporting Standards, and best market practices.

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, mortgage loans, property, cash loans, credit cards and retail overdrafts.

The Group runs a systematic verification of credit grading pursuant to the rules described in the Credit Manuals. Additionally, for selected models automated process of credit grade verification is carried out based on the number of overdue days or behavioural features analysis. Credit grade may also be verified at subsequent credit assessments.

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.

Collateral

The BZ WBK Group is operating the collateral process that appoints the Securities Centre as the unit responsible for proper functioning of the collateral management processes.

The Securities Centre is responsible for providing and monitoring of the collateral that are accurate and compliant with the credit policy for each business segment, for assuring that BZ WBK Group has consistent internal procedures on collateral management and efficient processes on collateral providing, monitoring and release in BZ WBK Group.

Additionally, the Securities Centre supports the credit units – in terms of collateral management – in the credit decisioning process and creation of the credit policies. The Securities Centre collects data on collateral and provides the relevant management information.

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; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee);

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; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee);

Collateral management process

Before credit decision is approved, the Securities Centre is responsible for assessment of the collateral quality:

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Securities Centre actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- registering and verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

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.

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 BZ WBK Group'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.

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 evidences of impairment were 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 Group's 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.

The tables below present BZ WBK Group's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2010	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	740 716	-	-	-
	50% - 70%	122 328	-	-	-
	70% - 85%	67 486	-	-	-
	over 85%	70 445	-	-	-
Gross amount		**1 000 975**	**-**	**-**	**-**
Allowance for impairment		(352 554)	-	-	-
Net amount		**648 421**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	566 455	-	-	-
	50% - 70%	243 799	-	-	-
	70% - 85%	413 125	-	-	-
	over 85%	108 458	-	-	-
Gross amount		**1 331 837**	**-**	**-**	**-**
Allowance for impairment		(676 262)	-	-	-
Net amount		**655 575**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	12 519 938	619 655	13 395 355	2 239 055
	0,10% - 0,30%	6 173 343	-	-	-
	0,30% - 0,65%	3 623 313	-	-	-
	over 0,65%	9 472 201	-	-	-
Gross amount		**31 788 795**	**619 655**	**13 395 355**	**2 239 055**
Allowance for impairment		(337 976)	-	-	-
Net amount		**31 450 819**	**619 655**	**13 395 355**	**2 239 055**
Other receivables		**83 481**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		5 639 854	-	-	-
Guarantees		1 186 607	-	-	-
Nominal value of derivatives - purchased		-	-	-	42 291 542
Allowance for impairment		(17 217)	-	-	-
Off-balance sheet exposures - total		**6 809 244**	**-**	**-**	**42 291 542**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 21

31.12.2009	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	709 928	-	-	-
	50% - 70%	133 609	-	-	-
	70% - 85%	15 903	-	-	-
	over 85%	83 929	-	-	-
Gross amount		**943 369**	**-**	**-**	**-**
Charge due to impairment losses		(307 410)	-	-	-
Net amount		**635 959**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	563 703	-	-	-
	50% - 70%	120 197	-	-	-
	70% - 85%	212 527	-	-	-
	over 85%	117 627	-	-	-
Gross amount		**1 014 054**	**-**	**-**	**-**
Charge due to impairment losses		(458 700)	-	-	-
Net amount		**555 354**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	8 379 136	664 211	13 292 572	1 344 809
	0,10% - 0,30%	8 365 331	-	-	-
	0,30% - 0,65%	5 163 227	-	-	-
	over 0,65%	11 763 337	-	-	-
Gross amount		**33 671 031**	**664 211**	**13 292 572**	**1 344 809**
Charge due to impairment losses		(373 566)	-	-	-
Net amount		**33 297 465**	**664 211**	**13 292 572**	**1 344 809**
Other receivables		**80 735**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		6 359 012	-	-	-
Guarantees		877 841	-	-	-
Nominal value of derivatives - purchased		-	-	-	36 882 698
Allowance for impairment		(15 553)	-	-	-
Off-balance sheet exposures - total		**7 221 300**	**-**	**-**	**36 882 698**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 21

In thousands of PLN

31.12.2008	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	305 165	-	-	-
	50% - 70%	96 352	-	-	-
	70% - 85%	26 284	-	-	-
	over 85%	170 799	5 969	-	-
Gross amount		**598 600**	**5 969**	**-**	**-**
Charge due to impairment losses		(299 339)	(5 969)	-	-
Net amount		**299 261**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	147 395	-	-	-
	50% - 70%	73 444	-	-	-
	70% - 85%	109 216	-	-	-
	over 85%	108 522	-	-	-
Gross amount		**438 577**	**-**	**-**	**-**
Charge due to impairment losses		(271 774)	-	-	-
Net amount		**166 803**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	7 873 787	1 365 132	12 916 041	3 224 867
	0,10% - 0,30%	9 678 028	-	-	-
	0,30% - 0,65%	6 999 737	-	-	-
	over 0,65%	9 930 962	-	-	-
Gross amount		**34 482 514**	**1 365 132**	**12 916 041**	**3 224 867**
Charge due to impairment losses		(318 170)	-	-	-
Net amount		**34 164 344**	**1 365 132**	**12 916 041**	**3 224 867**
Other receivables		**506 205**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		9 538 323	-	-	-
Guarantees		904 124	-	-	-
Nominal value of derivatives - purchased		-	-	-	115 462 834
Allowance for impairment		(11 976)	-	-	-
Off-balance sheet exposures - total		**10 430 471**	**-**	**-**	**115 462 834**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 21

IBNR portfolio

	Loans and advances to customers		
	31.12.2010	31.12.2009	31.12.2008
Non-past due	**30 590 223**	**32 294 289**	**33 175 381**
Past-due	**1 198 572**	**1 376 742**	**1 307 133**
1-30 days	875 444	1 048 180	1 068 200
31-60 days	252 541	243 283	180 260
61-90 days	65 678	81 813	55 101
> 90 days	4 908	3 466	3 572
Gross amount	**31 788 795**	**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 2 079 271 k , as at 31.12.2009 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		
		31.12.2010	31.12.2009	31.12.2008	31.12.2010	31.12.2009	31.12.2008
Individual allowance for impairment							
	up to 50%	(160 538)	(132 917)	(51 924)	-	-	-
	50% - 70%	(69 707)	(79 295)	(56 840)	-	-	-
	70% - 85%	(52 562)	(12 692)	(20 942)	-	-	-
	over 85%	(69 747)	(82 506)	(169 633)	-	-	(5 969)
Total individual allowance for impairment		**(352 554)**	**(307 410)**	**(299 339)**	**-**	**-**	**(5 969)**
Collective allowance for impairment							
	up to 50%	(102 986)	(112 501)	(33 345)	-	-	-
	50% - 70%	(147 244)	(70 547)	(44 336)	-	-	-
	70% - 85%	(318 422)	(163 156)	(87 211)	-	-	-
	over 85%	(107 610)	(112 496)	(106 882)	-	-	-
Total collective allowances for impairment		**(676 262)**	**(458 700)**	**(271 774)**	**-**	**-**	**-**
IBNR							
	up to 0,10%	(5 959)	(5 643)	(4 346)	-	-	-
	0,10%-0,30%	(12 084)	(14 177)	(19 795)	-	-	-
	0,30%-0,65%	(16 035)	(22 274)	(32 718)	-	-	-
	over 0,65%	(303 898)	(331 472)	(261 311)	-	-	-
Total IBNR		**(337 976)**	**(373 566)**	**(318 170)**	**-**	**-**	**-**
Total allowance for impairment		**(1 366 792)**	**(1 139 676)**	**(889 283)**	**-**	**-**	**(5 969)**

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 31.12.2010, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 1 249 617 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 1 562 021 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 2010, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

As at 31 December 2010, the Group had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 2 entities which accounted for 23.7% of own funds (against the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2010 (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	822 567	806 239	16 328
68	REAL ESTATE SERVICES	658 703	592 676	66 027
64	FINANCIAL SERVICES	377 810	316 646	61 164
41	CONSTRUCTION	344 273	300 480	43 793
68	REAL ESTATE SERVICES	297 815	297 815	-
68	REAL ESTATE SERVICES	278 828	228 903	49 925
41	CONSTRUCTION	262 800	250 800	12 000
68	REAL ESTATE SERVICES	248 380	232 880	15 500
41	CONSTRUCTION	241 578	241 578	-
68	REAL ESTATE SERVICES	238 363	238 363	-
68	REAL ESTATE SERVICES	225 097	225 097	-
71	INDUSTRIAL CONSTRUCTION	223 917	47 515	176 402
68	REAL ESTATE SERVICES	222 554	211 445	11 109
68	REAL ESTATE SERVICES	218 393	105 770	112 623
41	CONSTRUCTION	207 487	200 479	7 008
68	REAL ESTATE SERVICES	204 571	204 571	-
68	REAL ESTATE SERVICES	183 197	166 768	16 429
41	CONSTRUCTION	176 885	133 338	43 547
16	MANUFACTURING	174 096	162 215	11 881
68	REAL ESTATE SERVICES	173 462	88 830	84 632
Total gross exposure		**5 780 776**	**5 052 408**	**728 368**

A list of the 20 largest borrowers of Bank Zachodni WBK SA 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**

A list of the 20 largest borrowers of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2008 (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	778 558	730 891	47 667
68	REAL ESTATE SERVICES	739 376	664 461	74 915
68	REAL ESTATE SERVICES	704 508	293 348	411 160
68	REAL ESTATE SERVICES	485 726	266 084	219 642
41	CONSTRUCTION	367 666	181 266	186 400
41	CONSTRUCTION	363 697	286 947	76 750
68	REAL ESTATE SERVICES	325 527	212 679	112 848
68	REAL ESTATE SERVICES	313 764	169 548	144 216
11	BEVERAGE PRODUCTION	310 000	213 586	96 414
68	REAL ESTATE SERVICES	305 127	289 627	15 500
68	REAL ESTATE SERVICES	301 923	-	301 923
16	PRODUCTION	281 050	121 837	159 213
41	CONSTRUCTION	271 206	158 247	112 959
68	REAL ESTATE SERVICES	270 792	194 217	76 575
68	REAL ESTATE SERVICES	262 785	166 189	96 596
41	CONSTRUCTION	237 153	237 153	-
43	SPECIALISED CONSTRUCTION	220 944	166 085	54 859
41	CONSTRUCTION	211 950	189 467	22 483
68	REAL ESTATE SERVICES	209 049	147 268	61 781
70	MANAGEMENT SERVICES	197 517	174 214	23 303
Total gross exposure		**7 158 318**	**4 863 114**	**2 295 204**

Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. 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 31.12.2010, the highest concentration level was recorded in the "property" sector (21% of the BZ WBK Group exposure), "manufacturing" (12%) and "distribution" (11%).

Groups of PKD by industries:

	Industry	Exposure		
		31.12.2010	31.12.2009	31.12.2008
	Property	7 165 978	7 235 227	6 912 714
	Manufacturing	4 270 302	4 689 363	5 366 549
	Distribution	3 904 839	4 811 392	4 937 385
	Construction	3 278 765	3 833 393	4 122 842
	Agriculture	880 718	777 504	1 084 463
	Transportation	659 358	811 084	933 419
	Financial sector	530 198	649 046	877 210
	Energy	304 168	382 949	358 023
	Other industries	1 678 263	1 760 346	1 612 444
A	**Total Business Loans**	**22 672 589**	**24 950 304**	**26 205 049**
B	**Retail (including mortgage loans)**	**11 449 018**	**10 678 150**	**9 314 642**
A+B	**BZ WBK Group portfolio**	**34 121 607**	**35 628 454**	**35 519 691**
C	**Other receivables (commercial bonds, reverse repo)**	**83 481**	**80 735**	**506 205**
A+B+C	**Total BZ WBK Group**	**34 205 088**	**35 709 189**	**36 025 896**

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).

BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally the Group undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are supervised by Market Risk Committee except for structured risk positions managed by ALCO.

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.

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. 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 of the Bank are transferred on to Treasury Division and managed centrally. Open positions exposed to interest rate risk and foreign exchange risk of BZ WBK Group subsidiaries are closed with the Bank, with the exception of the BZ WBK Brokerage House, which has been granted risk limits due to the scale and character of its activity.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the BZ WBK Group, a special debt securities portfolio was established funded by a pool of net interest rate insensitive liabilities. Any decisions relating to the value or structure of this portfolio are taken by ALCO. Treasury Division as a unit managing Bank's centralized market risk exposure has the responsibility for the funding and liquidity management as well as executing deals on behalf of ALCO. For the above reason the market risk policies delegate market risk limits to the bank director in charge of Treasury Division. This limit is established in accordance with Treasury business strategy and approved at Market Risk Committee.

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.

The structure of oversight of the market risk management in BZ WBK Group is supplemented by the independent monitoring performed by the Market Risk Monitoring Team in Risk Management Division. The Team is responsible for setting the market risk policy, proposing the methodology for risk measurement and stress testing, validation of market risk models and consistency of risk management process across BZ WBK Group.

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

BZWBK Group uses several risk measures to assets market risk exposure : Value at Risk (VaR), sensitivity measures and stress testing.

VaR is determined by means of a statistical modelling process. VaR is a difference between the market value of positions calculated using the current market prices/rates and the market values based on the most severe movements in market rates during the historic observation period. 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. BZWBK 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 BZWBK 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 BZWBK'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 entering into transactions in the Wholesale markets so as to manage the overall interest rate risk profile according to the desired risk strategy and in compliance with allocated risk limits.

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 global limit of BZ WBK Group.

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 holding 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

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. BZWBK's banking book consists of branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

The table below presents risk levels in 2010, 2009 and as at end 2008. (both measures assume 1 month holding time horizon):

Interest rate risk	VaR			Stress scenario		
1 month holding period	**31.12.2010**	**31.12.2009**	**31.12.2008**	**31.12.2010**	**31.12.2009**	**31.12.2008**
Average	31 098	30 520	20 995	145 635	137 162	142 177
High	40 360	39 996	28 596	188 689	185 874	177 608
Low	23 066	17 563	12 698	96 026	82 710	101 898
as at end of the period	**27 777**	**36 458**	**20 059**	**144 413**	**142 906**	**102 707**

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 59 405 k (EUR 15 000 k) at the end of 2010.

The tables below present the sensitivity of trading and banking portfolios at the end of December 2010 and comparable periods:

Interest Rate Risk (PLN k)	Sensitivity 31-12-2010		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	11	(80)	(69)
3m-1Y	(71)	82	11
1Y-5Y	(3)	(363)	(366)
over 5Y	(6)	(33)	(39)
Total	**(69)**	**(394)**	**(463)**

Interest Rate Risk (PLN k)	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 (PLN k)	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)**

Structural balance sheet risk

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 supervisory role over that risk is 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), business NIRIL (funding of non interest bearing liabilities). The NIRIL Portfolios consists of safe and liquid assets (also treated as liquidity reserve) and interest rate derivatives. 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 portfolios at the end of December 2010, 2009 and 2008:

Interest Rate Risk (PLN k)	Sensitivity 31-12-2010		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0-3m	14	-	14
3m-1Y	(48)	(43)	(91)
1Y-5Y	(873)	(821)	(1 694)
over 5Y	(120)	(805)	(925)
Total	**(1 027)**	**(1 669)**	**(2 696)**

Interest Rate Risk (PLN k)	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 (PLN k)	Sensitivity 31-12-2008		
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)**

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 it's 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 on its FX options portfolio.

Open positions of subsidiaries – excluding BZ WBK Brokerage House – are negligible and are not included in the daily risk assessment. Brokerage House has been granted an FX VaR limit, used for managing the open position linked to the market maker activity.

The table below presents risk levels in December 2010 and 2009 and December 2008 (data for both measures are scaled to 1 month holding period to make it comparable):

FX risk	VaR			Stress scenario		
1 month holding period	**31.12.2010**	**31.12.2009**	**31.12.2008**	**31.12.2010**	**31.12.2009**	**31.12.2008**
Average	1 807	2 030	897	12 936	13 186	4 370
High	5 076	4 440	3 240	23 409	27 182	14 706
Low	426	435	160	2 938	3 388	842
as at end of the period	**1 842**	**2 163**	**886**	**15 048**	**14 725**	**6 228**

The Treasury Division operates within an VaR risk limit, which amounted to PLN 5 940 k (EUR 1 500 k).

Fx Balance Sheet

In 2010, the profile BZWBK Group's FX loan assets and deposit liabilities remained relatively static. The FX gap is funded by the Treasury Division through the use of foreign exchange swaps and cross currency swaps. Additionally during 2010, the bank sourced term euro funding through a subordinated debt issue and through a financing facility designed to support lending to the SME sector. A key objective that was achieved during 2010 was to extend the maturity profile of the Group's fx funding transactions. Additional limits were approved at ALCO to monitor the impact of this change in funding strategy.

The tables below present currency breakdown of selected items of consolidated statement of financial position at the end of December 2010, 2009 and 2008.

31.12.2010	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	2 383 892	87 140	5 222	58 209	2 534 463
Loans and advances to banks	62 685	471 401	22 125	63 444	619 655
Loans and advances to customers	21 749 472	8 144 237	2 346 853	597 734	32 838 296
Investment securities	12 825 870	417 693	-	151 792	13 395 355
Selected assets	**37 021 919**	**9 120 471**	**2 374 200**	**871 179**	**49 387 769**
LIABILITIES					
Deposits from banks	1 989 506	377 202	48 495	110 879	2 526 082
Deposits from customers	37 187 256	3 689 682	30 330	1 063 186	41 970 454
Subordinated liabilities	-	395 230	-	-	395 230
Selected liabilities	**39 176 762**	**4 462 114**	**78 825**	**1 174 065**	**44 891 766**

31.12.2009	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	2 486 441	101 876	4 785	67 556	2 660 658
Loans and advances to banks	179 505	372 346	26 909	85 451	664 211
Loans and advances to customers	22 437 267	9 245 367	2 282 271	604 608	34 569 513
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**

31.12.2008	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	2 798 697	256 638	7 954	114 818	3 178 107
Loans and advances to banks	1 086 897	135 771	2 982	139 482	1 365 132
Loans and advances to customers	22 834 239	9 086 764	2 425 021	790 589	35 136 613
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 bank	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**

Equity investment risk

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 using a Value at Risk model based on the historical method. The method uses a distribution of 250 changes in the current portfolio value. Variability is defined as a respective percentile of the distribution. The historical method is supplemented by the stress tests.

The process of managing the market risk in BH is supervised by the BZ WBK Group Market Risk Committee. 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 year 2010 and comparable periods:

Equity risk	VaR			Stress scenario		
1 day holding period	**31.12.2010**	**31.12.2009**	**31.12.2008**	**31.12.2010**	**31.12.2009**	**31.12.2008**
Average	508	1 030	1 172	794	2 144	2 076
High	2 614	5 168	3 217	4 459	12 282	6 784
Low	31	49	43	50	63	55
as at end of the period	**556**	**630**	**143**	**850**	**696**	**544**

Brokerage House operates within an operational limit PLN 6 000 k. During the reporting period no excesses above the VaR limit were observed.

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 addition, the Policy's aim is to ensure an adequate structure of funding the growing scale of BZWBK Group 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.

Day-to-day management of current (up to 7 days) and short-term liquidity (up to 30 days) is delegated to the Treasury Division. The responsibility for mid- (above 1 month) and long-term (above 1 year) liquidity management rests jointly with the Head of Finance Division and the Head of Treasury Division. Assets and Liabilities Management Department in the Finance Division are responsible for developing and maintaining appropriate strategies and also for liquidity risk measurement and reporting.

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.

Independently, parallel to own quantative methods, liquidity is measured in accordance with Resolution no. 386/2008 of KNF (Polish Financial Supervision Authority) on liquidity standards applying to banks.

Liquidity measurement is supplemented with liquidity stress tests, which are used to assess the exposure to liquidity risk and maximum funding requirement if the assumed scenarios materialise over a medium and longer term.

Contractual gap analysis based on remaining time maturity as at 31.12.2010, 31.12.2009 and 31.12.2008:

31.12.2010	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	2 534 463	-	-	-	-	-	-	2 534 463
Loans and advances to banks	609 318	-	1 557	8 780	-	-	-	619 655
Financial assets held for trading	1 237 429	65 950	422 283	294 879	82 013	88 176	48 325	2 239 055
Loans and advances to customers	2 975 063	2 512 312	6 987 588	7 922 135	5 392 082	8 415 908	(1 366 792)	32 838 296
Investment securities	-	-	2 663 934	5 040 335	2 506 002	2 505 004	680 080	13 395 355
Other items	-	-	-	-	-	-	1 527 047	1 527 047
Long position	**7 356 273**	**2 578 262**	**10 075 362**	**13 266 129**	**7 980 097**	**11 009 088**	**888 660**	**53 153 871**
Deposits from Central Bank and banks	2 167 937	49 366	213 001	95 778	-	-	-	2 526 082
Financial liabilities held for trading	35 197	64 532	95 007	188 412	92 036	103 427	-	578 611
Deposits from customers	28 498 162	5 399 918	6 719 536	907 123	49 667	396 048	-	41 970 454
Subordinated liabilities	3 160	-	-	-	-	392 070	-	395 230
Other items	-	-	-	-	-	-	7 683 494	7 683 494
Short position	**30 704 456**	**5 513 816**	**7 027 544**	**1 191 313**	**141 703**	**891 545**	**7 683 494**	**53 153 871**
Gap-balance sheet	**(23 348 183)**	**(2 935 554)**	**3 047 818**	**12 074 816**	**7 838 394**	**10 117 543**	**(6 794 834)**	
Contingent liabilities- sanctioned								
Financing related	196 052	576 473	3 271 659	784 196	234 340	577 134	(16 151)	**5 623 703**
Guarantees	17 900	110 042	227 385	710 670	81 650	38 960	(1 066)	**1 185 541**
Derivatives settled in gross terms								
Inflows	2 371 246	3 876 195	2 965 534	1 297 145	1 549 361	1 287 992	-	**13 347 473**
Outflows	2 382 221	3 861 964	2 953 582	1 311 178	1 573 684	1 379 910	-	**13 462 539**
Gap – off-balance sheet	**(224 927)**	**(672 284)**	**(3 487 092)**	**(1 508 899)**	**(340 313)**	**(708 012)**	**17 217**	

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 banks	654 932	-	-	9 279	-	-	-	664 211
Financial assets held for trading	487 904	138 818	282 993	182 229	115 203	90 995	46 667	1 344 809
Loans and advances to customers	2 464 581	2 259 389	8 203 478	9 083 657	5 159 576	8 538 508	(1 139 676)	34 569 513
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	-	-	-	-	-	-	1 533 262	1 533 262
Long position	**6 317 951**	**4 141 661**	**10 076 209**	**13 755 100**	**8 046 292**	**10 622 143**	**1 105 669**	**54 065 025**
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	111 817	341 767	110 481	60 952	58 222	-	736 050
Deposits from customers	27 157 382	8 182 487	4 732 946	1 033 820	113 948	2 288	-	41 222 871
Other items	-	-	-	-	-	-	6 756 120	6 756 120
Short position	**29 478 218**	**9 402 375**	**6 669 078**	**1 501 554**	**187 186**	**70 494**	**6 756 120**	**54 065 025**
Gap-balance sheet	**(23 160 267)**	**(5 260 714)**	**3 407 131**	**12 253 546**	**7 859 106**	**10 551 649**	**(5 650 451)**	
Contingent liabilities- sanctioned								
Financing related	475 089	633 233	3 740 387	863 509	123 898	522 896	(13 909)	**6 345 103**
Guarantees	38 468	102 024	224 127	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**	

In thousands of PLN

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 banks	1 215 222	141 342	-	8 568	-	-	-	1 365 132
Financial liabilities 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	2 021 597	2 369 861	7 818 786	9 408 624	5 037 030	9 369 998	(889 283)	35 136 613
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	286 633	665 912	3 736 052	2 870 291	649 283	1 330 152	(9 569)	**9 528 754**
Guarantees	62 889	120 909	264 372	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**	

Liquidity Policy Report- Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31-12-2010			
Qualifying Liquid Assets	12 958 174	998 000	271 281
Treasury inflows	1 094 198	1 162 154	9 770 282
Other inflows	1 789 452	276 636	32 802 281
Treasury outflows	(1 417 403)	(2 122 502)	(10 205 075)
Other outflows	(3 802 040)	(271 089)	(43 304 349)
GAP	**10 622 381**	**43 199**	**(10 665 580)**
Cumulative GAP	**10 622 381**	**10 665 580**	**-**

Liquidity risk	<1W	<1M	>1M
31-12-2009			
Qualifying 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)**
Cumulative GAP	**7 885 037**	**8 176 860**	**-**

Liquidity risk	<1W	<1M	>1M
31-12-2008			
Qualifying 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	(5 284 242)	(516 776)	(42 431 390)
GAP	**6 940 744**	**(303 116)**	**(6 637 628)**
Cumulative GAP	**6 940 744**	**6 637 628**	**-**

At the end of 2010 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 2010 and in comparable periods all the regulatory measures have been kept at the required levels.

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.

In order to manage operational risk, Bank Zachodni WBK Group maintains an operational risk policy and operational risk framework, both of which are subject to regular review. 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 Risk Management Committee.

BZ WBK Information Security Management System has been certified by ISO 27001:2005.

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 because of unavailability of systems, locations and 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 and losses, risk indicators, operational risk self-assessment.

- Insurance

  The bank’s insurance cover includes the following insurance lines: Bankers’ Bond, Computer Crime and Officers & Directors.

Legal & compliance risk

Legal and 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 Group as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk Identification and Assessment
Within BZ WBK Group several bodies have been assigned to manage legal and regulatory (compliance) risk.

The scope of the Legal and Compliance Division responsibilities relates to “conduct of business’” compliance obligations, including protection of the clients’ rights, 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 and reporting requirements to Financial Division and prudential regulation to Financial Division and Risk Management Division in respective aspects.

Every six months, the BZWBK Compliance Area coordinates assessment process of the key legal and 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 and 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.

Risk management and mitigation
The Bank Management Board adopted a policy statement on compliance with legal and 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. In particular, the compliance unit major responsibilities include (with the provision of the specific responsibility of Finance Division, Risk Management Division and HR Division):

- independent identification, assessment and monitoring of compliance risk the Group is exposed to,
- providing advice and reporting to the Risk Management Committee, Bank's Management Board and 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 and on appropriate policies and procedures to mitigate this risk.

Legal and regulatory (compliance) risk management is coordinated by the Legal and Compliance Division reporting to the Management Board Member. 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, regulatory obligations and best practices. Monitoring can be undertaken by dedicated Risk and 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 Legal and Compliance Division. The implementation of these action plans is monitored by the Legal and Compliance Division.

5. 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 defines 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 ALCO/ICAAP 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. Under the Banking Law, solvency ratio may not be lower than 8%, both at the bank and the Group level.

The Group'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 (the regulator may apply an additional requirement, as part of SREP process of Pillar 2).

Regulatory Capital

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. BZ WBK uses following methods with regard to particular risks:

- credit risk - the standardised approach;
- operational risk –the standardised approach;
- market risk - 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 2010, 31 December 2009 and 31 December 2008:

		31.12.2010	31.12.2009	31.12.2008
I	**Total Capital requirement**	**3 169 381**	**3 332 447**	**3 532 896**
II	**Own funds after reductions**	**6 248 086**	**5 402 183**	**4 743 569**
	CAD [II/(I*12.5)]	**15,77%**	**12,97%**	**10,74%**

Internal Capital

The Group defines internal capital as the capital required to safeguard the Group 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 Group 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 Group 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 Group'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 group's business.

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.

Subordinated liabilities

Subordinated liabilities include the amount of issued subordinated debt securities with 10-year maturity term, floating interest rate, fully paid by European Bank of Reconstruction and Development on 5th August 2010.

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group's supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 000 k have been included in the calculation of the Group's adequacy ratio.

Detailed information on subordinated liabilities is presented in Note 35.

6. Net interest income

Interest income	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Loans and advances to enterprises	1 173 137	1 286 163	1 403 175
Loans and advances to individuals, of which:	961 258	919 215	745 966
Home mortgage loans	*299 295*	*285 682*	*302 790*
Debt securities incl.:	750 253	739 254	602 740
Investment portfolio held to maturity	*362 229*	*376 940*	*90 252*
Investment portfolio available for sale	*302 158*	*316 303*	*487 932*
Trading portfolio	*85 866*	*46 011*	*24 556*
Leasing agreements	172 702	192 085	226 053
Loans and advances to banks	60 383	71 880	174 861
Other from public sector	17 129	18 860	32 296
Reverse repo transactions	7 373	14 951	42 907
Interest recorded on hedging IRS	(11 934)	(16 320)	4 126
Total	**3 130 301**	**3 226 088**	**3 232 124**
Interest expense	**01.01.2010 -31.12.2010**	**01.01.2009 -31.12.2009**	**01.01.2008 -31.12.2008**
Deposits from individuals	(779 571)	(976 496)	(798 347)
Deposits from enterprises	(321 955)	(375 410)	(401 981)
Repo transactions	(95 976)	(131 037)	(107 823)
Public sector	(56 836)	(94 693)	(98 338)
Deposits from banks	(45 608)	(82 433)	(174 809)
Debt securities in issue	(8 180)	(2 828)	(15 721)
Total	**(1 308 126)**	**(1 662 897)**	**(1 597 019)**
Net interest income	**1 822 175**	**1 563 191**	**1 635 105**

As at 31.12.2010 net interest income includes interest on impaired loans of PLN 110 944 k (as at 31.12.2009 - PLN 92 356 k, as at 31.12.2008 - PLN 58 117 k)

7. Net fee and commission income

Fee and commission income	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
eBusiness & payments	357 483	370 585	313 145
Asset management fees	336 064	277 283	429 135
Current accounts and money transfer	251 214	250 732	232 504
Foreign exchange commissions	201 745	226 534	235 014
Brokerage commissions	125 993	123 076	126 932
Credit commissions (including factoring)	104 764	101 429	80 643
Insurance commissions	70 339	74 434	74 737
Credit cards	63 626	68 250	54 733
Distribution fees	14 463	18 958	36 036
Off-balance sheet guarantee commissions	11 258	11 767	12 550
Issue arrangement	11 220	6 147	8 557
Finance lease commissions	3 841	3 729	800
Other commissions	3 248	1 489	1 883
Total	**1 555 258**	**1 534 413**	**1 606 669**
Fee and commission expense	**01.01.2010 -31.12.2010**	**01.01.2009 -31.12.2009**	**01.01.2008 -31.12.2008**
eBusiness & payments	(77 197)	(97 450)	(76 470)
Distribution fees	(42 939)	(32 423)	(53 147)
Brokerage commissions	(24 362)	(24 558)	(20 704)
Commissions paid to credit agents	(23 217)	(17 708)	(25 829)
Asset management fees and other costs	(10 447)	(17 048)	(25 816)
Credit cards	(7 597)	(7 084)	(8 054)
Finance lease commissions	(6 848)	(6 860)	(6 593)
Insurance commissions	-	-	(2 640)
Other	(17 990)	(16 970)	(13 601)
Total	**(210 597)**	**(220 101)**	**(232 854)**
Net fee and commission income	**1 344 661**	**1 314 312**	**1 373 815**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 183 488 k (31.12.2009: 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 (37 662) k (31.12.2009: 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.

8. Dividend income

Dividend income	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Dividends from investment portfolio entities	53 293	94 271	68 249
Dividends from trading portfolio entities	1 221	2 321	2 057
Total	**54 514**	**96 592**	**70 306**

9. Net trading income and revaluation

Net trading income and revaluation	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Profit on interbank FX transactions	111 398	151 481	59 177
Profit/(loss) on derivative instruments	109 221	73 951	(40 875)
Other FX related income	27 275	31 274	22 993
Profit on market maker activity	9 736	11 046	9 298
Profit on debt instruments	1 101	2 504	2 209
Total	**258 731**	**270 256**	**52 802**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 5 994 k for 2010 and adjustments of derivatives resulting from counterparty risk in the amount of PLN (28 843) k for 2009 and PLN (80 996) k for 2008.

In 2010, Bank Zachodni WBK S.A. revised the spreads adopted for mark-to-market valuation of CIRS with a view to making fair value of these derivatives more accurate. The total fair value adjustment to these derivatives was PLN (14 469) k at the end of the reporting period. These instruments are a source of funding net FX assets 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.

10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Profit on equity shares	6 516	3 561	67 196
Profit on debt securities	5 657	(7 223)	(11 735)
Charge due to impairment losses	(48)	-	(110)
Total profit (losses) on financial instruments	**12 125**	**(3 662)**	**55 351**
Change in fair value of hedging instruments	(192)	17 443	(34 388)
Change in fair value of underlying hedged positions	475	(19 866)	37 189
Total profit (losses) on hedging and hedged instruments	**283**	**(2 423)**	**2 801**
Total	**12 408**	**(6 085)**	**58 152**

11. Net gain/(loss) on sale of subsidiaries and associates

Net gain/(loss) on sale of subsidiaries and associates	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -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 49.

12. Other operating income

Other operating income	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Income on sale of services	12 072	13 425	32 926
Insurance indemnity received	8 499	2 280	1 957
Reimbursements of BGF charges	5 678	5 826	1 657
Release of provision for legal cases and other assets	4 051	12 959	9 440
Settlements of leasing agreements	1 340	1 070	470
Recovery of other receivables	1 149	3 981	2 610
Settlements of stock-exchange dealings	895	1 315	1 366
Bailiff reimbursement	702	825	860
Financing premium from EBRD	387	960	1 351
Other	12 566	7 061	15 362
Total	**47 339**	**49 702**	**67 999**

13. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Collective and individual impairment charge	(474 770)	(438 698)	(192 276)
Incurred but not reported losses charge	35 317	(56 297)	(176 061)
Recoveries of loans previously written off	20 370	17 458	10 205
Off balance sheet credit related items	(1 671)	(3 497)	(6 419)
Total	**(420 754)**	**(481 034)**	**(364 551)**

14. Employee costs

Employee costs	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Salaries and bonuses	(801 719)	(747 164)	(735 771)
Salary related costs	(117 524)	(113 200)	(104 310)
Staff benefits costs	(20 620)	(20 782)	(21 208)
Professional trainings	(14 176)	(9 474)	(24 062)
Retirement fund, holiday provisions and other employee-related costs	(4 955)	1 282	(11 041)
Total	**(958 994)**	**(889 338)**	**(896 392)**

15. General and administrative expenses

General and administrative expenses	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Maintenance and rentals of premises	(212 295)	(199 243)	(159 423)
IT systems costs	(87 113)	(88 395)	(89 943)
Marketing and representation	(79 083)	(73 618)	(105 275)
Postal and telecommunication costs	(47 104)	(53 349)	(54 402)
Other external services	(36 433)	(25 625)	(33 848)
Car, transport expenses, carriage of cash	(31 712)	(30 782)	(31 922)
Consulting fees	(27 949)	(18 734)	(37 617)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(24 548)	(26 369)	(16 429)
Stationery, cards, cheques etc.	(18 842)	(19 192)	(24 841)
Sundry taxes	(17 138)	(16 171)	(18 069)
Data transmission	(15 288)	(16 760)	(16 825)
Security costs	(13 677)	(12 324)	(12 511)
KIR, SWIFT settlements	(12 187)	(12 583)	(11 776)
Costs of repairs	(6 011)	(5 672)	(18 095)
Other	(12 218)	(10 161)	(19 806)
Total	**(641 598)**	**(608 978)**	**(650 782)**

16. Other operating expenses

Other operating expenses	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Charge of provisions for legal cases and other assets	(19 049)	(5 156)	(5 482)
Debt recovery costs	(3 726)	(2 739)	(1 540)
Donation paid	(1 748)	(1 564)	(1 645)
Costs of legal proceedings	(1 702)	(1 443)	(1 066)
Costs of purchased services	(1 567)	(1 255)	(283)
Paid compensations, penalties and fines	(358)	(999)	(1 536)
Losses from past-due receivables	(116)	(1 156)	(1 106)
Other	(8 720)	(8 663)	(14 912)
Total	**(36 986)**	**(22 975)**	**(27 570)**

17. Corporate income tax

Corporate income tax	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Current tax charge	(350 356)	(306 791)	(298 358)
Deferred tax	33 744	84 177	42 064
Total	**(316 612)**	**(222 614)**	**(256 294)**

Corporate total tax charge information	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Profit before tax	1 357 181	1 161 836	1 210 580
Tax rate	19%	19%	19%
Tax calculated at the tax rate	(257 864)	(220 749)	(230 010)
Non-deductible expenses	(6 798)	(6 392)	(12 464)
Sale of receivables	(31 294)	(11 872)	(6 958)
Non-taxable income (dividends)	10 090	17 867	397
Non-tax deductible bad debt provisions	(13 849)	(1 468)	(7 259)
Adjustment of deferred tax asset on interest on debt securities	(16 897)	-	-
Total income tax expense	**(316 612)**	**(222 614)**	**(256 294)**

Deferred tax recognised directly in equity	31.12.2010	31.12.2009	31.12.2008
The amount of deferred tax recognised directly in equity totaled:			
Relating to equity securities available-for-sale	(96 292)	(96 995)	(97 298)
Relating to debt securities available-for-sale	(4 653)	(1 166)	13 604
Relating to cash flow hedging activity	(473)	(450)	5 787
Total	**(101 418)**	**(98 611)**	**(77 907)**

18. Earnings per share

Net earnings per share (PLN/share)	01.01.2010 -31.12.2010	01.01.2009 -31.12.2009	01.01.2008 -31.12.2008
Profit attributable to ordinary shares	974 223	885 258	855 446
Weighted average number of ordinary shares	73 076 013	73 076 013	72 960 284
Net earnings per share (PLN)	**13,33**	**12,11**	**11,72**
Profit attributable to ordinary shares	974 223	885 258	855 446
Weighted average number of ordinary shares	73 076 013	73 076 013	72 960 284
Weighted average number of potential ordinary shares	272 003	311 397	298 400
Diluted earnings per share (PLN)	**13,28**	**12,06**	**11,68**

19. Cash and balances with central banks

Cash and balances with central banks	31.12.2010	31.12.2009	31.12.2008
Current accounts in central banks	1 712 907	1 697 190	2 004 861
Cash	821 556	963 465	1 173 243
Equivalents of cash	-	3	3
Total	**2 534 463**	**2 660 658**	**3 178 107**

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as a fixed percentage of the monthly average balance of the customers' deposits. As at 31.12.2010 the rate was 3.5%, as at 31.12.2009 - 3%, as at 31.12.2008 - 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

20. Loans and advances to banks

Loans and advances to banks	31.12.2010	31.12.2009	31.12.2008
Loans and advances	304 313	356 835	648 936
Sell-buy-back transaction	-	-	518 826
Current accounts	315 342	307 376	203 339
Gross receivables	**619 655**	**664 211**	**1 371 101**
Impairment write down	-	-	(5 969)
Total	**619 655**	**664 211**	**1 365 132**

Fair value of loans and advances to banks is presented in note 42.

Movements in impairment losses on receivables from banks	31.12.2010	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)**

21. 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	31.12.2010		31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**464 531**	**568 153**	**709 984**	**736 050**	**2 353 619**	**3 153 932**
Interest rate operations	**238 659**	**236 968**	**291 686**	**306 888**	**906 590**	**884 101**
Options	68	68	-	-	8	8
IRS	236 209	235 422	283 294	297 410	664 182	637 919
FRA	2 382	1 478	8 392	9 478	242 400	246 174
FX operations	**225 331**	**331 185**	**418 298**	**429 162**	**1 447 029**	**2 269 831**
CIRS	65 543	171 730	128 700	289 168	63 259	410 610
Forward	25 765	9 937	58 527	29 198	352 024	210 347
FX Swap	90 193	105 658	165 554	46 239	683 470	1 259 958
Spot	1 363	1 393	1 003	1 325	4 182	3 787
Options	42 467	42 467	64 514	63 232	344 094	385 129
Other	**541**	**-**	**-**	**-**	**-**	**-**
Stock options	541	-	-	-	-	-
Debt and equity securities	**1 774 524**	**-**	**634 825**	**-**	**871 248**	**-**
Debt securities	**1 726 289**	**-**	**587 097**	**-**	**868 605**	**-**
Government securities:	526 989	-	187 369	-	868 583	-
- bills	206 799	-	71 808	-	549 120	-
- bonds	320 190	-	115 561	-	319 463	-
Central Bank securities:	1 199 300	-	399 728	-	-	-
- bills	1 199 300	-	399 728	-	-	-
Other securities:	-	-	-	-	22	-
- bonds	-	-	-	-	22	-
Equity securities:	**48 235**	**-**	**47 728**	**-**	**2 643**	**-**
- listed	48 235	-	47 728	-	2 643	-
Short sale	**-**	**10 458**	**-**	**-**	**-**	**-**
Total financial assets/liabilities	**2 239 055**	**578 611**	**1 344 809**	**736 050**	**3 224 867**	**3 153 932**

In 2010, Bank Zachodni WBK S.A. revised the spreads adopted for mark-to-market valuation of CIRS with a view to making fair value of these derivatives more accurate. The total fair value adjustment to these derivatives was PLN (14 469) k at the end of the reporting period. These instruments are a source of funding net FX assets 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. Other significant judgment and key sources of estimation uncertainty have not been changed.

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (42 773) k as at 31.12.2010, PLN (95 915) k as at 31.12.2009 and PLN (80 996) k as at 31.12.2008.

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. As at 31.12.2010 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	31.12.2010	31.12.2009	31.12.2008
1.	**Term derivatives (hedging)**	**1 669 876**	**1 773 682**	**2 704 674**
a)	Single-currency interest rate swaps	975 320	573 682	1 854 674
b)	Macro cash flow hedge	694 556	1 200 000	850 000
2.	**Term derivatives (trading)**	**55 583 100**	**50 171 003**	**139 222 595**
a)	Interest rate operations	28 179 598	22 490 837	91 494 888
	Single-currency interest rate swaps	22 753 982	18 480 996	47 134 667
	FRA - purchased amounts	5 400 000	4 000 000	44 350 000
	Options	25 616	9 841	10 221
b)	FX operations	27 403 502	27 680 166	47 727 707
	FX swap – purchased amounts	7 840 597	7 219 044	14 425 872
	FX swap – sold amounts	7 839 580	7 094 264	14 983 627
	Forward- purchased amounts	1 008 250	1 345 501	3 696 166
	Forward- sold amounts	993 640	1 309 044	3 538 979
	Cross-currency interest rate swaps – purchased amounts	4 030 917	4 216 324	2 500 262
	Cross-currency interest rate swaps – sold amounts	4 161 578	4 393 303	2 849 197
	FX options -purchased	764 470	1 051 343	2 866 802
	FX options -sold	764 470	1 051 343	2 866 802
3.	**Currency transactions- spot**	**935 449**	**1 119 621**	**957 290**
	spot-purchased	467 710	559 649	478 844
	spot-sold	467 739	559 972	478 446
4.	**Transactions on equity instruments**	**993**	**47 938**	**928**
	Futures	993	47 938	928
	Total	**58 189 418**	**53 112 244**	**142 885 487**

In the case of single-currency transactions (IRS, FRA, forward, non-FX options) only purchased amounts are presented.

22. Hedging derivatives

Hedging derivatives	31.12.2010		31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	579	12 848	1 325	6 982	347	31 700
IRS hedging cash flow	14 189	3 593	9 476	25 951	-	36 862
Total hedging derivatives	**14 768**	**16 441**	**10 801**	**32 933**	**347**	**68 562**

23. Loans and advances to customers

Loans and advances to customers	31.12.2010	31.12.2009	31.12.2008
Loans and advances to enterprises	20 210 571	22 265 448	23 288 549
Loans and advances to individuals, of which:	11 437 508	10 632 415	9 240 106
Home mortgage loans	*6 926 647*	*6 062 546*	*5 450 515*
Finance lease receivables	2 435 755	2 706 516	2 959 037
Loans and advances to public sector	101 089	83 106	85 653
Sell-buy-back transaction	10 118	10 083	441 783
Other	10 047	11 621	10 768
Gross receivables	**34 205 088**	**35 709 189**	**36 025 896**
Impairment write down	(1 366 792)	(1 139 676)	(889 283)
Total	**32 838 296**	**34 569 513**	**35 136 613**

As at 31.12.2010 the fair value adjustment due to hedged risk on corporate loans was PLN 887 k (as at 31.12.2009: PLN 1 565 k, 31.12.2008: PLN 1 607 k).
Finance lease receivables are presented in additional note 46. Fair value of loans and advances to customers is presented in note 42.

Movements on impairment losses on loans and advances to customers	31.12.2010	31.12.2009	31.12.2008
Individual and collective impairment			
As at the beginning of the period	(766 110)	(571 113)	(439 545)
Charge/write back of current period	(474 770)	(438 698)	(192 276)
Write off/Sale of receivables	206 912	250 992	65 646
Transfer	1 871	(10 866)	480
F/X differences	3 280	3 575	(5 418)
Balance at the end of the period	**(1 028 817)**	**(766 110)**	**(571 113)**
IBNR			
As at the beginning of the period	(373 566)	(318 170)	(145 423)
Charge/write back of current period	35 317	(56 297)	(176 061)
Transfer	10	-	3 723
F/X differences	264	901	(409)
Balance at the end of the period	**(337 975)**	**(373 566)**	**(318 170)**
Impairment write down	**(1 366 792)**	**(1 139 676)**	**(889 283)**

24. Investment securities available for sale

Investment securities available for sale	31.12.2010	31.12.2009	31.12.2008
Available for sale investments - measured at fair value			
Debt securities	**6 965 866**	**5 957 601**	**5 872 173**
Government securities:	6 885 095	5 873 630	5 092 878
- bills	-	1 105 854	1 369 842
- bonds	6 885 095	4 767 776	3 723 036
Central Bank securities:	-	-	599 731
- bonds	-	-	599 731
Commercial securities:	80 771	83 971	179 564
- bonds	80 771	83 971	179 564
Equity securities	**623 456**	**613 011**	**606 319**
- listed	20 688	24 151	22 014
- unlisted	602 768	588 860	584 305
Investment certificates	**56 625**	**52 405**	**49 272**
Total	**7 645 947**	**6 623 017**	**6 527 764**

As at 31.12.2010 fixed interest rate debt securities measured at fair value amount to PLN 5 540 017 k, variable interest rate securities amount to PLN 1 425 849 k.
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 31.12.2010 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 1 336 k (as at 31.12.2009: PLN (1 510) k and 31.12.2008: PLN 27 300 k).

Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The Bank performs the review of the fair value of its unlisted available-for-sale financial instruments at each balance sheet date. 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.

Over the past several months the Polish government has been considering changes to the pension system, specifically reduction of the contributions to the open-ended pension funds.
Implementation of the changes might have an adverse impact on the price of PTE Aviva shares held by the bank. At present, it is not possible to determine if and in what shape the changes will be implemented. The bank's stake in PTE was valued as at 31 December 2010 based on the legal conditions and the system solutions existing at that date and its carrying value amounts to PLN 199 999 k.

Fair value of „Investment securities available for sale" is presented in note 42.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2010	**5 957 601**	**665 416**	**6 623 017**
Additions	3 477 634	26 560	3 504 194
Disposals (sale and maturity)	(2 527 512)	(9 814)	(2 537 326)
Fair value adjustment (AFS)	8 876	(1 558)	7 318
Movements on interest accrued	58 777	-	58 777
Provision for impairment	-	(48)	(48)
F/X differences	(9 510)	(475)	(9 985)
As at 31 December 2010	**6 965 866**	**680 081**	**7 645 947**

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**

BZ WBK Group for 2010 In thousands of PLN

*In October 2008 the bank has changed the 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.

25. Financial assets held to maturity

Financial assets held to maturity	31.12.2010	31.12.2009	31.12.2008
Government securities:	5 749 408	6 669 555	6 388 277
- bonds	5 749 408	6 669 555	6 388 277
Total	**5 749 408**	**6 669 555**	**6 388 277**

Fair value of „Financial assets held to maturity" is presented in note 42.

Movements on financial assets held to maturity	31.12.2010	31.12.2009	31.12.2008
Balance at 1 January	**6 669 555**	**6 388 277**	**-**
Additions	-	553 616	-
Maturity	(955 378)	(300 361)	-
Reclassification*	-	-	6 406 573
Fair value amortisation	12 190	13 498	3 049
Movements on interest accrued	23 041	14 525	(21 345)
As at end of reporting period	**5 749 408**	**6 669 555**	**6 388 277**

*In October 2008 the bank has changed the 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.

26. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2010	31.12.2009	31.12.2008
Associates	54 864	50 610	40 107
Joint ventures	32 496	31 277	32 114
Total	**87 360**	**81 887**	**72 221**

Movements on investments in associates and joint ventures	31.12.2010	31.12.2009	31.12.2008
Balance at 1 January	**81 887**	**72 221**	**37 128**
Share of profits/(losses)	4 452	(334)	(777)
Transfer	-	-	2 225
Sale/acquisition	41	10 000	33 645
Other/dividend	980	-	-
Balance at the end of the period	**87 360**	**81 887**	**72 221**

Fair value of "Investment in associates and joint ventures" is presented in note 42.
Details of sale/acquisition of associates and joint ventures are disclosed in note 49.

Investments in associates and joint ventures as at 31.12.2010

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 & Partnerzy S.A.**	Krynicki Recykling S.A.***	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding******	50,00	50,00	50,00	21,23	24,65	
Balance sheet value	36 786	12 395	20 101	4 305	13 773	**87 360**
Total assets	82 255	434 886	163 610	3 632	50 274	**734 657**
Own funds of entity, of which:	73 573	24 791	40 201	2 016	22 628	**163 209**
Share capital	16 000	21 750	27 000	650	1 013	**66 413**
Other own funds, of which:	57 573	3 041	13 201	1 366	21 615	**96 796**
from previous years	*603*	*(2 656)*	-	*(587)*	*5 479*	***2 839***
net profit (loss)	*1 636*	*(1 951)*	*6 364*	*374*	*869*	***7 292***
Liabilities of entity	8 682	410 095	123 409	1 616	27 646	**571 448**
Revenue	6 922	231 605	82 248	8 682	15 043	**344 500**
Costs	4 415	233 871	74 135	8 199	14 020	**334 640**

*selected financial information as at end of November 2010
**selected financial information as at end of October 2010
***selected financial information as at end of September 2010
**** states percentage share of associates or joint venture 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 & Partnerzy 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 31.12.2009

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	Warszawa	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% 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**
Revenue	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**

*selected financial information as at end of November 2009

**selected financial information as at end of September 2009

***states percentage share of associates or joint venture 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

In thousands of PLN

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	Warszawa	
Type of connection	Associate	Joint venture	Joint venture	Associate	
% 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**
Revenue	5 961	58 090	42 428	4 342	**110 821**
Costs	**2 163**	**57 041**	**44 283**	**4 802**	**108 289**

*selected financial information 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

27. Intangible assets

Intangible assets Year 2010	Licences, patents etc.	Other (incl. know-how)	Capital expenditures	Total
Gross value - beginning of the period	**607 301**	**8 032**	**73 758**	**689 091**
Additions from:				
- purchases	-	-	32 488	**32 488**
- intangible assets taken for use	61 256	15	-	**61 271**
- transfers	11	-	-	**11**
Disposals from:				
- liquidation	(1 087)	(2 002)	(194)	**(3 283)**
- intangible assets taken for use	-	-	(61 271)	**(61 271)**
- transfers	-	-	(187)	**(187)**
Gross value - end of the period	**667 481**	**6 045**	**44 594**	**718 120**
Accumulated depreciation - beginning of the period	**(499 488)**	**(7 983)**	**-**	**(507 471)**
Additions/disposals from:				
- current year	(40 999)	(51)	-	**(41 050)**
- liquidation	971	2 002	-	**2 973**
- transfers	(11)	-	-	**(11)**
Accumulated depreciation- end of the period	**(539 527)**	**(6 032)**	**-**	**(545 559)**
Balance sheet value				
Purchase value	667 481	6 045	44 594	**718 120**
Accumulated depreciation	(539 527)	(6 032)	-	**(545 559)**
As at 31 December 2010	**127 954**	**13**	**44 594**	**172 561**

Intangible assets Year 2009	Licences, patents etc.	Other (incl. know-how)	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 (incl. know-how)	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**

28. Property, plant and equipment

Property, plant & equipment Year 2010	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	**652 548**	**325 273**	**43 563**	**312 419**	**28 566**	**1 362 369**
Additions from:						
- purchases	-	-	-	-	37 047	**37 047**
- leasing	-	-	4 121	-	-	**4 121**
- fixed assets taken for use	7 155	15 432	9	19 011	-	**41 607**
- transfers	-	130	(200)	-	59	**(11)**
Disposals from:						
- sale, liquidation, donation	(1 769)	(28 585)	(2 912)	(4 264)	(144)	**(37 674)**
- fixed assets taken for use	-	-	-	-	(41 607)	**(41 607)**
- transfers	-	(21)	205	(26)	-	**158**
Gross value - end of the period	**657 934**	**312 229**	**44 786**	**327 140**	**23 921**	**1 366 010**
Accumulated depreciation - beginning of the period	**(269 972)**	**(260 304)**	**(22 822)**	**(213 117)**	**-**	**(766 215)**
Additions/disposals from:						
- current year	(27 597)	(24 554)	(10 184)	(25 382)	-	**(87 717)**
- sale, liquidation, donation	780	28 388	2 339	3 936	-	**35 443**
- transfers	(6)	4	15	2	-	**15**
Accumulated depreciation- end of the period	**(296 795)**	**(256 466)**	**(30 652)**	**(234 561)**	**-**	**(818 474)**
Balance sheet value						
Purchase value	657 934	312 229	44 786	327 140	23 921	**1 366 010**
Accumulated depreciation	(296 795)	(256 466)	(30 652)	(234 561)	-	**(818 474)**
As at 31 December 2010	**361 139**	**55 763**	**14 134**	**92 579**	**23 921**	**547 536**

Property, plant & equipment Year 2009	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - 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 - end of the period	**652 548**	**325 273**	**43 563**	**312 419**	**28 566**	**1 362 369**
Accumulated depreciation - 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- 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**

Property, plant & equipment Year 2008	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - 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 - end of the period	**612 534**	**311 930**	**48 279**	**291 540**	**80 141**	**1 344 424**
Accumulated depreciation - 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- 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**

29. Net deferred tax assets

Deferred tax asset	31.12.2010	31.12.2009	31.12.2008
Provisions for loans	225 470	212 069	157 375
Unrealized liabilities due to derivatives	80 231	100 051	283 261
Other provisions which are not yet taxable costs	64 766	56 470	56 588
Deferred income	72 894	67 052	47 178
Difference between balance sheet and taxable value of leasing portfolio	52 092	39 206	34 863
Unrealized interest on credits, loans and securities	48 803	32 051	33 105
Unrealised FX translation differences from b/s valuation of receivables and liabilities	-	12 799	16 251
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	-	-	7 399
Other	807	1 592	4 479
Total	**545 063**	**521 290**	**640 499**

Deferred tax liability	31.12.2010	31.12.2009	31.12.2008
Revaluation of financial instruments available for sale*	(100 946)	(98 161)	(83 694)
Unrealised receivables on derivatives	(60 750)	(83 946)	(279 546)
Unrealised interests from loans, securities and interbank deposits	(53 261)	(46 343)	(56 577)
Provision due to application of investment relief	(2 647)	(2 778)	(2 967)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(6 862)	-	-
Cash flow hedges valuation*	(473)	(450)	5 787
Other	(10 960)	(11 385)	(13 007)
Total	**(235 899)**	**(243 063)**	**(430 004)**

Net deferred tax assets	**309 164**	**278 227**	**210 495**

*Changes in deferred tax liabilities were recognised in the consolidated statement of comprehensive income.

As at 31 December 2010 the calculation of deferred tax asset did not include purchased receivables of PLN 15 625 k and loans that will not be realised of PLN 65 478 k. 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	31.12.2010	31.12.2009	31.12.2008
As at the beginning of the period	278 227	210 495	161 160
Changes in accounting policies	-	4 259	-
Changes recognised in income statement	33 744	84 177	42 064
Changes recognised in other net comprehensive income	(2 807)	(20 704)	7 271
Balance at the end of the period	**309 164**	**278 227**	**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 andreceivables and assets in the course of business.

30. Other assets

Other assets	31.12.2010	31.12.2009	31.12.2008
Sundry debtors	236 133	198 290	261 583
Settlements of stock exchange transactions	73 797	62 642	40 994
Interbank and interbranch settlements	42 844	41 998	175 679
Prepayments	39 929	35 168	36 108
Assets held for sale	2 502	2 502	2 502
Other	453	600	960
Total	**395 658**	**341 200**	**517 826**

Assets held for sale - BZ WBK Group

31 December 2010	Gross amount	Amortisation	Net amount
Land and buildings	4 224	(1 815)	2 409
Equipment	436	(343)	93
Total	**4 660**	**(2 158)**	**2 502**

In comparable periods there were no changes in the amount of assets held for sale.

31. Deposits from central bank

Deposits from central bank	31.12.2010	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 bank" is presented in note 42.

32. Deposits from banks

Deposits from banks	31.12.2010	31.12.2009	31.12.2008
Loans from other banks	380 791	1 518 901	2 127 825
Repo transactions	1 927 368	1 531 795	1 358 084
Term deposits	119 663	740 954	568 972
Current accounts	98 260	39 126	40 596
Total	**2 526 082**	**3 830 776**	**4 095 477**

As at 31.12.2010 fair value adjustment for hedged deposit totaled nill (as at 31.12.2009 – PLN (1 850) k, as at 31.12.2008 – PLN 5 289 k).
Fair value of "Deposits from banks" is presented in note 42.

33. Deposits from customers

Deposits from customers	31.12.2010	31.12.2009	31.12.2008
Deposits from individuals	25 230 799	25 613 714	24 239 092
Term deposits	*12 745 658*	*14 166 157*	*13 135 776*
Current accounts	*12 449 476*	*11 414 712*	*11 029 970*
Repo transactions	*-*	*-*	*1 927*
Other	*35 665*	*32 845*	*71 419*
Deposits from enterprises	14 605 812	13 284 728	15 066 460
Term deposits	*8 757 801*	*8 319 717*	*10 608 820*
Current accounts	*4 958 514*	*4 484 720*	*4 146 018*
Credits	*600 805*	*227 614*	*26 352*
Repo transactions	*-*	*-*	*1 827*
Other	*288 692*	*252 677*	*283 443*
Deposits from public sector	2 133 843	2 324 429	3 505 175
Term deposits	*1 015 651*	*781 613*	*1 958 735*
Current accounts	*1 117 309*	*1 542 259*	*1 545 909*
Other	*883*	*557*	*531*
Total	**41 970 454**	**41 222 871**	**42 810 727**

As at 31.12.2010 deposits held as collateral totaled PLN 205 954 k (as at 31.12.2009 - PLN 165 796 k, as at 31.12.2008 – PLN 232 239 k).
Fair value of "Deposits from customers" is presented in note 42.

34. Debt securities in issue

Debt securities in issue	Average coupon			Nominal value		
	31.12.2010	31.12.2009	31.12.2008	31.12.2010	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
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.

35. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Redemption date	As at the end of the period
Subordinated liabilities	100 000	EUR	05.08.2020	395 230
As at 31 December 2010				**395 230**

Movements in Subordinated Liabilities	31.12.2010	31.12.2009	31.12.2008
As at the beginning of the period	-	-	-
Increase (due to:)	**403 965**	-	-
- subordinated loan raised	396 030	-	-
- interest on subordinated loan	7 935	-	-
- FX differences	-	-	-
Decrease (due to):	**(8 735)**	-	-
- capital repayment	-	-	-
- interest repayment	(4 756)	-	-
- FX differences	(19)	-	-
- subscription price	(3 960)	-	-
Subordinated liabilities - as at the end of the period	**395 230**	-	-
Short-term	3 160	-	-
Long-term (over 1 year)	392 070	-	-

BZ WBK Group issued subordinated debt to mitigate FX rate sensitivity and increase efficiency of own funding. In line with the KNF decision subordinated liabilities have been recognised as the supplementary capital and since Q4 2010 are included in the solvency ratio calculations. Other details on these liabilities are disclosed in Note 5.

36. Other liabilities

Other liabilities	31.12.2010	31.12.2009	31.12.2008
Provisions:	247 275	203 440	179 363
Employee provisions	*212 540*	*170 163*	*140 745*
Provisions for legal claims	*17 518*	*17 725*	*26 642*
Provisions for off balance sheet credit facilities	*17 217*	*15 552*	*11 976*
Interbank and interbranch settlements	165 690	133 380	131 255
Other deferred and suspended income	95 104	94 053	43 112
Accrued liabilities	57 621	70 471	85 218
Sundry creditors	125 019	67 260	148 637
Settlements of stock exchange transactions	67 936	65 408	41 056
Public and law settlements	35 270	40 446	35 880
Financial lease related settlements	16 571	12 251	16 431
Other	134	8	848
Total	**810 620**	**686 717**	**681 800**

The Group raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.

Employee related provisions and accruals consists of items outlined in note 52.

Change in provisions	31.12.2010	31.12.2009	31.12.2008
As at the beginning of the period	**203 440**	**179 363**	**246 167**
Employee provisions	170 163	140 745	215 849
Provisions for legal claims	17 725	26 642	29 202
Provisions for off balance sheet credit facilities	15 552	11 976	1 116
Provision charge	**250 851**	**208 711**	**172 429**
Employee provisions	204 527	151 959	141 687
Provisions for legal claims	2 457	2 070	1 793
Provisions for off balance sheet credit facilities	43 867	54 682	28 949
Utilization	**(149 217)**	**(116 270)**	**(212 785)**
Employee provisions	(146 945)	(115 880)	(212 476)
Provisions for legal claims	(2 266)	(469)	(547)
Provisions for off balance sheet credit facilities	(6)	79	238
Write back	**(57 799)**	**(68 364)**	**(30 651)**
Employee provisions	(15 205)	(6 661)	(4 315)
Provisions for legal claims	(398)	(10 518)	(3 806)
Provisions for off balance sheet credit facilities	(42 196)	(51 185)	(22 530)
Transfer	**-**	**-**	**4 203**
Employee provisions	-	-	-
Provisions for legal claims	-	-	-
Provisions for off balance sheet credit facilities	-	-	4 203
Balance at the end of the period	**247 275**	**203 440**	**179 363**
Employee provisions	**212 540**	**170 163**	**140 745**
Provisions for legal claims	**17 518**	**17 725**	**26 642**
Provisions for off balance sheet credit facilities	**17 217**	**15 552**	**11 976**

37. Share capital

31.12.2010

Series/ issue	Type of share	Type of preferences	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 BZWBK 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 is 70.4%. The remaining shares are in free float.

31.12.2009

Series/ issue	Type of share	Type of preferences	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 BZWBK 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 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 BZWBK Incentive Scheme introduced in 2006. Details are presented in note 53.

31.12.2008

Series/ issue	Type of share	Type of preferences	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 BZWBK 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.

38. Other reserve funds

Other reserve funds	31.12.2010	31.12.2009	31.12.2008
General banking risk fund	649 810	649 810	529 810
Share premium	261 699	261 699	261 699
Other reserves of which:	3 433 131	2 655 490	1 925 178
Reserve capital	3 215 915	*2 447 519*	*1 725 080*
Supplementary capital	217 216	*207 971*	*200 098*
Total	**4 344 640**	**3 566 999**	**2 716 687**

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 31.12.2010 and 31.12.2009 reserve capital including share scheme charge of PLN 17 429 k, as at 31.12.2008 of PLN 15 882 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2010, 2009 and 2008.

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.

39. Revaluation reserve

Revaluation reserve	31.12.2010	31.12.2009	31.12.2008
As at 31 December	422 005	335 507	362 963
Net change in available for sale investments, of which:	24 272	69 813	24 964
Increase:	33 744	80 773	35 609
- related to debt investments purchased before current reporting period	32 331	50 903	32 435
- related to equity investments purchased before current reporting period	-	6 801	-
-net change in available for sale investments matured in the period	1 413	23 069	3 031
- transferred from associates	-	-	143
Decrease:	(9 472)	(10 960)	(10 645)
- related to debt investments purchased/assigned in the period	(4 101)	-	(9 162)
- related to equity investments purchased before current reporting period	(1 165)	-	(1 483)
-net change in available for sale investments matured in the period	(4 206)	(10 960)	(28)
Gross valuation related to cash flow hedge	119	32 827	(30 460)
Decrease in revaluation reserve related to sale of investments	(10 455)	4 562	(29 203)
Deferred tax adjustment	(2 807)	(20 704)	7 271
Total	**433 134**	**422 005**	**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 31.12.2010 the revaluation reserve includes the amortization of the fair value of financial assets reclassified in prior period from 'Available for sale' category to 'Held to maturity' (see note 24) of PLN (10 206) k and as at 31.12.2009 of PLN (22 396) k and as at 31.12.2008 of PLN (35 893) k.

40. 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. BZWBK 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 about individual groups of hedge transactions for 2010, 2009 and 2008:

31.12. 2010	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position in PLN k	36 757	938 564
Fair value adjustment of hedging instrument asset/(liability) in PLN k	(884)	(1 207)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	887	1 336
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

31.12.2009	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position in PLN k	39 670	534 012
Fair value adjustment of hedging instrument asset/(liability) in PLN k	(1 561)	1 587
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	1 565	(1 510)
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 in PLNk	287 674	1 567 000
Fair value adjustment of hedging instrument asset/(liability) in PLN k	(1 545)	(24 979)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	1 607	27 300
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 about these transactions are presented in the tables below.

31.12.2010	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedged position in PLN k	79 206	79 206
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(942)	(942)
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

31.12.2009	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedged position in PLN k	499 146	308 115
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	2 302	1 415
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 in PLNk	469 919	298 244
Fair value adjustment of hedging instrument asset/(liability) in PLN k	2 922	2 323
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk	
Period over which the instruments have an impact on companies' results	up to 2009	up to 2009

Cash flow hedging

In 2008, Bank Zachodni WBK started to apply cash flow hedging. Hedging relationships are constructed using interest rate swaps. Their purpose is to mitigate the risk of cash flow volatility in hedged instruments stemming from changes in market interest rates. Cash flow hedges are used in relation to PLN deposits, taking into account their roll-over at variable rates, and to PLN and FX loans with variable interest rates.

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 in 2010 financial markets regained stability, the bank decided to reduce its pricing of term deposits. In effect, interest expense fell below the rates offered in the interbank market. For this reason, in November 2010, the bank decided to dispense with application of hedge accounting for selected hedging relationships and to retain PLN 780 k in the revaluation reserve. This amount will be amortised over consecutive periods.

As at 31 December 2010 the nominal value of hedging instruments amounted to PLN 694 556 k (PLN 1 200 000 k as at 31.12.2009, and PLN 850 000 k as at 31.12.2008). Fair value adjustment of hedging instrument amounts to PLN 2 487 k (PLN 2 367 k as at 31.12.2009, and PLN (30 460) k as at 31.12.2008). The same amount, net of deferred tax, is reflected in revaluation reserve. Hedging instruments are contracted to the year 2016.

41. 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 2010, the consolidated statement of financial position, on liabilities side, contains treasury bills and bonds traded under sell-buy-back transactions amounting of PLN 1 927 368 k (PLN 3 051 003 k as at 31.12.2009; PLN 2 604 412 k as at 31.12.2008).
A related item being the deposit representing obligations in respect the repo transactions is held on the assets side of the consolidated statement of financial position and amounts to PLN 1 928 537 k (PLN 3 218 246 k as at 31.12.2009; PLN 2 655 853 k as at 31.12.2008).
As at 31.12.2010, in the consolidated statement of financial position, buy-sell-back transactions amount to PLN 10 118 k (31.12.2009 - 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 remains 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 31.12.2010 and 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. Such instruments were recognised in 2008 in the amount of PLN 10 000 k.

42. 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.

	31.12.2010		31.12.2009		31.12.2008	
Assets	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	2 534 463	2 534 463	2 660 658	2 660 658	3 178 107	3 178 107
Loans and advances to banks	619 655	619 659	664 211	663 040	1 365 132	1 364 704
Financial assets held for trading	2 239 055	2 239 055	1 344 809	1 344 809	3 224 867	3 224 867
Hedging derivatives	14 768	14 768	10 801	10 801	347	347
Loans and advances to customers	32 838 296	33 342 218	34 569 513	34 194 648	35 136 613	34 400 683
Investment securities	13 395 355	13 494 939	13 292 572	13 373 812	12 916 041	12 974 506
Investments in associates and joint ventures	87 360	87 360	81 887	81 887	72 221	72 221
Liabilities						
Deposits from central bank	-	-	1 519 208	1 519 208	1 242 574	1 242 574
Deposits from banks	2 526 082	2 526 082	3 830 776	3 830 769	4 095 477	4 095 029
Hedging derivatives	16 441	16 441	32 933	32 933	68 562	68 562
Financial liabilities held for trading	578 611	578 611	736 050	736 050	3 153 932	3 153 932
Subordinated liabilities	395 230	395 230	-	-	-	-
Debt securities in issue	-	-	-	-	153 918	153 918
Deposits from customers	41 970 454	41 970 949	41 222 871	41 225 768	42 810 727	42 808 299

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 (margins) and changes in 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.

Debt securities in issue and subordinated liabilities: The securities are measured at amortised cost less adjustments in hedge accounting. Subordinated liabilities are measured at amortised cost.

Financial assets and liabilities carried at fair value in the statement of financial position

As at 31 December 2010 and in the comparable periods 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 derivative instruments except IRS, CIRS, FX forward, FX swap and FX options contracts concluded with non-bank counterparties as well as debt securities measured using discounted cash flow models (except those securities for which the Group independently estimates the credit spread for the counterparty risk).
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): This 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) and derivative instruments excluded from level I and II (i.e. IRS, CIRS, FX forward, Fx swap and FX options contracts concluded with non-bank counterparties for which the Group 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 31.12.2010 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2010	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	509 958	1 538 049	191 048	2 239 055
Hedging derivatives	-	14 768	-	14 768
Financial investment assets - debt securities	5 459 246	1 425 849	80 771	6 965 866
Financial investment assets - equity securities	20 688	-	659 393	680 081
Total	**5 989 892**	**2 978 666**	**931 212**	**9 899 770**
Financial liabilities				
Financial liabilities held for trading	10 458	518 352	49 801	578 611
Hedging derivatives	-	16 441	-	16 441
Total	**10 458**	**534 793**	**49 801**	**595 052**

31.12.2009	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	181 120	778 063	385 626	1 344 809
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	**5 412 228**	**1 454 038**	**1 112 361**	**7 978 627**
Financial liabilities				
Financial liabilities held for trading	-	611 574	124 476	736 050
Hedging derivatives	-	32 933	-	32 933
Total	**-**	**644 507**	**124 476**	**768 983**

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 2010 and in the comparable period there were no transfers between the first and the second fair value level.

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 in total comprehensive income if the financial asset had not been reclassified, amounts to PLN 89 378 k as at 31 .12. 2010, PLN 58 465 k as at 31.12. 2008 and PLN 58 844 k as at 31.12.2009.
As at 31 December 2008 interest income 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 141 247 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
31.12.2010	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	385 626	83 971	642 764	(124 476)
Profits or losses	30 110	1 486	1 881	15 291
recognised in income statement	*30 110*	*1 486*	*119*	*15 291*
recognised in equity	-	-	*1 762*	-
Purchase	-	3 296	18 865	-
Sale	-	(7 982)	(4 119)	-
Matured	(181 915)	-	-	59 384
Impairment	(42 773)	-	-	-
At the period end	**191 048**	**80 771**	**659 391**	**(49 801)**

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)**

43. Contingent liabilities

Significant court proceedings

As at 31.12.2010 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 238 580 k, which is ca 3.52 % of Group's equity. This amount includes PLN 103 404 k claimed by the Group, PLN 130 897 k in claims against the Group and PLN 4 279 k are Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2009 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank 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 4.11 % 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 31.12.2008 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank 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 Group and PLN 137 797 k are Group's receivables due to bankruptcy or arrangement cases.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 36.

Off balance sheet liabilities

The break-down of contingent liabilities and off-balance transactions 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 towards third parties.

Contingent liabilities - sanctioned	31.12.2010	31.12.2009	31.12.2008
Liabilities sanctioned			
- financial	**5 623 703**	**6 345 103**	**9 528 754**
- credit lines	4 745 222	5 442 474	8 406 859
- credit cards debits	818 961	845 493	879 874
- import letters of credit	55 105	29 203	60 021
- term deposits with future commencement term	4 415	27 933	182 000
- guarantees	**1 185 541**	**876 197**	**901 717**
Total	**6 809 244**	**7 221 300**	**10 430 471**

44. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the 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 which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2010 Bank Zachodni WBK S.A. pledged as collateral PLN 170 698 k of debt securities (PLN 167 100 k as at 31.12.2009 , PLN 150 561 k as at 31.12.2008).

In 2010 a deposit for PLN 267 731 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2009 it was PLN 239 958 k, in 2008 it was PLN 182 306 k).

In 2010 BZ WBK hold a deposit for PLN 9 667 k (in 2009 it was PLN 4 724 k) as a collateral for the day-to-day Treasury business.

Other assets pledged as collateral are disclosed in notes 33 and 41.

45. Finance and operating leasing

Financial leases

Lease agreements where the Group acts as a leasor

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	31.12.2010	31.12.2009	31.12.2008
less than 1 year	1 115 366	1 194 202	1 185 293
between 1 and 5 years	1 534 347	1 777 014	2 126 247
over 5 years	265 292	203 702	137 902
Total	**2 915 005**	**3 174 918**	**3 449 442**

Present value of minimum lease payments maturity	31.12.2010	31.12.2009	31.12.2008
less than 1 year	1 040 850	1 127 262	1 133 217
between 1 and 5 years	1 264 270	1 477 389	1 760 913
over 5 years	130 635	101 865	64 907
Total	**2 435 755**	**2 706 516**	**2 959 037**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2010	31.12.2009	31.12.2008
Finance lease gross receivables	2 915 005	3 174 918	3 449 442
Unearned finance income	(479 250)	(468 402)	(490 405)
Impairment of finance lease receivables	(95 214)	(61 307)	(37 887)
Total	**2 340 541**	**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 BZWBK 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 2010, 2009 and 2008 rentals totalled PLN 144 336 k, 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	31.12.2010	31.12.2009	31.12.2008
less than 1 year	146 193	142 291	119 302
between 1 and 5 years	446 363	456 484	374 372
over 5 years	306 347	325 885	311 110
Total	**898 903**	**924 660**	**804 784**

46. Consolidated statement of cash flow- additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2010	31.12.2009	31.12.2008
Cash and balances with central banks	2 534 463	2 660 658	3 178 107
Debt investment financial instruments	-	1 793 330	615 802
Deposits in other banks, current account	609 318	654 932	1 356 406
Debt secutities held for trading	1 223 028	449 354	168 618
Total	**4 366 809**	**5 558 274**	**5 318 933**

Bank Zachodni WBK S.A. holds restricted cash. The balance of secured credit receivables is presented in Note 33.

47. Related party disclosures

The tables below present 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	31.12.2010	31.12.2009	31.12.2008
ASSETS	**514**	**842**	**1 014**
Loans and advances to customers	514	842	1 014
LIABILITIES	**361 038**	**95 442**	**124 712**
Deposits from customers	361 038	95 442	124 712
INCOME	**61 013**	**67 564**	**15 852**
Interest income	1 037	62	41
Fee and commission income	59 714	67 345	15 753
Other operating income	262	157	58
EXPENSES	**24 235**	**8 340**	**6 620**
Interest expense	21 921	6 199	5 073
Fee and commission expense	604	-	-
Operating expenses incl.:	1 710	2 141	1 547
General and administrative expenses	*1 710*	*2 141*	*1 547*

Transactions with AIB Group	31.12.2010	31.12.2009	31.12.2008
ASSETS	**130 969**	**495 282**	**445 981**
Loans and advances to banks, incl:	93 399	376 170	254 035
deposits	-	*376 075*	*253 549*
current accounts	*93 399*	*95*	*486*
Financial assets held for trading	36 968	117 274	187 878
Investment securities	-	-	129 164
Other assets	602	1 838	4 068
LIABILITIES	**463 030**	**1 918 015**	**2 572 892**
Deposits from banks incl.:	326 117	1 631 612	1 885 144
loans granted to BZ WBK subsidiaries	-	*819 759*	*834 572*
repo transactions	*289 270*	*305 653*	*588 159*
deposits	*36 847*	*506 200*	*462 413*
Hedging derivatives	887	1 564	1 489
Financial liabilities held for trading	124 466	272 417	671 136
Other liabilities	11 560	12 422	15 123
INCOME	**(41 125)**	**76 120**	**(312 479)**
Interest income	1 957	4 375	19 057
Fee and commission income	2 183	1 042	33
Other operating income	1 917	2 951	17 206
Net trading income and revaluation	(46 009)	60 686	(340 410)
Gains (losses) from other financial securities	(1 173)	7 066	(8 365)
EXPENSES	**42 897**	**62 822**	**98 464**
Interest expense	16 528	30 405	67 912
Fee and commission expense	-	-	288
Operating expenses incl.:	26 369	32 417	30 264
Bank's staff, operating expenses and management costs	*26 369*	*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	**4 611 239**	**11 062 622**	**13 161 424**
Cross-currency interest rate swaps – purchased amounts	372 205	1 337 015	480 590
Cross-currency interest rate swaps – sold amounts	362 070	1 402 642	590 082
Single-currency interest rate swaps	3 092 517	3 364 991	3 954 781
FRA - purchased amounts	-	-	150 000
Options	25 616	9 841	10 221
FX swap – purchased amounts	186 807	1 961 714	2 441 470
FX swap – sold amounts	205 653	1 927 627	2 465 307
FX options -purchased	122 520	507 319	1 226 585
FX options -sold	127 976	547 364	1 761 203
spot-purchased	58 387	2 055	39 224
spot-sold	57 488	2 054	41 961

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK S.A. Management and Supervisory Board Members

31.12.2010

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board:

First and last name	Position	Period		PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2010-31.12.2010		221,6
Gerald Byrne	Vice-Chairman of the Supervisory Board	01.01.2010-30.11.2010		141,4
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2010-31.12.2010		167,3
Aleksander Galos	Member of the Supervisory Board	01.01.2010-31.12.2010		167,3
Jacek Ślotała	Member of the Supervisory Board	01.01.2010-31.12.2010		151,3
John Power	Member of the Supervisory Board	01.01.2010-31.12.2010		191,7
Piotr Partyga	Member of the Supervisory Board	21.04.2010-31.12.2010		95,8
Anne Maher	Member of the Supervisory Board	21.04.2010-31.12.2010		68,1

In 2010 Mr Maeliosa OhOgartaigh decided not to receive remuneration for his membership in the Supervisory Board.
Mr John Power received remuneration of PLN 61 k from subsidiaries for his membership in their Supervisory Boards.

Remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2010-31.12.2010	1 459,81	73,84
Paul Barry*	Member of the Managemet Board	01.01.2010-31.12.2010	682,37	764,84
Andrzej Burliga	Member of the Managemet Board	01.01.2010-31.12.2010	859,84	77,61
Declan Flynn*	Member of the Managemet Board	01.01.2010-31.12.2010	940,48	457,82
Justyn Konieczny	Member of the Managemet Board	01.01.2010-31.12.2010	1 057,82	70,92
Janusz Krawczyk	Member of the Managemet Board	01.01.2010-31.12.2010	898,24	59,75
Jacek Marcinowski	Member of the Managemet Board	01.01.2010-31.12.2010	842,18	54,90
Michael McCarthy *	Member of the Managemet Board	01.01.2010-31.12.2010	1 020,60	665,70
Marcin Prell	Member of the Managemet Board	01.01.2010-31.12.2010	842,87	69,28
Mirosław Skiba	Member of the Managemet Board	01.01.2010-31.12.2010	860,05	76,05
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2010-31.12.2010	895,61	67,18

*Messrs Barry's, Flynn's and McCarthy's remunerations (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), cover payment of salaries in their home country currency as well as additional benefits i.e. pension contributions, medical insurance cover and other benefits. Costs in respect of accommodation and school fees are also paid by BZ WBK in specific cases.

In 2010, none of the Members of the Management Board of Bank Zachodni WBK 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.

31.12.2009

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board:

First and last name	Position	Period		PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2009-31.12.2009		203,7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2009-31.12.2009		163,7
Aleksander Galos	Member of the Supervisory Board	01.01.2009-31.12.2009		163,7
Jacek Ślotała	Member of the Supervisory Board	01.01.2009-31.12.2009		139,7
John Power	Member of the Supervisory Board	01.01.2009-31.12.2009		205,6
James O'Leary	Member of the Supervisory Board	01.01.2009-21.04.2009		53,7

Messrs Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated for their membership in the Supervisory Board.
Mr John Power received remuneration of PLN 11 k from a subsidiary for his membership in its Supervisory Board.

Remuneration and any additional benefits paid to the members of Bank Zachodni WBK 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 Managemet Board	01.01.2009-31.12.2009	715,89	854,57
Andrzej Burliga	Member of the Managemet Board	01.01.2009-31.12.2009	622,87	73,57
Declan Flynn*	Member of the Managemet Board	01.01.2009-31.12.2009	947,35	642,63
Justyn Konieczny	Member of the Managemet Board	01.01.2009-31.12.2009	859,13	70,83
Janusz Krawczyk	Member of the Managemet Board	01.01.2009-31.12.2009	750,66	103,48
Jacek Marcinowski	Member of the Managemet Board	01.01.2009-31.12.2009	725,31	55,34
Michael McCarthy *	Member of the Managemet Board	01.02.2009-31.12.2009	989,60	782,00
Marcin Prell	Member of the Managemet Board	01.01.2009-31.12.2009	723,36	93,43
Mirosław Skiba	Member of the Managemet Board	01.01.2009-31.12.2009	562,55	132,75
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2009-31.12.2009	739,32	122,22

*Messrs Barry's, Flynn's and McCarthy's remunerations (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), cover payment of salaries in their home country currency as well as additional benefits i.e. pension contributions, medical insurance cover 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 of Bank Zachodni WBK 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 Supervisory Board:

First and last name	Position	Period		PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2008-31.12.2008		201,7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2008-31.12.2008		177,2
Aleksander Galos	Member of the Supervisory Board	01.01.2008-31.12.2008		163,0
Jacek Ślotała	Member of the Supervisory Board	01.01.2008-31.12.2008		119,0
John Power	Member of the Supervisory Board	01.01.2008-31.12.2008		214,8
James O'Leary	Member of the Supervisory Board	01.01.2008-31.12.2008		93,6

Messrs Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated for their membership in the Supervisory Board.

Remuneration and any additional benefits paid to the members of Bank Zachodni WBK 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 Managemet Board	01.10.2008-31.12.2008	189,37	272,73
Andrzej Burliga	Member of the Managemet Board	01.01.2008-31.12.2008	566,47	59,56
Declan Flynn*	Member of the Managemet Board	01.01.2008-31.12.2008	995,91	792,85
Michał Gajewski	Member of the Managemet Board	01.01.2008-31.05.2008	415,29	29,02
Justyn Konieczny	Member of the Managemet Board	01.01.2008-31.12.2008	854,28	69,99
Janusz Krawczyk	Member of the Managemet Board	01.01.2008-31.12.2008	762,57	45,30
Jacek Marcinowski	Member of the Managemet Board	01.01.2008-31.12.2008	729,29	56,24
James Murphy*	Member of the Managemet Board	01.01.2008-30.09.2008	518,58	439,00
Marcin Prell	Member of the Managemet Board	01.01.2008-31.12.2008	729,02	70,83
Mirosław Skiba	Member of the Managemet Board	22.07.2008-31.12.2008	252,28	17,80
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2008-31.12.2008	732,45	64,20

*Messrs Barry's, Flynn's and Murphy's remunerations (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland) cover payment of salaries in their home country currency as well as additional benefits i.e. pension contributions, medical insurance cover 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 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.

31.12.2010

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives totalled PLN 8 798 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2010, 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 6 k.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

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 totalled PLN 9 193 k. These facilities have been sanctioned on regular terms and conditions.

As at 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 totalled PLN 8 769 k. These facilities have been sanctioned on regular terms and conditions.

As at 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 BZWBK 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. 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.

Considering the above, BZWBK Group has estimated a present value of the future obligations to pay-outs resulting from rights granted under the scheme respectively to the service period of the entitled individuals participating in the scheme.

The value of the liability resulting from the scheme as at 31 December 2010 amounted to PLN 5 309 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 5 312 k.

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

31.12.2010

As of 31.12.2010, the total of loans and advances drawn by BZWBK S.A. employees was PLN 599 312 k (including the debt of PLN 39 874 k shown in joint accounts) and PLN 37 220 k in the case of employees of BZWBK subsidiaries and associates.
In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 811 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 203 339 k, (of which joined current accounts - PLN 45 172 k). Amount relating to employees of subsidiaries and associates totaled PLN 20 891 k.

31.12.2009

As of 31.12.2009, the total of loans and advances drawn by BZWBK 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 BZWBK subsidiaries and associates.
In the same period, the total of loans and advances drawn by BZWBK 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 joined 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 BZWBK 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 BZWBK subsidiaries and associates.
In the same period, the total of loans and advances drawn by BZWBK 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.

48. Information of number and value of banking writs of executions

In 2010 Bank issued 42 479 banking writs of execution with total amount of PLN 728 905 k, of which:

- corporate loans - 1 696 cases of PLN 397 555 k
- cash loans and overdrafts – 26 798 cases of PLN 248 537 k
- credit cards – 13 885 cases of PLN 54 088 k
- mortgage loans - 100 cases of PLN 28 725 k

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

49. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions of subsidiaries and associates in 2010

Change in the total number of votes held in Krynicki Recykling S.A. by BZ WBK Inwestycje Sp. z o.o.

Krynicki Recykling S.A. announced that on 13 October 2010 it had learned about a change in the number of votes held in the company by its shareholder BZ WBK Inwestycje Sp. z o.o. As a result of the share capital increase through the issue of series E shares, the shareholder's previous voting power in the company had decreased by 8.56% from 30.37% to 21.81% of the total number of votes at the General Meeting of the company.

In December 2010, BZ WBK Inwestycje Sp. z o.o. acquired 400,000 shares in Krynicki Recykling S.A. (200,000 shares acquired on 29 December and 200,000 on 30 December in transactions on the OTC market).

As at 31 December 2010, BZ WBK Inwestycje Sp. z o.o. has 3,476,852 shares, representing 24.65% of the share capital of Krynicki Recykling S.A., carrying 3,476,852 votes at the company's General Meeting, i.e. 24.65% of the total voting power.

Krynicki Recykling S.A., seated in Olsztyn, is quoted on the NewConnect market. It operates in the environmental protection industry sector.

Increase in the share capital of BZ WBK Inwestycje Sp. z o.o.

On 13 October 2010 General Meeting of BZ WBK Inwestycje Sp. z o.o. (subsidiary of Bank Zachodni WBK) adopted the resolution which increased the share capital from PLN 50,000 to PLN 100,000 as a result issuing additional 100 new shares of PLN 500 each. Total nominal value of a new issue amounted to PLN 50,000. Bank Zachodni WBK S.A. has taken up all new shares and covered them by cash.

Merger of Metrohouse S.A.

On 29 October 2010 a formal merger took place between METROHOUSE S.A. of Warsaw and Partnerzy Nieruchomości Sp. z o.o. of Gdańsk. The merged entity has begun trading as Metrohouse & Partnerzy S.A. The company is a leader of the Polish real estate market. BZ WBK Inwestycje Sp. z o.o. has a 21.23% stake in the share capital of the company.

Acquisitions of 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:

- 1,216,919 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;
- 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.
- 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 BZWBK Finanse capital with a total value of PLN 117,969,653.29.

Purchase of shares of a new associate Krynicki Recykling S.A.

BZ WBK Inwestycje Sp. z o.o. (the Bank's subsidiary) acquired in Krynicki Recykling S.A. 3,076,852 shares of its new issue (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, the registration of the share capital increase – 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 type own investment.

Purchase of shares of a new associate 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, as well as acts as an credit intermediary. Purchase of shares of Metrohouse SA was a part of building a potfolio of pre-IPO type own investment.

Disposals of investments in subsidiaries and associates

In 2008 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.

Disposals in 2008	Net assets	Revenue	Gains/loss
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)**

50. Investment 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 accounted for by using the equity method.
As at 31.12.2010 carring value of these entities totaled PLN 20 101 k and PLN 12 395 k respectively.
As at 31.12.2009 carring value of these entities totaled PLN 18 405 k and PLN 12 872 k respectively.

On 01.06.2009 these entities has changed their names to: BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. respectively.

51. Events which occurred subsequently to the end of the period

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 23rd of February 2011 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be presented for approve by the shareholders at their Annual General Meeting.

Tender offer for the shares of Bank Zachodni WBK
On 7 February 2011, Banco Santander announced that it had launched a tender offer for 100% of the share capital of Bank Zachodni WBK S.A. offering PLN 226.89 per share. Under the tender offer Santander intends to buy 73,076,013 shares in BZ WBK that will give it 73,076,013 votes at the General Meeting of Shareholders, i.e. 100% of the share capital and votes. The consummation of the tender offer is subject to the acceptance of at least 51,153,210 shares or 70% of the outstanding shares of BZWBK. As required by law, the Management Board of Bank Zachodni WBK and Banco Santander advised their employees and employee associations of the Tender Offer as well as of the text of the announcement.

KNF decision
On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

52. 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 pay
Liabilities related to accrued holiday pay are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses
Liabilities related to bonuses 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	31.12.2010	31.12.2009	31.12.2008
Provision for accrued holiday pay	20 403	19 636	22 166
Provisions for employee bonuses	149 940	112 554	79 220
Provisions for retirement allowances	39 396	35 208	34 056
Other staff-related provisions	2 801	2 765	5 303
Total	**212 540**	**170 163**	**140 745**

Detailed information about movements on staff-related provisions is available in additional note 36.

Awards for the year 2009 paid in 2010 to the Members of the Management Board of Bank Zachodni WBK S.A.:

First and last name	Position	Period	Awards for 2009
Mateusz Morawiecki	President of the Management Board	01.01.2010-31.12.2010	1 500,00
Paul Barry	Member of the Management Board	01.01.2010-31.12.2010	700,33
Andrzej Burliga	Member of the Management Board	01.01.2010-31.12.2010	741,60
Declan Flynn	Member of the Management Board	01.01.2010-31.12.2010	777,55
Justyn Konieczny	Member of the Management Board	01.01.2010-31.12.2010	882,00
Janusz Krawczyk	Member of the Management Board	01.01.2010-31.12.2010	741,60
Jacek Marcinowski	Member of the Management Board	01.01.2010-31.12.2010	593,28
Michael McCarthy	Member of the Management Board	01.01.2010-31.12.2010	857,45
Marcin Prell	Member of the Management Board	01.01.2010-31.12.2010	593,28
Mirosław Skiba	Member of the Management Board	01.01.2010-31.12.2010	741,60
Feliks Szyszkowiak	Member of the Management Board	01.01.2010-31.12.2010	756,00

In 2009 the Members of the Management Board did not receive any awards for the year 2008.

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

53. Share based incentive scheme

In 2006 BZWBK 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 stretch 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.

Second edition expired as at 31 March 2010. The scheme did not vest as the conditions were not met.

In 2008 third edition has been granted to no more than 600 individuals and is still in operation.

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 2008 edition.

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.

Share based payments granted:

	2008
Number of share based payments	288 112
Share price (PLN)	149,00
Excercise price (PLN)	10
Vesting period	3 years
Expected volatility	40,82%
Award life	3 years
Risk free rate	6,87%
Fair value per award	PLN 133,01
Dividend yield	2,01%

Taking up the Bank's shares by the employees under Incentive Scheme

The following table summarizes the share based payments activity:

	12 months of 2010 Number of share based payments	12 months of 2009 Number of share based payments	12 months of 2008 Number of share based payments
Outstanding at 1 January	341 701	476 929	200 722
Granted	-	-	288 112
Exercised	-	(115 729)	-
Forfeited	(8 190)	(19 499)	(11 905)
Expired	(65 491)	-	-
Outstanding at 31 December	268 020	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 2010, 31 December 2009 and as at 31 December 2008 the average remaining contractual life is approximately 0,3 year, 1,1 year and 1,6 year respectively.

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2010 and 2009 and 2008 amounts to PLN 0 k , and 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 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	2010
Outstanding at 1 January	51 682
Expired	(16 147)
Outstanding at 31 December	35 535
Exercisable at 31 December	-

First and last name	Total as at 01.01.2010	Expired during 2010	Total as at 31.12.2010
Mateusz Morawiecki	9 961	(2 558)	7 403
Andrzej Burliga	4 417	(1 085)	3 332
Justyn Konieczny	7 847	(2 665)	5 182
Janusz Krawczyk	6 661	(2 219)	4 442
Jacek Marcinowski	6 661	(2 219)	4 442
Marcin Prell	6 661	(2 219)	4 442
Mirosław Skiba	2 813	(963)	1 850
Feliks Szyszkowiak	6 661	(2 219)	4 442
Total	**51 682**	**(16 147)**	**35 535**

No. of awards	2009
Outstanding at 1 January	74 766
Exercised	(23 084)
Outstanding at 31 December	51 682
Exercisable at 31 December	-

First and last name	Total as at 01.01.2009	Granted during 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	-

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 BZWBK Incentive Scheme.

54. Average staff level

As at 31 December 2010 the Bank employed 9 250 persons, i.e. 9 163 FTE's.
As at this date, in subsidiaries there were 691 persons employed (incl. 53 persons in the Bank), i.e. 677 FTE's.
In 2010, the average staffing level in Bank Zachodni WBK S.A. was 8 974 FTE's whereas the average staffing level in subsidiaries was 658 FTE's.

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 in the Bank), i.e. 644 FTE's.
In 2009, the average staffing level in Bank Zachodni WBK S.A. was 8 977 FTE's whereas the average staffing level in subsidiaries was 660 FTE's.

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 in the Bank), i.e. 706 FTE's.
In 2008, the average staffing level in Bank Zachodni WBK S.A. was 9 073 FTE's whereas the average staffing level in subsidiaries was 686 FTE's.

55. Dividend per share

Bank Zachodni WBK S.A. will propose an allocation to dividends 63.76 % of profit for the current reporting period of PLN 584 608 104 i.e. PLN 8.00 per one share. Outstanding profit of PLN 332 247 331.98 will be allocated to other reserve capital.
The final decision on dividend payment and amount shall be made by the Annual General Meeting of Bank Zachodni WBK S.A. Shareholders.

On 21 April 2010, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 292 304 k to dividend for shareholders, from the profit for 2009, which meant that the proposed dividend was PLN 4 per share.

On 21 April 2009 the Annual General Meeting of BZ WBK Shareholders allocated the net profit of 2008 to the reserve capital and to the general risk fund. Therefore, Bank Zachodni WBK S.A. didn't pay a dividend out of its income generated in 2008.

56. Change of majority shareholder

On 10 September 2010, the Board of Allied Irish Banks decided to sell the Polish assets of AIB to Banco Santander for a total amount of approx. EUR 3.1 billion. The transaction included the sale of AIB's entire shareholding in Bank Zachodni WBK S.A., i.e. 51,413,790 shares representing 70.4% of the bank's share capital (for a price of ca. EUR 2,938 m) and 50% shareholding in BZ WBK AIB Asset Management S.A. (for a price of ca. EUR 150 m). Banco Santander will acquire the shares in Bank Zachodni WBK S.A. through a public tender offer for 100% of the capital of the bank, addressed to all shareholders, in which AIB will tender all of its shares. The proposed disposal is part of AIB's capital raising initiatives as announced on 30 March 2010.

In thousands of PLN

Tender offer for the shares of Bank Zachodni WBK S.A.

On 7 February 2011, Banco Santander announced that it had launched a tender offer for 100% of the share capital of Bank Zachodni WBK S.A. offering PLN 226.89 per share. Under the tender offer Santander intends to buy 73,076,013 shares in BZ WBK that will give it 73,076,013 votes at the General Meeting of Shareholders, i.e. 100% of the share capital and votes. The consummation of the tender offer is subject to the acceptance of at least 51,153,210 shares or 70% of the outstanding shares of BZWBK. As required by law, the Management Board of Bank Zachodni WBK S.A. and Banco Santander advised their employees and employee associations of the Tender Offer as well as of the text of the announcement.

KNF decision

On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

Signatures of Members of the Management Board			
Date	**Name**	**Function**	**Signature**
23.02.2011	Mateusz Morawiecki	President	
23.02.2011	Paul Barry	Member	
23.02.2011	Andrzej Burliga	Member	
23.02.2011	Declan Flynn	Member	
23.02.2011	Justyn Konieczny	Member	
23.02.2011	Janusz Krawczyk	Member	
23.02.2011	Michael McCarthy	Member	
23.02.2011	Marcin Prell	Member	
23.02.2011	Mirosław Skiba	Member	
23.02.2011	Feliks Szyszkowiak	Member	

Date	Name	Function	Signature
23.02.2011	Wojciech Skalski	Financial Accounting Area Director	

Deloitte.

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AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Bank Zachodni WBK S.A.

We have audited the attached consolidated financial statements of the Bank Zachodni WBK S.A. Capital Group (Capital Group), with Bank Zachodni WBK S.A as the Parent Company (Parent Company, Bank), its registered office in Wroclaw, at Rynek 9/11, including consolidated statement of financial position prepared as of 31 December 2011, consolidated income statement and consolidated statement of comprehensive income, movements on consolidated equity, consolidated statement of cash flow for the financial year from 1 January 2011 to 31 December 2011 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the capital group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

– section 7 of the Accounting Act,
– national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

District Court for the city of Warsaw, KRS No. 0000031236, NIP: 527-020-07-86, REGON: 010076870
Share Capital: 100 000 PLN

Member of Deloitte Touche Tohmatsu

Deloitte.

In our opinion the audited consolidated financial statements in all material respects:

– present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as of 31 December 2011 as well as its profit or loss in the financial year from 1 January 2011 to 31 December 2011,
– have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
– comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2011 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited consolidated financial statements.

Jacek Marczak
Certified Auditor
No. 9750

....
Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

Dariusz Szkaradek
Deputy Chairman of the Management Board
No. 9935

....
represented by

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....
entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 29 February 2012

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR 2011

2011

Bank Zachodni WBK S.A.

Dear All,

Year 2011 was the year of duality. On the one hand, we witnessed the weakening Eurozone zone and on the other, sound performance of the Polish economy, including the banking sector. Bank Zachodni WBK emerged from the global crisis as a key player on the banking market in Poland, supported by the new strategic investor: the Santander Group.

Last year, the Polish economy expanded at a relatively high pace. The GDP growth totaled 4.3%. Growing consumption and investment expenditure were the main drivers of the economic upsurge. Not only a high pace of investment growth seen in the public sector (infrastructural projects financed from EU funds), but also a clear revival of private investments and savings should be mentioned. The external macroeconomic environment changed significantly throughout the last year. The overall global economic climate deteriorated substantially and, additionally, the sovereign debt crisis affecting some of the Euro zone countries became more severe.

In such economic environment, on 1 April 2011, Bank Zachodni WBK became part of the Santander Group - a strong financial group, the largest one in the Euro zone. The key integration platforms included the implementation of Group-wide solutions, exchange of best practice, enhanced cross-sell potential as well as new business lines and product proposition for customers. Cooperation and cross-selling opportunities are available in such areas, as treasury services, bancassurance, cards or asset management. Internally, the integration process embraces the management of risk and control environment as well as solutions aimed at improving effectiveness and cost management.

In 2011, Bank Zachodni WBK witnessed record high business performance. The 2011 PBT totaled PLN 1 631 m (i.e. PAT of PLN 1 316 m), which (excluding one-off adjustments) represents a growth by 26.4% as compared to 2010. We also recorded a two-digit increase in our interest income, i.e. by 13.5%. That was a sheer consequence of higher volumes.

The number of active bank accounts exceeded 3.5m and was above 17% up on a corresponding figure for the last year. Monthly sales of cash loans reached their all times record for the Bank. From December 2010 to December 2011, the sale of cash loans went up by 15.2%. It should be stressed we were much ahead of the rather stagnant market in terms of the growth in cash loan volumes. The ROE generated by Bank Zachodni WBK was amongst the highest ones seen on the market, at 21.2%. In addition, year 2011 witnessed a strong, almost 10%, increase in mortgage loans. Moreover, the dynamic growth of business loans should be highlighted. Business customers have also substantially increased their share in deposits. The total value of deposits in Bank Zachodni WBK went up by 11.6% on a y-o-y basis. It should be also highlighted that last year the NPL ratio fell from 6.8% to 5.5%.

Business and Corporate Banking are successfully pursuing a business growth strategy – deposits went up by more than 42%, gross loans (including leasing and factoring products) grew by 18.5%. The Global Banking & Markets Division (GBM), established to manage relations with the bank's largest corporate customers, became fully operative at the end of 2011.

We have proved that we are one of the most innovative financial groups in Poland. We prepared a special mobile banking offer (Avocado package) and its distribution via a new external channel - the sale network of the telecommunication company Polkomtel S.A. We keep on developing our services in the form of a virtual pre-paid card, stadium card for sports fans and a school card used already in over 25 schools. The Wrocław city card (Urbancard) issued by Bank Zachodni WBK has been expanded by payment card functions with the use of paypass technology. In February 2011, Bank Zachodni WBK was awarded a tender by the city of Poznań and signed an agreement on issuing electronic cards under Poznańska Elektroniczna Karta Aglomeracyjna (PEKA) project.

In its operations, Bank Zachodni WBK Group guided itself by corporate social responsibility. 2001 saw a premiere of the newest film production by Jerzy Hoffman "1920: the Battle of Warsaw", under the patronage of Bank Zachodni WBK. In addition, the Bank was involved in educational initiatives addressed to schools aimed at attracting attention to events in 1920 which were so important for Poland. Last year, we continued to deliver the program "Barrier-free service" - 2011 saw the increase of the number of ATMs adjusted to vision impaired customers (up to 105) and the number of outlets that meet the requirements of the disabled (up to 100). Through the agency of Bank Zachodni WBK Foundation, a variety of actions are taken for the benefit of children and young people. Amongst others, the Foundation runs two large grant-based programs – "The Bank of Children's Smiles" and "The Bank of Ambitious Youth".

The top priority of Bank Zachodni WBK Group continues to be the growth of profitability and efficiency as well as top-quality customer service. The ongoing integration with business structures of Banco Santander as well as a new manner of managing individual business areas and the branch network will allow to maximize the set targets.

Bank Zachodni WBK has a strong growth potential. Our most important "asset" are employees, whose professionalism and involvement generate such impressive businesses results. I would also like to thank the members of Supervisory and Management Boards of BZ WBK subsidiaries who contributed to informed business decisions made by BZ WBK in the past year. In particular, I wish to express my appreciation to the Members of the Management Board and Supervisory Board of Bank Zachodni WBK. Our excellent cooperation yields a measurable business success.

We enter 2012 not only in good moods but also with hope that we will further strengthen the market position of our Group. The historical event for Poland in 2012 will be organization of the European Championships in football. Wishing success to the Polish national team I strongly believe that Euro 2012 will also become the success of the Polish economy.

Kind regards
Mateusz Morawiecki

Management Board President
of Bank Zachodni WBK

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In thousands of PLN

Consolidated income statement

for reporting period:		01.01.2011-31.12.2011	01.01.2010-31.12.2010
Interest income		3 413 733	3 130 301
Interest expense		(1 345 148)	(1 308 126)
Net interest income	Note 6	**2 068 585**	**1 822 175**
Fee and commission income		1 558 664	1 555 947
Fee and commission expense		(200 992)	(212 719)
Net fee and commission income	Note 7	**1 357 672**	**1 343 228**
Dividend income	Note 8	68 025	54 514
Net trading income and revaluation	Note 9	267 151	258 731
Gains (losses) from other financial securities	Note 10	11 713	12 408
Other operating income	Note 11	49 804	45 948
Impairment losses on loans and advances	Note 12	(366 982)	(420 754)
Operating expenses incl.:		(1 924 642)	(1 763 521)
Bank's staff, operating expenses and management costs	*Notes 13, 14*	*(1 659 145)*	*(1 600 592)*
Depreciation/amortisation		*(215 875)*	*(128 767)*
Other operating expenses	*Note 15*	*(49 622)*	*(34 162)*
Operating profit		**1 531 326**	**1 352 729**
Share in net profits of entities accounted for by the equity method		11 104	4 452
Profit before tax		**1 542 430**	**1 357 181**
Corporate income tax	Note 16	(315 563)	(316 612)
Profit for the period		**1 226 867**	**1 040 569**
of which:			
attributable to owners of BZ WBK S.A.		*1 184 347*	*974 223*
attributable to non-controlling interests		*42 520*	*66 346*
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		16,21	13,33
Diluted earnings per share		16,15	13,28

Consolidated statement of comprehensive income

for reporting period:	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Profit for the period	**1 226 867**	**1 040 569**
Other comprehensive income:		
Available-for sale financial assets valuation	62 935	11 867
Cash flow hedges valuation	49 922	97
Other comprehensive income for the period, net of income tax	**112 857**	**11 964**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 339 724**	**1 052 533**
Attributable to:		
owners of BZ WBK S.A.	*1 296 531*	*985 352*
non-controlling interests	*43 193*	*67 181*

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of financial position

as at:		31.12.2011	31.12.2010
ASSETS			
Cash and balances with central banks	Note 18	1 425 541	2 534 463
Loans and advances to banks	Note 19	1 244 290	619 655
Financial assets held for trading	Note 20	5 860 309	2 238 966
Hedging derivatives	Note 21	141 636	14 768
Loans and advances to customers	Note 22	38 017 173	32 838 385
Investment securities	Notes 23, 24	11 664 507	13 395 355
Investments in associates and joint ventures	Note 25	104 512	87 360
Intangible assets	Note 26	151 166	172 561
Property, plant and equipment	Note 27	499 793	547 536
Current income tax assets		20 687	-
Net deferred tax assets	Note 28	245 019	309 164
Assets classified as held for sale	Note 29	82 604	2 502
Other assets	Note 30	416 102	393 156
Total assets		**59 873 339**	**53 153 871**
LIABILITIES			
Deposits from banks	Note 31	2 556 715	2 526 082
Hedging derivatives	Note 21	523 725	16 441
Financial liabilities held for trading	Note 20	956 768	578 611
Deposits from customers	Note 32	46 829 482	41 970 454
Subordinated liabilities	Note 33	441 234	395 230
Current income tax liabilities		-	82 858
Other liabilities	Note 34	1 082 455	810 620
Total liabilities		**52 390 379**	**46 380 296**
Equity			
Equity attributable to owners of BZ WBK S.A.		**7 355 575**	**6 623 056**
Share capital	Note 35	730 760	730 760
Other reserve funds	Note 36	4 698 884	4 344 640
Revaluation reserve	Note 37	545 318	433 134
Retained earnings		196 266	140 299
Profit of the current period		1 184 347	974 223
Non-controlling interests in equity		**127 385**	**150 519**
Total equity		**7 482 960**	**6 773 575**
Total equity and liabilities		**59 873 339**	**53 153 871**

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

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 in equity	Total
Note	**35**	**36**	**37**			
Opening balance as at 31.12.2010	**730 760**	**4 344 640**	**433 134**	**1 114 522**	**150 519**	**6 773 575**
Total comprehensive income	-	-	112 184	1 184 347	43 193	1 339 724
Transfer to other capital	-	333 648	-	(333 648)	-	-
Dividend relating to 2010	-	-	-	(584 608)	(66 327)	(650 935)
Share scheme charge	-	20 748	-	-	-	20 748
Other	-	(152)	-	-	-	(152)
As at 31.12.2011	**730 760**	**4 698 884**	**545 318**	**1 380 613**	**127 385**	**7 482 960**

As at the end of the period revaluation reserve in the amount of PLN 545 318 k comprises of debt securities and equity shares classified as available for sale of PLN 89 379 k and PLN 404 003 k respectively and additionally cash flow hedge activities of PLN 51 936 k.

Bank Zachodni WBK has changed its intention regarding a portfolio of government bonds, which so far have been classified as 'held-to-maturity,' and has reclassified them into the ‘investment financial assets available for sale' category as a result of adapting the Bank’s investment policy to the strategy, investment rules and risk management rules of Santander Group. The above mentioned change was introduced on the last business day of 2011 and pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was recognised measurement at fair value. The same amount of measurement less the deferred tax was referred to equity of the Group during the current reporting period.

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	**35**	**36**	**37**			
Opening balance as at 31.12.2009	**730 760**	**3 566 999**	**422 005**	**1 208 368**	**108 338**	**6 036 470**
Total comprehensive income	-	-	11 129	974 223	67 181	1 052 533
Transfer to other capital	-	775 765	-	(775 765)	-	-
Dividend relating to 2009	-	-	-	(292 304)	(25 000)	(317 304)
Other	-	1 876	-	-	-	1 876
As at 31.12.2010	**730 760**	**4 344 640**	**433 134**	**1 114 522**	**150 519**	**6 773 575**

As at the end of the period revaluation reserve in the amount of PLN 433 134 k comprises of debt securities and equity shares classified as available for sale of PLN 19 839 k and PLN 411 280 k respectively and additionally cash flow hedge activities of PLN 2 015 k.

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

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Consolidated statement of cash flows

for reporting period:	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Profit before tax	**1 542 430**	**1 357 181**
Total adjustments:	**217 035**	**30 051**
Share in net profits (losses) of entities accounted for by the equity method	(11 104)	(4 452)
Depreciation/amortisation	215 875	128 767
Impairment losses	2 935	(186)
Gains (losses) on exchange differences	(37 510)	(99 467)
Interests and similar charges	154 394	(5 739)
Dividend received	(68 025)	(54 514)
(Profit) loss from investing activities	(9 608)	(11 691)
Change in provisions	5 112	43 834
Change in trading portfolio financial instruments	601 777	(191 378)
Change in loans and advances to banks	(9 686)	(1 115)
Change in loans and advances to customers	(5 178 788)	1 731 407
Change in deposits from banks	293 198	(1 676 441)
Change in deposits from customers	4 431 124	367 259
Change in other assets and liabilities	207 990	28 310
Paid income tax	(381 302)	(224 849)
Other adjustments	653	306
Net cash flow from operating activities	**1 759 465**	**1 387 232**
Inflows	**3 496 584**	**3 561 459**
Sale/maturity of investment securities	3 425 649	3 504 878
Sale of intangible assets and property, plant and equipment	2 899	2 057
Dividend received	68 025	54 514
Proceeds from other investments	11	10
Outflows	**(1 746 598)**	**(3 575 518)**
Purchase of subsidiaries, associates and joint ventures	(5 018)	(41)
Purchase of investment securities	(1 620 977)	(3 504 194)
Purchase of intangible assets and property, plant and equipment	(118 615)	(69 535)
Other investments	(1 988)	(1 748)
Net cash flow from investing activities	**1 749 986**	**(14 059)**
Inflows	**516 681**	**806 230**
Drawing of long-term loans	516 681	414 160
Increase of subordinated liabilities	-	392 070
Outflows	**(1 071 450)**	**(1 551 696)**
Repayment of long-term loans	(329 725)	(1 163 213)
Dividends and other payments to shareholders	(650 936)	(317 304)
Other financing outflows	(90 789)	(71 179)
Net cash flow from financing activities	**(554 769)**	**(745 466)**
Total net cash flow	**2 954 682**	**627 707**
Cash at the beginning of the accounting period	**4 343 025**	**3 715 318**
Cash at the end of the accounting period*	**7 297 707**	**4 343 025**

*Cash components are presented in Note 44.

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

In thousands of PLN

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. includes bank's stand alone financial information as well as information from its subsidiaries (all together called Group), share of net assets of associated entities and joint ventures.

The direct parent of Bank Zachodni WBK SA is Banco Santander, S.A. seated in Santander, Spain.

On 10 September 2010, the Board of Allied Irish Banks plc, resolved to sell its entire stake in Bank Zachodni WBK and 50% of shares in BZ WBK AIB Asset Management S.A. to Banco Santander.
On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.
On 1 April 2011, Banco Santander finalised the purchase of 95.67% stake in the Bank. Consequently, Bank Zachodni WBK joined Santander Group.
As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK, the non-controlling shareholders became entitled to demand that their shares be acquired by the majority shareholder. Based on the requests from the shareholders, Banco Santander acquired additional 421 859 shares of Bank Zachodni WBK, thus increasing its share in the share capital and voting power at the General Meeting of Shareholders to 96.25%.

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 securities,
- leasing,
- factoring,
- asset/ fund management,
- insurance services,
- trading in stock and shares of commercial companies.

Group of Bank Zachodni WBK consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2011	% of votes on AGM 31.12.2010
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2.	BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o
3.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100
4.	Dom Maklerski BZ WBK S.A.	Poznań	99,99	99,99
5.	BZ WBK Finanse & Leasing S.A.	Poznań	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.
6.	BZ WBK Leasing S.A.	Poznań	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.
7.	BZ WBK Nieruchomości S.A.	Poznań	99,99	99,99
8.	BZ WBK Asset Management S.A.*	Poznań	50	50
9.	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes is held by BZ WBK Asset Management S.A.	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.

In thousands of PLN

* In case of BZ WBK Asset Management S.A., the Bank is a co-owner of the company together with Banco Santander, S.A.. Both owners of BZ WBK Asset Management S.A. 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 Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

Associates:

	Associates	Registered office	% of votes on AGM 31.12.2011	% of votes on AGM 31.12.2010
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50	50
2.	Metrohouse & Partnerzy S.A.*	Warszawa	21.23	21.23
3.	Krynicki Recykling S.A.*	Warszawa	24.54	24.65
4.	Holicon Group S.A.*	Poznań	47.09	-

*Metrohouse & Partnerzy S.A., Krynicki Recycling S.A and Holicon Group S.A. are the associates of BZ WBK Inwestycje Sp. z o.o - bank's subsidiary. They are accounted for using the equity method. Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

Joint ventures:

	Joint ventures	Registered office	% of votes on AGM 31.12.2011	% of votes on AGM 31.12.2010
1.	BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	50	50
2.	BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	50	50

2. Basis of preparation of financial statements

Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2011 have been prepared in accordance with the 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 BZ WBK Group.

Changes in accounting policies

Comparability with results of previous periods

To ensure comparability, the following substantial changes were made to the presentation of financial data:

a) in consolidated statement of financial position: settlements on account of matured and unpaid derivative instruments with bank customers (PLN 89 k as at 31.12.2010) have been moved from "Financial assets held for trading" to "Loans and advances to customers";

b) in the 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 2009 cash components have included other liquid financial assets with original maturity up to 3 months. The details of reclassification are presented in the table below.

	31.12.2010		31.12.2009	
Cash components:	Before revision	After revision	Before revision	After revision
Cash and current accounts in central bank	2 534 463	2 534 463	2 660 658	2 660 658
Deposits in other banks, current account	609 318	609 261	654 932	654 932
Debt securities held for trading	1 223 028	1 199 301	449 354	399 728
Debt securities available for sale	-	-	1 793 330	-
Total	**4 366 809**	**4 343 025**	**5 558 274**	**3 715 318**

In thousands of PLN

The changes were made to appropriate items of the statement of cash flows, i.e.:

a) Change in loans and advances to banks,
b) Change in trading portfolio financial instruments,
c) Purchase/sale of investment securities.

Changes in judgments and estimates

Bank Zachodni WBK has changed its intention regarding a portfolio of government bonds, which so far have been classified as 'held-to-maturity,' and has reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The above mentioned change was introduced on the last business day of 2011 and pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was recognised measurement at fair value. The same amount of measurement less the deferred tax was referred to equity of the Group during the current reporting period.

The Management Board of BZWBK Group has revised its estimates in respect of the economic life of intangible assets and property, plant and equipment as part of the ongoing process of integration with Santander Group. A resultant non-recurring increase in depreciation of fixed assets and amortisation of intangible assets was PLN 76 352 k, that is included in the total amount of once-off adjustments of PLN 88 780 k.

New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZWBK Group and are not yet effective or have neither been implemented earlier

IFRS	Description of changes	Effective from	Impact on the Group
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 2015	The Group has not completed its analysis of changes
IFRS 7 Financial instruments: disclosures	The change requires disclosure of information so that the readers of the financial statements may: understand the relation between the transferred financial asset which has not been fully excluded from the financial statements and the underlying financial obligations; assess the nature of the asset, associated risks and exposure towards the excluded asset. The change includes definition of "continous engagement" to ensure compliance with disclosure requirements.	1 January 2012	Amendments will not have material impact over financial statement
IFRS 10 Consolidated Financial Statements	New standard supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements together with the related interpretation SIC 12 Consolidation-Special Purpose Entities. Establishes principles for the presentation and preparation of consolidated financial statements.	1 January 2013	The Group has not completed its analysis of changes
IFRS 11 Joint Arrangements	Supersedes SIC –13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures	1 January 2013	The Group has not completed its analysis of changes
IFRS 12 Disclosures of Interests in Other Entities	New standard requires the disclosure of information that enables users of financial statements to evaluate: -the nature of, and risks associated with, its interests in other entities; -the effects of those interests on its financial position, financial performance and cash flows.	1 January 2013	The Group has not completed its analysis of changes
IFRS 13 Fair Value Measurement	IFRS establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs.	1 January 2013	The Group has not completed its analysis of changes

In thousands of PLN

IAS 27 Separate Financial Statements	IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.	1 January 2013	The Group has not completed its analysis of changes
IAS 28 Investments in Associates and Joint Ventures	The change prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2013	The Group has not completed its analysis of changes
IAS 1 Presentation of Financial Statements	The amendments requires preparing presentation of items of other comprehensive income (OCI) in financial statements accordance with IFRSs and those accordance with GAAP.	1 January 2013	The Group has not completed its analysis of changes
IFRS 7 Financial instruments: disclosures	The amendments introduce the change in the disclosure requirements with regard to the effects of offsetting of financial assets and financial liabilities.	1 January 2013	The Group has not completed its analysis of changes
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments	1 January 2014	The Group has not completed its analysis of changes

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2011

IFRS	Description of changes	Effective from	Impact on the Group
IAS 32 Financial Instruments: Presentation	The amendment pertains to the classification of rights issue.	1 January 2011	The amendments have not had material impact over 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 amendments have not had material impact over financial statement
IAS 24 Related Party Disclosures	Change relating to simplified definition of a related party and removal of certain internal inconsistencies.	1 January 2011	The amendments have not had material impact over financial statement
IFRS 7 Financial instruments: disclosures "Changes to the International Financial Reporting Standards 2010"	Amended requirements of quantitative credit risk disclosures.	1 January 2011	The amendments have not had material impact over financial statement
IAS 1 Presentation of financial reporting "Changes to the International Financial Reporting Standards 2010"	Amended method of presenting components of movements in equity.	1 January 2011	The amendments have not had material impact over financial statement
IAS 34 Interim financial statements "Changes to the International Financial Reporting Standards 2010"	Guidelines to disclosing the following information: -circumstances that may affect fair value of financial instruments and their classification, -transfer of financial instruments in fair value hierarchy, -changes in asset and financial liabilities classification.	1 January 2011	The amendments have not had material impact over financial statement
IFRIC 13 "Changes to the International Financial Reporting Standards 2010"	Fair value of loyalty points.	1 January 2011	The amendments have not had material impact over financial statement

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 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 principles

Use of judgments and estimates

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 BZWBK 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 BZWBK 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 are driven by the following key factors:

- EP-Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Group,
- PD - Probability of default, based on historical observations together with EP is considered to be best indicator of incurred but not reported losses,
- 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,
- 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.

Impairment loss on 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.

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

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

Asset held for sale are recorded at the lower of its carrying amount or 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 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 BZWBK 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 (acquisition) method
BZWBK Group applies the acquisition method to account for acquisition of subsidiaries. Under this method, the acquirer has to:
- recognize and measure all identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree as at the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree);
- recognize and measure goodwill or gain from a bargain purchase.

The acquirer measures:
- identifiable assets acquired and liabilities assumed -at fair value as at the acquisition date;
- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquiree

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 accounted for in accordance 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
PLN is the accounting currency in the Group.
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 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 positive 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. As at the balance sheet date the Group doesn't hold this category of financial instrument.

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 factoring receivables of Faktor Companies.

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, debt securities in issue and subordinated liabilities.

Recognition

The Group recognises a financial asset or a financial liability in 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 as contingent liabilities.

A regular way purchase or sale of a financial asset is 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 from 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 is 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.

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.

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 the statement 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.

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 ("repo transaction") 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 repo transaction") 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 also to the hedged item, which otherwise would be measured at amortised cost and presented as 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 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 establishing 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 in 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 rating) or significant retail exposure – 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 for 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 the 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. The owner-occupied property acquired through 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 part of an item of property, plant and equipment. 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 initial date of classification of non-current assets as assets held-for-sale, the Group measures them at the lower of 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 is 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 live is 3 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 their 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.
Revaluation reserve is not distributable.

Non-controlling interests are 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 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 disability pension bonus is estimated using actuarial valuation method. The valuation of those accruals is updated at least once a year.

Profit Sharing Scheme
BZWBK 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 conditional obligation to dispose shares at a price different from the fair value of shares. Resulting from the classification of the scheme BZWBK 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 corresponding with employee related expenses.

Share based payments
BZWBK 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 programme value in the costs of 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 are dependent on 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 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 on financial assets is recognised provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

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 points 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 of impairment of a financial asset, interest income is accrued based on the carrying amount of the receivable (this is the value reduced by revaluation charge) using of the interest rate according to which future cash flows were discounted for impairment valuation.

Net commission income

Fees and commissions are recognised in the income statement at amortised cost using the effective interest rate method described in section “Net interest income”.

Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are recognized on a straight-line basis in the profit and loss account.

Other fees and charges, which are not settled according to the effective interest rate, are included in 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 incomes related to the debt instruments are also reflected in the net interest income.

Dividend income

Dividends are taken to the profit and loss account at the moment of acquiring rights to them provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

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 their sale price.
Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity 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. Segment reporting

Operational activity of the BZ WBK S.A. 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 sale and service of products or 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 regulated by segments on a mutual basis, according to single rates for specific services or agreements concerning the breakdown of total income and/or cost.
Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

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.

Retail Banking

Retail Banking segment includes products and services targeted at individual 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 provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit 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 Brokerage House and asset management services within investment funds and private portfolios.

Treasury

Treasury is responsible for the management of the bank's liquidity, interest rate risk and foreign exchange rate risks. It also provides interest rate and fx risk management products to the bank's customer base. Through its presence in the wholesale markets, it also generates revenues from interest rate and fx risk positioning activity.

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.

In thousands of PLN

Consolidated income statement (by business segments)

31.12.2011	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest income	**1 415 576**	**675 470**	**22 250**	**(99 638)**	**54 927**	**2 068 585**
incl. internal transactions	-	(108 123)	74 604	-	33 519	-
Other income	**920 143**	**118 385**	**272 677**	**317 467**	**57 668**	**1 686 340**
incl. internal transactions	141 444	50 772	(90 364)	(97 366)	(4 486)	-
Dividend income	**-**	**-**	**68 025**	**-**	**-**	**68 025**
Operating costs	**(1 211 421)**	**(212 528)**	**(145 042)**	**(34 944)**	**(104 832)**	**(1 708 767)**
incl. internal transactions	(2 010)	(33 535)	(7 193)	25 417	17 321	-
Depreciation/amortisation	**(145 696)**	**(20 558)**	**(10 784)**	**(6 110)**	**(32 727)**	**(215 875)**
Impairment losses on loans and advances	**(213 657)**	**(157 498)**	**-**	**-**	**4 173**	**(366 982)**
Share in net profits of entities accounted for by the equity method	**8 166**	**-**	**2 938**	**-**	**-**	**11 104**
Profit before tax	**773 111**	**403 271**	**210 064**	**176 775**	**(20 791)**	**1 542 430**
Corporate income tax						(315 563)
Non-controlling interests						(42 520)
Profit for the period						**1 184 347**

Consolidated statement of financial position (by business segment)

31.12.2011	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	17 907 539	20 013 974	79 971	8 932	6 757	38 017 173
Investments in associates and joint ventures	42 830	-	61 682	-	-	104 512
Other assets	6 055 815	4 551 929	1 145 105	9 263 858	734 947	21 751 654
Total assets	**24 006 184**	**24 565 903**	**1 286 758**	**9 272 790**	**741 704**	**59 873 339**
Deposits from customers	33 907 984	12 270 078	651 202	218	-	46 829 482
Other liabilities and equity	2 603 458	4 872 842	331 822	3 410 745	1 824 990	13 043 857
Total equity and liabilities	**36 511 442**	**17 142 920**	**983 024**	**3 410 963**	**1 824 990**	**59 873 339**

In thousands of PLN

Consolidated income statement (by business segments)

31.12.2010	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest income	**1 203 493**	**638 803**	**24 459**	**(93 806)**	**49 226**	**1 822 175**
incl. internal transactions	-	(65 900)	46 228	-	19 672	-
Other income	**849 737**	**95 385**	**341 674**	**326 300**	**47 219**	**1 660 315**
incl. internal transactions	120 625	41 087	(86 609)	(85 699)	10 596	-
Dividend income	-	-	**54 514**	-	-	**54 514**
Operating costs	**(1 192 024)**	**(198 411)**	**(149 826)**	**(40 830)**	**(53 663)**	**(1 634 754)**
incl. internal transactions	5 123	(42 626)	(5 563)	22 939	20 127	-
Depreciation/amortisation	**(102 489)**	**(12 564)**	**(9 275)**	**(3 161)**	**(1 278)**	**(128 767)**
Impairment losses on loans and advances	**(373 583)**	**(67 181)**	-	-	**20 010**	**(420 754)**
Share in net profits of entities accounted for by the equity method	**2 555**	-	**1 897**	-	-	**4 452**
Profit before tax	**387 689**	**456 032**	**263 443**	**188 503**	**61 514**	**1 357 181**
Corporate income tax						(316 612)
Non-controlling interests						(66 346)
Profit for the period						**974 223**

Consolidated statement of financial position (by business segment)

31.12.2010	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	15 868 881	16 888 035	61 182	89	20 198	32 838 385
Investments in associates and joint ventures	32 496	-	54 864	-	-	87 360
Other assets	7 116 426	4 430 708	1 160 592	6 347 943	1 172 457	20 228 126
Total assets	**23 017 803**	**21 318 743**	**1 276 638**	**6 348 032**	**1 192 655**	**53 153 871**
Deposits from customers	32 532 318	8 624 360	781 201	32 575	-	41 970 454
Other liabilities and equity	2 312 899	4 640 248	333 969	2 557 595	1 338 706	11 183 417
Total equity and liabilities	**34 845 217**	**13 264 608**	**1 115 170**	**2 590 170**	**1 338 706**	**53 153 871**

4. Risk management

BZ WBK Capital Group is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that BZ WBK Group continues to take risk in a controlled way in order to enhance shareholder value. Risk is a possibility that some events would materialise, which would impact the achievement of the BZ WBK Group's strategic goals.

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set appropriate risk limits, which restrict the risk exposure. BZ WBK Group continues to modify and enhance its risk management practices to reflect changes in Bank's risk profile, economic environment, regulatory requirements and evolving best practice.

Risk management in BZ WBK Group is governed by the „tone at the top" rule. This means that the Management Board and Supervisory Board set the business direction and actively support the risk management strategies. It is executed by the approval of the key risk management policies, risk committee membership of the Management Board Members, review and acceptance of the risks and reports on the risk level.

Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies, the acceptable risk level and monitors the utilisation of the internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring of remedial actions. The Supervisory Board assesses if the Management Board control activities are effective and aligned with the Supervisory Board policy, including the assessment of the risk management system.

Audit and Compliance Committee supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports on independent internal audit unit and compliance units. The Committee receives the regular quarterly reports on the status of the implementation of audit recommendations as the basis of the assessment of the quality of management actions. The Audit Committee assesses the efficiency of the internal control system and the risk management system.

Risk Oversight Committee supports the Supervisory Board in assessment of the effectiveness of the internal control system and risk management system and the resources, which were accepted and planned in order to provide the efficient management of the material risks of the Group.

Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, is responsible for implementation and updating of the written risk management strategies, and transparency of the activities. The Management Board reviews the financial results of the Group.

The Management Board established the suite of committees directly responsible for the development of the risk management methodology and monitoring of the level of risk exposure.

Risk Management Committee sets the direction of the risk management strategy in BZ WBK Group. The Risk Management Committee supervises the committees responsible for management of different risks. The Committee allows for integration of risks present in several areas, which supports a comprehensive and concise view of those risks and systematises the top management reporting on risk management across BZ WBK Group.

Credit Policy Forum undertakes key decisions on credit risk, approves credit policies, classification systems, credit risk limits and system of credit discretions.

Credit Risk Measurement Committee is responsible for direct oversight of the independent development and validation of credit risk models in BZ WBK Group.

Credit Committee approves credit transactions exceeding the credit discretions allocated in BZ WBK Group.

Provisions Committee decides on the amount of impairment provisions for credit exposures and the legal provisions. The Committee approves the methodology and the parameters used for calculation of impairment charge on a portfolio level for BZ WBK Group.

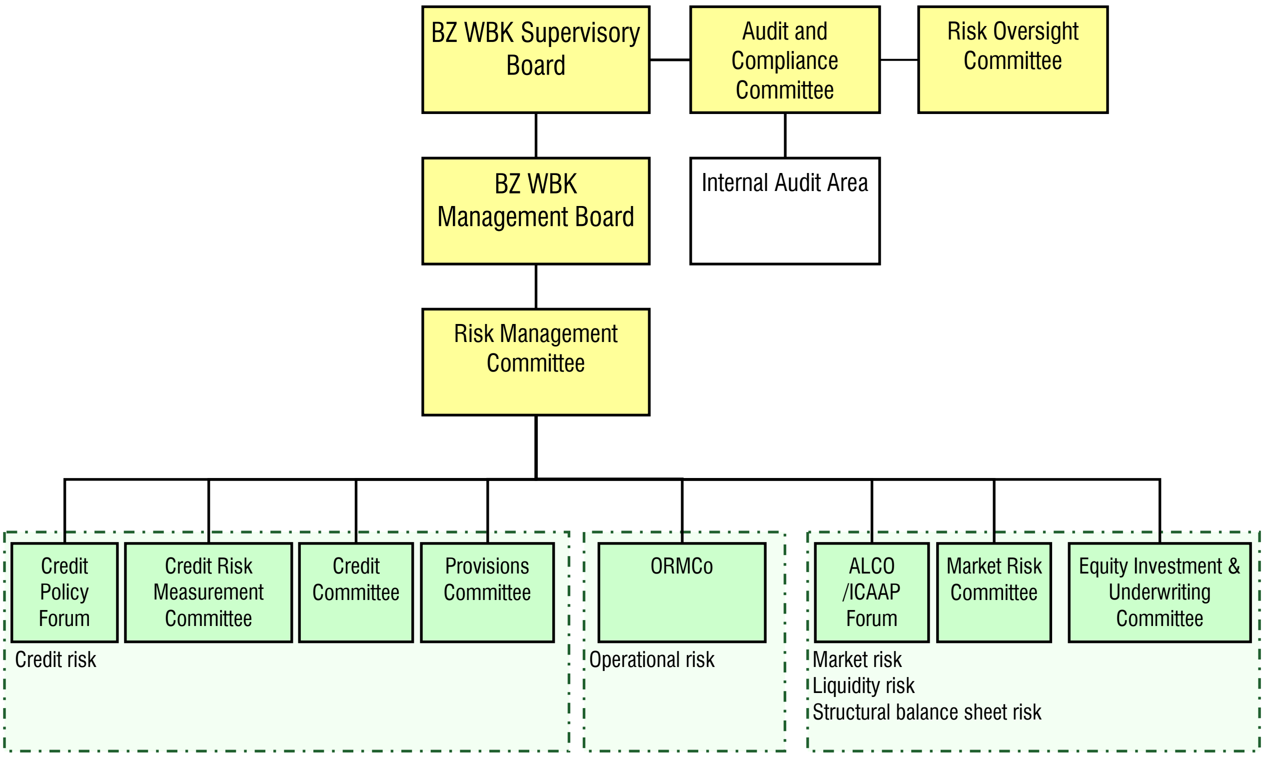
Operational Risk Management Committee (ORMCo) sets the strategic activities within the operational risk management in BZ WBK Group, including business continuity management, information security and fraud prevention.

Market Risk Committee oversees the risk management and the policies on the market risk in BZ WBK Group, including the strategies on treasury and brokerage activities and monitors relevant parameters on market risk.

Equity Investment and Underwriting Committee accepts transactions on commercial equity investments and underwriting transaction and approves the policies on management and oversight of investment risk in BZ WBK Group.

ALCO/ICAAP Forum supervises the policies on capital management and liquidity risk. The tasks related to capital strategy are executed by the ALCO sub-committee. When complemented with other representatives, the ALCO plays the role of ICAAP Forum. As ICAAP Forum the Committee is responsible for the internal capital adequacy assessment process (ICAAP) and supervision of the ICAAP process across BZ WBK Group.

The below picture presents the corporate governance in relation to the risk management process.



Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee.

In BZ WBK Group the level of acceptable risk has been defined in the form of quantitative limits constituting the „Risk Appetite Statement", approved by the Management Board and accepted by the Supervisory Board. Based on the global limits, adequate watch limits are defined as well as the risk management policies.

BZ WBK Group is exposed to a variety of risks impacting the strategic goals. The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the BZ WBK Group are the following:

- credit risk,
- concentration risk,
- market risk,
- liquidity risk,
- operational risk,
- compliance risk.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

Credit risk

BZ WBK Group'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 that a borrower will fail 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 in BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank 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 Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models based on EVA (Economic Value Added) are used for all significant credit portfolios.

Continued pro-active credit risk management is recognised as key to the Group's performance in the volatile markets and deteriorating economic growth conditions. In 2011 the Group continued its risk management policy that focuses both on credit risk and business effectiveness. Under the strategy of pro-active management, the Group completed the following:

- Changes to credit Policies were implemented to achieve full compliance with S III Recommendation and updated Consumer Loan Act;

- Decisioning systems based on the risk assessment performed by scoring/rating systems and measurement of transaction profitability were maintained and enhanced; In the retail loans area it is worth highlighting that the Bank implemented individual pricing on mortgage loans; In SME area the development of risk assessment models based on wide use of external data, including new source of data on business customers;

- Effectiveness of credit processes in all portfolios was enhanced and increased, increased automation of decisions on retail portfolios is worth highlighting;

- Prudential management of property loans portfolio was continued, orientated at strict monitoring of credit risk limits and appropriate quality of credit portfolio.

- Maintaining compliance with the regulations for the Polish sector, the Group was adjusting its policies and processes to the standards of Santander Group;

Continued prudential risk management policy with close observation of the changing external conditions and particular care put into assuring compliance with regulatory requirements as well as efforts to optimise credit process in terms of its efficiency and cost to minimize human error, ensure robust customer service and lower operational costs are priorities the Group for 2012 as well.

Credit Policy Forum

The credit risk oversight in BZ WBK Group is performed by Credit Policy Forum (CPF). Its key responsibilities comprise development and approval of the best sectoral practice, analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. Based on the current strategic goals of the Bank and the need to enhance the management processes, three sub-committees were established to be responsible for key customer segments: retail segment, Small-and Medium Entities segment and business and corporate segment.

Credit Risk Measurement Committee

The oversight of the credit risk models has been discharged to the newly created Credit Risk Measurement Committee. The Committee is responsible for the approval of the methodology of setting the credit risk limits, development of the rating systems, approval of the methodology and results of the credit risk stress tests and the approval of the EVA (Economic Value Added) methodology.

Credit Division

The main goal of the Credit Division is the effective management of the credit risk, aimed at providing robust and efficient credit process and the highest quality and growth of the loan portfolio. Within the Credit Division there are separate units responsible for creation and implementation of credit risk policies, ongoing monitoring and reporting of the loan portfolio quality, units responsible for credit grading and high-risk loans units.

Risk Management Division

Risk Management Division actively drives the Group's risk management strategy. The main goal of the Risk Management Division in relation to credit risk is to propose optimal solutions supporting realisation of the Group's goals through delivery of improved analyses, internal models and decision tools for the purpose of shaping policy of the Group and measurement of risk.

Credit Policies

Credit policies refer to particular business segments, loan portfolios, banking products and 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 the level acceptable to the Group (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates the credit policies on a regular basis, aiming to bring these guidelines up to date with the Group's strategy, current macroeconomic situation, changes in legal framework and regulatory requirements.

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 within the business segments. 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.

The BZ WBK Group continually strives to ensure best quality credit service to meet the borrowers' expectations and satisfy 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.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the KNF requirements, International Accounting Standards/ International Financial Reporting Standards, and best market practices.

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, mortgage loans, property, cash loans, credit cards and retail overdrafts.

The Group runs a systematic verification of credit grading pursuant to the rules described in the Credit Manuals. Additionally, for selected models automated process of credit grade verification is carried out based on the number of overdue days or behavioural features analysis. Credit grade may also be verified at subsequent credit assessments.

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.

Collateral

The BZ WBK Group is operating the collateral process that appoints the Securities Centre as the unit responsible for proper functioning of the collateral management processes.

The Securities Centre is responsible for providing and monitoring of the collateral that are accurate and compliant with the credit policy for each business segment, for assuring that BZ WBK Group has consistent internal procedures on collateral management and efficient processes on collateral providing, monitoring and release in BZ WBK Group.

Additionally, the Securities Centre supports the credit units – in terms of collateral management – in the credit decisioning process and creation of the credit policies. The Securities Centre collects data on collateral and provides the relevant management information.

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; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee);

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; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee);

Collateral management process

Before credit decision is approved, the Securities Centre is responsible for assessment of the collateral quality:

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Securities Centre actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- registering and verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

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.

In 2011, as part of forced debt collection, the Bank repossessed properties securing loans (plots of land zoned for residential development and one plot partly developed with residential buildings). Total value of the properties comes in at PLN 80.1 m and the Bank's intention is to dispose them shortly. There were no such transactions in comparable period.

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 BZ WBK Group'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.

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 evidences of impairment were 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 Group's 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.

The tables below present BZ WBK Group's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

In thousands of PLN

31.12.2011	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	585 928	-	-	-
	50% - 70%	138 015	-	-	-
	70% - 85%	110 916	-	-	-
	over 85%	125 334	-	-	-
Gross amount		**960 193**	**-**	**-**	**-**
Charge due to impairment losses		(412 720)	-	-	-
Net amount		**547 473**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	471 565	-	-	-
	50% - 70%	184 123	-	-	-
	70% - 85%	385 096	-	-	-
	over 85%	177 794	-	-	-
Gross amount		**1 218 578**	**-**	**-**	**-**
Charge due to impairment losses		(656 575)	-	-	-
Net amount		**562 003**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	9 099 273	1 244 290	11 664 507	5 860 309
	0,10% - 0,30%	14 343 794	-	-	-
	0,30% - 0,65%	4 747 809	-	-	-
	over 0,65%	8 984 157	-	-	-
Gross amount		**37 175 033**	**1 244 290**	**11 664 507**	**5 860 309**
Charge due to impairment losses		(345 950)	-	-	-
Net amount		**36 829 083**	**1 244 290**	**11 664 507**	**5 860 309**
Other receivables		**78 614**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		8 149 493	-	-	-
Guarantees		1 475 440	-	-	-
Nominal value of derivatives - purchased		-	-	-	66 999 516
Allowance for impairment		(21 224)	-	-	-
Off-balance sheet exposures - total		**9 603 709**	**-**	**-**	**66 999 516**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 20

In thousands of PLN

31.12.2010	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	740 716	-	-	-
	50% - 70%	122 328	-	-	-
	70% - 85%	67 486	-	-	-
	over 85%	111 363	-	-	-
Gross amount		**1 041 893**	**-**	**-**	**-**
Allowance for impairment		(393 383)	-	-	-
Net amount		**648 510**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	566 455	-	-	-
	50% - 70%	243 799	-	-	-
	70% - 85%	413 125	-	-	-
	over 85%	108 458	-	-	-
Gross amount		**1 331 837**	**-**	**-**	**-**
Allowance for impairment		(676 262)	-	-	-
Net amount		**655 575**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	12 519 938	619 655	13 395 355	2 238 966
	0,10% - 0,30%	6 173 343	-	-	-
	0,30% - 0,65%	3 623 313	-	-	-
	over 0,65%	9 472 201	-	-	-
Gross amount		**31 788 795**	**619 655**	**13 395 355**	**2 238 966**
Allowance for impairment		(337 976)	-	-	-
Net amount		**31 450 819**	**619 655**	**13 395 355**	**2 238 966**
Other receivables		**83 481**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		5 639 854	-	-	-
Guarantees		1 186 607	-	-	-
Nominal value of derivatives - purchased		-	-	-	42 291 542
Allowance for impairment		(17 217)	-	-	-
Off-balance sheet exposures - total		**6 809 244**	**-**	**-**	**42 291 542**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 20

IBNR portfolio

	Loans and advances to customers 31.12.2011	Loans and advances to customers 31.12.2010
Non-past due	**35 829 301**	**30 590 224**
Past-due	**1 345 732**	**1 198 571**
1-30 days	1 098 866	875 444
31-60 days	166 543	252 541
61-90 days	71 801	65 678
> 90 days	8 522	4 908
Gross amount	**37 175 033**	**31 788 795**

In thousands of PLN

Allowances for impairment by classes

Provision cover		Loans and advances to customers 31.12.2011	Loans and advances to customers 31.12.2010	Loans and advances to banks 31.12.2011	Loans and advances to banks 31.12.2010
Individual allowance for impairment					
	up to 50%	(105 510)	(160 538)	-	-
	50% - 70%	(94 519)	(69 707)	-	-
	70% - 85%	(88 132)	(52 562)	-	-
	over 85%	(124 559)	(110 576)	-	-
Total individual allowance for impairment		**(412 720)**	**(393 383)**	**-**	**-**
Collective allowance for impairment					
	up to 50%	(76 857)	(102 986)	-	-
	50% - 70%	(108 404)	(147 244)	-	-
	70% - 85%	(299 928)	(318 422)	-	-
	over 85%	(171 386)	(107 610)	-	-
Total collective allowances for impairment		**(656 575)**	**(676 262)**	**-**	**-**
IBNR					
	up to 0,10%	(4 119)	(5 959)	-	-
	0,10%-0,30%	(22 562)	(12 084)	-	-
	0,30%-0,65%	(21 714)	(16 035)	-	-
	over 0,65%	(297 555)	(303 898)	-	-
Total IBNR		**(345 950)**	**(337 976)**	**-**	**-**
Total allowance for impairment		**(1 415 245)**	**(1 407 621)**	**-**	**-**

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 31.12.2011, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 1 395 511 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 1 744 389 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 2011, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

As at 31 December 2011, the Group had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 2 entities which accounted for 22.2% of own funds.

In thousands of PLN

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2011 (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	817 422	799 430	17 992
68	REAL ESTATE SERVICES	710 686	643 824	66 862
19	RAFINERY	671 869	499 064	172 805
35	POWER INDUSTRY	616 500	289 588	326 912
46	WHOLESALE TRADE	535 000	535 000	-
68	REAL ESTATE SERVICES	510 582	510 582	-
41	CONSTRUCTION	398 178	377 178	21 000
07	MINING	377 820	14 148	363 672
68	REAL ESTATE SERVICES	377 147	328 306	48 841
23	CERAMICS PRODUCTION	367 254	356 029	11 225
59	MULTIMEDIA	356 809	170 613	186 196
41	CONSTRUCTION	317 615	177 097	140 518
61	TELECOMMUNICATION	325 000	294 503	30 497
68	REAL ESTATE SERVICES	315 175	314 683	492
35	POWER INDUSTRY	284 676	1 399	283 277
41	CONSTRUCTION	282 473	273 551	8 922
64	FINANCIAL SERVICES	257 575	164 943	92 632
68	REAL ESTATE SERVICES	257 270	140 669	116 601
68	REAL ESTATE SERVICES	248 480	205 501	42 979
68	REAL ESTATE SERVICES	241 747	229 288	12 459
Total gross exposure		**8 269 278**	**6 325 396**	**1 943 882**

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2010 (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	822 567	806 239	16 328
68	REAL ESTATE SERVICES	658 703	592 676	66 027
64	FINANCIAL SERVICES	377 810	316 646	61 164
41	CONSTRUCTION	344 273	300 480	43 793
68	REAL ESTATE SERVICES	297 815	297 815	-
68	REAL ESTATE SERVICES	278 828	228 903	49 925
41	CONSTRUCTION	262 800	250 800	12 000
68	REAL ESTATE SERVICES	248 380	232 880	15 500
41	CONSTRUCTION	241 578	241 578	-
68	REAL ESTATE SERVICES	238 363	238 363	-
68	REAL ESTATE SERVICES	225 097	225 097	-
71	INDUSTRIAL CONSTRUCTION	223 917	47 515	176 402
68	REAL ESTATE SERVICES	222 554	211 445	11 109
68	REAL ESTATE SERVICES	218 393	105 770	112 623
41	CONSTRUCTION	207 487	200 479	7 008
68	REAL ESTATE SERVICES	204 571	204 571	-
68	REAL ESTATE SERVICES	183 197	166 768	16 429
41	CONSTRUCTION	176 885	133 338	43 547
16	MANUFACTURING	174 096	162 215	11 881
68	REAL ESTATE SERVICES	173 462	88 830	84 632
Total gross exposure		**5 780 776**	**5 052 408**	**728 368**

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Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. 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 31.12.2011, the highest concentration level was recorded in the “property” sector (19% of the BZ WBK Group exposure), “manufacturing” (13%) and “distribution” (12%).

Groups of PKD by industries:

	Industry	Gross exposure 31.12.2011	Gross exposure 31.12.2010
	Property	7 515 794	7 165 978
	Manufacturing	5 009 463	4 311 220
	Distribution	4 856 776	3 904 839
	Construction	3 571 924	3 278 765
	Financial sector	1 040 992	530 198
	Agriculture	1 006 619	880 718
	Energy	767 532	304 168
	Transportation	698 915	659 358
	Other industries	2 292 017	1 678 263
A	**Total Business Loans**	**26 760 032**	**22 713 507**
B	**Retail (including mortgage loans)**	**12 593 772**	**11 449 018**
A+B	**BZ WBK Group portfolio**	**39 353 804**	**34 162 525**
C	**Other receivables (commercial bonds, reverse repo)**	**78 614**	**83 481**
A+B+C	**Total BZ WBK Group**	**39 432 418**	**34 246 006**

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).

BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally the Group undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are supervised by Market Risk Committee except for structured risk positions managed by ALCO.

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.

BZ WBK Group’s market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. 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 of the Bank are transferred to the Global Banking and Markets Division and are managed centrally. Open positions exposed to interest rate risk and foreign exchange risk of BZ WBK Group subsidiaries are closed with the Bank, with the exception of the BZ WBK Brokerage House, which has been granted risk limits due to the scale and character of its activity.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the BZ WBK Group, a special debt securities portfolio was established funded by a pool of net interest rate insensitive liabilities. Any decisions relating to the value or structure of this portfolio are taken by ALCO. The Global Banking and Markets Division (founded as disclosed in the Management Board Report on BZ WBK Performance in 2011) as a unit managing Bank's centralized market risk exposure has the responsibility for the funding and liquidity management as well as executing deals on behalf of ALCO. For the above reason the market risk policies delegate market risk limits to the appointed bank director within the Global Banking and Markets Division. This limit is established in accordance with Treasury business strategy and approved at Market Risk Committee.

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.

The Financial Risk Management Department within the Risk Management Division responsible for assessing current risk, implementing risk control procedures, risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing assessment methodologies, validating the applied models, and for a consistent risk management across the Group. The Department is located within the Risk Management Division, which allows for an independent risk assessment and monitoring.

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 BZ WBK Market Risk Committee.

Measurement methods
BZWBK Group uses several risk measures to assets market risk exposure: Value at Risk (VaR), sensitivity measures and stress testing.

VaR is determined by means of a statistical modelling process. VaR is a difference between the market value of positions calculated using the current market prices/rates and the market values based on the most severe movements in market rates during the historic observation period. 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. BZWBK 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 BZWBK 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 BZWBK'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 Global Banking and Markets 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 Global Banking and Markets Division. Then the bank's dealers are responsible for entering into transactions in the Wholesale markets so as to manage the overall interest rate risk profile according to the desired risk strategy and in compliance with allocated risk limits.

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 global limit of BZ WBK Group.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of the Global Banking and Markets Division. 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 holding 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.

In thousands of PLN

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 the Global Banking and Markets Division. These are revalued daily at market prices and any changes in value are recognized in the profit and loss account. BZWBK's banking book consists of branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

The table below presents risk levels in 2011 and 2010. (both measures assume 1 month holding time horizon):

Interest rate risk	VaR		Stress scenario	
1 month holding period	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Average	31 120	31 098	148 778	145 635
High	38 690	40 360	182 172	188 689
Low	21 766	23 066	109 431	96 026
as at end of the period	**31 790**	**27 777**	**159 847**	**144 413**

The Global Banking and Markets Division operates within an operational VaR risk limit, which amounted to PLN 66 252 k (EUR 15 000 k) at the end of 2011.

The tables below present the sensitivity of trading and banking portfolios at the end of December 2011 and comparable period:

Interest Rate Risk (PLN k)	Sensitivity 31-12-2011		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	(28)	55	27
3m-1Y	87	47	134
1Y-5Y	(58)	(546)	(604)
over 5Y	3	8	11
Total	**4**	**(436)**	**(432)**

Interest Rate Risk (PLN k)	Sensitivity 31-12-2010		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	11	(80)	(69)
3m-1Y	(71)	82	11
1Y-5Y	(3)	(363)	(366)
over 5Y	(6)	(33)	(39)
Total	**(69)**	**(394)**	**(463)**

Structural balance sheet risk

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 supervisory role over that risk is 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), business NIRIL (funding of non interest bearing liabilities). The NIRIL Portfolios consists of safe and liquid assets (also treated as liquidity reserve) and interest rate derivatives. The decision maker role in relation to those portfolios is taken by ALCO and the Global Banking and Markets Division executes such decisions.

The following tables present interest rate sensitivities of each NIRIL portfolios at the end of December 2011 and 2010:

Interest Rate Risk (PLN k)	Sensitivity 31-12-2011		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0-3m	24	(4)	20
3m-1Y	(34)	(27)	(61)
1Y-5Y	(1 186)	(738)	(1 924)
over 5Y	(135)	(1 019)	(1 154)
Total	**(1 331)**	**(1 788)**	**(3 119)**

In thousands of PLN

Interest Rate Risk (PLN k)	Sensitivity 31-12-2010		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0-3m	14	-	14
3m-1Y	(48)	(43)	(91)
1Y-5Y	(873)	(821)	(1 694)
over 5Y	(120)	(805)	(925)
Total	**(1 027)**	**(1 669)**	**(2 696)**

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 it's 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 on its FX options portfolio.

Open positions of subsidiaries – excluding BZ WBK Brokerage House – are negligible and are not included in the daily risk assessment. Brokerage House has been granted an FX VaR limit, used for managing the open position linked to the market maker activity.

The table below presents risk metrics as at the end of December 2011 and in a comparable period (both metrics are scaled to a month period of holding a position to ensure comparability of the risks managed by the Global Banking and Markets Division):

FX risk	VaR		Stress scenario	
1 month holding period	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
Average	2 008	1 807	12 684	12 936
High	5 682	5 076	24 783	23 409
Low	220	426	2 406	2 938
as at end of the period	**2 046**	**1 842**	**13 042**	**15 048**

The Global Banking and Markets Division operates within the operational limit for two-week (ie 10 working days) holding period. At the end of 2011 limit for one-month holding period was at PLN 6 621 k (EUR 1 499 k) At the same time, limit for two-week holding period was at PLN 4 682 k (EUR 1 060 k).

Fx Balance Sheet

In 2011, the FX structure of the credit assets and deposit liabilities remained relatively unchanged. Annual growth of assets is mainly caused by the depreciation of the Polish zloty – an actual change in the original currency up by 4.4% for the Euro and down by 7.2% for the CHF. The FX gap was financed from the FX and cross-currency swaps. In 2011, the Bank obtained funding in EUR to support lending to the SME sector. Therefore, in 2011 the age and FX structure of the Bank's balance sheet improved. ALCO monitors the delivery of the strategy through the set funding limits.

See the Group's main FX positions in the tables below - as at 31st December 2011 and in comparable period.

31.12.2011	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	1 231 364	118 897	6 400	68 880	1 425 541
Loans and advances to banks	197 995	986 550	20 279	39 466	1 244 290
Loans and advances to customers	24 966 467	9 511 582	2 429 259	1 109 865	38 017 173
Investment securities	11 202 264	318 931	-	143 312	11 664 507
Selected assets	**37 598 090**	**10 935 960**	**2 455 938**	**1 361 523**	**52 351 511**
LIABILITIES					
Deposits from banks	2 466 517	87 301	42	2 855	2 556 715
Deposits from customers	41 109 677	4 562 262	55 496	1 102 047	46 829 482
Subordinated liabilities	-	441 234	-	-	441 234
Selected liabilities	**43 576 194**	**5 090 797**	**55 538**	**1 104 902**	**49 827 431**

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31.12.2010	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	2 383 892	87 140	5 222	58 209	2 534 463
Loans and advances to banks	62 685	471 401	22 125	63 444	619 655
Loans and advances to customers	21 749 561	8 144 237	2 346 853	597 734	32 838 385
Investment securities	12 825 870	417 693	-	151 792	13 395 355
Selected assets	**37 022 008**	**9 120 471**	**2 374 200**	**871 179**	**49 387 858**
LIABILITIES					
Deposits from banks	1 989 506	377 202	48 495	110 879	2 526 082
Deposits from customers	37 187 256	3 689 682	30 330	1 063 186	41 970 454
Subordinated liabilities	-	395 230	-	-	395 230
Selected liabilities	**39 176 762**	**4 462 114**	**78 825**	**1 174 065**	**44 891 766**

Equity investment risk

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 using a Value at Risk model based on the historical method. The method uses a distribution of 250 changes in the current portfolio value. Variability is defined as a respective percentile of the distribution. The historical method is supplemented by the stress tests.

The process of managing the market risk in BH is supervised by the BZ WBK Market Risk Committee. 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 year 2011 and comparable periods:

Equity risk	VaR		Stress scenario	
1 day holding period	**31.12.2011***	**31.12.2010**	**31.12.2011***	**31.12.2010**
Average	934	508	1 079	794
High	4 336	2 614	4 289	4 459
Low	57	31	121	50
as at end of the period	**919**	**556**	**742**	**850**

* During 2011, the methodology of stress testing was revised to reflect the current market situation. Consequently, there are cases where VaR is higher than stressed VaR.

Brokerage House operates within an operational limit PLN 6 000 k. During the reporting period no excesses above the VaR limit were observed.

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 addition, the Policy's aim is to ensure an adequate structure of funding the growing scale of BZWBK Group 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.

Day-to-day management of current (up to 7 days) and short-term liquidity (up to 30 days) is delegated to the Global Banking and Markets Division. The responsibility for mid- (above 1 month) and long-term (above 1 year) liquidity management rests jointly with the Head of Finance Division and the Head of Global Banking and Markets Division. The Asset and Liabilities Management Department within the Finance Division is responsible for developing and updating strategies and policies of liquidity management and assessing and reporting the liquidity risk.

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.

Independently, parallel to own quantative methods, liquidity is measured in accordance with Resolution no. 386/2008 of KNF (Polish Financial Supervision Authority) on liquidity standards applying to banks.

Liquidity measurement is supplemented with liquidity stress tests, which are used to assess the exposure to liquidity risk and maximum funding requirement if the assumed scenarios materialise over a medium and longer term.

In thousands of PLN

Contractual gap analysis based on remaining time maturity as at 31.12.2011 and 31.12.2010:

31.12.2011	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	1 425 541	-	-	-	-	-	-	1 425 541
Loans and advances to banks	1 244 290	-	-	-	-	-	-	1 244 290
Financial assets held for trading	4 686 095	140 617	304 613	462 572	112 061	101 545	52 806	5 860 309
Loans and advances to customers	3 909 314	2 259 770	7 650 355	10 063 993	6 314 173	9 234 813	(1 415 245)	38 017 173
Investment securities	457 087	139 372	2 101 636	3 510 893	1 725 321	3 049 565	680 633	11 664 507
Other items	-	-	-	-	-	-	1 661 519	1 661 519
Long position	**11 722 327**	**2 539 759**	**10 056 604**	**14 037 458**	**8 151 555**	**12 385 923**	**979 713**	**59 873 339**
Deposits from Central Bank and banks	1 959 377	534 624	47 866	14 848	-	-	-	2 556 715
Financial liabilities held for trading	228 181	124 926	219 964	271 622	70 549	41 526	-	956 768
Deposits from customers	32 366 263	8 350 390	4 362 508	840 078	25 451	884 792	-	46 829 482
Subordinated liabilities	3 971	-	-	-	-	437 263	-	441 234
Other items	-	-	-	-	-	-	9 089 140	9 089 140
Short position	**34 557 792**	**9 009 940**	**4 630 338**	**1 126 548**	**96 000**	**1 363 581**	**9 089 140**	**59 873 339**
Gap-balance sheet	**(22 835 465)**	**(6 470 181)**	**5 426 266**	**12 910 910**	**8 055 555**	**11 022 342**	**(8 109 427)**	
Contingent liabilities- sanctioned								
Financing related	240 855	816 218	3 764 863	1 707 233	873 999	746 325	(19 506)	**8 129 987**
Guarantees	21 837	125 522	365 540	854 757	83 807	23 977	(1 718)	**1 473 722**
Derivatives settled in gross terms								
Inflows	4 831 340	4 596 635	4 957 739	1 894 827	1 443 679	1 489 611	-	**19 213 831**
Outflows	4 950 048	4 572 971	4 989 123	2 045 457	1 693 035	1 676 614	-	**19 927 248**
Gap – off-balance sheet	**(381 400)**	**(918 076)**	**(4 161 787)**	**(2 712 620)**	**(1 207 162)**	**(957 305)**	**21 224**	

In thousands of PLN

31.12.2010	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	2 534 463	-	-	-	-	-	-	2 534 463
Loans and advances to banks	609 318	-	1 557	8 780	-	-	-	619 655
Financial assets held for trading	1 237 429	65 950	422 283	294 879	82 013	88 176	48 236	2 238 966
Loans and advances to customers	3 015 981	2 512 312	6 987 588	7 922 135	5 392 082	8 415 908	(1 407 621)	32 838 385
Investment securities	-	-	2 663 934	5 040 334	2 506 002	2 505 004	680 081	13 395 355
Other items	-	-	-	-	-	-	1 527 047	1 527 047
Long position	**7 397 191**	**2 578 262**	**10 075 362**	**13 266 128**	**7 980 097**	**11 009 088**	**847 743**	**53 153 871**
Deposits from Central Bank and banks	2 167 937	49 366	213 001	95 778	-	-	-	2 526 082
Financial liabilities held for trading	35 197	64 532	95 007	188 412	92 036	103 427	-	578 611
Deposits from customers	28 498 162	5 399 918	6 719 536	907 123	49 667	396 048	-	41 970 454
Subordinated liabilities	3 160	-	-	-	-	392 070	-	395 230
Other items	-	-	-	-	-	-	7 683 494	7 683 494
Short position	**30 704 456**	**5 513 816**	**7 027 544**	**1 191 313**	**141 703**	**891 545**	**7 683 494**	**53 153 871**
Gap-balance sheet	**(23 307 265)**	**(2 935 554)**	**3 047 818**	**12 074 815**	**7 838 394**	**10 117 543**	**(6 835 751)**	
Contingent liabilities- sanctioned								
Financing related	196 052	576 473	3 271 659	784 196	234 340	577 134	(16 151)	**5 623 703**
Guarantees	17 900	110 042	227 385	710 670	81 650	38 960	(1 066)	**1 185 541**
Derivatives settled in gross terms								
Inflows	2 371 246	3 876 195	2 965 534	1 297 145	1 549 361	1 287 992	-	**13 347 473**
Outflows	2 382 221	3 861 964	2 953 582	1 311 178	1 573 684	1 379 910	-	**13 462 539**
Gap – off-balance sheet	**(224 927)**	**(672 284)**	**(3 487 092)**	**(1 508 899)**	**(340 313)**	**(708 012)**	**17 217**	

In thousands of PLN

Liquidity Policy Report - Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31.12.2011			
Qualifying Liquid Assets	12 401 619	1 040 043	500 000
Treasury inflows	1 510 347	1 996 766	13 323 359
Other inflows	257 777	362 208	39 998 386
Treasury outflows	(1 595 397)	(3 047 512)	(14 480 063)
Other outflows	(3 870 719)	(796 333)	(47 600 481)
GAP	**8 703 627**	**(444 828)**	**(8 258 799)**
Cumulative GAP	**8 703 627**	**8 258 799**	**-**

Liquidity risk	<1W	<1M	>1M
31.12.2010			
Qualifying Liquid Assets	12 958 174	998 000	271 281
Treasury inflows	1 094 198	1 162 154	9 770 282
Other inflows	1 789 452	276 636	32 802 281
Treasury outflows	(1 417 403)	(2 122 502)	(10 205 075)
Other outflows	(3 802 040)	(271 089)	(43 304 349)
GAP	**10 622 381**	**43 199**	**(10 665 580)**
Cumulative GAP	**10 622 381**	**10 665 580**	**-**

At the end 2011 a change in the deposit base maturity profile was observed. However, according to our observations the deposit base is still a stable source of asset financing. The level of liquid assets did not change significantly year-over-year.

In 2011 and in comparable period all the regulatory measures have been kept at the required levels.

Operational 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.

In order to manage operational risk, Bank Zachodni WBK Group maintains an operational risk policy and operational risk framework, both of which are subject to regular review. 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 Risk Management Committee.

BZ WBK Information Security Management System has been certified by ISO 27001:2005.

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 because of unavailability of systems, locations and 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 and losses, risk indicators, operational risk self-assessment.

- Insurance

  The Group's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Officers & Directors.

Legal & compliance risk

Legal and 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 Group as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk Identification and Assessment
Within BZ WBK Group several bodies have been assigned to manage legal and regulatory (compliance) risk.

The scope of the Compliance Division responsibilities relates to "conduct of business'" compliance obligations, including protection of the clients' rights, 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 and reporting requirements to Financial Division and prudential regulation to Financial Division and Risk Management Division in respective aspects.

Risk management and mitigation
The Bank Management Board adopted a policy statement on compliance with legal and 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. In particular, the compliance unit major responsibilities include (with the provision of the specific responsibility of Finance Division, Risk Management Division and HR Division):

- independent identification, assessment and monitoring of compliance risk the Group is exposed to,
- providing advice and reporting to the Risk Management Committee, Bank's Management Board and 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 and on appropriate policies and procedures to mitigate this risk.

Legal and regulatory (compliance) risk management is coordinated by the Compliance Division reporting to the Management Board Member. 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, regulatory obligations and best practices. Monitoring can be undertaken by dedicated Risk and Compliance Monitoring 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 Division. The implementation of these action plans is monitored by the Compliance Division.

5. 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 defines 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 ALCO/ICAAP 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. Under the Banking Law, solvency ratio may not be lower than 8%, both at the Bank and the Group level.

The Group'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.

In thousands of PLN

Regulatory Capital

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. The Group uses following methods with regard to particular risks:

- credit risk - the standardised approach;
- operational risk –the standardised approach;
- market risk - 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 2011 and 2010:

		31.12.2011	31.12.2010
I	**Total Capital requirement**	**3 696 882**	**3 169 381**
II	**Own funds after reductions**	**6 977 554**	**6 248 086**
	CAD [II/(I*12.5)]	**15,10%**	**15,77%**

Internal Capital

The Group defines internal capital as the capital required to safeguard the Group 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 Group is required to 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 Group 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 Group'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 group's business.

The approach applied in 2011 based on the regulatory capital for Pillar 1 risks and the estimated capital for all the other Pillar 2 risks that the Group 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.

Subordinated liabilities

Subordinated liabilities include the amount of issued subordinated debt securities with 10-year maturity term, floating interest rate, fully paid by European Bank of Reconstruction and Development on 5th August 2010.

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group’s supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 000 k have been included in the calculation of the Group’s adequacy ratio.

Detailed information on subordinated liabilities is presented in Note 33.

BZ WBK Group for 2011 In thousands of PLN

6. Net interest income

Interest income	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Loans and advances to enterprises	1 307 357	1 173 137
Loans and advances to individuals, of which:	1 042 925	961 258
Home mortgage loans	*362 108*	*299 295*
Debt securities incl.:	754 311	750 253
Investment portfolio held to maturity	*287 123*	*362 229*
Investment portfolio available for sale	*342 168*	*302 158*
Trading portfolio	*125 020*	*85 866*
Leasing agreements	177 026	172 702
Loans and advances to banks	78 264	60 383
Public sector	22 232	17 129
Reverse repo transactions	6 283	7 373
Interest recorded on hedging IRS	25 335	(11 934)
Total	**3 413 733**	**3 130 301**
Interest expense	**01.01.2011 -31.12.2011**	**01.01.2010 -31.12.2010**
Deposits from individuals	(719 500)	(779 571)
Deposits from enterprises	(387 122)	(321 955)
Repo transactions	(131 700)	(95 976)
Public sector	(61 504)	(56 836)
Deposits from banks	(23 401)	(45 608)
Subordinated liabilities	(21 921)	(8 180)
Total	**(1 345 148)**	**(1 308 126)**
Net interest income	**2 068 585**	**1 822 175**

As at 31.12.2011 net interest income includes interest on impaired loans of PLN 114 153 k (as at 31.12.2010 - PLN 110 944 k).

In thousands of PLN

7. Net fee and commission income

Fee and commission income	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
eBusiness & payments	391 533	357 483
Asset management fees	273 520	336 064
Current accounts and money transfer	243 932	251 214
Foreign exchange commissions	224 263	201 745
Brokerage commissions	128 670	126 682
Credit commissions	115 509	104 764
Insurance commissions	68 758	70 339
Credit cards	63 040	63 626
Distribution fees	12 971	14 463
Off-balance sheet guarantee commissions	12 875	11 258
Issue arrangement	15 321	11 220
Finance lease commissions	4 069	3 841
Other commissions	4 203	3 248
Total	**1 558 664**	**1 555 947**
Fee and commission expense	**01.01.2011 -31.12.2011**	**01.01.2010 -31.12.2010**
eBusiness & payments	(77 907)	(77 197)
Distribution fees	(36 260)	(42 939)
Brokerage commissions	(28 371)	(26 484)
Commissions paid to credit agents	(12 174)	(23 217)
Asset management fees and other costs	(8 369)	(10 447)
Credit cards	(7 168)	(7 597)
Finance lease commissions	(7 268)	(6 848)
Other	(23 475)	(17 990)
Total	**(200 992)**	**(212 719)**
Net fee and commission income	**1 357 672**	**1 343 228**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 195 493 k (31.12.2010: PLN 183 489 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (26 610) k (31.12.2010: PLN (37 662) 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.

8. Dividend income

Dividend income	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Dividends from investment portfolio entities	66 702	53 293
Dividends from trading portfolio entities	1 323	1 221
Total	**68 025**	**54 514**

9. Net trading income and revaluation

Net trading income and revaluation	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Profit/(loss) on derivative instruments	133 446	109 221
Profit on interbank FX transactions	96 773	111 398
Other FX related income	25 965	27 275
Profit on market maker activity	8 455	9 736
Profit on debt instruments	2 512	1 101
Total	**267 151**	**258 731**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 14 030 k for 2011 (PLN 5 994 k for 2010).

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10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Profit on sale of equity shares	6 138	6 516
Profit on sale of debt securities	6 761	5 657
Charge due to impairment losses	(2 321)	(48)
Total profit (losses) on financial instruments	**10 578**	**12 125**
Change in fair value of hedging instruments	3 205	(192)
Change in fair value of underlying hedged positions	(2 070)	475
Total profit (losses) on hedging and hedged instruments	**1 135**	**283**
Total	**11 713**	**12 408**

11. Other operating income

Other operating income	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Income on sale of services	12 611	12 072
Reimbursements of BGF charges	10 649	5 678
Release of provision for legal cases and other assets	6 974	4 051
Recovery of other receivables	3 320	1 149
Settlements of leasing agreements	2 474	1 340
Insurance indemnity received	1 753	8 499
Received compensations, penalties and fines	1 644	294
Financing premium from EBRD	102	387
Other	10 277	12 478
Total	**49 804**	**45 948**

12. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Collective and individual impairment charge	(371 079)	(474 770)
Incurred but not reported losses charge	(4 713)	35 317
Recoveries of loans previously written off	12 765	20 370
Off balance sheet credit related items	(3 955)	(1 671)
Total	**(366 982)**	**(420 754)**

13. Employee costs

Employee costs	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Salaries and bonuses	(816 189)	(801 719)
Salary related costs	(117 235)	(117 524)
Staff benefits costs	(22 214)	(20 620)
Professional trainings	(17 526)	(14 176)
Retirement fund, holiday provisions and other employee-related costs	(3 645)	(4 955)
Total	**(976 809)**	**(958 994)**

In thousands of PLN

14. General and administrative expenses

General and administrative expenses	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Maintenance and rentals of premises	(216 709)	(212 295)
IT systems costs	(90 032)	(87 113)
Marketing and representation	(83 646)	(79 083)
Postal and telecommunication costs	(46 313)	(47 104)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(42 660)	(24 548)
Other external services	(36 428)	(36 433)
Car, transport expenses, carriage of cash	(35 044)	(31 712)
Consulting fees	(27 459)	(27 949)
Stationery, cards, cheques	(25 974)	(18 842)
Sundry taxes	(19 525)	(17 138)
Data transmission	(15 744)	(15 288)
Security costs	(12 481)	(13 677)
KIR, SWIFT settlements	(11 307)	(12 187)
Costs of other repairs	(5 264)	(6 011)
Other	(13 750)	(12 218)
Total	**(682 336)**	**(641 598)**

15. Other operating expenses

Other operating expenses	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Charge of provisions for legal cases and other assets	(13 394)	(19 049)
Debt recovery costs	(7 427)	(3 024)
Liquidation of fixed assets, intangible assets and assets for disposal	(6 527)	(441)
Costs of purchased services	(2 289)	(1 567)
Paid compensations, penalties and fines	(2 012)	(358)
Donation paid	(1 988)	(1 748)
Other memebership fees	(849)	(837)
Other	(15 136)	(7 138)
Total	**(49 622)**	**(34 162)**

16. Corporate income tax

Corporate income tax	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Current tax charge	(277 757)	(350 356)
Deferred tax	(37 806)	33 744
Total	**(315 563)**	**(316 612)**

In thousands of PLN

Corporate total tax charge information	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Profit before tax	1 542 430	1 357 181
Tax rate	19%	19%
Tax calculated at the tax rate	(293 062)	(257 864)
Non-deductible expenses	(11 144)	(6 382)
Sale of receivables	(13 968)	(31 294)
Non-taxable income (dividends)	12 584	10 090
Non-tax deductible bad debt provisions	(10 067)	(13 849)
Adjustment of deferred tax asset on interest on debt securities	-	(16 897)
Other	94	(416)
Total income tax expense	**(315 563)**	**(316 612)**

Deferred tax recognised directly in equity	31.12.2011	31.12.2010
The amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	(94 743)	(96 292)
Relating to debt securities available-for-sale	(20 965)	(4 653)
Relating to cash flow hedging activity	(12 183)	(473)
Total	**(127 891)**	**(101 418)**

17. Earnings per share

Net earnings per share (PLN/share)	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Profit attributable to ordinary shares	1 184 347	974 223
Weighted average number of ordinary shares	73 076 013	73 076 013
Net earnings per share (PLN)	**16,21**	**13,33**
Profit attributable to ordinary shares	1 184 347	974 223
Weighted average number of ordinary shares	73 076 013	73 076 013
Weighted average number of potential ordinary shares	274 273	272 003
Diluted earnings per share (PLN)	**16,15**	**13,28**

18. Cash and balances with central banks

Cash and balances with central banks	31.12.2011	31.12.2010
Cash	932 600	821 556
Current accounts in central banks	290 908	1 712 907
Term deposits	202 033	-
Total	**1 425 541**	**2 534 463**

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as a fixed percentage of the monthly average balance of the customers' deposits. As at 31.12.2011 the rate was 3.5%, as at 31.12.2010 – 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

19. Loans and advances to banks

Loans and advances to banks	31.12.2011	31.12.2010
Loans and advances	428 823	304 313
Current accounts, other	815 467	315 342
Total	**1 244 290**	**619 655**

Fair value of loans and advances to banks is presented in note 40.

In thousands of PLN

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	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**700 252**	**872 544**	**464 442**	**568 153**
Interest rate operations	**314 053**	**308 585**	**238 659**	**236 968**
Options	132	132	68	68
IRS	304 421	300 206	236 209	235 422
FRA	9 500	8 247	2 382	1 478
FX operations	**386 199**	**563 959**	**225 242**	**331 185**
CIRS	42 149	120 636	65 543	171 730
Forward	97 509	32 182	25 765	9 937
FX Swap	150 924	316 003	90 104	105 658
Spot	2 015	1 536	1 363	1 393
Options	93 602	93 602	42 467	42 467
Other	**-**	**-**	**541**	**-**
Stock options	-	-	541	-
Debt and equity securities	**5 160 057**	**-**	**1 774 524**	**-**
Debt securities	**5 107 251**	**-**	**1 726 289**	**-**
Government securities:	455 350	-	526 989	-
- bills	-	-	206 799	-
- bonds	455 350	-	320 190	-
Central Bank securities:	4 647 956	-	1 199 300	-
- bills	4 647 956	-	1 199 300	-
Other securities:	3 945	-	-	-
- bonds	3 945	-	-	-
Equity securities:	**52 806**	**-**	**48 235**	**-**
- listed	52 806	-	48 235	-
Short sale	**-**	**84 224**	**-**	**10 458**
Total financial assets/liabilities	**5 860 309**	**956 768**	**2 238 966**	**578 611**

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (396) k as at 31.12.2011, PLN (1 944) k as at 31.12.2010.

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. As at 31.12.2011 and in the comparable period 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.

In thousands of PLN

	Derivatives' nominal values	31.12.2011	31.12.2010
1.	**Term derivatives (hedging)**	**6 380 238**	**1 669 876**
a)	Single-currency interest rate swaps	341 696	975 320
b)	Macro cash flow hedge	6 038 542	694 556
2.	**Term derivatives (trading)**	**82 393 349**	**55 583 100**
a)	Interest rate operations	49 413 206	28 179 598
	Single-currency interest rate swaps	31 449 423	22 753 982
	FRA - purchased amounts	17 900 000	5 400 000
	Options	63 783	25 616
b)	FX operations	32 980 143	27 403 502
	FX swap – purchased amounts	11 006 569	7 840 597
	FX swap – sold amounts	11 127 200	7 839 580
	Forward- purchased amounts	2 088 999	1 008 250
	Forward- sold amounts	2 041 784	993 640
	Cross-currency interest rate swaps – purchased amounts	1 194 669	4 030 917
	Cross-currency interest rate swaps – sold amounts	1 273 094	4 161 578
	FX options -purchased	2 123 914	764 470
	FX options -sold	2 123 914	764 470
3.	**Currency transactions- spot**	**2 343 838**	**935 449**
	spot-purchased	1 172 159	467 710
	spot-sold	1 171 679	467 739
4.	**Transactions on equity instruments**	**47 369**	**993**
	Futures	47 369	993
	Total	**91 164 794**	**58 189 418**

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

21. Hedging derivatives

Hedging derivatives	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	5 110	3 723	579	12 848
IRS hedging cash flow	136 526	520 002	14 189	3 593
Total hedging derivatives	**141 636**	**523 725**	**14 768**	**16 441**

22. Loans and advances to customers

Loans and advances to customers	31.12.2011	31.12.2010
Loans and advances to enterprises	24 262 182	20 251 489
Loans and advances to individuals, of which:	12 572 576	11 437 508
Home mortgage loans	*7 605 063*	*6 926 647*
Finance lease receivables	2 335 543	2 435 755
Loans and advances to public sector	259 057	101 089
Buy-sell-back transaction	100	10 118
Other	2 960	10 047
Gross receivables	**39 432 418**	**34 246 006**
Impairment write down	(1 415 245)	(1 407 621)
Total	**38 017 173**	**32 838 385**

As at 31.12.2011 the fair value adjustment due to hedged risk on corporate loans was nil (as at 31.12.2010: PLN 887 k).

Finance lease receivables are presented in additional note 43. Fair value of loans and advances to customers is presented in note 40.

In thousands of PLN

Movements on impairment losses on loans and advances to customers	31.12.2011	31.12.2010
Individual and collective impairment		
As at the beginning of the period	(1 069 646)	(766 110)
Charge/write back of current period	(371 079)	(474 770)
Write off/Sale of receivables	352 347	206 912
Transfer	24 829	(38 958)
F/X differences	(5 747)	3 280
Balance at the end of the period	**(1 069 296)**	**(1 069 646)**
IBNR		
As at the beginning of the period	(337 975)	(373 566)
Charge/write back of current period	(4 713)	35 317
Transfer	27	10
F/X differences	(3 288)	264
Balance at the end of the period	**(345 949)**	**(337 975)**
Impairment write down	**(1 415 245)**	**(1 407 621)**

23. Investment securities available for sale

Investment securities available for sale	31.12.2011	31.12.2010
Available for sale investments - measured at fair value		
Debt securities	**10 983 874**	**6 965 866**
Government securities:	10 906 085	6 885 095
- bills	-	-
- bonds	10 906 085	6 885 095
Central Bank securities:	-	-
- bonds	-	-
Commercial securities:	77 789	80 771
- bonds	77 789	80 771
Equity securities	**629 194**	**623 456**
- listed	19 475	20 688
- unlisted	609 719	602 768
Investment certificates	**51 439**	**56 625**
Total	**11 664 507**	**7 645 947**

As at 31.12.2011 fixed interest rate debt securities measured at fair value amount to PLN 9 999 009 k, variable interest rate securities amount to PLN 984 866 k.
As at 31.12.2010 fixed interest rate debt securities measured at fair value amount to PLN 5 540 017 k, variable interest rate securities amount to PLN 1 425 849 k.
As at 31.12.2011 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 1 233 k (as at 31.12.2010: PLN 1 336 k).

Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The Bank performs the review of the fair value of its unlisted available-for-sale financial instruments at each balance sheet date. 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 three key investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis.

Fair value of „Investment securities available for sale" is presented in note 40.

In thousands of PLN

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2011	**6 965 866**	**680 081**	**7 645 947**
Additions	1 590 087	31 621	1 621 708
Transfers	-	(754)	(754)
Disposals (sale and maturity)	(2 306 084)	(19 840)	(2 325 924)
Fair value adjustment (AFS)	6 459	(7 753)	(1 294)
Movements on interest accrued	(16 253)	-	(16 253)
Provision for impairment	-	(2 321)	(2 321)
F/X differences	47 256	(400)	46 856
Reclassification*	4 627 410	-	4 627 410
Measurement at fair value of reclassified bonds	69 132	-	69 132
As at 31 December 2011	**10 983 873**	**680 634**	**11 664 507**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2010	**5 957 601**	**665 416**	**6 623 017**
Additions	3 477 634	26 560	3 504 194
Disposals (sale and maturity)	(2 527 512)	(9 814)	(2 537 326)
Fair value adjustment (AFS)	8 876	(1 558)	7 318
Movements on interest accrued	58 777	-	58 777
Provision for impairment	-	(48)	(48)
F/X differences	(9 510)	(475)	(9 985)
As at 31 December 2010	**6 965 866**	**680 081**	**7 645 947**

*Bank Zachodni WBK has changed its intention regarding a portfolio of government bonds, which so far have been classified as 'held-to-maturity,' and has reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The above mentioned change was introduced on the last business day of 2011 and pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was recognised measurement at fair value. The same amount of measurement less the deferred tax was referred to equity of the Group during the current reporting period.

24. Financial assets held to maturity

Financial assets held to maturity	31.12.2011	31.12.2010
Government securities:	-	5 749 408
- bonds	-	5 749 408
Total	**-**	**5 749 408**

Fair value of „Financial assets held to maturity" is presented in note 40.

Movements on financial assets held to maturity	31.12.2011	31.12.2010
Balance as at 1 January	**5 749 408**	**6 669 555**
Reclassification*	(4 627 410)	-
Maturity	(1 086 827)	(955 378)
Fair value amortisation	10 206	12 190
Movements on interest accrued	(45 377)	23 041
As at end of reporting period	**-**	**5 749 408**

*Bank Zachodni WBK has changed its intention regarding a portfolio of government bonds, which so far have been classified as 'held-to-maturity,' and has reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The above mentioned change was introduced on the last business day of 2011 and pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was recognised measurement at fair value. The same amount of measurement less the deferred tax was referred to equity of the Group during the current reporting period.

In thousands of PLN

25. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2011	31.12.2010
Associates	61 682	54 864
Joint ventures	42 830	32 496
Total	**104 512**	**87 360**

Movements on investments in associates and joint ventures	31.12.2011	31.12.2010
Balance as at 1 January	**87 360**	**81 887**
Share of profits/(losses)	11 104	4 452
Transfer	4 050	-
Sale/acquisition	5 018	41
Other/dividend	(3 020)	980
Balance at the end of the period	**104 512**	**87 360**

Fair value of “Investment in associates and joint ventures” is presented in note 40.

Details of acquisition of associates and joint ventures are disclosed in note 47.

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2011

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 & Partnerzy S.A.*	Krynicki Recykling S.A.**	Holicon Group S.A.	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	Poznań	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	Associate	
% of holding* **	50,00	50,00	50,00	21,23	24,54	47,09	
Balance sheet value	38 464	20 102	22 728	4 297	14 356	4 565	**104 512**
Total assets	83 982	688 412	210 051	6 401	70 276	16 365	**1 075 487**
Own funds of entity, of which:	76 929	40 204	45 455	3 358	40 031	9 736	**215 713**
Share capital	16 000	24 250	27 000	1 083	1 488	8 600	**78 421**
Other own funds, of which:	60 929	15 954	18 455	2 275	38 543	1 136	***137 292***
from previous years	*2 616*	*(4 222)*	-	*(1 006)*	*6 551*	*793*	***4 732***
net profit (loss)	*2 980*	*5 028*	*11 125*	*431*	*856*	*343*	**20 763**
Liabilities of entity	7 053	648 208	164 596	3 043	30 245	6 629	**859 774**
Revenue	8 096	497 348	94 075	21 248	19 609	34 963	**675 339**
Costs	4 081	491 464	80 229	488	18 691	34 113	**629 066**

*selected financial information as at end of November 2011
**selected financial information as at end of September 2011
***states percentage share of associates or joint venture 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 & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management
Holicon Group S.A.	business outsourcing services incl.: call and contact centre, HR management

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2010

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 & Partnerzy S.A.**	Krynicki Recykling S.A.***	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding****	50,00	50,00	50,00	21,23	24,65	
Balance sheet value	36 786	12 395	20 101	4 305	13 773	**87 360**
Total assets	82 255	434 886	163 610	3 632	50 274	**734 657**
Own funds of entity, of which:	73 573	24 791	40 201	2 016	22 628	**163 209**
Share capital	16 000	21 750	27 000	650	1 013	**66 413**
Other own funds, of which:	57 573	3 041	13 201	1 366	21 615	**96 796**
from previous years	*603*	*(2 656)*	-	*(587)*	*5 479*	***2 839***
net profit (loss)	*1 636*	*(1 951)*	*6 364*	*374*	*869*	***7 292***
Liabilities of entity	8 682	410 095	123 409	1 616	27 646	**571 448**
Revenue	6 922	231 605	82 248	8 682	15 043	**344 500**
Costs	4 415	233 871	74 135	8 199	14 020	**334 640**

*selected financial information as at end of November 2010
**selected financial information as at end of October 2010
***selected financial information as at end of September 2010
**** states percentage share of associates or joint venture 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 & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

26. Intangible assets

Intangible assets Year 2011	Licences, patents etc.	Other (incl. know-how)	Capital expenditures	Total
Gross value - beginning of the period	**667 481**	**6 045**	**44 594**	**718 120**
Additions from:				
- purchases	-	-	76 855	**76 855**
- intangible assets taken for use	41 470	-	-	**41 470**
- transfers	29	-	52	**81**
Disposals from:				
- liquidation	(6 649)	-	(1 360)	**(8 009)**
- intangible assets taken for use	-	-	(41 470)	**(41 470)**
- transfers	(3)	(26)	(582)	**(611)**
Gross value - end of the period	**702 328**	**6 019**	**78 089**	**786 436**
Accumulated depreciation - beginning of the period	**(539 527)**	**(6 032)**	**-**	**(545 559)**
Additions/disposals from:				
- current year	(94 740)	(12)	-	**(94 752)**
- liquidation	5 640	-	-	**5 640**
- transfers	(23)	25	-	**2**
Write down/Reversal of impairment write down	(601)	-	-	**(601)**
Accumulated depreciation- end of the period	**(629 251)**	**(6 019)**	**-**	**(635 270)**
Balance sheet value				
Purchase value	702 328	6 019	78 089	**786 436**
Accumulated depreciation	(629 251)	(6 019)	-	**(635 270)**
As at 31 December 2011	**73 077**	**-**	**78 089**	**151 166**

In thousands of PLN

Intangible assets Year 2010	Licences, patents etc.	Other (incl. know-how)	Capital expenditures	Total
Gross value - beginning of the period	**607 301**	**8 032**	**73 758**	**689 091**
Additions from:				
- purchases	-	-	32 488	**32 488**
- intangible assets taken for use	61 256	15	-	**61 271**
- transfers	11	-	-	**11**
Disposals from:				
- liquidation	(1 087)	(2 002)	(194)	**(3 283)**
- intangible assets taken for use	-	-	(61 271)	**(61 271)**
- transfers	-	-	(187)	**(187)**
Gross value - end of the period	**667 481**	**6 045**	**44 594**	**718 120**
Accumulated depreciation - beginning of the period	**(499 488)**	**(7 983)**	**-**	**(507 471)**
Additions/disposals from:				
- current year	(40 999)	(51)	-	**(41 050)**
- liquidation	971	2 002	-	**2 973**
- transfers	(11)	-	-	**(11)**
Accumulated depreciation- end of the period	**(539 527)**	**(6 032)**	**-**	**(545 559)**
Balance sheet value				
Purchase value	667 481	6 045	44 594	**718 120**
Accumulated depreciation	(539 527)	(6 032)	-	**(545 559)**
As at 31 December 2010	**127 954**	**13**	**44 594**	**172 561**

In thousands of PLN

27. Property, plant and equipment

Property, plant & equipment Year 2011	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	**657 934**	**312 229**	**44 786**	**327 140**	**23 921**	**1 366 010**
Additions from:						
- purchases	-	-	-	-	41 760	**41 760**
- leasing	-	-	16 704	-	-	**16 704**
- fixed assets taken for use	4 876	23 842	1 362	13 553	-	**43 633**
- transfers	-	49	19 444	19 288	416	**39 197**
Disposals from:						
- sale, liquidation, donation	(9 879)	(46 225)	(1 943)	(24 246)	(151)	**(82 444)**
- fixed assets taken for use	-	-	-	-	(43 634)	**(43 634)**
- transfers	-	(19 287)	(13 296)	(13)	-	**(32 596)**
Gross value - end of the period	**652 931**	**270 608**	**67 057**	**335 722**	**22 312**	**1 348 630**
Accumulated depreciation - beginning of the period	**(296 795)**	**(256 466)**	**(30 652)**	**(234 561)**	**-**	**(818 474)**
Additions/disposals from:						
- current year	(56 433)	(31 409)	(10 054)	(23 227)	-	**(121 123)**
- sale, liquidation, donation	8 230	45 883	1 693	22 818	-	**78 624**
- transfers	21	19 391	11 994	(19 270)	-	**12 136**
Accumulated depreciation- end of the period	**(344 977)**	**(222 601)**	**(27 019)**	**(254 240)**	**-**	**(848 837)**
Balance sheet value						
Purchase value	652 931	270 608	67 057	335 722	22 312	**1 348 630**
Accumulated depreciation	(344 977)	(222 601)	(27 019)	(254 240)	-	**(848 837)**
As at 31 December 2011	**307 954**	**48 007**	**40 038**	**81 482**	**22 312**	**499 793**

In thousands of PLN

Property, plant & equipment Year 2010	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	652 548	325 273	43 563	312 419	28 566	1 362 369
Additions from:						
- purchases	-	-	-	-	37 047	37 047
- leasing	-	-	4 121	-	-	4 121
- fixed assets taken for use	7 155	15 432	9	19 011	-	41 607
- transfers	-	130	(200)	-	59	(11)
Disposals from:						
- sale, liquidation, donation	(1 769)	(28 585)	(2 912)	(4 264)	(144)	(37 674)
- fixed assets taken for use	-	-	-	-	(41 607)	(41 607)
- transfers	-	(21)	205	(26)	-	158
Gross value - end of the period	657 934	312 229	44 786	327 140	23 921	1 366 010
Accumulated depreciation - beginning of the period	(269 972)	(260 304)	(22 822)	(213 117)	-	(766 215)
Additions/disposals from:						
- current year	(27 597)	(24 554)	(10 184)	(25 382)	-	(87 717)
- sale, liquidation, donation	780	28 388	2 339	3 936	-	35 443
- transfers	(6)	4	15	2	-	15
Accumulated depreciation- end of the period	(296 795)	(256 466)	(30 652)	(234 561)	-	(818 474)
Balance sheet value						
Purchase value	657 934	312 229	44 786	327 140	23 921	1 366 010
Accumulated depreciation	(296 795)	(256 466)	(30 652)	(234 561)	-	(818 474)
As at 31 December 2010	361 139	55 763	14 134	92 579	23 921	547 536

28. Net deferred tax assets

Deferred tax asset	31.12.2011	31.12.2010
Provisions for loans	200 098	225 470
Unrealized liabilities due to derivatives	89 177	80 231
Other provisions which are not yet taxable costs	64 496	64 766
Deferred income	88 562	72 894
Difference between balance sheet and taxable value of leasing portfolio	63 624	52 092
Unrealized interest on credits, loans and securities	42 063	48 803
Depreciation, amortisation - effects of a change in estimate	14 560	-
Unrealised FX translation differences from b/s valuation of receivables and liabilities	441	-
Other	588	807
Total	**563 609**	**545 063**
Deferred tax liability	**31.12.2011**	**31.12.2010**
Revaluation of financial instruments available for sale*	(116 092)	(100 946)
Unrealised receivables on derivatives	(99 118)	(60 750)
Unrealised interests from loans, securities and interbank deposits	(70 225)	(53 261)
Provision due to application of investment relief	(3 269)	(2 647)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(5 687)	(6 862)
Cash flow hedges valuation*	(12 183)	(473)
Other	(12 016)	(10 960)
Total	**(318 590)**	**(235 899)**
Net deferred tax assets	**245 019**	**309 164**

*Changes in deferred tax liabilities were recognised in the consolidated statement of comprehensive income.

BZ WBK Group for 2011 In thousands of PLN

As at 31 December 2011 the calculation of deferred tax asset did not include purchased receivables of PLN 14 757 k and loans that will not be realised of PLN 62 345 k.

As at 31 December 2010 the calculation of deferred tax asset did not include purchased receivables of PLN 15 625 k and loans that will not be realised of PLN 65 478 k.

Movements on net deferred tax	31.12.2011	31.12.2010
As at the beginning of the period	309 164	278 227
Changes recognised in income statement	(37 806)	33 744
Changes recognised in other net comprehensive income	(26 473)	(2 807)
Transfer	134	-
Balance at the end of the period	**245 019**	**309 164**

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 andreceivables and assets in the course of business.

29. Assets classified as held for sale

Assets classified as held for sale	31.12.2011	31.12.2010
Land and buildings	82 511	2 409
Equipment	93	93
Total	**82 604**	**2 502**

30. Other assets

Other assets	31.12.2011	31.12.2010
Sundry debtors	237 764	236 133
Settlements of stock exchange transactions	47 983	73 797
Interbank and interbranch settlements	85 414	42 844
Prepayments	43 930	39 929
Other	1 011	453
Total	**416 102**	**393 156**

31. Deposits from banks

Deposits from banks	31.12.2011	31.12.2010
Loans from other banks	143 572	380 791
Repo transactions	2 240 824	1 927 368
Term deposits	12 495	119 663
Current accounts	159 824	98 260
Total	**2 556 715**	**2 526 082**

As at 31.12.2011 fair value adjustment for hedged deposit totaled nil (as at 31.12.2010 – PLN nil).

Fair value of “Deposits from banks” is presented in note 40.

In thousands of PLN

32. Deposits from customers

Deposits from customers	31.12.2011	31.12.2010
Deposits from individuals	**27 111 339**	**25 230 799**
Term deposits	14 822 913	12 745 658
Current accounts	12 254 430	12 449 476
Other	33 996	35 665
Deposits from enterprises	**17 881 182**	**14 605 812**
Term deposits	11 786 350	8 757 801
Current accounts	4 702 194	4 958 514
Loans	1 047 963	600 805
Other	344 675	288 692
Deposits from public sector	**1 836 961**	**2 133 843**
Term deposits	806 083	1 015 651
Current accounts	1 028 988	1 117 309
Other	1 890	883
Total	**46 829 482**	**41 970 454**

As at 31.12.2011 deposits held as collateral totaled PLN 190 840 k (as at 31.12.2010 - PLN 205 954 k).

Fair value of "Deposits from customers" is presented in note 40.

33. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Redemption date	As at the end of the period
Subordinated liabilities	100 000	EUR	05.08.2020	441 234
As at 31 December 2011				**441 234**

Movements in Subordinated Liabilities	31.12.2011	31.12.2010
As at the beginning of the period	**395 230**	-
Increase (due to:)	**69 003**	**404 210**
- subordinated loan raised	-	396 030
- interest on subordinated loan	21 921	8 180
- FX differences	47 082	-
Decrease (due to):	**(22 999)**	**(8 980)**
- capital repayment	-	-
- interest repayment	(22 999)	(4 756)
- FX differences	-	(264)
- subscription price	-	(3 960)
as at the end of the period	**441 234**	**395 230**
Short-term	3 971	3 160
Long-term (over 1 year)	437 263	392 070

BZ WBK Group issued subordinated debt to mitigate FX rate sensitivity and increase efficiency of own funding. In line with the KNF decision subordinated liabilities have been recognised as the supplementary capital and since Q4 2010 are included in the solvency ratio calculations. Other details on these liabilities are disclosed in Note 5.

In thousands of PLN

34. Other liabilities

Other liabilities	31.12.2011	31.12.2010
Provisions:	252 387	247 275
Employee provisions	*206 274*	*212 540*
Provisions for legal claims	*17 590*	*17 518*
Provisions for off balance sheet credit facilities	*21 223*	*17 217*
Other	*7 300*	-
Interbank and interbranch settlements	369 125	165 690
Other deferred and suspended income	119 791	95 104
Accrued liabilities	56 244	57 621
Sundry creditors	182 849	125 019
Settlements of stock exchange transactions	39 760	67 936
Public and law settlements	36 769	35 270
Finance lease related settlements	25 267	16 571
Other	263	134
Total	**1 082 455**	**810 620**

The Group raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.

Employee related provisions and accruals consists of items outlined in note 50.

Change in provisions	31.12.2011	31.12.2010
As at the beginning of the period	**247 275**	**203 440**
Employee provisions	212 540	170 163
Provisions for legal claims	17 518	17 725
Provisions for off balance sheet credit facilities	17 217	15 552
Other	-	-
Provision charge	**236 446**	**250 851**
Employee provisions	192 818	204 527
Provisions for legal claims	1 836	2 457
Provisions for off balance sheet credit facilities	34 492	43 867
Other	7 300	-
Utilization	**(188 610)**	**(149 217)**
Employee provisions	(187 496)	(146 945)
Provisions for legal claims	(1 165)	(2 266)
Provisions for off balance sheet credit facilities	51	(6)
Other	-	-
Write back	**(42 724)**	**(57 799)**
Employee provisions	(11 588)	(15 205)
Provisions for legal claims	(599)	(398)
Provisions for off balance sheet credit facilities	(30 537)	(42 196)
Other	-	-
Balance at the end of the period	**252 387**	**247 275**
Employee provisions	**206 274**	**212 540**
Provisions for legal claims	**17 590**	**17 518**
Provisions for off balance sheet credit facilities	**21 223**	**17 217**
Other	**7 300**	**-**

In thousands of PLN

35. Share capital

31.12.2011

Series/ issue	Type of share	Type of preferences	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 BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 96.25%. The remaining shares are in free float.

31.12.2010

Series/ issue	Type of share	Type of preferences	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 BZWBK 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 is 70.4%. The remaining shares are in free float.

In thousands of PLN

36. Other reserve funds

Other reserve funds	31.12.2011	31.12.2010
General banking risk fund	649 810	649 810
Share premium	261 699	261 699
Other reserves of which:	3 787 375	3 433 131
Reserve capital	*3 559 505*	*3 215 915*
Supplementary capital	*227 870*	*217 216*
Total	**4 698 884**	**4 344 640**

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 31.12.2011 reserve capital including share scheme charge of PLN 38 177 k and 31.12.2010 reserve capital including share scheme charge of PLN 17 429 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2011 and 2010.

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.

37. Revaluation reserve

Revaluation reserve	31.12.2011	31.12.2010
As at 31 December	433 134	422 005
Net change in available for sale investments, of which:	18 902	24 272
Increase:	20 475	33 744
- related to debt investments purchased before current reporting period	*15 218*	*32 331*
- related to equity investments purchased before current reporting period	*128*	-
-net change in available for sale investments matured in the period	*5 129*	*1 413*
Decrease:	(1 573)	(9 472)
- related to debt investments purchased/assigned in the period	-	*(4 101)*
- related to equity investments purchased before current reporting period	-	*(1 165)*
-net change in available for sale investments matured in the period	*(1 573)*	*(4 206)*
Measurement at fair value of reclassified bonds*	69 132	-
Gross valuation related to cash flow hedge	61 632	119
Decrease in revaluation reserve related to sale of investments	(11 009)	(10 455)
Deferred tax adjustment	(26 473)	(2 807)
Total	**545 318**	**433 134**

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 31.12.2010 the revaluation reserve includes the amortization of the fair value of financial assets reclassified in prior period from 'Available for sale' category to 'Held to maturity' (see note 24) of PLN (10 206) k.

* Bank Zachodni WBK has changed its intention regarding a portfolio of government bonds, which so far have been classified as 'held-to-maturity,' and has reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The above mentioned change was introduced on the last business day of 2011 and pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was recognised measurement at fair value. The same amount of measurement less the deferred tax was referred to equity of the Group during the current reporting period.

In thousands of PLN

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. BZWBK 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
- PLN deposits.

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 about individual groups of hedge transactions for 2011 and 2010:

31.12. 2011	Bonds	Deposits
Nominal value of hedging position in PLN k	211 696	130 000
Fair value adjustment of hedging instrument in PLN k	2 678	(82)
Fair value adjustment of hedged instrument due to hedged risk in PLN k	(2 658)	93
Hedged risk	Exchange rate risk and interest rate risk	
Period over which the instruments have an impact on the bank's results	up to 2018	up to 2013

31.12. 2010	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position in PLN k	36 757	938 564
Fair value adjustment of hedging instrument asset/(liability) in PLN k	(884)	(1 207)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	887	1 336
Hedged risk	Exchange rate risk and interest rate risk	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2018

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 about these transactions are presented in the tables below.

31.12.2011	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedging position in PLN k	66 252	66 252
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(418)	(418)
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

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31.12.2010	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedged position in PLN k	79 206	79 206
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(942)	(942)
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

Cash flow hedging

Bank Zachodni WBK applies future cash flow hedge accounting. Hedge relationships are created using CIRS. The objective is to hedge against the risk of variability of future cash flow arising from fluctuations in exchange rates and market interest rates. A cash flow hedge is used in respect of foreign currency loans carrying variable interest rate. During the comparable period, it was applied to PLN deposits, taking into account their renewal on the basis of the variable interest rate and to PLN and FX loans with variable interest rate.

In December 2011, as a result of expiration of hedged PLN deposit volumes, the Bank decided to stop applying hedge accounting to the group of such financial instruments.

Hedged items are measured at amortised cost. Hedging items are measured at fair value. Once effectiveness criteria of hedge accounting are met, a change in the fair value of hedging instruments is recognised in equity.

As of 31 December 2011, the nominal value of the hedging item was PLN 6 592 672 k (31 December 2010 – PLN 694 556 k). Adjustment to fair value of the hedging instrument is PLN 64 120 k (31 December 20010 – PLN 2 487 k); the same amount, less deferred tax, is recognised in the Group's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2026.
The non-effective portion of measurement of the cash flow hedge was PLN 2 525k as of 31.12.2011 and 0 as of 31.12.2010. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

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 2011, the consolidated statement of financial position, on liabilities side, contains sell-buy-back transactions amounting of PLN 2 240 824 k (PLN 1 927 368 k as at 31.12.2010).
A related item being the deposit representing obligations in respect the repo transactions (i.e. treasury bills and bonds) is held on the assets side of the consolidated statement of financial position and amounts to PLN 2 240 101 k (PLN 1 928 537 k as at 31.12.2010).
As at 31.12.2011, in the consolidated statement of financial position, buy-sell-back transactions amount to PLN 100 k (31.12.2010 - PLN 10 118 k).

All risks and rewards related to the holding of the underlying debt securities in the sell-buy-back transactions remains 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 31.12.2011 and 31.12.2010 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

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.

In thousands of PLN

Below is a summary of the book values and fair values of the individual groups of assets and liabilities.

Assets	31.12.2011		31.12.2010	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	1 425 541	1 425 541	2 534 463	2 534 463
Loans and advances to banks	1 244 290	1 244 275	619 655	619 659
Financial assets held for trading	5 860 309	5 860 309	2 238 966	2 238 966
Hedging derivatives	141 636	141 636	14 768	14 768
Loans and advances to customers	38 017 173	38 349 947	32 838 385	33 342 218
Investment securities	11 664 507	11 664 507	13 395 355	13 494 939
Investments in associates and joint ventures	104 512	104 512	87 360	87 360
Liabilities				
Deposits from banks	2 556 715	2 556 715	2 526 082	2 526 082
Hedging derivatives	523 725	523 725	16 441	16 441
Financial liabilities held for trading	956 768	956 768	578 611	578 611
Subordinated liabilities	441 234	441 234	395 230	395 230
Deposits from customers	46 829 482	46 829 452	41 970 454	41 970 949

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 (margins) and changes in 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.

Debt securities in issue and subordinated liabilities: The securities are measured at amortised cost less adjustments in hedge accounting. Subordinated liabilities are measured at amortised cost.

In thousands of PLN

Financial assets and liabilities carried at fair value in the statement of financial position

As at 31 December 2011 and in the comparable periods 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 derivative instruments except IRS, CIRS, FX forward, FX swap and FX options contracts concluded with non-bank counterparties as well as debt securities measured using discounted cash flow models (except those securities for which the Group independently estimates the credit spread for the counterparty risk).
Apart from these derivatives, level II also classifies variable-rate State Treasury 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): This 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) and derivative instruments excluded from level I and II (i.e. IRS, CIRS, FX forward, Fx swap and FX options contracts concluded with non-bank counterparties for which the Group independently estimates the credit spread for counterparty risk).

As at 31.12.2011 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2011	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	483 088	5 200 351	176 870	5 860 309
Hedging derivatives	-	141 636	-	141 636
Financial investment assets - debt securities	9 921 220	984 866	77 789	10 983 875
Financial investment assets - equity securities	19 475	-	661 157	680 632
Total	**10 423 783**	**6 326 853**	**915 816**	**17 666 452**
Financial liabilities				
Financial liabilities held for trading	-	909 862	46 906	956 768
Hedging derivatives	-	523 725	-	523 725
Total		**1 433 587**	**46 906**	**1 480 493**

31.12.2010	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	509 958	1 538 049	190 959	2 238 966
Hedging derivatives	-	14 768	-	14 768
Financial investment assets - debt securities	5 459 246	1 425 849	80 771	6 965 866
Financial investment assets - equity securities	20 688	-	659 393	680 081
Total	**5 989 892**	**2 978 666**	**931 123**	**9 899 681**
Financial liabilities				
Financial liabilities held for trading	10 458	518 352	49 801	578 611
Hedging derivatives	-	16 441	-	16 441
Total	**10 458**	**534 793**	**49 801**	**595 052**

As at 31 December 2011 and in the comparable period there were no transfers between the first and the second fair value level.
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.

In thousands of PLN

Level III	Financial assets			Financial liabilities
31.12.2011	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	190 959	80 771	659 393	(49 801)
Profits or losses	17 007	314	8 985	1 980
recognised in income statement	*17 007*	*314*	-	*1 980*
recognised in equity	-	-	*8 985*	-
Purchase	-	-	6 644	-
Sale	-	(3 296)	(8 990)	-
Matured	(31 096)	-	-	915
Impairment	-	-	(2 321)	-
Transfer	-	-	(2 554)	-
At the period end	**176 870**	**77 789**	**661 157**	**(46 906)**

Level III	Financial assets			Financial liabilities
31.12.2010	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	385 626	83 971	642 764	(124 476)
Profits or losses	30 110	1 486	1 883	15 291
recognised in income statement	*30 110*	*1 486*	*119*	*15 291*
recognised in equity	-	-	*1 764*	-
Purchase	-	3 296	18 865	-
Sale	-	(7 982)	(4 119)	-
Matured	(181 915)	-	-	59 384
Impairment	(42 862)	-	-	-
At the period end	**190 959**	**80 771**	**659 393**	**(49 801)**

41. Contingent liabilities

Significant court proceedings

As at 31.12.2011 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 243 274 k, which is ca 3.25 % of the Group's equity. This amount includes PLN 100 957 k claimed by the Group, PLN 132 138 k in claims against the Group and PLN 10 179 k of the Group's receivables due to bankruptcy or arrangement cases.

In 2011 the amount of significant court proceedings which had been completed amounted to PLN 48 323 k.

As at 31.12.2010 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 238 580 k, which is ca 3.52 % of the Group's equity. This amount includes PLN 103 404 k claimed by the Group, PLN 130 897 k in claims against the Group and PLN 4 279 k of the Group's receivables due to bankruptcy or arrangement cases.

In 2010 the amount of significant court proceedings which had been completed amounted to PLN 192 622 k.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 34.

In thousands of PLN

Off balance sheet liabilities

The break-down of contingent liabilities and off-balance transactions 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 towards third parties.

Contingent liabilities - sanctioned	31.12.2011	31.12.2010
Liabilities sanctioned		
- financial	**8 129 987**	**5 623 703**
- credit lines	7 006 625	4 745 222
- credit cards debits	970 702	818 961
- import letters of credit	152 165	55 105
- term deposits with future commencement term	495	4 415
- guarantees	**1 473 722**	**1 185 541**
Total	**9 603 709**	**6 809 244**

42. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the 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 which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2011 Bank Zachodni WBK S.A. pledged as collateral PLN 185 039 k of debt securities (PLN 170 698 k as at 31.12.2010).

In 2011 a deposit for PLN 695 237 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2010 it was PLN 267 731 k).
In 2011 BZ WBK hold a deposit for PLN 61 781 k (in 2010 it was PLN 9 667 k) as a collateral for the day-to-day Treasury business.

Other assets pledged and liabilities accepted as collateral are disclosed in notes 32 and 39.

43. Finance and operating leases

Finance leases

Lease agreements where the Group acts as a leasor

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	31.12.2011	31.12.2010
less than 1 year	1 028 782	1 115 366
between 1 and 5 years	1 466 300	1 534 347
over 5 years	293 044	265 292
Total	**2 788 126**	**2 915 005**

In thousands of PLN

Present value of minimum lease payments - maturity	31.12.2011	31.12.2010
less than 1 year	970 297	1 040 850
between 1 and 5 years	1 209 309	1 264 270
over 5 years	155 937	130 635
Total	**2 335 543**	**2 435 755**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2011	31.12.2010
Finance lease gross receivables	2 788 126	2 915 005
Unearned finance income	(452 583)	(479 250)
Impairment of finance lease receivables	(96 362)	(95 214)
Total	**2 239 181**	**2 340 541**

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 BZWBK 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 2011 and 2010 rentals totalled PLN 151 116 k and PLN 144 336 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	31.12.2011	31.12.2010
less than 1 year	153 865	146 193
between 1 and 5 years	518 363	446 363
over 5 years	211 316	306 347
Total	**883 544**	**898 903**

44. Consolidated statement of cash flow- additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2011	31.12.2010
Cash and balances with central banks	1 425 541	2 534 463
Deposits in other banks, current account	1 224 210	609 261
Debt secutities held for trading	4 647 956	1 199 301
Total	**7 297 707**	**4 343 025**

Bank Zachodni WBK S.A. holds restricted cash.

45. Related party disclosures

The tables below present 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.

In thousands of PLN

Transactions with associates and joint ventures	31.12.2011	31.12.2010
ASSETS	**742**	**514**
Loans and advances to customers	259	492
Other assets	483	22
LIABILITIES	**392 882**	**361 038**
Deposits from customers	392 418	360 985
Other liabilities	464	53
INCOME	**65 405**	**61 013**
Interest income	8 421	1 037
Fee and commission income	55 662	59 714
Gains (losses) from other financial securities	(21)	-
Other operating income	1 343	262
EXPENSES	**20 236**	**24 235**
Interest expense	17 881	21 921
Fee and commission expense	711	604
Operating expenses incl.:	1 644	1 710
General and administrative expenses	*1 644*	*1 710*

Transactions with:	Santander Group 31.12.2011	AIB Group 31.12.2010
ASSETS	**117 976**	**130 969**
Loans and advances to banks, incl:	81 701	93 399
deposits	*70 557*	-
current accounts	*11 144*	*93 399*
Financial assets held for trading	35 230	36 968
Hedging derivatives	1 045	-
Other assets	-	602
LIABILITIES	**46 625**	**463 030**
Deposits from banks incl.:	178	326 117
repo transactions	-	*289 270*
deposits	*178*	*36 847*
Hedging derivatives	-	887
Financial liabilities held for trading	46 446	124 466
Other liabilities	1	11 560
INCOME	**(22 327)**	**(41 125)**
Interest income	1 010	1 957
Fee and commission income	301	2 183
Other operating income	230	1 917
Net trading income and revaluation	(23 868)	(46 009)
Gains (losses) from other financial securities	-	(1 173)
EXPENSES	**946**	**42 897**
Interest expense	946	16 528
Operating expenses incl.:	-	26 369
Bank's staff, operating expenses and management costs	-	*26 369*
CONTINGENT LIABILITIES	**63 648**	**-**
Sanctioned:	49 999	-
- guarantees	*49 999*	-
Received:	13 649	-
- guarantees	*13 649*	-
DERIVATIVES' NOMINAL VALUES	**3 415 369**	**4 611 239**
Cross-currency interest rate swaps – purchased amounts	-	372 205
Cross-currency interest rate swaps – sold amounts	-	362 070
Single-currency interest rate swaps	656 927	3 092 517
Options	45 542	25 616
FX swap – purchased amounts	564 471	186 807
FX swap – sold amounts	572 762	205 653
FX options -purchased	694 939	122 520
FX options -sold	877 099	127 976
spot-purchased	1 813	58 387
spot-sold	1 816	57 488

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration paid to the members of Bank Zachodni WBK Supervisory and Management Boards

31.12.2011

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board:

First and last name	Position	Period		PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2011-20.04.2011		88,8
Gerald Byrne	Chairman of the Supervisory Board	20.04.2011-31.12.2011		16,7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2011-20.04.2011		64,1
Aleksander Galos	Member of the Supervisory Board	01.01.2011-20.04.2011		57,1
Jacek Ślotała	Member of the Supervisory Board	01.01.2011-20.04.2011		59,1
Piotr Partyga	Member of the Supervisory Board	01.01.2011-31.12.2011		179,8
Witold Jurcewicz	Member of the Supervisory Board	20.04.2011-31.12.2011		115,7
John Power	Member of the Supervisory Board	01.01.2011-31.12.2011		210,9
Anne Maher	Member of the Supervisory Board	01.01.2011-20.04.2011		42,5
Maeliosa O'Hogartaigh	Member of the Supervisory Board	01.01.2011-20.04.2011		63,2

Mr John Power received remuneration of PLN 67 k from subsidiaries for his membership in their Supervisory Boards.

In 2011 Mr Jose Manuel Varela, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora decided not to receive remuneration for his membership in the Supervisory Board.

In addition, 2010 and 2011 was a period of substantial change for the bank. Mr Gerry Byrne provided services to the bank during this transition and was paid PLN 4 968 k.

Base remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2011-31.12.2011	1 563,02	74,06
Paul Barry	Member of the Managemet Board	01.01.2011-31.07.2011	385,06	413,16
Andrzej Burliga	Member of the Managemet Board	01.01.2011-31.12.2011	928,35	81,48
Eamonn Crowley	Member of the Managemet Board	01.09.2011-31.12.2011	288,02	5,34
Declan Flynn	Member of the Managemet Board	01.01.2011-13.04.2011	267,28	128,04
Justyn Konieczny	Member of the Managemet Board	01.01.2011-31.12.2011	1 127,88	73,19
Janusz Krawczyk	Member of the Managemet Board	01.01.2011-31.12.2011	961,00	63,35
Michael McCarthy	Member of the Managemet Board	01.01.2011-31.12.2011	1 054,25	585,91
Juan de Porras Aguirre	Member of the Managemet Board	01.10.2011-31.12.2011	325,54	21,30
Marcin Prell	Member of the Managemet Board	01.01.2011-31.12.2011	889,34	72,66
Mirosław Skiba	Member of the Managemet Board	01.01.2011-31.12.2011	928,27	80,70
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2011-31.12.2011	963,75	68,65

Additional benefits received by the Management Board members represent life insurance cover without pension option and, in case of Mr Paul Barry, Mr Declan Flynn, Mr Michael McCarthy and Mr Juan de Porras, also medical cover, accommodation and travel expenses and school fees.

In 2011, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

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31.12.2010

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board:

First and last name	Position	Period	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2010-31.12.2010	221,6
Gerald Byrne	Vice-Chairman of the Supervisory Board	01.01.2010-30.11.2010	141,4
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2010-31.12.2010	167,3
Aleksander Galos	Member of the Supervisory Board	01.01.2010-31.12.2010	167,3
Jacek Ślotała	Member of the Supervisory Board	01.01.2010-31.12.2010	151,3
John Power	Member of the Supervisory Board	01.01.2010-31.12.2010	191,7
Piotr Partyga	Member of the Supervisory Board	21.04.2010-31.12.2010	95,8
Anne Maher	Member of the Supervisory Board	21.04.2010-31.12.2010	68,1

In 2010 Mr Maeliosa OhOgartaigh decided not to receive remuneration for his membership in the Supervisory Board.
Mr John Power received remuneration of PLN 61 k from subsidiaries for his membership in their Supervisory Boards.

Base remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2010-31.12.2010	1 459,81	73,84
Paul Barry	Member of the Managemet Board	01.01.2010-31.12.2010	682,37	764,84
Andrzej Burliga	Member of the Managemet Board	01.01.2010-31.12.2010	859,84	77,61
Declan Flynn	Member of the Managemet Board	01.01.2010-31.12.2010	940,48	457,82
Justyn Konieczny	Member of the Managemet Board	01.01.2010-31.12.2010	1 057,82	70,92
Janusz Krawczyk	Member of the Managemet Board	01.01.2010-31.12.2010	898,24	59,75
Jacek Marcinowski	Member of the Managemet Board	01.01.2010-31.12.2010	842,18	54,90
Michael McCarthy	Member of the Managemet Board	01.01.2010-31.12.2010	1 020,60	665,70
Marcin Prell	Member of the Managemet Board	01.01.2010-31.12.2010	842,87	69,28
Mirosław Skiba	Member of the Managemet Board	01.01.2010-31.12.2010	860,05	76,05
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2010-31.12.2010	895,61	67,18

Additional benefits received by the Management Board members represent life insurance cover without pension option and, in case of Mr Paul Barry, Mr Declan Flynn, Mr Michael McCarthy also medical cover, accommodation and travel expenses and school fees.

In 2010, none of the Members of the Management Board of Bank Zachodni WBK 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.

31.12.2011

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives totalled PLN 10 322 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2011, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates totalled nil.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

31.12.2010

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives totalled PLN 8 798 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2010, 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 6 k.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

Provisions for employee benefits disclosed in the note 50 include respectively amounts related to the Management Board of the Bank Zachodni WBK S.A.:

31.12.2011

Provision for retirement benefits in the amount of PLN 761 k, provision for unused holiday in the amount of PLN 812 k.

31.12.2010

Provision for retirement benefits in the amount of PLN 751 k, provision for unused holiday in the amount of PLN 852 k.

Profit sharing scheme

In 2006 selected subsidiaries of BZWBK 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. 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.

Considering the above, BZWBK Group has estimated a present value of the future obligations to pay-outs resulting from rights granted under the scheme respectively to the service period of the entitled individuals participating in the scheme.

The value of the liability resulting from the scheme as at 31 December 2011 amounted to PLN 0 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 0 k.

The value of the liability resulting from the scheme as at 31 December 2010 amounted to PLN 5 309 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 5 312 k.

46. Information of number and value of banking writs of executions

In 2011 Bank issued 29 916 banking writs of execution with total amount of PLN 1 018 511 k.

In 2010 Bank issued 42 479 banking writs of execution with total amount of PLN 728 905 k.

47. Acquisitions of investments in subsidiaries and associates

Acquisitions of subsidiaries and associates in 2011

Krynicki Recycling S.A.

On 17 March 2011, Krynicki Recykling S.A. announced disposal of ordinary bearer shares in Krynicki Recykling S.A. by Adam Krynicki, the President of the Management Board, and Anna Barska, the Chairman of the Supervisory Board. The shares were disposed of via an OTC transaction - so called package deals dd. 15 March 2011 for 87 898 shares at the price corresponding to the nominal value of the shares - each. The agreement for sale of the abovementioned package of the Issuer's shares was entered into on behalf of BZ WBK Inwestycje sp. z o. o. via Dom Maklerski BZ WBK S.A.

As of 31 December 2011, BZ WBK Inwestycje Sp. z o.o. held 3 652 648 shares, which represented 24.54% of the share capital of Krynicki Recykling S.A. and entitled to 3 652 648 voting rights, i.e. 24.54% of the total voting rights, at the company's AGM.

Krynicki Recykling S.A., with its registered office in Olsztyn, is a company in the environmental protection industry, listed on NewConnect.

Holicon Group S.A.

On 16 April 2010, BZ WBK Inwestycje bought 753 853 shares of Holicon Group S.A. at PLN 1 per share. At the same time, an investment agreement was signed, whereby BZ WBK Inwestycje acquired 3 296 147 convertible bonds at PLN 1. Following the conversion of bonds into shares in April 2011, BZ WBK holds 4 050 000 shares at the nominal price of PLN 1, i.e. 47.09% of the total voting rights at AGM.

Acquisitions of subsidiaries and associates in 2010

Change in the total number of votes held in Krynicki Recykling S.A. by BZ WBK Inwestycje Sp. z o.o.

Krynicki Recykling S.A. announced that on 13 October 2010 it had learned about a change in the number of votes held in the company by its shareholder BZ WBK Inwestycje Sp. z o.o. As a result of the share capital increase through the issue of series E shares, the shareholder's previous voting power in the company had decreased by 8.56% from 30.37% to 21.81% of the total number of votes at the General Meeting of the company.

In December 2010, BZ WBK Inwestycje Sp. z o.o. acquired 400,000 shares in Krynicki Recykling S.A. (200,000 shares acquired on 29 December and 200,000 on 30 December in transactions on the OTC market).

As at 31 December 2010, BZ WBK Inwestycje Sp. z o.o. has 3,476,852 shares, representing 24.65% of the share capital of Krynicki Recykling S.A., carrying 3,476,852 votes at the company's General Meeting, i.e. 24.65% of the total voting power.

Krynicki Recykling S.A., seated in Olsztyn, is quoted on the NewConnect market. It operates in the environmental protection industry sector.

Increase in the share capital of BZ WBK Inwestycje Sp. z o.o.

On 13 October 2010 General Meeting of BZ WBK Inwestycje Sp. z o.o. (subsidiary of Bank Zachodni WBK) adopted the resolution which increased the share capital from PLN 50,000 to PLN 100,000 as a result issuing additional 100 new shares of PLN 500 each. Total nominal value of a new issue amounted to PLN 50,000. Bank Zachodni WBK S.A. has taken up all new shares and covered them by cash.

Merger of Metrohouse S.A.

On 29 October 2010 a formal merger took place between METROHOUSE S.A. of Warsaw and Partnerzy Nieruchomości Sp. z o.o. of Gdańsk. The merged entity has begun trading as Metrohouse & Partnerzy S.A. The company is a leader of the Polish real estate market. BZ WBK Inwestycje Sp. z o.o. has a 21.23% stake in the share capital of the company.

48. Investment in joint ventures

BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A

In September 2011 BZ WBK made a capital contribution of PLN 5 000 k to BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. seated in Poznań. The raised capital was registered on 26.09.2011.
BZ WBK share of votes remained unchanged at 50%.

In the consolidated financial statements the investment is accounted for using the equity method.

49. Events which occurred subsequently to the end of the period

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 23rd of February 2012 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be presented for approve by the shareholders at their Annual General Meeting.

Bank Zachodni WBK S.A. rating changed following a rating action taken for Banco Santander
Fitch Ratings has downgraded Banco Santander's (Santander) Long-term Issuer Default Ratings (IDR) to 'A' from 'AA-' and Viability Rating (VR) to 'a' from 'aa-'. Fitch has removed the ratings from Rating Watch Negative (RWN).

The rating actions on Santander largely reflect Fitch's downgrade of the Spanish sovereign to 'A'/Negative from 'AA-' (see "Fitch Takes Rating Actions on Six Eurozone Sovereigns" and "Fitch Comments Further on Downgrade of Spain to 'A'; Outlook Negative", both dated 27 January 2012 at www.fitchratings.com). The Negative Outlook on Santander mirrors that on the sovereign rating.

As a result the following rating actions were taken for Bank Zachodni WBK S.A.:
Long-term IDR: downgraded to 'A-' from 'A+'; Outlook Negative; removed from RWN
Short-term IDR: downgraded to 'F2' from 'F1'; removed from RWN
VR: unaffected at 'bbb'
Support Rating: affirmed at '1'

Applicable criteria: 'Global Financial Institutions Rating Criteria', dated 16 August 2011; 'Rating Bank Regulatory Capital and Similar Securities', dated 15 December 2011; and 'Treatment of Hybrids in Bank Capital Analysis', dated 11 July 2011, are all available at www.fitchratings.com.

The agreement on the merger of Bank Zachodni WBK and Kredyt Bank
Banco Santander, S.A. and KBC Bank NV announced on 27.02.2012 that they have entered into an investment agreement to combine their Polish banking subsidiaries, Bank Zachodni WBK S.A. and Kredyt Bank S.A.
Bank Zachodni WBK and Kredyt Bank, with the support of their parent companies, Santander and KBC, have also reached an agreement regarding cooperation with respect to the proposed merger.

Under the agreements, and subject to independent evaluation and final agreement by Bank Zachodni WBK and Kredyt Bank, as well as to obtaining regulatory approval from the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) and relevant competition clearance, Bank Zachodni WBK will merge with Kredyt Bank at the ratio of 6.96 Bank Zachodni WBK shares for every 100 Kredyt Bank shares. At current market prices, the transaction values are for Kredyt Bank at PLN 15.75 a share and BZ WBK at PLN 226.4 a share. The combined bank's total pro forma value will be PLN 20.8 billion (EUR 5 billion).
Both Bank Zachodni WBK and Kredyt Bank are listed on the Warsaw Stock Exchange. The merged bank will continue to be listed on the Warsaw Stock Exchange.
Following the proposed merger, Santander will hold approximately 76.5% of the merged bank and KBC around 16.4%. The rest of shares will be held by other minority shareholders.

50. 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 after the term of employment),

Within these categories, the companies of the BZ WBK Group create the following types of provisions:

Provisions for accrued holiday pay
Liabilities related to accrued holiday pay are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses
Liabilities related to bonuses 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).

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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	31.12.2011	31.12.2010
Provision for accrued holiday pay	21 289	20 403
Provisions for employee bonuses	139 978	149 940
Provisions for retirement allowances	42 044	39 396
Other staff-related provisions	2 963	2 801
Total	**206 274**	**212 540**

Detailed information about movements on staff-related provisions is available in additional note 34.

Awards for the year 2010 paid in 2011 to the members of the Management Board of Bank Zachodni WBK S.A.:

First and last name	Position	Period	Awards for 2010
Mateusz Morawiecki	President of the Management Board	01.01.2011-31.12.2011	1 404,00
Paul Barry	Member of the Management Board	01.01.2011-31.07.2011	479,76
Andrzej Burliga	Member of the Management Board	01.01.2011-31.12.2011	831,60
Declan Flynn	Member of the Management Board	01.01.2011-13.04.2011	635,07
Justyn Konieczny	Member of the Management Board	01.01.2011-31.12.2011	970,00
Janusz Krawczyk	Member of the Management Board	01.01.2011-31.12.2011	740,00
Michael McCarthy	Member of the Management Board	01.01.2011-31.12.2011	719,64
Marcin Prell	Member of the Management Board	01.01.2011-31.12.2011	700,00
Mirosław Skiba	Member of the Management Board	01.01.2011-31.12.2011	831,60
Feliks Szyszkowiak	Member of the Management Board	01.01.2011-31.12.2011	815,00

Additionally, in 2011 the Management Board of the Bank has received bonus in the total amount of PLN 6 725 k reflecting both the retention of Management Board members in the context of the change in ownership and the departure of a number of long-serving Management Board members (Declan Flynn and Paul Barry) on assignment from the previous majority shareholder.

According to the approved remuneration system in the Bank, in case of fulfilling certain criteria, members of the Management Board of the Bank, can be entitled to receive an award for 2011 that would be paid in 2012. As at the date of preparation of these financial statements, the decision in this regard has not been made by the Supervisory Board of the Bank.

Awards for the year 2009 paid in 2010 to the members of the Management Board of Bank Zachodni WBK S.A.:

First and last name	Position	Period	Awards for 2009
Mateusz Morawiecki	President of the Management Board	01.01.2010-31.12.2010	1 500,00
Paul Barry	Member of the Management Board	01.01.2010-31.12.2010	700,33
Andrzej Burliga	Member of the Management Board	01.01.2010-31.12.2010	741,60
Declan Flynn	Member of the Management Board	01.01.2010-31.12.2010	777,55
Justyn Konieczny	Member of the Management Board	01.01.2010-31.12.2010	882,00
Janusz Krawczyk	Member of the Management Board	01.01.2010-31.12.2010	741,60
Jacek Marcinowski	Member of the Management Board	01.01.2010-31.12.2010	593,28
Michael McCarthy	Member of the Management Board	01.01.2010-31.12.2010	857,45
Marcin Prell	Member of the Management Board	01.01.2010-31.12.2010	593,28
Mirosław Skiba	Member of the Management Board	01.01.2010-31.12.2010	741,60
Feliks Szyszkowiak	Member of the Management Board	01.01.2010-31.12.2010	756,00

In thousands of PLN

51. Share based incentive scheme

Third edition expired as at 31 March 2011. The scheme did not vest as the condition were not met.

In 2011 4th edition of the BZWBK incentive scheme has been granted to no more than 500 individuals.

Vesting condition will be considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit before tax (PBT) growth. The range of the scale requires PBT growth between 8% and 15% in first year and between 15% and 22% in second and third year of duration of scheme.

Shares vested in any single year will be allocated to individual after maturity of the edition.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PBT compound annual growth rate in 3 years' time between 12.6% and 19.6%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

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.

Share based payments granted:

	2011
Number of share based payments	319 067
Share price (PLN)	227,90
Excercise price (PLN)	10
Vesting period	2,75 years
Expected volatility	9,98%
Award life	3 years
Risk free rate	5,19%
Fair value per award	PLN 195,08
Dividend yield	3,51%

The following table summarizes the share based payments activity:

	12 months of 2011 Number of share based payments	12 months of 2010 Number of share based payments
Outstanding at 1 January	268 020	341 701
Granted	319 067	-
Exercised	-	-
Forfeited	(4 713)	(8 190)
Expired	(264 403)	(65 491)
Outstanding at 31 December	317 971	268 020
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 2011 and as at 31 December 2010 the average remaining contractual life is approximately 2 years and 0,3 year.

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2011 and 2010 amounts to PLN 20 747 k , and PLN 0 k. respectively.

In thousands of PLN

Taking up the Bank's share rights by the Management Board Members under the 2011 Incentive Scheme

On 25 March 2011, the Supervisory Board of Bank Zachodni WBK S.A. passed a resolution to launch the 4th Performance Share Incentive Plan. Under the Plan, a total of 321 399 entitlements to conditional share rights were allocated to 498 employees, including 44 852 conditional share rights taken up by the Members of the Bank Management Board. On 17 May 2011 the Supervisory Board of Bank Zachodni WBK S.A. passed a resolution stating that the condition of the Third Incentive Scheme from 2008 were not met.

The tables below show details of conditional share rights granted to the Members of the Management Board of BZ WBK.

No. of awards	2011
Outstanding at 1 January	31 093
Granted	44 852
Expired	(31 093)
Outstanding at 31 December	44 852
Exercisable at 31 December	-

First and last name	Total as at 01.01.2011	Expired during 2011	Granted during 2011	Total as at 31.12.2011
Mateusz Morawiecki	7 403	(7 403)	10 120	10 120
Andrzej Burliga	3 332	(3 332)	4 282	4 282
Eamonn Crowley	-	-	4 003	4 003
Justyn Konieczny	5 182	(5 182)	5 283	5 283
Janusz Krawczyk	4 442	(4 442)	3 854	3 854
Michael McCarthy	-	-	4 875	4 875
Marcin Prell	4 442	(4 442)	3 704	3 704
Mirosław Skiba	1 850	(1 850)	4 282	4 282
Feliks Szyszkowiak	4 442	(4 442)	4 449	4 449
Total	**31 093**	**(31 093)**	**44 852**	**44 852**

No. of awards	2010
Outstanding at 1 January	51 682
Expired	(16 147)
Outstanding at 31 December	35 535
Exercisable at 31 December	-

First and last name	Total as at 01.01.2010	Expired during 2010	Total as at 31.12.2010
Mateusz Morawiecki	9 961	(2 558)	7 403
Andrzej Burliga	4 417	(1 085)	3 332
Justyn Konieczny	7 847	(2 665)	5 182
Janusz Krawczyk	6 661	(2 219)	4 442
Jacek Marcinowski	6 661	(2 219)	4 442
Marcin Prell	6 661	(2 219)	4 442
Mirosław Skiba	2 813	(963)	1 850
Feliks Szyszkowiak	6 661	(2 219)	4 442
Total	**51 682**	**(16 147)**	**35 535**

52. Staff level

As at 31 December 2011 the Bank employed 8 802 persons, i.e. 8 726 FTE's.
As at this date, in subsidiaries there were 687 persons employed (incl. 76 persons in the Bank), i.e. 657 FTE's.
In 2011, the average staffing level in Bank Zachodni WBK S.A. was 8 992 FTE's whereas the average staffing level in subsidiaries was 678 FTE's.

In thousands of PLN

As at 31 December 2010 the Bank employed 9 250 persons, i.e. 9 163 FTE's.
As at this date, in subsidiaries there were 691 persons employed (incl. 53 persons in the Bank), i.e. 677 FTE's.
In 2010, the average staffing level in Bank Zachodni WBK S.A. was 8 974 FTE's whereas the average staffing level in subsidiaries was 658 FTE's.

53. Dividend per share

The Management Board of the Bank will propose a dividend payment to the Shareholders in the amount of PLN 8.00 per share from the profit for 2011.

The final decision on dividend payment and amount shall be made by the Annual General Meeting of Bank Zachodni WBK S.A. Shareholders.

On 20 April 2011, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 584 608 k to dividend for shareholders, from the profit for 2010, which meant that the proposed dividend was PLN 8 per share.

54. Change of majority shareholder

Sale of shares in Bank Zachodni WBK

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for the bank's shares. As a result, Banco Santander acquired a 95.67% stake in the bank. Consequently, Bank Zachodni WBK joined Santander Group. The acquisition price totalled EUR 3,989 m.

AIB European Investments Limited sold 51,413,790 shares of Bank Zachodni WBK representing 70.36% of share capital and voting power in the tender. The transaction was settled on 1 April 2011. As a result, AIB European Investments Limited does not hold any shares of Bank Zachodni WBK or any voting rights attached to such shares.

As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK on 1 April 2011, the non-controlling shareholders became entitled to demand for a further three months that their shares be acquired by the majority shareholder. Based on the requests from shareholders, Banco Santander acquired an additional 421 859 shares of Bank Zachodni WBK, thus increasing its share in the share capital and voting power at the General Meeting of Shareholders to 96.25%.

Signatures of Members of the Management Board			
Date	**Name**	**Function**	**Signature**
23.02.2012	Mateusz Morawiecki	President	
23.02.2012	Andrzej Burliga	Member	
23.02.2012	Eamonn Crowley	Member	
23.02.2012	Justyn Konieczny	Member	
23.02.2012	Janusz Krawczyk	Member	
23.02.2012	Michael McCarthy	Member	
23.02.2012	Juan de Porras Aguirre	Member	
23.02.2012	Marcin Prell	Member	
23.02.2012	Mirosław Skiba	Member	
23.02.2012	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	**Name**	**Function**	**Signature**
23.02.2012	Wojciech Skalski	Financial Accounting Area Director	

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Bank Zachodni WBK S.A.

We have audited the attached consolidated financial statements of the Bank Zachodni WBK S.A. Capital Group (Capital Group), with Bank Zachodni WBK S.A. as the Parent Company (Parent Company, Bank), its registered office in Wroclaw, at Rynek 9/11, including consolidated statement of financial position prepared as of 31 December 2012, consolidated income statement and consolidated statement of comprehensive income, movements on consolidated equity, consolidated statement of cash flow for the financial year from 1 January 2012 to 31 December 2012 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the capital group in line with the law is the responsibility of the Management Board of the Parent Company. The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act". Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

– section 7 of the Accounting Act,

– national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the audited consolidated financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as of 31 December 2012 as well as its profit or loss in the financial year from 1 January 2012 to 31 December 2012,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2012 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited consolidated financial statements.

Dorota Snarska-Kuman
Key certified auditor
conducting the audit
No. 9667

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 7 March 2013

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR 2012

2012

Bank Zachodni WBK S.A.

Table of Contents

In thousands of PLN

Consolidated income statement

for reporting period:		01.01.2012-31.12.2012	01.01.2011-31.12.2011
Interest income		3 867 485	3 413 733
Interest expense		(1 566 408)	(1 345 148)
Net interest income	Note 6	**2 301 077**	**2 068 585**
Fee and commission income		1 596 038	1 558 664
Fee and commission expense		(211 052)	(200 992)
Net fee and commission income	Note 7	**1 384 986**	**1 357 672**
Dividend income	Note 8	55 748	68 025
Net gain/(loss) on sale of subsidiaries and associates		400	-
Net trading income and revaluation	Note 9	164 345	267 151
Gains (losses) from other financial securities	Note 10	180 052	11 713
Other operating income	Note 11	49 672	49 804
Impairment losses on loans and advances	Note 12	(501 793)	(372 741)
Operating expenses incl.:		(1 817 194)	(1 918 883)
Bank's staff, operating expenses and management costs	*Notes 13, 14*	*(1 653 112)*	*(1 659 145)*
Depreciation/amortisation		*(137 940)*	*(215 875)*
Other operating expenses	*Note 15*	*(26 142)*	*(43 863)*
Operating profit		**1 817 293**	**1 531 326**
Share in net profits of entities accounted for by the equity method		19 746	11 104
Profit before tax		**1 837 039**	**1 542 430**
Corporate income tax	Note 16	(374 404)	(315 563)
Consolidated profit for the period		**1 462 635**	**1 226 867**
of which:			
attributable to owners of BZ WBK S.A.		*1 433 847*	*1 184 347*
attributable to non-controlling interests		*28 788*	*42 520*
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		19.42	16.21
Diluted earnings per share		19.34	16.15

Consolidated statement of comprehensive income

for reporting period:	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Consolidated profit for the period	**1 462 635**	**1 226 867**
Other comprehensive income:		
Available-for sale financial assets valuation	384 858	77 697
including deferred tax	*(73 123)*	*(14 762)*
Cash flow hedges valuation	18 955	61 633
including deferred tax	*(3 601)*	*(11 711)*
Other comprehensive income for the period, net of income tax	**327 089**	**112 857**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 789 724**	**1 339 724**
Attributable to:		
owners of BZ WBK S.A.	*1 760 929*	*1 296 531*
non-controlling interests	*28 795*	*43 193*

Notes presented on pages 13 – 94 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of financial position

as at:		31.12.2012	31.12.2011
ASSETS			
Cash and balances with central banks	Note 18	4 157 274	1 425 541
Loans and advances to banks	Note 19	1 458 128	1 204 172
Financial assets held for trading	Note 20	831 715	5 836 043
Hedging derivatives	Note 21	253 553	141 636
Loans and advances to customers	Note 22	39 867 554	38 017 173
Investment securities	Notes 23, 24	11 716 133	11 652 195
Investments in associates and joint ventures	Note 25	115 685	104 512
Intangible assets	Note 26	127 338	151 166
Property, plant and equipment	Note 27	479 811	499 793
Current income tax assets		-	20 687
Net deferred tax assets	Note 28	258 037	245 019
Other assets	Notes 29,30	753 949	498 706
Total assets		**60 019 177**	**59 796 643**
LIABILITIES			
Deposits from banks	Note 31	1 351 050	2 505 070
Hedging derivatives	Note 21	321 950	523 725
Financial liabilities held for trading	Note 20	728 831	931 717
Deposits from customers	Note 32	47 077 094	46 829 482
Subordinated liabilities	Note 33	409 110	441 234
Current income tax liabilities		154 916	-
Other liabilities	Note 34	998 512	1 082 455
Total liabilities		**51 041 463**	**52 313 683**
Equity			
Equity attributable to owners of BZ WBK S.A.		**8 884 367**	**7 355 575**
Share capital	Note 35	746 376	730 760
Other reserve funds	Note 36	5 704 680	4 698 884
Revaluation reserve	Note 37	872 400	545 318
Retained earnings		127 064	196 266
Profit of the current period		1 433 847	1 184 347
Non-controlling interests in equity		**93 347**	**127 385**
Total equity		**8 977 714**	**7 482 960**
Total equity and liabilities		**60 019 177**	**59 796 643**

Notes presented on pages 13 – 94 constitute an integral part of these Financial Statements.

In thousands of PLN

Movements on consolidated equity

Movements in consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	35	36	37			
Opening balance as at 31.12.2011	**730 760**	**4 698 884**	**545 318**	**1 380 613**	**127 385**	**7 482 960**
Total comprehensive income	-	-	327 082	1 433 847	28 795	1 789 724
Issue of shares *	15 616	316 384	-	-	-	332 000
Transfer to other capital	-	668 941	-	(668 941)	-	-
Dividend relating to 2011	-	-	-	(584 608)	(62 833)	(647 441)
Share scheme charge	-	20 471	-	-	-	20 471
As at 31.12.2012	**746 376**	**5 704 680**	**872 400**	**1 560 911**	**93 347**	**8 977 714**

As at the end of the period revaluation reserve in the amount of PLN 872 400 k comprises of debt securities and equity shares classified as available for sale of PLN 402 635 k and PLN 402 475 k respectively and additionally cash flow hedge activities of PLN 67 290 k.

* Detailed information on "Issue of shares" in Note 35.

Movements in consolidated equity	Share capital	Other reserve funds	Revaluation reserve **	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	35	36	37			
Opening balance as at 31.12.2010	**730 760**	**4 344 640**	**433 134**	**1 114 522**	**150 519**	**6 773 575**
Total comprehensive income	-	-	112 184	1 184 347	43 193	1 339 724
Transfer to other capital	-	333 648	-	(333 648)	-	-
Dividend relating to 2010	-	-	-	(584 608)	(66 327)	(650 935)
Share scheme charge	-	20 748	-	-	-	20 748
Other	-	(152)	-	-	-	(152)
As at 31.12.2011	**730 760**	**4 698 884**	**545 318**	**1 380 613**	**127 385**	**7 482 960**

As at the end of the period revaluation reserve in the amount of PLN 545 318 k comprises of debt securities and equity shares classified as available for sale of PLN 89 379 k and PLN 404 003 k respectively and additionally cash flow hedge activities of PLN 51 936 k.

** On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as "held-to-maturity", and reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Group.

Notes presented on pages 13 – 94 constitute an integral part of these Financial Statements.

12 Consolidated financial statements of BZ WBK Group for 2012 In thousands of PLN

Consolidated statement of cash flows

for reporting period:	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Profit before tax	**1 837 039**	**1 542 430**
Total adjustments:		
Share in net profits (losses) of entities accounted for by the equity method	(19 746)	(11 104)
Depreciation/amortisation	137 940	215 875
Impairment losses	9 226	2 935
Gains (losses) on exchange differences	21 356	(37 510)
(Profit) loss from investing activities	(179 193)	(9 608)
	1 806 622	**1 703 018**
Changes in:		
Provisions	(25 690)	5 112
Trading portfolio financial instruments	(169 146)	600 992
Loans and advances to banks	9 973	(9 686)
Loans and advances to customers	(1 850 381)	(5 178 788)
Deposits from banks	(1 083 673)	241 552
Deposits from customers	100 117	4 431 124
Other assets and liabilities	(360 777)	208 643
	(3 379 577)	**298 949**
Interests and similar charges	313 457	152 530
Dividend received	(55 748)	(68 025)
Paid income tax	(288 544)	(381 302)
Net cash flow from operating activities	**(1 603 790)**	**1 705 170**
Inflows	**41 919 005**	**3 496 573**
Sale of shares or interests in subsidiaries, associates and joint ventures	4 941	-
Sale/maturity of investment securities	41 854 760	3 425 649
Sale of intangible assets and property, plant and equipment	3 556	2 899
Dividend received	55 748	68 025
Outflows	**(39 530 370)**	**(1 732 410)**
Purchase of subsidiaries, associates and joint ventures	-	(5 018)
Purchase of investment securities	(39 447 733)	(1 608 777)
Purchase of intangible assets and property, plant and equipment	(82 637)	(118 615)
Net cash flow from investing activities	**2 388 635**	**1 764 163**
Inflows	**532 946**	**516 681**
Drawing of long-term loans	200 946	516 681
Proceeds from issuing bonds / shares	332 000	-
Outflows	**(870 829)**	**(1 071 450)**
Repayment of long-term loans	(136 212)	(329 725)
Dividends and other payments to shareholders	(647 441)	(650 935)
Other financing outflows	(87 176)	(90 790)
Net cash flow from financing activities	**(337 883)**	**(554 769)**
Total net cash flow	**446 962**	**2 914 564**
Cash at the beginning of the accounting period	**7 257 589**	**4 343 025**
Cash at the end of the accounting period*	**7 704 551**	**7 257 589**

* Cash components are presented in Note 44.

Notes presented on pages 13 – 94 constitute an integral part of these Financial Statements.

In thousands of PLN

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.

Consolidated financial statements of Bank Zachodni WBK Group includes bank's stand alone financial information as well as information from its subsidiaries (all together called Group), share of net assets of associated entities and joint ventures.

The direct parent of Bank Zachodni WBK S.A. is Banco Santander S.A. seated in Santander, Spain.

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 securities,
- leasing,
- factoring,
- asset/ fund management,
- insurance services,
- trading in stock and shares of commercial companies.

Group of Bank Zachodni WBK consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2012	% of votes on AGM 31.12.2011
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2.	BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
3.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100
4.	Dom Maklerski BZ WBK S.A.	Poznań	99.99	99.99
5.	BZ WBK Finanse & Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
6.	BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
7.	BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99
8.	BZ WBK Asset Management S.A.*	Poznań	50	50
9.	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes are held by BZ WBK Asset Management S.A.	100% of AGM votes are held by BZ WBK Asset Management S.A.

* In case of BZ WBK Asset Management S.A., the Bank is a co-owner of the company together with Banco Santander S.A. Both owners of BZ WBK Asset Management S.A. 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 Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

Associates:

	Associates	Registered office	% of votes on AGM 31.12.2012	% of votes on AGM 31.12.2011
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50	50
2.	Metrohouse & Partnerzy S.A.*	Warszawa	21.23	21.23
3.	Krynicki Recykling S.A.*	Warszawa	24.54	24.54
4.	Holicon Group S.A.*	Poznań	-	47.09

In thousands of PLN

* These are the associates of BZ WBK Inwestycje Sp. z o.o. - bank's subsidiary. They are accounted for using the equity method. Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

Joint ventures:

	Joint ventures	Registered office	% of votes on AGM 31.12.2012	% of votes on AGM 31.12.2011
1.	BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	50	50
2.	BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	50	50

Joint ventures are accounted for using the equity method.

2. Basis of preparation of consolidated financial statements

Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2012 have been prepared in accordance with the 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 BZ WBK Group.

Changes in accounting policies

Comparability with results of previous periods

For the purpose of the adaptation to the politics of the Group, the following material presentation changes were made in:

a) Change in presentation of standardised purchase/sales transactions in respect of financial assets and their recognition in the statement of financial position as at the transaction settlement date rather than as at the date of concluding the transaction as in previous periods of time.

	31.12.2011		
ASSETS	before revision	revision	after revision
Loans and advances to banks	1 244 290	(40 118)	1 204 172
Financial assets held for trading	5 860 309	(24 266)	5 836 043
Investment securities	11 664 507	(12 312)	11 652 195

LIABILITIES	before revision	revision	after revision
Deposit from banks	2 556 715	(51 645)	2 505 070
Financial liabilities held for trading	956 768	(25 051)	931 717

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

b) In 2012, the Group changed the presentation of direct debt recovery costs, which are now reflected in the balance of provisions. Therefore, the Group has made the following transformations in the profit and loss account for the year 2011.

	31.12.2011		
CONSOLIDATED INCOME STATEMENT	before revision	revision	after revision
Impairment losses on loans and advances	(366 982)	(5 759)	(372 741)
Other operating expenses	(49 622)	5 759	(43 863)

c) On 1 January 2012, BZ WBK Group changed the business segment reporting rules. The changes affect two key areas:
- Change in the structure of (split into) operating segments and, consequently, reporting segments,
- Change in the calculation methodology for net interest income of segments.

Due to unavailability of historical data, BZ WBK Group dispensed with conversion of comparable information.
Detailed information on the changes in the business segment reporting is presented in note 3.

Changes in judgments and estimates

On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity', and reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Group.

The Management Board of BZ WBK Group has revised its estimates in respect of the economic life of intangible assets and property, plant and equipment as part of the ongoing process of integration with Santander Group. A resultant non-recurring increase in depreciation of fixed assets and amortisation of intangible assets was PLN 76 352 k, that is included in the total amount of once-off adjustments of PLN 88 780 k.

In thousands of PLN

New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZ WBK Group and are not yet effective or have neither been implemented earlier

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
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 2015	The Group has not completed its analysis of changes.
IFRS 10 Consolidated Financial Statements	New standard supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements as far as presentation and preparation of **consolidated** financial statements is concerned.	1 January 2014	The Group has not completed its analysis of changes.
IFRS 11 Joint Arrangements	Supersedes SIC –13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures.	1 January 2014	The Group has not completed its analysis of changes.
IFRS 12 Disclosures of Interests in Other Entities	New standard requires the disclosure of information that enables users of financial statements to evaluate: -the nature of, and risks associated with, its interests in other entities; - the effects of those interests on its financial position, financial performance and cash flows.	1 January 2014	The Group has not completed its analysis of changes.
IFRS 13 Fair Value Measurement	IFRS establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs.	1 January 2013	Amendments will not have material impact on the financial statements.
IAS 19 Employee Benefits	The standard modifies the rules of settlement of the defined benefits plans and the employment termination benefits. It introduces changes to disclosures.	1 January 2013	Amendments will not have material impact on the financial statements.
IAS 27 Separate Financial Statements	IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate **(non-consolidated)** financial statements.	1 January 2014	The Group has not completed its analysis of changes.
IAS 28 Investments in Associates and Joint Ventures	The change prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2014	The Group has not completed its analysis of changes.
IAS 1 Presentation of Financial Statements	The amendments requires preparing presentation of items of other comprehensive income (OCI) in financial statements.	1 January 2013	Amendments will not have material impact on the financial statements.
IFRS 7 Financial instruments: disclosures	The amendments introduce the change in the disclosure requirements with regard to the effects of offsetting of financial assets and financial liabilities.	1 January 2013	Amendments will not have material impact on the financial statements.
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments.	1 January 2014	The Group has not completed its analysis of changes.
Improvments to IFRSs (2009-2011)	Subject of amendment: IAS 1 - Clarification of requirement for comparative information, IAS 16 Classification of servicing equipment, IAS 32 Income tax consequences of distributions to holders of an equity instrument, IAS 34 segment information for total asset.	1 January 2013	Amendments will not have material impact over the financial statements.
Transition Guidance (Amendments to IFRS 10)	The amendments clarify transition guidance in IFRS 10 and also provide additional transition relief in IFRS 10 IFRS 11, IFRS 12.	1 January 2014	The Group has not completed its analysis of changes.
Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)	The amendment exempts from consolidation "investment entities" such as mutual funds.	1 January 2014	The Group has not completed its analysis of changes.

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2012

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IFRS 7 Financial instruments: disclosures	The change required disclosure of information so that the readers of the financial statements may: understand the relation between the transferred financial asset which has not been fully excluded from the financial statements and the underlying financial obligations; assess the nature of the asset, associated risks and exposure towards the excluded asset. The change includes definition of “continous engagement” to ensure compliance with disclosure requirements.	1 January 2012	Amendments have not had material impact on the consolidated financial statements.

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 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 principles

Use of judgments and estimates

The preparation of financial statements in conformity with IFRS 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 are driven by the following key factors:

- EP-Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Group,
- PD - Probability of default, based on historical observations together with EP is considered to be best indicator of incurred but not reported losses,
- 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,
- CCF - Credit Conversion Factor for the Group'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.

Impairment loss on 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.

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

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

Asset held for sale are recorded at the lower of its carrying amount or 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 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. 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 (acquisition) method

BZ WBK Group applies the acquisition method to account for acquisition of subsidiaries. Under this method, the acquirer has to:

- recognize and measure all identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree as at the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree);
- recognize and measure goodwill or gain from a bargain purchase.

The acquirer measures:

- identifiable assets acquired and liabilities assumed - at fair value as at the acquisition date;
- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquire.

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 accounted for in accordance 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

PLN is the accounting currency in the Group.

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 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 positive 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. As at the balance sheet date the Group doesn't hold this category of financial instrument.

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 factoring receivables of BZ WBK 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, debt securities in issue and subordinated liabilities.

Recognition

The Group recognises a financial asset or a financial liability in 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 as contingent liabilities.

A regular way purchase or sale of a financial asset is recognised using settlement 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 from 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 is derecognised using settlement 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.

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.

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 the statement 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.

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 and reverse 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 ("repo and sell-buy-back transaction") 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 repo and buy-sell-back transaction") 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 also to the hedged item, which otherwise would be measured at amortised cost and presented as 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 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 establishing 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 in 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 rating) or significant retail exposure – 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 for 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 the 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. The owner-occupied property acquired through 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 part of an item of property, plant and equipment.

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 initial date of classification of non-current assets as assets held-for-sale, the Group measures them at the lower of 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 is 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 live is 3 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 their 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.
Revaluation reserve is not distributable.

Non-controlling interests are 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 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 disability pension bonus is estimated using actuarial valuation method. 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 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 corresponding 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 programme value in the costs of 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 are dependent on 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 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 on financial assets is recognised provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

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 points 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 of impairment of a financial asset, interest income is accrued based on the carrying amount of the receivable (this is the value reduced by revaluation charge) using of the interest rate according to which future cash flows were discounted for impairment valuation.

Net commission income

Fees and commissions are recognised in the income statement at amortised cost using the effective interest rate method described in section “Net interest income”.

Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are recognized on a straight-line basis in the profit and loss account.

Other fees and charges, which are not settled according to the effective interest rate, are included in 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 incomes related to the debt instruments are also reflected in the net interest income.

Dividend income

Dividends are taken to the profit and loss account at the moment of acquiring rights to them provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

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 their sale price.
Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity 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. Segment reporting

Operational activity of the Bank Zachodni WBK Group has been divided into four segments: Retail Banking, Business and Corporate Banking, Global Banking and Markets, and ALM (Assets and Liabilities Management) and Centre. They were identified based on customers and product types.

Income and costs assigned to a given segment are generated on sale and service of products or 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 relate to rewarding 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 regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.
Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.
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.

On 1 January 2012, BZ WBK Group changed its business segment reporting rules. The changes affect two key areas:

a. Change in the structure of (split into) operating segments and, consequently, reporting segments;
b. Change in the calculation methodology for net interest income of segments.

In order to create a more effective operating model, in Q4 2011 a new business segment was created: Global Banking and Markets. The role of the segment is to provide services to the largest corporations, including transactional banking products, specialist lending, Treasury and equity products. Furthermore, the Treasury operations were reorganised and divided to separate trading activity from liquidity, interest rate risk and FX risk management. Currently, the trading activity is managed by Global Banking and Markets Division / Segment, while liquidity, interest rate risk and FX risk management have been transferred to Finance Division. Once these changes were put in place, the Bank stopped classification of customers / transactions based on the previous methodology. Therefore, currently it is not possible to obtain comparable information.

Another key change effective from 2012 is introduction of a new methodology for calculation of transfer pricing in the Group, which affects the reported net interest income at the level of individual segments. Furthermore, according to the existing methodology, transfer prices are calculated based on individual client accounts, taking into account the new transfer pricing components. In view of the foregoing, retrieval of comparable financials is impossible, and any attempts to obtain estimated values would be very laborious and would not ensure appropriate reliability of the results.

Therefore, the bank advises that according to IFRS 8.29 it uses the right of exemption from transformation of comparable data on account of unavailability of such information.

Retail Banking

Retail Banking segment includes products and services targeted at individual 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 provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

Business and Corporate Banking

Business and Corporate Banking segment covers products and activities targeted at business entities, local governments and the addition to public sector. In banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees.

Global Banking and Markets

In the Global Banking and Markets segment, the Group derives income from the sale of products and services to the largest international and local corporations, including:

- transaction banking products, incl.: transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- credit products, incl.: lending, including project finance, syndicated facilities and bond issues;
- treasury products, incl.: FX and interest rate risk management products;
- investment products, incl.: underwriting and financing of securities issues, financial advice and brokerage services related to the activities of Dom Maklerski BZ WBK SA (Brokerage House).

Through its presence in the wholesale market, Global Banking and Markets also generates revenues from interest rate and FX risk positioning activity.

ALM and Centre

The segment covers central operations such as financing of other Group's segments, including liquidity, interest rate risk and FX risk management. It also includes managing the Bank's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment.

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2012-31.12.2012	Retail Banking	Business and Corporate Banking	Global Banking and Markets	ALM and Centre	Total
Net interest income	**1 544 222**	**548 992**	**96 243**	**111 620**	**2 301 077**
incl. internal transactions	11 737	(134 604)	37 161	85 706	-
Other income	**1 099 538**	**143 915**	**262 112**	**273 890**	**1 779 455**
incl. internal transactions	44 490	30 228	(56 311)	(18 407)	-
Dividend income	-	-	-	**55 748**	**55 748**
Operating costs	**(1 276 643)**	**(166 206)**	**(167 004)**	**(69 401)**	**(1 679 254)**
incl. internal transactions	(2 520)	(5 244)	(4 418)	12 182	-
Depreciation/amortisation	**(106 610)**	**(14 552)**	**(10 975)**	**(5 803)**	**(137 940)**
Impairment losses on loans and advances	**(215 948)**	**(298 416)**	**14**	**12 557**	**(501 793)**
Share in net profits (loss) of entities accounted for by the equity method	**15 241**	-	**1 236**	**3 269**	**19 746**
Profit before tax	**1 059 800**	**213 733**	**181 626**	**381 880**	**1 837 039**
Corporate income tax					(374 404)
Non-controlling interests					(28 788)
Profit for the period					**1 433 847**

Consolidated statement of financial position (by business segment)

31.12.2012	Retail Banking	Business and Corporate Banking	Global Banking and Markets	ALM and Centre	Total
Loans and advances to customers	20 042 900	17 534 167	2 189 673	100 814	39 867 554
Investments in associates and joint ventures	54 039	-	19 913	41 733	115 685
Other assets	1 392 045	528 367	1 274 427	16 841 099	20 035 938
Total assets	**21 488 984**	**18 062 534**	**3 484 013**	**16 983 646**	**60 019 177**
Deposits from customers	34 797 598	9 745 141	2 534 355	-	47 077 094
Other liabilities and equity	3 308 885	4 464 637	2 003 162	3 165 399	12 942 083
Total equity and liabilities	**38 106 483**	**14 209 778**	**4 537 517**	**3 165 399**	**60 019 177**

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2011-31.12.2011	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest income	**1 415 576**	**675 470**	**22 250**	**(99 638)**	**54 927**	**2 068 585**
incl. internal transactions	-	(108 123)	74 604	-	33 519	-
Other income	**920 143**	**118 385**	**272 677**	**317 467**	**57 668**	**1 686 340**
incl. internal transactions	141 444	50 772	(90 364)	(97 366)	(4 486)	-
Dividend income	-	-	**68 025**	-	-	**68 025**
Operating costs	**(1 211 421)**	**(212 528)**	**(145 042)**	**(34 944)**	**(104 832)**	**(1 708 767)**
incl. internal transactions	(2 010)	(33 535)	(7 193)	25 417	17 321	-
Depreciation/amortisation	**(145 696)**	**(20 558)**	**(10 784)**	**(6 110)**	**(32 727)**	**(215 875)**
Impairment losses on loans and advances	**(213 657)**	**(157 498)**	-	-	**4 173**	**(366 982)**
Share in net profits of entities accounted for by the equity method	**8 166**	-	**2 938**	-	-	**11 104**
Profit before tax	**773 111**	**403 271**	**210 064**	**176 775**	**(20 791)**	**1 542 430**
Corporate income tax						(315 563)
Non-controlling interests						(42 520)
Profit for the period						**1 184 347**

Consolidated statement of financial position (by business segment)

31.12.2011	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	17 907 539	20 013 974	79 971	8 932	6 757	38 017 173
Investments in associates and joint ventures	42 830	-	61 682	-	-	104 512
Other assets	6 055 815	4 551 929	1 145 105	9 187 162	734 947	21 674 958
Total assets	**24 006 184**	**24 565 903**	**1 286 758**	**9 196 094**	**741 704**	**59 796 643**
Deposits from customers	33 907 984	12 270 078	651 202	218	-	46 829 482
Other liabilities and equity	2 603 458	4 872 842	331 822	3 334 049	1 824 990	12 967 161
Total equity and liabilities	**36 511 442**	**17 142 920**	**983 024**	**3 334 267**	**1 824 990**	**59 796 643**

4. Risk management

BZ WBK Capital Group is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that BZ WBK Group continues to take risk in a controlled way in order to enhance shareholder value. Risk is a possibility that some events would materialise, which would impact the achievement of the BZ WBK Group's strategic goals.

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set appropriate risk limits, which restrict the risk exposure. BZ WBK Group continues to modify and enhance its risk management practices to reflect changes in Group's risk profile, economic environment, regulatory requirements and evolving best practice.

Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies, the acceptable risk level and monitors the utilisation of the internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring of remedial actions. The Supervisory Board assesses if the Management Board control activities are effective and aligned with the Supervisory Board policy, including the assessment of the risk management system.

Audit and Compliance Committee supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports on independent internal audit unit and compliance units. The Committee receives the regular quarterly reports on the status of the implementation of audit recommendations as the basis of the assessment of the quality of management actions. The Audit Committee assesses the efficiency of the internal control system and the risk management system.

Risk Oversight Committee supports the Supervisory Board in assessment of the effectiveness of the internal control system and risk management system and the resources, which were accepted and planned in order to provide the efficient management of the material risks of the Group.

Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, is responsible for implementation and updating of the written risk management strategies, and transparency of the activities. The Management Board reviews the financial results of the Group. The Management Board established a number of committees directly responsible for the development of the risk management methodology and monitoring of risks in particular areas.

Risk Management Committee sets the direction of the risk management strategy in BZ WBK Group. The Risk Management Committee has a supervisory role for all the committees responsible for managing the risks identified in the bank's operations. The comprehensive reporting process ensures that the Committee has a full and consistent picture of the bank's current risk profile.

The Risk Management Committee has an oversight over the following risk committees:

Risk Management Forum, a body authorised to approve and supervise the risk measurement policy and methodology and to monitor the credit risk, market risk in the banking book, market risk in the trading book, structural balance sheet risk and liquidity risk. The Forum operates through 4 panels:

- **Credit Risk Panel;**
- **Market Risk Panel;**
- **Models and Methodology Panel;**
- **Equity Investment and Underwriting Panel.**

Credit Committee takes credit decisions in accordance with the applicable credit discretion levels.

Provisions Committee decides on the amount of impairment losses on credit exposures and the legal provisions. The Committee approves the methodology and the parameters used for the calculation of impairment on a portfolio level for BZ WBK Group.

Monitoring Committee ensures a continuous and effective monitoring of the credit portfolio of the business and the corporate segment.

Operational Risk Management Committee (ORMCo) sets the strategic activities within the operational risk management in BZ WBK Group, including business continuity management, information security and fraud prevention.

ALCO/ICAAP Forum is responsible for capital management, especially for the ICAAP process. It exercises oversight over the banking portfolio activity and takes decisions on liquidity management and the management of the interest rate risk on the banking book. It is responsible for the funding and balance sheet management, including for the pricing policy.

Disclosures Committee verifies the Group's financial information in terms of its compliance with legal and regulatory requirements.

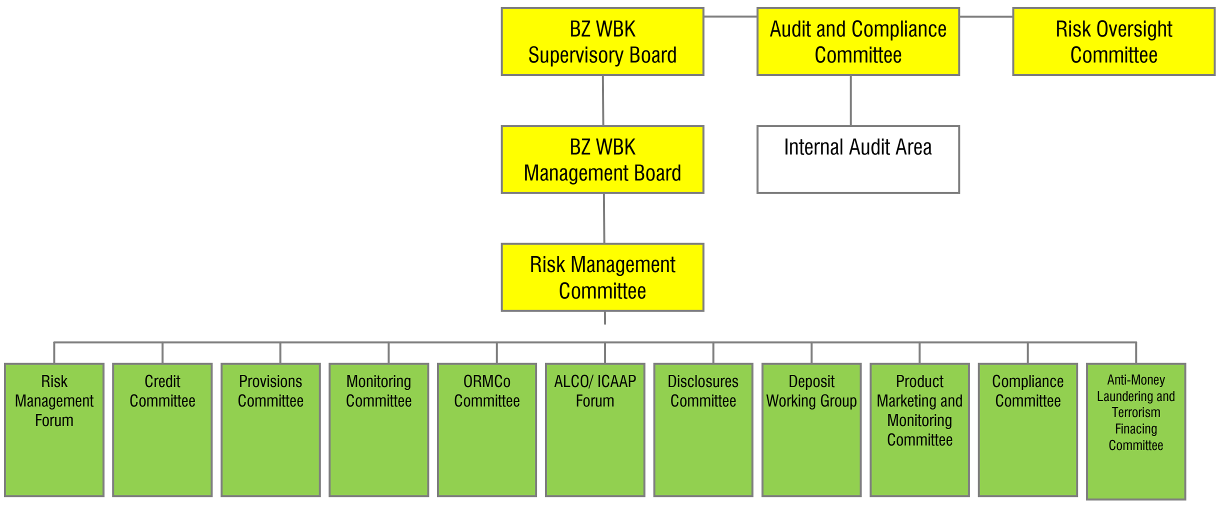
Deposit Working Group has a responsibility for ensuring a balanced growth of the savings and investment products portfolio.

Product Marketing and Monitoring Committee approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

Compliance Committee is responsible for setting standards with respect to the management of compliance risk and the codes of conducts adopted by the Group.

Anti-Money Laundering and Terrorism Financing Committee approves the Group's policy on prevention of money laundering and the financing of terrorism. It approves and monitors the bank's activities in this area.

The picture below presents the corporate governance in relation to the risk governance process.



Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee.

Risk appetite is expressed as quantitative limits and captured in the "Risk Appetite Statement" approved by the Management Board and the Supervisory Board. With global limits in place, watch limits are set and risk management policies are drafted.

BZ WBK Group is exposed to a variety of risks impacting the strategic goals. The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the BZ WBK Group are the following:

- credit risk,
- concentration risk,
- market risk,
- liquidity risk,

- operational risk,
- compliance risk.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

Credit risk

BZ WBK Group'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 that a borrower will fail 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 in BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank 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 Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models based on EVA (Economic Value Added) are used for all significant credit portfolios.

Continued pro-active credit risk management is recognised as key to the Group's performance in the volatile markets and deteriorating economic growth conditions. In 2012 the Group continued its risk management policy that focuses both on credit risk and business effectiveness. Under the strategy of pro-active management, the Group completed the following:

- In the face of the economic slowdown and instability in the currency markets, leading to an increase in the cost of risk and causing liquidity problems for customers, especially in the construction sector, the BZ WBK Group was carefully analysing the situation and monitoring its credit exposure in the individual customer segments and economic sectors to ensure the most adequate parameters of its credit policy.
- Strengthened the role of the Risk Management Division, which became responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.
- Reviewed the structure of the committees that take decisions on credit risk. Appointed the Monitoring Committee, which is responsible for ensuring a continuous and effective monitoring of the credit portfolio of the business and the corporate segment. In 2012, the bank established the Recoveries Forum with a responsibility for recovering high-risk credit exposures and making regular reviews of the non-performing loans portfolio.
- Constantly developed and upgraded risk-based decision-making systems and methods of grading loans, allocating capital, measuring and increasing returns and monitoring of risk profile in all credit portfolio. In particular, the Group expanded the risk analysis of new SME loans by using an external database of borrowers "BIK Przedsiębiorca", which ensured a significant reduction of the risk of SME lending.

Continued prudential risk management policy with close observation of the changing external conditions and particular care put into assuring compliance with regulatory requirements as well as efforts to optimise credit process in terms of its efficiency and cost to minimize human error, ensure robust customer service and lower operational costs are priorities the Group for 2013 as well.

Risk Management Forum

The credit risk oversight in BZ WBK Group is performed by Credit Policy Panel (CPP) operating within the Risk Management Forum. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the Group's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment.

The oversight over the credit risk models is the responsibility of the Models and Methodology Panel.

Risk Management Division

Following the combination with the Credit Division, the Risk Management Division became responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Group's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

Credit Decision Making Process

The credit decision-making process as a part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience within the business segments. Credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives.

The BZ WBK Group continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loan, cash loans, credit cards and personal overdrafts.

The Group regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. Credit grade is also verified at subsequent credit assessments.

Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Collateral

In the Group's security model, the Securities Centre is the central unit responsible for creation and maintenance of securities.

The role of the Securities Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The Securities Centre is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral and ensuring effectiveness of the process of establishing, monitoring and releasing the security covers.

Furthermore, the Securities Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information.

The tables below present different forms of collaterals that can be used against loans and advances to customers from non-banking sector.

Retail 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; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee);

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; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee);

Collateral management process

Before credit decision is approved, the Securities Centre is responsible for assessment of the collateral quality:

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Securities Centre actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

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.

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 BZ WBK Group'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.

Calculation of Impairment

In BZ WBK Group, 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 Group presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39).

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 twice a year, compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to Group's 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.

In thousands of PLN

The tables below present BZ WBK Group's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2012	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	552 172	-	-	-
	50% - 70%	314 238	-	-	-
	70% - 85%	139 137	-	-	-
	over 85%	125 776	-	-	-
Gross amount		**1 131 323**	**-**	**-**	**-**
Allowance for impairment		(534 955)	-	-	-
Net amount		**596 368**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	346 584	-	-	-
	50% - 70%	260 096	-	-	-
	70% - 85%	321 353	-	-	-
	over 85%	197 162	-	-	-
Gross amount		**1 125 195**	**-**	**-**	**-**
Allowance for impairment		(672 365)	-	-	-
Net amount		**452 830**	**-**	**-**	**-**
IBNR portfolio (past due&non past due)					
	up to 0.10%	15 893 956	1 458 128	11 716 133	831 715
	0.10% - 0.30%	8 733 853	-	-	-
	0.30% - 0.65%	8 055 863	-	-	-
	over 0.65%	6 366 816	-	-	-
Gross amount		**39 050 488**	**1 458 128**	**11 716 133**	**831 715**
IBNR provision		(336 887)	-	-	-
Net amount		**38 713 601**	**1 458 128**	**11 716 133**	**831 715**
Other receivables		**104 755**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		10 858 874	-	-	-
Guarantees		2 221 700	-	-	-
Nominal value of derivatives - purchased		-	-	-	52 130 997
Allowance for impairment		(16 619)	-	-	-
Off-balance sheet exposures - total		**13 063 955**	**-**	**-**	**52 130 997**

*the value of financial assets held for trading includes adjustment of the fair value as described in note 20

In thousands of PLN

31.12.2011	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	585 928	-	-	-
	50% - 70%	138 015	-	-	-
	70% - 85%	110 916	-	-	-
	over 85%	125 334	-	-	-
Gross amount		**960 193**	**-**	**-**	**-**
Allowance for impairment		(412 720)	-	-	-
Net amount		**547 473**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	471 565	-	-	-
	50% - 70%	184 123	-	-	-
	70% - 85%	385 096	-	-	-
	over 85%	177 794	-	-	-
Gross amount		**1 218 578**	**-**	**-**	**-**
Allowance for impairment		(656 575)	-	-	-
Net amount		**562 003**	**-**	**-**	**-**
IBNR portfolio (past due&non past due)					
	up to 0.10%	9 099 273	1 204 172	11 652 195	5 836 043
	0.10% - 0.30%	14 343 794	-	-	-
	0.30% - 0.65%	4 747 809	-	-	-
	over 0.65%	8 984 157	-	-	-
Gross amount		**37 175 033**	**1 204 172**	**11 652 195**	**5 836 043**
IBNR provision		(345 950)	-	-	-
Net amount		**36 829 083**	**1 204 172**	**11 652 195**	**5 836 043**
Other receivables		**78 614**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		8 149 493	-	-	-
Guarantees		1 475 440	-	-	-
Nominal value of derivatives - purchased		-	-	-	67 124 916
Allowance for impairment		(21 224)	-	-	-
Off-balance sheet exposures - total		**9 603 709**	**-**	**-**	**67 124 916**

*the value of financial assets held for trading includes adjustment of the fair value as described in note 20

IBNR portfolio

	Loans and advances to customers 31.12.2012	31.12.2011
Non-past due	**37 236 020**	**35 829 301**
Past-due	**1 814 468**	**1 345 732**
1-30 days	1 298 818	1 098 866
31-60 days	398 948	166 543
61-90 days	105 352	71 801
> 90 days	11 350	8 522
Gross amount	**39 050 488**	**37 175 033**

In thousands of PLN

Allowances for impairment by classes

Provision cover	Loans and advances to customers 31.12.2012	Loans and advances to customers 31.12.2011	Loans and advances to banks 31.12.2012	Loans and advances to banks 31.12.2011
Individual allowance for impairment				
up to 50%	(110 543)	(105 510)	-	-
50% - 70%	(197 267)	(94 519)	-	-
70% - 85%	(101 400)	(88 132)	-	-
over 85%	(125 745)	(124 559)	-	-
Total individual allowance for impairment	**(534 955)**	**(412 720)**	**-**	**-**
Collective allowance for impairment				
up to 50%	(83 818)	(76 857)	-	-
50% - 70%	(153 454)	(108 404)	-	-
70% - 85%	(249 742)	(299 928)	-	-
over 85%	(185 351)	(171 386)	-	-
Total collective allowance for impairment	**(672 365)**	**(656 575)**	**-**	**-**
IBNR				
up to 0.10%	(6 195)	(4 119)	-	-
0.10%-0.30%	(15 210)	(22 562)	-	-
0.30%-0.65%	(37 025)	(21 714)	-	-
over 0.65%	(278 457)	(297 555)	-	-
Total IBNR	**(336 887)**	**(345 950)**	**-**	**-**
Total allowance for impairment	**(1 544 207)**	**(1 415 245)**	**-**	**-**

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 31.12.2012, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

- PLN 2 081 436 k (25% of Group's own funds).

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 2012, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

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A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2012 (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
06	MINING	1 069 820	292 292	777 528
35	POWER INDUSTRY	856 560	3 536	853 024
27	MANUFACTURING	800 818	-	800 818
19	RAFINERY	737 274	323 922	413 352
68	REAL ESTATE SERVICES	732 323	730 033	2 290
35	POWER INDUSTRY	600 485	363	600 122
68	REAL ESTATE SERVICES	569 648	507 660	61 988
46	WHOLESALE TRADE	534 007	534 007	-
68	REAL ESTATE SERVICES	473 900	473 900	-
59	MULTIMEDIA	456 112	333 456	122 656
68	REAL ESTATE SERVICES	395 638	293 325	102 313
56	CATERING	372 921	8 693	364 228
07	MINING	357 136	5 154	351 982
41	CONSTRUCTION	339 034	333 214	5 820
68	REAL ESTATE SERVICES	337 971	292 764	45 207
61	TELECOMMUNICATION	272 144	241 647	30 497
46	WHOLESALE TRADE	261 924	234 904	27 020
10	FOOD INDUSTRY	250 630	-	250 630
05	MINING	249 718	182 648	67 070
68	REAL ESTATE SERVICES	240 741	213 661	27 080
Total gross exposure		**9 908 804**	**5 005 179**	**4 903 625**

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2011 (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	817 422	799 430	17 992
68	REAL ESTATE SERVICES	710 686	643 824	66 862
19	RAFINERY	671 869	499 064	172 805
35	POWER INDUSTRY	616 500	289 588	326 912
46	WHOLESALE TRADE	535 000	535 000	-
68	REAL ESTATE SERVICES	510 582	510 582	-
41	CONSTRUCTION	398 178	377 178	21 000
07	MINING	377 820	14 148	363 672
68	REAL ESTATE SERVICES	377 147	328 306	48 841
23	CERAMICS PRODUCTION	367 254	356 029	11 225
59	MULTIMEDIA	356 809	170 613	186 196
41	CONSTRUCTION	317 615	177 097	140 518
61	TELECOMMUNICATION	325 000	294 503	30 497
68	REAL ESTATE SERVICES	315 175	314 683	492
35	POWER INDUSTRY	284 676	1 399	283 277
41	CONSTRUCTION	282 473	273 551	8 922
64	FINANCIAL SERVICES	257 575	164 943	92 632
68	REAL ESTATE SERVICES	257 270	140 669	116 601
68	REAL ESTATE SERVICES	248 480	205 501	42 979
68	REAL ESTATE SERVICES	241 747	229 288	12 459
Total gross exposure		**8 269 278**	**6 325 396**	**1 943 882**

In thousands of PLN

Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. 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 31.12.2012, the highest concentration level was recorded in the "property" sector (22% of the BZ WBK Group exposure), "manufacturing" (13%) and "distribution" (14%).

Groups of PKD by industries:

	Industry	Gross exposure	
		31.12.2012	31.12.2011
	Property	9 146 877	10 000 795
	Manufacturing	5 362 394	5 009 463
	Distribution	5 825 206	4 856 776
	Agriculture	1 143 513	1 006 619
	Construction	1 142 668	1 086 923
	Financial sector	920 673	1 040 992
	Energy	843 660	767 532
	Transportation	821 831	698 915
	Other industries	2 349 797	2 292 017
A	**Total Business Loans**	**27 556 619**	**26 760 032**
B	**Retail (including mortgage loans)**	**13 750 387**	**12 593 772**
A+B	**BZ WBK Group portfolio**	**41 307 006**	**39 353 804**
C	**Other receivables (commercial bonds, reverse repo)**	**104 755**	**78 614**
A+B+C	**Total BZ WBK Group**	**41 411 761**	**39 432 418**

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).

BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally the Group undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are directly supervised by the Risk Management Forum.

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.

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. 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 linked to the banking business is managed centrally by the Financial Management Division. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO. This activity is controlled by the measures and limits approved from time to time by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The debt securities and the interest rate derivatives portfolio is managed by ALCO, which takes all decisions on the portfolio's value and structure.

The market risk on the trading portfolio is managed by the Global Banking and Markets Division, which is also responsible for the ownership supervision over Brokerage House. The Group's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. This limits are approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

BZ WBK Group for 2012 In thousands of PLN

The Financial Risk Department within the Risk Management Division is responsible for ongoing assessment of the current risk, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk assessment methodologies and ensuring consistency of the risk management process across the Group. Owing to the fact that the Department is a part of the Risk Management Division, the risk assessment and monitoring processes are separate from the risk-taking units.

Market risk generated by equity instruments, which exists in Brokerage House' portfolio (shares, stock exchange indices) is managed by the Brokerage House and supervised by BZ WBK Risk Management Forum.

Assessment methods

BZ WBK Group uses several methods to assess its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, while the methods used for the trading portfolio include: Value at Risk (VaR), stop loss, sensitivity measures (PV01) and stress tests. The risk assessment methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

VaR is determined by means of a statistical modelling process as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Brokerage House.

Due to the limitations of the VaR methodology, the Group augments it by stress tests and by sensitivity measurement that shows how position value changes in reaction to price/profitability movements.

Interest rate risk in the banking book

The interest rate risk in the banking book is the risk of adverse impact of interest rate changes on the Group's income and the value of its assets and liabilities. The main source of interest rate risk are transactions entered in the bank's branches and in the business and corporate centres, as well as the transactions made in the money market by the Financial Management 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 from the interbank market. However, all positions that generate a repricing risk are transferred for management to the Financial Management Division, where the bank's dealers enter into transactions in the interbank markets so as to manage the overall interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The bank's subsidiaries also mitigate their exposure to the interest rate risk. If there is a mismatch between the repricing of assets and liabilities, the company enters into appropriate transactions via the standard bank accounts held with the bank or makes derivative transactions with the bank, which from the transaction date manages the risk as part of the global limit of BZ WBK Group.

The interest rate risk in the banking book is managed based on the following limits:

- NII sensitivity limit (i.e. sensitivity of the net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (i.e. sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

The sensitivity measures for 2012 are presented in the table below.

	NII Sensitivity	MVE Sensitivity
1 day holding period	**31.12.2012**	**31.12.2012**
Maximum	90	140
Average	48	70
as at the end of the period	90	131
Limit	**75**	**150**

In Q4 2012, the NII limit was exceeded as a result of redevelopment of the investment portfolio structure. The excess was reported to the bank's Management Board and Supervisory Board.

In thousands of PLN

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Banking and Markets Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss.

The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR is calculated for the open positions of the Global Banking and Markets by establishing the difference between the market valuation of the interest rate transactions based on the current yield curves, and the valuation based on the "worst case" yield curve, which is calculated based on the fluctuations in the interest rates.

The "stop-loss" mechanism is used for managing the risk of losses on the items covered by the rules of fair valuation through profit and loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The table below shows risk measures at the end of 2012 for 1-day position holding period. Due to the change in the rules of market risk management and the change of VaR calculation methodology these data are not comparable with the 2011 data.

Interest rate risk	VAR
1 day holding period	**31.12.2012**
Average	2 089
Maximum	5 261
Minimum	165
as at the end of the period	745
Limit	**7 749**

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in the Group's trading portfolio. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

In accordance with its policy, the Group does not maintain open positions on currency options. Transactions made with clients are immediately closed in the wholesale market thus limiting the bank's exposure to the market risk on the currency options portfolio.

Open positions of subsidiaries (excluding Dom Maklerski BZ WBK -Brokerage House) are negligible and are not included in the daily risk assessment. Brokerage House has been granted an FX VaR limit, used for managing the open positions linked to the market maker activity.

The table below illustrates the risk measures at the end of December 2012. Due to the change in the rules of market risk management and the change of VaR calculation methodology these data are not comparable with the 2011 data.

FX risk	VAR	VAR Brokerage
1 day holding period	**31.12.2012**	**31.12.2012**
Average	613	3.8
Maximum	1 542	8.9
Minimum	142	1.4
as at the end of the period	382	5.0
LIMIT	**1 550**	**102.3**

In thousands of PLN

FX Balance Sheet

In 2012, the FX structure of the credit assets and deposit liabilities remained relatively unchanged. However, given the values expressed in original currencies, a net assets decrease was noted. The FX gap was financed mainly by the FX swap transactions and cross-currency swaps.

See the Group's main FX positions in the tables below - as at 31st December 2012 and in comparable period.

31.12.2012	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	3 813 867	261 539	6 911	74 957	4 157 274
Loans and advances to banks	177 431	923 101	21 087	336 509	1 458 128
Loans and advances to customers	27 630 869	9 334 513	2 051 604	850 568	39 867 554
Investment securities	11 011 199	704 934	-	-	11 716 133
Selected assets	**42 633 366**	**11 224 087**	**2 079 602**	**1 262 034**	**57 199 089**
LIABILITIES					
Deposits from banks	735 899	587 583	2 771	24 797	1 351 050
Deposits from customers	40 622 210	5 106 393	60 863	1 287 628	47 077 094
Subordinated liabilities	-	409 110	-	-	409 110
Selected liabilities	**41 358 109**	**6 103 086**	**63 634**	**1 312 425**	**48 837 254**

31.12.2011	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	1 231 364	118 897	6 400	68 880	1 425 541
Loans and advances to banks	157 877	986 550	20 279	39 466	1 204 172
Loans and advances to customers	24 966 467	9 511 582	2 429 259	1 109 865	38 017 173
Investment securities	11 189 952	318 931	-	143 312	11 652 195
Selected assets	**37 545 660**	**10 935 960**	**2 455 938**	**1 361 523**	**52 299 081**
LIABILITIES					
Deposits from banks	2 414 872	87 301	42	2 855	2 505 070
Deposits from customers	41 109 677	4 562 262	55 496	1 102 047	46 829 482
Subordinated liabilities	-	441 234	-	-	441 234
Selected liabilities	**43 524 549**	**5 090 797**	**55 538**	**1 104 902**	**49 775 786**

Equity investment risk

The entity responsible for equity price risk management is Brokerage House. The source of this risk are transactions conducted on Brokerage House own account via stock exchanges and MS CTO (shares, futures).

This risk is measured using a Value at Risk model based on the historical method.

The process of managing the market risk in brokerage house is supervised by the BZ WBK Risk Management Forum which among others allocates of the VaR limit to the brokerage house and approves of changes in the risk measurement methodology and in the risk management process.

The table below presents risk levels in 2012:

Equity risk	VAR Brokerage
1 day holding period	**31.12.2012**
Average	697
Maximum	3 074
Minimum	72
as at end of the period	138
LIMIT	**4 029**

Liquidity risk

Liquidity risk is the risk that the bank fails to meet its contingent and non-contingent obligations towards customers and counterparties as a result of a mismatch of financial cash flows.

Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organization of the liquidity management process within the 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 the Group in its liquidity management process is that all expected outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments and transaction settlements 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 QLA category includes: 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 addition, the policy's aim is to ensure an adequate structure of funding the growing scale of the Group's business by maintaining liquidity ratios at pre-defined levels. The Group uses a number of other limits and observation ratios (including the loans to deposits ratio, the ratio of dependence on funding in the wholesale market, and the ratios required by Basel 3: LCR and NSFR). In terms of the long-term liquidity, in addition to the internal measures, the Group uses a limit corresponding to the regulatory limit, which requires that the equity and the stable sources of funding should fully cover the credit portfolio and non-liquid assets (e.g. fixed assets).

Management Process

The responsibility for supervision over the liquidity risk management process rests on the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management.

Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

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. The plan also contains stress test with system and idiosyncratic scenarios.

Risk Measurement and Reporting

The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department.

The role of the Department is to draft liquidity management policies, carry out stress tests and to measure and report on risk.

Liquidity is measured by means of the modified liquidity gap, which is designed separately for the PLN and currency positions. The reported contract positions are subject to modifications based on: statistical analyses of the deposit and credit base behaviour, evaluation of the possibility to liquidate State Treasury securities by selling or pledging them in repo transactions or the lombard loan with NBP, evaluation of transaction rolling in the interbank market. The actual liquidity gap is used to set liquidity ratios, i.e. the ratio of projected consolidated inflows to projected outflows in the particular period. Concurrently, liquidity is measured in accordance with KNF Resolution no. 386/2008 on setting liquidity standards for banks, and with the requirements laid down in Basel 3.

As an addition, stress tests are used in order to assess the Group's exposure to liquidity risk and the maximum demand for the sources of funding if the particular scenarios materialise.

In thousands of PLN

Contractual gap analysis based on remaining time maturity as at 31.12.2012 and 31.12.2011:

31.12.2012	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	4 157 274	-	-	-	-	-	-	4 157 274
Loans and advances to banks	1 448 023	-	10 101	4	-	-	-	1 458 128
Financial assets held for trading	124 597	67 040	315 953	120 358	97 806	92 260	13 701	831 715
Loans and advances to customers	3 657 446	3 536 697	8 319 223	10 554 442	5 984 488	9 359 465	(1 544 207)	39 867 554
Investment securities	2 099 256	-	2 743 139	1 752 017	3 881 162	572 450	668 109	11 716 133
Other items	-	-	-	-	-	-	1 988 373	1 988 373
Long position	**11 486 596**	**3 603 737**	**11 388 416**	**12 426 821**	**9 963 456**	**10 024 175**	**1 125 976**	**60 019 177**
Deposits from banks	1 032 117	234 192	84 741	-	-	-	-	1 351 050
Financial liabilities held for trading	120 729	77 054	160 611	187 156	114 286	68 995	-	728 831
Deposits from customers	29 403 871	6 477 429	9 718 649	408 507	46 009	1 022 629	-	47 077 094
Subordinated liabilities	4 378	-	-	-	-	404 732	-	409 110
Other items	-	-	-	-	-	-	10 453 092	10 453 092
Short position	**30 561 095**	**6 788 675**	**9 964 001**	**595 663**	**160 295**	**1 496 356**	**10 453 092**	**60 019 177**
Gap-balance sheet	**(19 074 499)**	**(3 184 938)**	**1 424 415**	**11 831 158**	**9 803 161**	**8 527 819**	**(9 327 116)**	
Contingent liabilities- sanctioned								
Financing related	160 468	527 386	3 168 368	2 041 461	1 315 048	3 646 092	(15 960)	**10 842 863**
Guarantees	42 129	111 557	1 117 208	508 840	124 938	317 079	(659)	**2 221 092**
Derivatives settled in gross terms								
Inflows	3 762 151	2 108 001	2 432 156	5 690 297	3 578 758	1 958 704	-	**19 530 067**
Outflows	5 242 802	2 607 920	2 912 675	5 687 380	3 690 862	1 943 246	-	**22 084 885**
Gap – off-balance sheet	**(1 683 248)**	**(1 138 862)**	**(4 766 095)**	**(2 547 384)**	**(1 552 090)**	**(3 947 713)**	**16 619**	

In thousands of PLN

31.12.2011	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	1 425 541	-	-	-	-	-	-	1 425 541
Loans and advances to banks	1 204 172	-	-	-	-	-	-	1 204 172
Financial assets held for trading	4 661 829	140 617	304 613	462 572	112 061	101 545	52 806	5 836 043
Loans and advances to customers	3 909 314	2 259 770	7 650 355	10 063 993	6 314 173	9 234 813	(1 415 245)	38 017 173
Investment securities	444 775	139 372	2 101 636	3 510 893	1 725 321	3 049 565	680 633	11 652 195
Other items	-	-	-	-	-	-	1 661 519	1 661 519
Long position	**11 645 631**	**2 539 759**	**10 056 604**	**14 037 458**	**8 151 555**	**12 385 923**	**979 713**	**59 796 643**
Deposits from banks	1 907 732	534 624	47 866	14 848	-	-	-	2 505 070
Financial liabilities held for trading	203 130	124 926	219 964	271 622	70 549	41 526	-	931 717
Deposits from customers	32 366 263	8 350 390	4 362 508	840 078	25 451	884 792	-	46 829 482
Subordinated liabilities	3 971	-	-	-	-	437 263	-	441 234
Other items	-	-	-	-	-	-	9 089 140	9 089 140
Short position	**34 481 096**	**9 009 940**	**4 630 338**	**1 126 548**	**96 000**	**1 363 581**	**9 089 140**	**59 796 643**
Gap-balance sheet	**(22 835 465)**	**(6 470 181)**	**5 426 266**	**12 910 910**	**8 055 555**	**11 022 342**	**(8 109 427)**	
Contingent liabilities- sanctioned								
Financing related	240 855	816 218	3 764 863	1 707 233	873 999	746 325	(19 506)	**8 129 987**
Guarantees	21 837	125 522	365 540	854 757	83 807	23 977	(1 718)	**1 473 722**
Derivatives settled in gross terms								
Inflows	4 831 340	4 596 635	4 957 739	1 894 827	1 443 679	1 489 611	-	**19 213 831**
Outflows	4 950 048	4 572 971	4 989 123	2 045 457	1 693 035	1 676 614	-	**19 927 248**
Gap – off-balance sheet	**(381 400)**	**(918 076)**	**(4 161 787)**	**(2 712 620)**	**(1 207 162)**	**(957 305)**	**21 224**	

In thousands of PLN

Liquidity Policy Report - Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31.12.2012			
Qualifying Liquid Assets	11 625 907	22 316	2 557 625
Treasury inflows	1 601 209	4 227 328	10 623 160
Other inflows	2 923 994	436 793	37 197 905
Treasury outflows	(1 238 695)	(4 380 125)	(11 211 499)
Other outflows	(5 246 928)	(276 015)	(48 862 975)
GAP	**9 665 487**	**30 297**	**(9 695 784)**
Cumulative GAP	**9 665 487**	**9 695 784**	**-**

Liquidity risk	<1W	<1M	>1M
31.12.2011			
Qualifying Liquid Assets	12 401 619	1 040 043	500 000
Treasury inflows	1 510 347	1 996 766	13 323 359
Other inflows	257 777	362 208	39 998 386
Treasury outflows	(1 595 397)	(3 047 512)	(14 480 063)
Other outflows	(3 870 719)	(796 333)	(47 600 481)
GAP	**8 703 627**	**(444 828)**	**(8 258 799)**
Cumulative GAP	**8 703 627**	**8 258 799**	**-**

At the end of 2012, a change was observed in the profile of the contract maturity of the deposit base (an increase in the maturity of deposits up to 12 months) with a parallel fall in the value of deposits and an increase in the amounts due from customers compared with the end of 2011. As a result of these changes, investments in short-term liquid assets were reduced, but a sufficient buffer of liquid assets is maintained as required by the regulator and the Group's internal regulations.

In 2012 and in the comparable period, all the key supervisory measures applicable to the Group were maintained at the required levels.

Operational 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.

In order to manage operational risk, Bank Zachodni WBK Group maintains an *Operational risk policy* and *Operational risk framework*, both of which are subject to regular review. 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 Risk Management Committee.

BZ WBK Group Information Security Management System has been certified by ISO 27001:2005.

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 Group'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 the 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 because of unavailability of systems, locations and 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 and losses, risk indicators, operational risk self-assessment.

- Insurance

The Group's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Officers & Directors.

Legal & compliance risk

Legal and regulatory (compliance) risk is defined – in line with the Basel Committee recommendation and the definition adopted by the strategic shareholder – as the risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by Bank Zachodni WBK Group as a result of failure to comply with the applicable laws, regulatory recommendations, standards or codes of conduct applicable to its activities.

Risk Identification and Assessment

In the BZ WBK Group, individual processes are managed by relevant units.

Responsibilities of the Legal and Compliance Division relate to the "conduct of business" compliance obligations, including implementation of new products, protection of clients' rights, anti-money laundering, protection of sensitive information and protection of 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 are assigned to HR Management Division; compliance with taxation law and reporting requirements is the responsibility of Financial Accounting and Control Division, while compliance with prudential regulations is the responsibility of Risk Management Division.

Risk management and mitigation

The Bank's Management Board adopted a policy statement – consistent with the policy operated by the strategic shareholder – on compliance with legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area with the relevant mandate to support senior managers in effective management of compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area as part of monitoring of new products, regulatory activity, upcoming legislative initiatives and customers' complaints.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area.

The Compliance Area's major responsibilities include in particular (subject to the specific responsibility of Financial Accounting and Control Division, Risk Management Division and HR Management Division):

- independent identification, assessment and monitoring of compliance risk the Group is exposed to (with a particular focus on new or modified products and services and the issues connected with inside information, conflict of interest or private account shares dealing by employees);
- providing advice and reporting to the Risk Management Committee, bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF and GIODO).

Legal and regulatory (compliance) risk management is coordinated by the Compliance Area reporting to the Management Board Member. The Area coordinates and supervises the process of compliance risk management across BZ WBK Group through subsidiary compliance units and pursuant to the applicable law.

Risk monitoring & reporting

The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures, regulatory requirements and codes of best practice. Monitoring is carried out by centralised units, Compliance Officers in dedicated units and subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).

Risk prioritised compliance monitoring plans are prepared based on the risk assessment process. Monitoring is particularly focused on the issues connected with MiFID compliance.

The annual monitoring plan, accepted by the Audit and Compliance Committee, is reviewed and updated on a regular basis. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Compliance Area, which is also responsible for monitoring the timeliness and quality of delivery of such action plans.

5. 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 defines 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 Group 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 ALCO Committee. 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 Committee 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.

In thousands of PLN

Capital Policy

The Group's capital management policy envisages the minimum level of solvency ratio at 10% (calculated according to the Banking Law and KNF Resolutions) both for the Bank and the Group (watch limit has been set at 12%).

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 9% both for the Bank and the Group.

Regulatory Capital

The risks under Pillar 1 and the minimum capital required for such risks are assessed in a quantitative method. The Group 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. The Group uses following methods with regard to particular risks:

- credit risk - the standardised approach;
- operational risk –the standardised approach;
- market risk - 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 2012 and 2011:

		31.12.2012	31.12.2011
I	**Total Capital requirement**	**4 028 522**	**3 696 882**
II	**Own funds after reductions**	**8 325 742**	**6 977 554**
	CAD [II/(I*12.5)]	**16.53%**	**15.10%**

Internal Capital

The underlying aim of Pillar 2 of the New Capital Accord is to carry out assessment of the internal capital adequacy, both current and future (ICAAP), independent from the regulatory methods. Under the ICAAP process, the Group estimates, allocates and maintains the required level of internal capital to ensure secure conduct of its banking business in accordance with the bank's risk appetite statement.

In 2012, BZ WBK Group finalised implementation of the new internal capital assessment methodology. The new internal capital assessment model based on the statistical loss estimation models for measurable risks, such as credit risk, operational risk and own assessment of capital requirements for other material risks not covered by the model, e.g. reputation risk, compliance risk or model risk.

The internal capital assessment process uses the Group's internal risk assessment models, including rating and scoring systems, and the risk parameters coming from these models, showing the likelihood of default by the customers of BZ WBK Group and suffering potential losses arising from the default.

Results of the ICAAP process are an element of assessment of the current and future capital requirements, and are the basis for assessment of risk appetite and the Group's strategy.

BZ WBK Group performs an internal assessment of capital requirements also in stressed conditions, taking into account different macroeconomic scenarios.

The internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the Group's business and to take account of any new risks and the management judgement.

The review and assessment is the responsibility of the Group's risk management committees, including: ALCO and the Models and Methodology Panel, which is part of the Risk Management Forum.

Subordinated liabilities

Subordinated liabilities include the amount of issued subordinated debt securities with 10-year maturity term, floating interest rate, fully paid by European Bank of Reconstruction and Development on 5th August 2010.

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group's supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 000 k have been included in the calculation of the Group's adequacy ratio.

In thousands of PLN

Detailed information on subordinated liabilities is presented in Note 33.

6. Net interest income

Interest income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Loans and advances to enterprises	1 502 167	1 307 357
Loans and advances to individuals, of which:	1 213 859	1 042 925
Home mortgage loans	*420 853*	*362 108*
Debt securities incl.:	676 370	754 311
Investment portfolio held to maturity	-	*287 123*
Investment portfolio available for sale	*567 980*	*342 168*
Trading portfolio	*108 390*	*125 020*
Leasing agreements	172 509	177 026
Loans and advances to banks	90 463	78 264
Public sector	23 315	22 232
Reverse repo transactions	11 611	6 283
Interest recorded on hedging IRS	177 191	25 335
Total	**3 867 485**	**3 413 733**
Interest expense	**01.01.2012 -31.12.2012**	**01.01.2011 -31.12.2011**
Deposits from individuals	(903 127)	(719 500)
Deposits from enterprises	(443 642)	(387 122)
Repo transactions	(84 070)	(131 700)
Public sector	(92 795)	(61 504)
Deposits from banks	(22 020)	(23 401)
Subordinated liabilities	(20 754)	(21 921)
Total	**(1 566 408)**	**(1 345 148)**
Net interest income	**2 301 077**	**2 068 585**

As at 31.12.2012 net interest income includes interest on impaired loans of PLN 80 969 k (as at 31.12.2011 - PLN 114 153 k).

In thousands of PLN

7. Net fee and commission income

Fee and commission income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
eBusiness & payments	440 379	391 533
Current accounts and money transfer	245 383	243 932
Foreign exchange commissions	233 782	224 263
Asset management fees	220 440	273 520
Credit commissions	154 931	115 509
Insurance commissions	108 401	68 758
Brokerage commissions	85 324	128 670
Credit cards	73 537	63 040
Off-balance sheet guarantee commissions	14 751	12 875
Finance lease commissions	5 146	4 069
Issue arrangement	4 932	15 321
Distribution fees	3 766	12 971
Other commissions	5 266	4 203
Total	**1 596 038**	**1 558 664**
Fee and commission expense	**01.01.2012 -31.12.2012**	**01.01.2011 -31.12.2011**
eBusiness & payments	(93 892)	(77 907)
Distribution fees	(29 256)	(36 260)
Brokerage commissions	(19 186)	(28 371)
Commissions paid to credit agents	(11 916)	(12 174)
Credit cards	(10 014)	(7 168)
Finance lease commissions	(9 155)	(7 268)
Asset management fees and other costs	(7 390)	(8 369)
Other	(30 243)	(23 475)
Total	**(211 052)**	**(200 992)**
Net fee and commission income	**1 384 986**	**1 357 672**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 248 365 k (31.12.2011: PLN 195 493 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (31 085) k (31.12.2011: PLN (26 610) 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.

8. Dividend income

Dividend income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Dividends from investment portfolio entities	54 404	66 702
Dividends from trading portfolio entities	1 344	1 323
Total	**55 748**	**68 025**

9. Net trading income and revaluation

Net trading income and revaluation	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit/(loss) on derivative instruments	129 821	133 446
Profit on interbank FX transactions	18 083	96 773
Other FX related income	13 622	25 965
Profit on market maker activity	2 996	8 455
Profit on equity instruments	433	-
Profit on debt instruments	(610)	2 512
Total	**164 345**	**267 151**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 3 340 k for 2012 (of PLN 14 030 k for 2011).

In thousands of PLN

10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit on sale of debt securities	174 105	6 761
Profit on sale of equity shares	4 492	6 138
Allowance for impairment	(1 386)	(2 321)
Total profit (losses) on financial instruments	**177 211**	**10 578**
Change in fair value of underlying hedged positions	60 344	(2 070)
Change in fair value of hedging instruments	(57 503)	3 205
Total profit (losses) on hedging and hedged instruments	**2 841**	**1 135**
Total	**180 052**	**11 713**

11. Other operating income

Other operating income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Income on sale of services	14 851	12 611
Reimbursements of BGF charges	11 274	10 649
Release of provision for legal cases and other assets	9 542	6 974
Recovery of other receivables	1 609	3 320
Settlements of leasing agreements	3 072	2 474
Insurance indemnity received	773	1 753
Received compensations, penalties and fines	558	1 644
Other	7 993	10 379
Total	**49 672**	**49 804**

12. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Collective and individual impairment charge	(538 908)	(371 079)
Incurred but not reported losses charge	19 263	(4 713)
Recoveries of loans previously written off	13 272	7 006
Off balance sheet credit related items	4 580	(3 955)
Total	**(501 793)**	**(372 741)**

13. Employee costs

Employee costs	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Salaries and bonuses	(792 309)	(816 189)
Salary related costs	(123 004)	(117 235)
Staff benefits costs	(22 054)	(22 214)
Professional trainings	(16 723)	(17 526)
Retirement fund, holiday provisions and other employee-related costs	966	(3 645)
Total	**(953 124)**	**(976 809)**

In thousands of PLN

14. General and administrative expenses

General and administrative expenses	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Maintenance and rentals of premises	(226 577)	(216 709)
IT systems costs	(93 537)	(90 032)
Marketing and representation	(77 072)	(83 646)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(49 386)	(42 660)
Consulting fees	(45 711)	(27 459)
Postal and telecommunication costs	(39 721)	(46 313)
Car, transport expenses, carriage of cash	(36 950)	(35 044)
Other external services	(35 914)	(36 428)
Sundry taxes	(19 188)	(19 525)
Stationery, cards, cheques	(18 642)	(25 974)
Data transmission	(13 853)	(15 744)
KIR, SWIFT settlements	(12 430)	(11 307)
Security costs	(10 648)	(12 481)
Costs of repairs	(5 018)	(5 264)
Other	(15 341)	(13 750)
Total	**(699 988)**	**(682 336)**

15. Other operating expenses

Other operating expenses	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Donation paid	(4 634)	(1 988)
Charge of provisions for legal cases and other assets	(2 675)	(13 394)
Costs of purchased services	(1 757)	(2 289)
Paid compensations, penalties and fines	(1 568)	(2 012)
Other memebership fees	(824)	(849)
Liquidation of fixed assets, intangible assets and assets for disposal	-	(6 527)
Other	(14 684)	(16 804)
Total	**(26 142)**	**(43 863)**

In thousands of PLN

16. Corporate income tax

Corporate income tax	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Current tax charge	(464 147)	(277 757)
Deferred tax	89 743	(37 806)
Total	**(374 404)**	**(315 563)**

Corporate total tax charge information	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit before tax	1 837 039	1 542 430
Tax rate	19%	19%
Tax calculated at the tax rate	(349 037)	(293 062)
Non-deductible expenses	(9 591)	(11 144)
Sale of receivables	(12 587)	(13 968)
Non-taxable income (dividends)	9 744	12 584
Non-tax deductible bad debt provisions	(7 567)	(10 067)
Other	(5 366)	94
Total income tax expense	**(374 404)**	**(315 563)**

Deferred tax recognised directly in equity	31.12.2012	31.12.2011
The amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	(94 386)	(94 743)
Relating to debt securities available-for-sale	(94 445)	(20 965)
Relating to cash flow hedging activity	(15 784)	(12 183)
Total	**(204 615)**	**(127 891)**

17. Earnings per share

Net earnings per share (PLN/share)	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit attributable to ordinary shares	1 433 847	1 184 347
Weighted average number of ordinary shares	73 835 488	73 076 013
Net earnings per share (PLN)	**19.42**	**16.21**
Profit attributable to ordinary shares	1 433 847	1 184 347
Weighted average number of ordinary shares	73 835 488	73 076 013
Weighted average number of potential ordinary shares *	302 683	274 273
Diluted earnings per share (PLN)	**19.34**	**16.15**

- * The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in note 51.

18. Cash and balances with central banks

Cash and balances with central banks	31.12.2012	31.12.2011
Cash	1 084 108	932 600
Current accounts in central banks	3 073 166	290 908
Term deposits	-	202 033
Total	**4 157 274**	**1 425 541**

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as a fixed percentage of the monthly average balance of the customers' deposits. As at 31.12.2012 the rate was 3.5%, as at 31.12.2011 – 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

In thousands of PLN

19. Loans and advances to banks

Loans and advances to banks	31.12.2012	31.12.2011
Loans and advances	916 567	428 823
Current accounts, other	473 748	775 349
Buy-sell-back transaction	67 813	-
Total	**1 458 128**	**1 204 172**

Fair value of loans and advances to banks is presented 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	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**641 051**	**711 669**	**700 252**	**872 544**
Interest rate operations	**365 874**	**371 136**	**314 053**	**308 585**
Options	564	564	132	132
IRS	356 991	358 516	304 421	300 206
FRA	8 319	12 056	9 500	8 247
FX operations	**275 177**	**340 533**	**386 199**	**563 959**
CIRS	75 561	152 711	42 149	120 636
Forward	27 050	22 343	97 509	32 182
FX Swap	142 466	135 140	150 924	316 003
Spot	901	1 140	2 015	1 536
Options	29 199	29 199	93 602	93 602
Debt and equity securities	**190 664**	**-**	**5 135 791**	**-**
Debt securities	**176 963**	**-**	**5 082 985**	**-**
Government securities:	175 487	-	431 084	-
- bonds	175 487	-	431 084	-
Central Bank securities:	-	-	4 647 956	-
- bills	-	-	4 647 956	-
Other securities:	1 476	-	3 945	-
- bonds	1 476	-	3 945	-
Equity securities:	**13 701**	**-**	**52 806**	**-**
- listed	13 701	-	52 806	-
Short sale	**-**	**17 162**	**-**	**59 173**
Total financial assets/liabilities	**831 715**	**728 831**	**5 836 043**	**931 717**

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (30) k as at 31.12.2012, PLN (396) k as at 31.12.2011.

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 31.12.2012 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

In thousands of PLN

The table below presents off-balance sheet derivatives' nominal values.

	Derivatives' nominal values	31.12.2012	31.12.2011
1.	**Term derivatives (hedging)**	**14 675 607**	**10 702 996**
a)	Single-currency interest rate swaps	1 085 000	341 696
b)	Macro cash flow hedge -purchased (IRS)	2 213 144	2 269 914
c)	Macro cash flow hedge -purchased (CIRS)	5 585 823	3 768 628
d)	Macro cash flow hedge -sold (CIRS)	5 791 640	4 322 758
2.	**Term derivatives (trading)**	**67 094 143**	**82 651 253**
a)	Interest rate operations	35 333 886	49 413 206
	Single-currency interest rate swaps	27 982 342	31 449 423
	FRA - purchased amounts	6 850 000	17 900 000
	Options	501 544	63 783
b)	FX operations	31 760 257	33 238 047
	FX swap – purchased amounts	8 020 505	11 006 569
	FX swap – sold amounts	8 008 784	11 127 200
	Forward- purchased amounts	1 483 082	2 088 999
	Forward- sold amounts	1 482 429	2 041 784
	Cross-currency interest rate swaps – purchased amounts	4 965 537	1 320 069
	Cross-currency interest rate swaps – sold amounts	5 033 742	1 405 598
	FX options -purchased	1 383 089	2 123 914
	FX options -sold	1 383 089	2 123 914
3.	**Currency transactions- spot**	**1 889 992**	**2 343 838**
	Spot-purchased	944 898	1 172 159
	Spot-sold	945 094	1 171 679
4.	**Transactions on equity instruments**	**11 300**	**47 369**
	Futures - sold	11 300	47 369
	Total	**83 671 042**	**95 745 456**

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

21. Hedging derivatives

Hedging derivatives	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	-	59 912	5 110	3 723
IRS hedging cash flow	253 553	262 038	136 526	520 002
Total hedging derivatives	**253 553**	**321 950**	**141 636**	**523 725**

22. Loans and advances to customers

Loans and advances to customers	31.12.2012	31.12.2011
Loans and advances to enterprises	25 280 604	24 262 182
Loans and advances to individuals, of which:	13 708 551	12 572 576
Home mortgage loans	*8 080 532*	*7 605 063*
Finance lease receivables	2 289 852	2 335 543
Loans and advances to public sector	105 366	259 057
Buy-sell-back transaction	15 234	100
Other	12 154	2 960
Gross receivables	**41 411 761**	**39 432 418**
Impairment write down	(1 544 207)	(1 415 245)
Total	**39 867 554**	**38 017 173**

As at 31.12.2012 the fair value adjustment due to hedged risk on corporate loans was PLN 0 (as at 31.12.2011: PLN 0).

Finance lease receivables are presented in note 43. Fair value of loans and advances to customers is presented in note 40.

In thousands of PLN

Movements on impairment losses on loans and advances to customers	31.12.2012	31.12.2011
Individual and collective impairment		
As at the beginning of the period	(1 069 296)	(1 069 646)
Charge/write back of current period	(538 908)	(371 079)
Write off/Sale of receivables	381 667	352 347
Transfer	16 215	24 829
F/X differences	3 001	(5 747)
Balance at the end of the period	**(1 207 321)**	**(1 069 296)**
IBNR		
As at the beginning of the period	(345 949)	(337 975)
Charge/write back of current period	19 263	(4 713)
Transfer	(13 018)	27
F/X differences	2 818	(3 288)
Balance at the end of the period	**(336 886)**	**(345 949)**
Impairment write down	**(1 544 207)**	**(1 415 245)**

23. Investment securities available for sale

Investment securities available for sale	31.12.2012	31.12.2011
Available for sale investments - measured at fair value		
Debt securities	**11 048 024**	**10 971 561**
Government securities:	7 711 424	10 893 773
- bonds	7 711 424	10 893 773
Central Bank securities:	2 099 256	-
- bills	2 099 256	-
Commercial securities:	1 237 344	77 788
- bonds	1 237 344	77 788
Equity securities	**627 180**	**629 194**
- listed	13 441	19 475
- unlisted	613 739	609 719
Investment certificates	**40 929**	**51 440**
Total	**11 716 133**	**11 652 195**

As at 31.12.2012 fixed interest rate debt securities measured at fair value amount to PLN 9 838 570 k, variable interest rate securities amount to PLN 1 209 454 k.
As at 31.12.2011 fixed interest rate debt securities measured at fair value amount to PLN 9 986 695 k, variable interest rate securities amount to PLN 984 866 k.

As at 31.12.2012 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 62 554 k (as at 31.12.2011: PLN 1 233 k).

Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The Group performs the review of the fair value of its unlisted available-for-sale financial instruments at each balance sheet date. 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 three key investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis.

Fair value of „Investment securities available for sale" is presented in note 40.

In thousands of PLN

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2012	**10 971 561**	**680 634**	**11 652 195**
Additions	41 537 666	9 323	41 546 989
Disposals (sale and maturity)	(41 659 215)	(21 439)	(41 680 654)
Fair value adjustment	448 057	987	449 044
Movements on interest accrued	(226 281)	-	(226 281)
Allowances for impairment	-	(1 386)	(1 386)
F/X differences	(23 764)	(10)	(23 774)
As at 31 December 2012	**11 048 024**	**668 109**	**11 716 133**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2011	**6 965 866**	**680 081**	**7 645 947**
Additions	1 577 887	31 621	1 609 508
Transfers	-	(754)	(754)
Disposals (sale and maturity)	(2 306 084)	(19 840)	(2 325 924)
Fair value adjustment	6 459	(7 753)	(1 294)
Movements on interest accrued	(16 365)	-	(16 365)
Allowances for impairment	-	(2 321)	(2 321)
F/X differences	47 256	(400)	46 856
Reclassification*	4 627 410	-	4 627 410
Measurement at fair value of reclassified bonds	69 132	-	69 132
As at 31 December 2011	**10 971 561**	**680 634**	**11 652 195**

* On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity,' and reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Group.

24. Financial assets held to maturity

Financial assets held to maturity	31.12.2012	31.12.2011
Government securities:	-	-
- bonds	-	-
Total	-	-

Fair value of „Financial assets held to maturity" is presented in note 40.

Movements on financial assets held to maturity	31.12.2012	31.12.2011
Balance as at 1 January	-	**5 749 408**
Reclassification*	-	(4 627 410)
Maturity	-	(1 086 827)
Fair value amortisation	-	10 206
Movements on interest accrued	-	(45 377)
As at end of reporting period	-	-

* On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity,' and reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Group.

In thousands of PLN

25. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2012	31.12.2011
Associates	61 647	61 682
Joint ventures	54 038	42 830
Total	**115 685**	**104 512**

Movements on investments in associates and joint ventures	31.12.2012	31.12.2011
Balance as at 1 January	**104 512**	**87 360**
Share of profits/(losses)	19 746	11 104
Transfer	-	4 050
Sale/acquisition	(4 541)	5 018
Other/dividend	(4 032)	(3 020)
Balance at the end of the period	**115 685**	**104 512**

Fair value of “Investment in associates and joint ventures” is presented in note 40.

Details of acquisition of associates and joint ventures are disclosed in note 47.

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2012

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 & Partnerzy S.A.*	Krynicki Recykling S.A.**	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding* **	50.00	50.00	50.00	21.23	24.54	
Balance sheet value	41 733	27 502	26 536	4 506	15 408	**115 685**
Total assets	89 088	1 012 477	273 876	5 187	113 957	**1 494 585**
Own funds of entity, of which:	83 466	53 047	51 183	1 610	43 604	**232 910**
Share capital	16 000	24 250	27 000	1 083	1 488	**69 821**
Other own funds, of which:	67 466	28 797	24 183	527	42 116	**163 089**
from previous years	*2 389*	-	-	*(1 600)*	-	**789**
net profit (loss)	*3 697*	*12 943*	*14 165*	*(722)*	*3 204*	**33 287**
Liabilities of entity	5 622	959 430	222 693	3 577	70 353	**1 261 675**
Revenue	10 316	594 262	103 242	20 809	24 211	**752 840**
Costs	5 895	578 116	85 689	21 531	20 534	**711 765**

*selected financial information as at end of November 2012
**selected financial information as at end of September 2012
***states percentage share of associates or joint venture 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 & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2011

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 & Partnerzy S.A.*	Krynicki Recykling S.A.**	Holicon Group S.A.*	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	Poznań	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	Associate	
% of holding* **	50.00	50.00	50.00	21.23	24.54	47.09	
Balance sheet value	38 464	20 102	22 728	4 297	14 356	4 565	**104 512**
Total assets	83 982	688 412	210 051	6 401	70 276	16 365	**1 075 487**
Own funds of entity, of which:	76 929	40 204	45 455	3 358	40 031	9 736	**215 713**
Share capital	16 000	24 250	27 000	1 083	1 488	8 600	**78 421**
Other own funds, of which:	60 929	15 954	18 455	2 275	38 543	1 136	***137 292***
from previous years	*2 616*	*(4 222)*	-	*(1 006)*	*6 551*	*793*	***4 732***
net profit (loss)	*2 980*	*5 028*	*11 125*	*431*	*856*	*343*	**20 763**
Liabilities of entity	7 053	648 208	164 596	3 043	30 245	6 629	**859 774**
Revenue	8 096	497 348	94 075	21 248	19 609	34 963	**675 339**
Costs	4 081	491 564	80 229	488	18 691	34 113	**629 166**

*selected financial information as at end of November 2011
**selected financial information as at end of September 2011
***states percentage share of associates or joint venture 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 & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management
Holicon Group S.A.	business outsourcing services incl.: call and contact centre, HR management

In thousands of PLN

26. Intangible assets

Intangible assets Year 2012	Licences, patents etc.	Other (incl. know-how)	Capital expenditures	Total
Gross value - beginning of the period	**702 328**	**6 019**	**78 089**	**786 436**
Additions from:				
- purchases	-	-	42 717	**42 717**
- intangible assets taken for use	78 013	-	-	**78 013**
- transfers	2	-	4	**6**
Disposals from:				
- liquidation	(551)	-	(26)	**(577)**
- intangible assets taken for use	-	-	(78 013)	**(78 013)**
- transfers	(20 487)	-	(137)	**(20 624)**
Gross value - end of the period	**759 305**	**6 019**	**42 634**	**807 958**
Accumulated depreciation - beginning of the period	**(629 251)**	**(6 019)**	**-**	**(635 270)**
Additions/disposals from:				
- current year	(51 291)	-	-	**(51 291)**
- liquidation	380	-	-	**380**
- transfers	5 561	-	-	**5 561**
Write down/Reversal of impairment write down	-	-	-	**-**
Accumulated depreciation- end of the period	**(674 601)**	**(6 019)**	**-**	**(680 620)**
Balance sheet value				
Purchase value	759 305	6 019	42 634	**807 958**
Accumulated depreciation	(674 601)	(6 019)	-	**(680 620)**
As at 31 December 2012	**84 704**	**-**	**42 634**	**127 338**

In thousands of PLN

Intangible assets Year 2011	Licences, patents etc.	Other (incl. know-how)	Capital expenditures	Total
Gross value - beginning of the period	**667 481**	**6 045**	**44 594**	**718 120**
Additions from:				
- purchases	-	-	76 855	**76 855**
- intangible assets taken for use	41 470	-	-	**41 470**
- transfers	29	-	52	**81**
Disposals from:				
- liquidation	(6 649)	-	(1 360)	**(8 009)**
- intangible assets taken for use	-	-	(41 470)	**(41 470)**
- transfers	(3)	(26)	(582)	**(611)**
Gross value - end of the period	**702 328**	**6 019**	**78 089**	**786 436**
Accumulated depreciation - beginning of the period	**(539 527)**	**(6 032)**	**-**	**(545 559)**
Additions/disposals from:				
- current year	(94 740)	(12)	-	**(94 752)**
- liquidation	5 640	-	-	**5 640**
- transfers	(23)	25	-	**2**
Write down/Reversal of impairment write down	(601)	-	-	**(601)**
Accumulated depreciation- end of the period	**(629 251)**	**(6 019)**	**-**	**(635 270)**
Balance sheet value				
Purchase value	702 328	6 019	78 089	**786 436**
Accumulated depreciation	(629 251)	(6 019)	-	**(635 270)**
As at 31 December 2011	**73 077**	**-**	**78 089**	**151 166**

In thousands of PLN

27. Property, plant and equipment

Property, plant & equipment Year 2012	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	**652 931**	**270 608**	**67 057**	**335 722**	**22 312**	**1 348 630**
Additions from:						
- purchases	-	-	-	-	39 919	**39 919**
- leasing	-	-	23 301	-	-	**23 301**
- fixed assets taken for use	1 162	23 412	242	8 775	-	**33 591**
- transfers	-	173 522	536	-	97	**174 155**
Disposals from:						
- sale, liquidation, donation	(4 680)	(16 857)	(3 278)	(6 226)	(216)	**(31 257)**
- fixed assets taken for use	-	-	-	-	(33 590)	**(33 590)**
- transfers	-	(24)	(27 259)	(152 896)	(41)	**(180 220)**
Gross value - end of the period	**649 413**	**450 661**	**60 599**	**185 375**	**28 481**	**1 374 529**
Accumulated depreciation - beginning of the period	**(344 977)**	**(222 601)**	**(27 019)**	**(254 240)**	**-**	**(848 837)**
Additions/disposals from:						
- current year	(25 235)	(39 173)	(9 731)	(12 510)	-	**(86 649)**
- sale, liquidation, donation	2 878	16 670	2 562	5 983	-	**28 093**
- transfers	(21)	(104 723)	18 263	99 156	-	**12 675**
Accumulated depreciation- end of the period	**(367 355)**	**(349 827)**	**(15 925)**	**(161 611)**	**-**	**(894 718)**
Balance sheet value						
Purchase value	649 413	450 661	60 599	185 375	28 481	**1 374 529**
Accumulated depreciation	(367 355)	(349 827)	(15 925)	(161 611)	-	**(894 718)**
As at 31 December 2012	**282 058**	**100 834**	**44 674**	**23 764**	**28 481**	**479 811**

In thousands of PLN

Property, plant & equipment Year 2011	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	657 934	312 229	44 786	327 140	23 921	1 366 010
Additions from:						
- purchases	-	-	-	-	41 760	41 760
- leasing	-	-	16 704	-	-	16 704
- fixed assets taken for use	4 876	23 842	1 362	13 553	-	43 633
- transfers	-	49	19 444	19 288	416	39 197
Disposals from:						
- sale, liquidation, donation	(9 879)	(46 225)	(1 943)	(24 246)	(151)	(82 444)
- fixed assets taken for use	-	-	-	-	(43 634)	(43 634)
- transfers	-	(19 287)	(13 296)	(13)	-	(32 596)
Gross value - end of the period	652 931	270 608	67 057	335 722	22 312	1 348 630
Accumulated depreciation - beginning of the period	(296 795)	(256 466)	(30 652)	(234 561)	-	(818 474)
Additions/disposals from:						
- current year	(56 433)	(31 409)	(10 054)	(23 227)	-	(121 123)
- sale, liquidation, donation	8 230	45 883	1 693	22 818	-	78 624
- transfers	21	19 391	11 994	(19 270)	-	12 136
Accumulated depreciation- end of the period	(344 977)	(222 601)	(27 019)	(254 240)	-	(848 837)
Balance sheet value						
Purchase value	652 931	270 608	67 057	335 722	22 312	1 348 630
Accumulated depreciation	(344 977)	(222 601)	(27 019)	(254 240)	-	(848 837)
As at 31 December 2011	307 954	48 007	40 038	81 482	22 312	499 793

28. Net deferred tax assets

Deferred tax asset	31.12.2012	31.12.2011
Provisions for loans	168 286	200 098
Unrealized liabilities due to derivatives	214 291	89 177
Other provisions which are not yet taxable costs	56 085	64 496
Deferred income	96 420	88 562
Difference between balance sheet and taxable value of leasing portfolio	69 001	63 624
Unrealized interest on credits, loans and securities	115 773	42 063
Depreciation, amortisation - effects of a change in estimate	14 771	14 560
Unrealised FX translation differences from b/s valuation of receivables and liabilities	405	441
Other	2 477	588
Total	**737 509**	**563 609**

Deferred tax liability	31.12.2012	31.12.2011
Revaluation of financial instruments available for sale*	(188 832)	(116 092)
Unrealised receivables on derivatives	(170 315)	(99 118)
Unrealised interests from loans, securities and interbank deposits	(85 780)	(70 225)
Provision due to application of investment relief	(3 088)	(3 269)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(3 437)	(5 687)
Cash flow hedges valuation*	(15 784)	(12 183)
Other	(12 236)	(12 016)
Total	**(479 472)**	**(318 590)**

Net deferred tax assets	258 037	245 019

* Changes in deferred tax liabilities were recognised in the consolidated statement of comprehensive income.

As at 31 December 2012 the calculation of deferred tax asset did not include purchased receivables of PLN 14 728 k and loans that will not be realised of PLN 56 485 k.

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As at 31 December 2011 the calculation of deferred tax asset did not include purchased receivables of PLN 14 757 k and loans that will not be realised of PLN 62 345 k.

Movements on net deferred tax	31.12.2012	31.12.2011
As at the beginning of the period	245 019	309 164
Changes recognised in income statement	89 743	(37 806)
Changes recognised in other net comprehensive income	(76 725)	(26 473)
Transfer	-	134
Balance at the end of the period	**258 037**	**245 019**

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 allowance for impairment of loans and receivables and assets in the course of business.

29. Assets classified as held for sale

Assets classified as held for sale	31.12.2012	31.12.2011
Land and buildings	-	82 511
Equipment	-	93
Total	**-**	**82 604**

As an effect of not meeting requirements described in IFRS 5, Bank decided to reclassify repossessed assets from line Assets classified as held for sale to Other assets.

30. Other assets

Other assets	31.12.2012	31.12.2011
Sundry debtors *	512 439	237 764
Settlements of stock exchange transactions	44 287	47 983
Interbank and interbranch settlements	76 800	85 414
Prepayments	44 994	43 930
Repossessed assets**	74 764	-
Other	665	1 011
Total	**753 949**	**416 102**

* "Sundry debtors" include balance of unsettled transactions with the National Depository for Securities (KDPW). Changes in the settlements are associated with the occurrence of non-trading days on the Warsaw Stock Exchange in the days before the end of the accounting period.
** As an effect of not meeting requirements described in IFRS 5, Bank decided to reclassify repossessed assets from line Assets classified as held for sale to Other assets.

31. Deposits from banks

Deposits from banks	31.12.2012	31.12.2011
Loans from other banks	59 388	143 572
Repo transactions	668 150	2 240 824
Term deposits	331 073	12 495
Current accounts	292 439	108 179
Total	**1 351 050**	**2 505 070**

As at 31.12.2012 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2011 – PLN nil).

Fair value of "Deposits from banks" is presented in note 40.

In thousands of PLN

32. Deposits from customers

Deposits from customers	31.12.2012	31.12.2011
Deposits from individuals	**28 636 346**	**27 111 339**
Term deposits	15 991 323	14 822 913
Current accounts	12 605 499	12 254 430
Other	39 524	33 996
Deposits from enterprises	**16 538 707**	**17 881 182**
Term deposits	9 224 568	11 786 350
Current accounts	5 618 926	4 702 194
Sell-buy-back transactions	205 033	-
Loans	1 186 187	1 047 963
Other	303 993	344 675
Deposits from public sector	**1 902 041**	**1 836 961**
Term deposits	648 281	806 083
Current accounts	1 251 996	1 028 988
Other	1 764	1 890
Total	**47 077 094**	**46 829 482**

As at 31.12.2012 deposits held as collateral totaled PLN 244 389 k (as at 31.12.2011 - PLN 190 840 k).

Fair value of “Deposits from customers” is presented in note 40.

33. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Redemption date	As at the end of the period
Subordinated liabilities	100 000	EUR	05.08.2020	409 110
As at 31 December 2012				**409 110**

Movements in Subordinated Liabilities	31.12.2012	31.12.2011
As at the beginning of the period	**441 234**	**395 230**
Increase (due to):	**20 263**	**69 003**
- interest on subordinated loan	20 263	21 921
- FX differences	-	47 082
Decrease (due to):	**(52 387)**	**(22 999)**
- interest repayment	(19 560)	(22 999)
- FX differences	(32 827)	-
As at the end of the period	**409 110**	**441 234**
Short-term	4 378	3 971
Long-term (over 1 year)	404 732	437 263

BZ WBK Group issued subordinated debt to mitigate FX rate sensitivity and increase efficiency of own funding. In line with the KNF decision subordinated liabilities have been recognised as the supplementary capital and since Q4 2010 are included in the solvency ratio calculations. Other details on these liabilities are disclosed in Note 5.

In thousands of PLN

34. Other liabilities

Other liabilities	31.12.2012	31.12.2011
Provisions:	226 696	252 387
Employee provisions	*190 865*	*206 274*
Provisions for legal claims	*15 912*	*17 590*
Provisions for off balance sheet credit facilities	*16 619*	*21 223*
Other	*3 300*	*7 300*
Interbank and interbranch settlements	217 711	369 125
Other deferred and suspended income	106 727	119 791
Accrued liabilities	67 121	56 244
Sundry creditors	250 671	182 849
Settlements of stock exchange transactions	63 490	39 760
Public and law settlements	43 711	36 769
Finance lease related settlements	21 650	25 267
Other	735	263
Total	**998 512**	**1 082 455**

The Group raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.

Employee related provisions and accruals consists of items outlined in note 50.

Change in provision	31.12.2012	31.12.2011
As at the beginning of the period	**252 387**	**247 275**
Employee provisions	206 274	212 540
Provisions for legal claims	17 590	17 518
Provisions for off balance sheet credit facilities	21 223	17 217
Other	7 300	-
Provision charge	**226 677**	**236 446**
Employee provisions	183 058	192 818
Provisions for legal claims	711	1 836
Provisions for off balance sheet credit facilities	42 908	34 492
Other	-	7 300
Utilization	**(185 847)**	**(188 610)**
Employee provisions	(184 201)	(187 496)
Provisions for legal claims	(1 622)	(1 165)
Provisions for off balance sheet credit facilities	(24)	51
Other	-	-
Write back	**(66 521)**	**(42 724)**
Employee provisions	(14 266)	(11 588)
Provisions for legal claims	(767)	(599)
Provisions for off balance sheet credit facilities	(47 488)	(30 537)
Other	(4 000)	-
Balance at the end of the period	**226 696**	**252 387**
Employee provisions	**190 865**	**206 274**
Provisions for legal claims	**15 912**	**17 590**
Provisions for off balance sheet credit facilities	**16 619**	**21 223**
Other	**3 300**	**7 300**

In thousands of PLN

35. Share capital

31.12.2012

Series/ issue	Type of share	Type of preferences	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
I	bearer	none	none	1 561 618	15 616
				74 637 631	**746 376**

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 BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 94.23 %. The remaining shares are in free float.

Capital increase and admission of new shares to trading on the stock exchange

- On 6 July 2012, the bank completed a private subscription of ordinary bearer shares, series I, without pre-emptive rights. The 1 561 618 shares with a nominal value of PLN 10 were fully acquired by the European Bank for Reconstruction and Development (EBRD). The issue price was PLN 212.60 per share. The subscription took place under the resolution of the Annual General Meeting of Shareholders of Bank Zachodni WBK of 10 May 2012.

- On 9 August 2012, i.e. on the day of registration of the appropriate amendments to the Bank's Statutes in the National Court Register, the share capital of Bank Zachodni WBK was increased by PLN 15,616,180 to PLN 746,376,310. The increased capital was fully paid up.

- The Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) issued Resolution no. 846/2012 of 27 August 2012 confirming admission of the ordinary series I shares to trading on the main market.

- Under § 38 section 1 and section 3 of the Warsaw Stock Exchange Regulations, the Management of the Warsaw Stock Exchange decided that the shares would be admitted to the main market effective from 30 August 2012, following registration of the shares by the National Depository of Securities and marking them with code PLBZ00000044. After the shares were registered on 30 August 2012, the total number of shares of Bank Zachodni WBK increased to 74 637 631.

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31.12.2011

Series/ issue	Type of share	Type of preferences	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 BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 96.25%. The remaining shares are in free float.

36. Other reserve funds

Other reserve funds	31.12.2012	31.12.2011
General banking risk fund	649 810	649 810
Share premium	578 082	261 699
Other reserves of which:	4 476 788	3 787 375
Reserve capital	*4 236 966*	*3 559 505*
Supplementary capital	*239 822*	*227 870*
Total	**5 704 680**	**4 698 884**

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.

Reserve capital as at 31.12.2012 includes share scheme charge of PLN 58 648 k and reserve capital as at 31.12.2011 includes share scheme charge of PLN 38 177 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2012 and 2011.

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.

In thousands of PLN

37. Revaluation reserve

Revaluation reserve	31.12.2012	31.12.2011
As at 31 December	545 318	433 134
Net change in available for sale investments, of which:	560 432	18 902
Increase:	563 986	20 475
- related to debt investments purchased before current reporting period	*449 042*	*15 218*
- related to debt investments purchased/assigned in the period	*70 299*	-
- related to equity investments purchased before current reporting period	-	*128*
-net change in available for sale investments matured in the period	*44 645*	*5 129*
Decrease:	(3 554)	(1 573)
- related to equity investments purchased before current reporting period	*(1 676)*	-
- related to equity investments purchased in the period	*(1 878)*	-
-net change in available for sale investments matured in the period	-	*(1 573)*
Measurement at fair value of reclassified bonds *	-	69 132
Gross valuation related to cash flow hedge	18 955	61 632
Decrease in revaluation reserve related to sale of investments	(175 581)	(11 009)
Deferred tax adjustment	(76 724)	(26 473)
Total	**872 400**	**545 318**

* On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity,' and reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Group.

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 debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge,
- PLN deposits.

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 about individual groups of hedge transactions for 2012 and 2011:

31.12. 2012	Bonds
Nominal value of hedging position in PLN k	1 085 000
Fair value adjustment of hedging instrument in PLN k	(60 909)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	62 804
Hedged risk	Exchange rate risk
Period over which the instruments have an impact on the bank's results	up to 2022

31.12. 2011	Bonds	Deposits
Nominal value of hedging position in PLN k	211 696	130 000
Fair value adjustment of hedging instrument in PLN k	2 678	(82)
Fair value adjustment of hedged instrument due to hedged risk in PLN k	(2 658)	93
Hedged risk	Exchange rate risk and interest rate risk	
Period over which the instruments have an impact on the bank's results	up to 2018	up to 2013

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 about these transactions are presented in the tables below:

31.12.2012	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedging position in PLN k	40 882	40 882
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	110	110
Hedged risk	Movements in the fair value resulting form currency risk and	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

31.12.2011	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedging position in PLN k	66 252	66 252
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(418)	(418)
Hedged risk	Movements in the fair value resulting form currency risk and	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

Cash flow hedging

Bank Zachodni WBK Group applies future cash flow hedge accounting. Hedge relationships are created using CIRS. The objective is to hedge against the risk of variability of future cash flow arising from fluctuations in exchange rates and market interest rates. A cash flow hedge is used in respect of foreign currency loans carrying variable interest rate.
Hedged items are measured at amortised cost. Hedging items are measured at fair value. Once effectiveness criteria of hedge accounting are met, a change in the fair value of hedging instruments is recognised in equity.

As of 31 December 2012, the nominal value of the hedging item was PLN 8 004 784 k (31 December 2011 – PLN 6 592 672 k). Adjustment to fair value of the hedging instrument is PLN 83 074 k (31 December 2011 – PLN 64 120 k); the same amount, less deferred tax, is recognised in the Group's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2026.
The non-effective portion of measurement of the cash flow hedge was PLN 2 057 k as of 31.12.2012 and PLN 2 525 k as of 31.12.2011. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

39. Sell-buy-back and buy-sell-back transactions

The Group raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.

Repo and sell-buy back transactions may cover securities (notes and treasury bonds) from the Group's balance sheet portfolio.

The foregoing items are not removed from the balance sheet, because the Group retains all rewards (i.e. interest income on pledged securities) and risks (interest rate risk and the issuer's credit risk) attaching to these assets.

	31.12.2012 Balance sheet value	31.12.2011 Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back):	873 183	2 240 824
Treasury bonds held on the assets side	872 727	2 240 101
Buy-sell-back transactions	82 947	100

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the Group, as well as power to dispose them.

The Group also effects reverse repo and buy-sell back transactions at the same price increased by the pre-determined amount of interest.

In thousands of PLN

Financial instruments covered by reverse repo and buy-sell back transactions are not recognised in the balance sheet, because the Group does not retain any rewards or risks attaching to these assets.

These instruments represent a security cover accepted by the Group which may sell or pledge these assets.

Financial instruments held as security for (reverse repo) repurchase agreements may be sold or repledged under standard agreements, under the obligation to return these to the counterparty on maturity of the transaction.
As at 31.12.2012 and 31.12.2011, consolidated statements of financial position contained no financial instruments serving as collateral to repo transactions maturing within a period shorter or equal to that of the main transaction.

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.

	31.12.2012		31.12.2011	
Assets	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Cash and balances with central banks	4 157 274	4 157 274	1 425 541	1 425 541
Loans and advances to banks	1 458 128	1 458 134	1 204 172	1 204 157
Financial assets held for trading	831 715	831 715	5 836 043	5 836 043
Hedging derivatives	253 553	253 553	141 636	141 636
Loans and advances to customers	39 867 554	39 949 936	38 017 173	38 349 947
Investment securities	11 716 133	11 716 133	11 652 195	11 652 195
Investments in associates and joint ventures	115 685	115 685	104 512	104 512
Liabilities				
Deposits from banks	1 351 050	1 350 969	2 505 070	2 505 070
Hedging derivatives	321 950	321 950	523 725	523 725
Financial liabilities held for trading	728 831	728 831	931 717	931 717
Subordinated liabilities	409 110	409 110	441 234	441 234
Deposits from customers	47 077 094	47 097 412	46 829 482	46 829 452

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 (margins) and changes in 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.

BZ WBK Group for 2012 In thousands of PLN

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.

Debt securities in issue and subordinated liabilities: The securities are measured at amortised cost less adjustments in hedge accounting. Subordinated liabilities are measured at amortised cost.

Financial assets and liabilities carried at fair value in the statement of financial position

As at 31 December 2012 and in the comparable periods 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 derivative instruments except IRS, CIRS, FX forward, FX swap and FX options contracts concluded with non-bank counterparties as well as debt securities measured using discounted cash flow models (except those securities for which the Group independently estimates the credit spread for the counterparty risk).
Apart from these derivatives, level II also classifies variable-rate State Treasury 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): This 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) and derivative instruments excluded from level I and II (i.e. IRS, CIRS, FX forward, Fx swap and FX options contracts concluded with non-bank counterparties for which the Group independently estimates the credit spread for counterparty risk).

As at 31.12.2012 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2012	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	174 922	478 686	178 107	831 715
Hedging derivatives	-	253 553	-	253 553
Financial investment assets - debt securities	6 501 969	3 308 711	1 237 344	11 048 024
Financial investment assets - equity securities	13 442	-	654 667	668 109
Total	**6 690 333**	**4 040 950**	**2 070 118**	**12 801 401**
Financial liabilities				
Financial liabilities held for trading	17 162	637 487	74 182	728 831
Hedging derivatives	-	321 950	-	321 950
Total	**17 162**	**959 437**	**74 182**	**1 050 781**

In thousands of PLN

31.12.2011	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	483 088	5 176 085	176 870	5 836 043
Hedging derivatives	-	141 636	-	141 636
Financial investment assets - debt securities	9 921 220	972 552	77 789	10 971 561
Financial investment assets - equity securities	19 477	-	661 157	680 634
Total	**10 423 785**	**6 290 273**	**915 816**	**17 629 874**
Financial liabilities				
Financial liabilities held for trading	59 173	825 638	46 906	931 717
Hedging derivatives	-	523 725	-	523 725
Total	**59 173**	**1 349 363**	**46 906**	**1 455 442**

As at 31 December 2012 and in the comparable period there were no transfers between the first, the second and the third fair value level.

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
31.12.2012	**Financial assets held for trading**	**Financial investment assets - debt securities**	**Financial investment assets - equity securities**	**Financial liabilities held for trading**
Beginning of the period	**176 870**	**77 789**	**661 157**	**(46 906)**
Profits or losses	17 093	94 675	(6 888)	7 119
recognised in income statement	*17 093*	*10 972*	*-*	*7 119*
recognised in equity	*-*	*83 703*	*(6 888)*	*-*
Purchase	-	1 064 880	8 213	-
Sale	-	-	(7 815)	-
Matured	(15 856)	-	-	(34 395)
Impairment	-	-	-	-
At the period end	**178 107**	**1 237 344**	**654 667**	**(74 182)**

Level III	Financial assets			Financial liabilities
31.12.2011	**Financial assets held for trading**	**Financial investment assets - debt securities**	**Financial investment assets - equity securities**	**Financial liabilities held for trading**
Beginning of the period	**190 959**	**80 771**	**659 393**	**(49 801)**
Profits or losses	17 007	314	8 985	1 980
recognised in income statement	*17 007*	*314*	*-*	*1 980*
recognised in equity	*-*	*-*	*8 985*	*-*
Purchase	-	-	6 644	-
Sale	-	(3 296)	(8 990)	-
Matured	(31 096)	-	-	915
Impairment	-	-	(2 321)	-
Transfer	-	-	(2 554)	-
At the period end	**176 870**	**77 789**	**661 157**	**(46 906)**

41. Contingent liabilities

Significant court proceedings

As at 31.12.2012 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

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The value of all litigation amounts to PLN 135 433 k, which is ca 1.51 % of the Group's equity. This amount includes PLN 44 411 k claimed by the Group, PLN 81 318 k in claims against the Group and PLN 9 704 k of the Group's receivables due to bankruptcy or arrangement cases.

In 2012 the amount of significant court proceedings which had been completed amounted to PLN 100 002 k.

As at 31.12.2011 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 184 217 k, which is ca 2.46 % of the Group's equity. This amount includes PLN 44 624 k claimed by the Group, PLN 132 141 k in claims against the Group and PLN 7 452 k of the Group's receivables due to bankruptcy or arrangement cases.

In 2011 the amount of significant court proceedings which had been completed amounted to PLN 48 737 k.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 34.

Off balance sheet liabilities

The break-down of contingent liabilities and off-balance transactions 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 towards third parties.

Contingent liabilities - sanctioned	31.12.2012	31.12.2011
Liabilities sanctioned		
- financial	**10 842 863**	**8 129 987**
- credit lines	9 637 360	7 006 625
- credit cards debits	1 109 436	970 702
- import letters of credit	96 067	152 165
- term deposits with future commencement term	-	495
- guarantees	**2 221 092**	**1 473 722**
Total	**13 063 955**	**9 603 709**

42. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the Bank Zachodni WBK is collateralized by the debt securities.

Under the Bank Guarantee Fund Act, the bank calculated this fund using 0.55% (in the year 2011 the bank calculated this fund using 0.4% rate) of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2012 Bank Zachodni WBK pledged as collateral PLN 247 176 k of debt securieties (PLN 185 039 k as at 31.12.2011).

In 2012 a deposit for PLN 386 165 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2011 it was PLN 695 237 k).

In 2012 BZ WBK hold a deposit for PLN 185 514 k (in 2011 it was PLN 61 781 k) as a collateral for the day-to-day Treasury business.

Other assets pledged and liabilities accepted as collateral are disclosed in notes 32 and 39.

43. Finance and operating leases

Finance leases

Lease agreements where the Group acts as a leasor

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.

In thousands of PLN

The item “receivables from customers” contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables - maturity	31.12.2012	31.12.2011
less than 1 year	916 518	1 028 782
between 1 and 5 years	1 402 729	1 466 300
over 5 years	260 742	293 044
Total	**2 579 989**	**2 788 126**

Present value of minimum lease payments - maturity	31.12.2012	31.12.2011
less than 1 year	909 137	970 297
between 1 and 5 years	1 232 240	1 209 309
over 5 years	148 475	155 937
Total	**2 289 852**	**2 335 543**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2012	31.12.2011
Finance lease gross receivables	2 579 989	2 788 126
Unearned finance income	(290 138)	(452 583)
Impairment of finance lease receivables	(93 015)	(96 362)
Present value of minimum lease payments, net	**2 196 836**	**2 239 181**

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 2012 and 2011 rentals totalled PLN 155 664 k and PLN 151 116 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	31.12.2012	31.12.2011
less than 1 year	157 480	153 865
between 1 and 5 years	490 823	518 363
over 5 years	245 694	211 316
Total	**893 997**	**883 544**

44. Consolidated statement of cash flow- additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2012	31.12.2011
Cash and balances with central banks	4 157 274	1 425 541
Deposits in other banks, current account	1 448 021	1 184 092
Debt secutities held for trading	-	4 647 956
Investment securities	2 099 256	-
Total	**7 704 551**	**7 257 589**

Bank Zachodni WBK holds restricted cash.

In thousands of PLN

45. Related party disclosures

The tables below present 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, leasing. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process.

Transactions with associates and joint ventures	31.12.2012	31.12.2011
ASSETS	**788**	**742**
Loans and advances to customers	-	259
Other assets	788	483
LIABILITIES	**480 770**	**392 882**
Deposits from customers	480 588	392 418
Other liabilities	182	464
INCOME	**114 472**	**65 405**
Interest income	24 266	8 421
Fee and commission income	89 893	55 662
Gains (losses) from other financial securities	21	(21)
Other operating income	292	1 343
EXPENSES	**25 787**	**20 236**
Interest expense	22 439	17 881
Fee and commission expense	1 572	711
Operating expenses incl.:	1 776	1 644
General and administrative expenses	*1 768*	*1 644*

In thousands of PLN

Transactions with:	Santander Group 31.12.2012	Santander Group 31.12.2011
ASSETS	**335 686**	**117 976**
Loans and advances to banks, incl:	283 789	81 701
deposits	*197 009*	*70 557*
current accounts	*86 780*	*11 144*
Financial assets held for trading	48 729	35 230
Hedging derivatives	3 109	1 045
Loans and advances to customers	2	-
Other assets	57	-
LIABILITIES	**167 326**	**46 625**
Deposits from banks incl.:	36 328	178
current accounts	*36 328*	-
deposits	-	*178*
Hedging derivatives	-	-
Financial liabilities held for trading	121 440	46 446
Deposits from customers	9 089	-
Other liabilities	469	1
INCOME	**(24 131)**	**(22 327)**
Interest income	14 964	1 010
Fee and commission income	307	301
Other operating income	591	230
Net trading income and revaluation	(39 993)	(23 868)
EXPENSES	**5 873**	**946**
Interest expense	319	946
Operating expenses incl.:	5 554	-
Bank's staff, operating expenses and management costs	*5 554*	-
CONTINGENT LIABILITIES	**259 418**	**63 648**
Sanctioned:	158 175	49 999
- guarantees	*158 175*	*49 999*
Received:	101 243	13 649
- guarantees	*101 243*	*13 649*
DERIVATIVES' NOMINAL VALUES	**11 079 645**	**3 415 369**
Cross-currency interest rate swaps – purchased amounts	1 872 728	-
Cross-currency interest rate swaps – sold amounts	1 909 243	-
Single-currency interest rate swaps	1 748 351	656 927
Options	468 004	45 542
FX swap – purchased amounts	1 808 349	564 471
FX swap – sold amounts	1 882 817	572 762
FX options -purchased	663 176	694 939
FX options -sold	719 912	877 099
Spot-purchased	3 508	1 813
Spot-sold	3 557	1 816

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration paid to the members of Bank Zachodni WBK Supervisory and Management Boards

31.12.2012

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board:

First and last name	Position	Period		PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2012-31.12.2012		-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2012-31.12.2012		-
Witold Jurcewicz	Member of the Supervisory Board	01.01.2012-31.12.2012		176,0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2012-31.12.2012		-
Piotr Partyga	Member of the Supervisory Board	01.01.2012-10.05.2012		81,2
John Power	Member of the Supervisory Board	01.01.2012-31.12.2012		210,2
Jerzy Surma	Member of the Supervisory Board	10.05.2012-31.12.2012		95,1
Jose Manuel Varela	Member of the Supervisory Board	01.01.2012-31.12.2012		-

Mr John Power received remuneration of PLN 47 k from subsidiaries for his membership in their Supervisory Boards.

In 2012 Mr Gerald Byrne, Mr Jose Manuel Varela, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora decided not to receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 746 k.

Base remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 563,04	74,69
Andrzej Burliga	Member of the Managemet Board	01.01.2012-31.12.2012	951,83	86,50
Eamonn Crowley	Member of the Managemet Board	01.01.2012-31.12.2012	887,29	46,22
Justyn Konieczny	Member of the Managemet Board	01.01.2012-10.05.2012	409,31	30,60
Janusz Krawczyk	Member of the Managemet Board	01.01.2012-10.05.2012	2 586,33	0,00
Michael McCarthy	Member of the Managemet Board	01.01.2012-31.12.2012	1 069,63	331,63
Piotr Partyga	Member of the Managemet Board	10.05.2012-31.12.2012	599,10	30,13
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2012-31.12.2012	1 279,92	300,06
Marcin Prell	Member of the Managemet Board	01.01.2012-31.12.2012	891,88	71,73
Marco Antonio Silva Rojas*	Member of the Managemet Board	01.11.2012-31.12.2012	387,50	50,20
Mirosław Skiba	Member of the Managemet Board	01.01.2012-31.12.2012	951,71	82,06
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2012-31.12.2012	979,33	70,26

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012.

Additional benefits received by the Management Board members represent life insurance cover without pension option and, in case of Mr Michael McCarthy, Mr Juan de Porras Aguirre and Mr Marco Antonio Silva Rojas also medical cover, accommodation and travel expenses and school fees.

In the 2012, selected members of the Board were paid holiday equivalent in total amount of PLN 927.05 k

In 2012, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

In thousands of PLN

31.12.2011

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board:

First and last name	Position	Period		PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2011-20.04.2011		88,8
Gerald Byrne	Chairman of the Supervisory Board	20.04.2011-31.12.2011		16,7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2011-20.04.2011		64,1
Aleksander Galos	Member of the Supervisory Board	01.01.2011-20.04.2011		57,1
Jacek Ślotała	Member of the Supervisory Board	01.01.2011-20.04.2011		59,1
Piotr Partyga	Member of the Supervisory Board	01.01.2011-31.12.2011		179,8
Witold Jurcewicz	Member of the Supervisory Board	20.04.2011-31.12.2011		115,7
John Power	Member of the Supervisory Board	01.01.2011-31.12.2011		210,9
Anne Maher	Member of the Supervisory Board	01.01.2011-20.04.2011		42,5
Maeliosa O'Hogartaigh	Member of the Supervisory Board	01.01.2011-20.04.2011		63,2

Mr John Power received remuneration of PLN 67 k from subsidiaries for his membership in their Supervisory Boards.

In 2011 Mr Jose Manuel Varela, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora decided not to receive remuneration for his membership in the Supervisory Board.

In addition, 2010 and 2011 was a period of substantial change for the bank. Mr Gerry Byrne provided services to the bank during this transition and was paid PLN 4 968 k.

Base remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2011-31.12.2011	1 563,02	74,06
Paul Barry	Member of the Managemet Board	01.01.2011-31.07.2011	385,06	413,16
Andrzej Burliga	Member of the Managemet Board	01.01.2011-31.12.2011	928,35	81,48
Eamonn Crowley	Member of the Managemet Board	01.09.2011-31.12.2011	288,02	5,34
Declan Flynn	Member of the Managemet Board	01.01.2011-13.04.2011	267,28	128,04
Justyn Konieczny	Member of the Managemet Board	01.01.2011-31.12.2011	1 127,88	73,19
Janusz Krawczyk	Member of the Managemet Board	01.01.2011-31.12.2011	961,00	63,35
Michael McCarthy	Member of the Managemet Board	01.01.2011-31.12.2011	1 054,25	585,91
Juan de Porras Aguirre	Member of the Managemet Board	01.10.2011-31.12.2011	325,54	21,30
Marcin Prell	Member of the Managemet Board	01.01.2011-31.12.2011	889,34	72,66
Mirosław Skiba	Member of the Managemet Board	01.01.2011-31.12.2011	928,27	80,70
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2011-31.12.2011	963,75	68,65

Additional benefits received by the Management Board members represent life insurance cover without pension option and, in case of Mr Paul Barry, Mr Declan Flynn, Mr Michael McCarthy and Mr Juan de Porras Aguirre, also medical cover, accommodation and travel expenses and school fees.

In 2011, none of the Members of the Management Board of Bank Zachodni WBK 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.

31.12.2012

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives totalled PLN 9 797 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2012, the total finance lease receivable provided to members of the Management Board of BZ WBK by the subsidiaries and associates totalled nil.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

31.12.2011

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives totalled PLN 10 322 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2011, the total finance lease receivable provided to members of the Management Board of BZ WBK by the subsidiaries and associates totalled nil.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

Provisions for employee benefits disclosed in the note 50 include respectively amounts related to the Management Board of the Bank Zachodni WBK.

31.12.2012

Provision for retirement benefits in the amount of PLN 5 k, provision for unused holidays in the amount of PLN 588 k.

31.12.2011

Provision for retirement benefits in the amount of PLN 761 k, provision for unused holidays in the amount of PLN 812 k.

46. Information of number and value of banking writs of executions

In 2012 Bank issued 31 412 banking writs of execution with total amount of PLN 1 309 816 k.

In 2011 Bank issued 29 916 banking writs of execution with total amount of PLN 1 018 511 k.

47. Acquisitions and sales of investments in subsidiaries and associates

Acquisitions and sales of subsidiaries and associates in 2012

On 21 September 2012, the company BZ WBK Inwestycje Sp. z o.o. signed an agreement to sell all 4 050 000 shares of Holicon Group S.A. at PLN 1.22 per share. The total value of shares sold amounted to PLN 4,941,000.

Acquisitions and sales of subsidiaries and associates in 2011

Krynicki Recycling S.A.

On 17 March 2011, Krynicki Recykling S.A. announced disposal of ordinary bearer shares in Krynicki Recykling S.A. by Adam Krynicki, the President of the Management Board, and Anna Barska, the Chairman of the Supervisory Board. The shares were disposed of via an OTC transaction - so called package deals dd. 15 March 2011 for 87 898 shares at the price corresponding to the nominal value of the shares - each. The agreement for sale of the abovementioned package of the Issuer's shares was entered into on behalf of BZ WBK Inwestycje sp. z o. o. via Brokerage House.

As of 31 December 2011, BZ WBK Inwestycje Sp. z o.o. held 3 652 648 shares, which represented 24.54% of the share capital of Krynicki Recykling S.A. and entitled to 3 652 648 voting rights, i.e. 24.54% of the total voting rights, at the company's AGM.

Krynicki Recykling S.A., with its registered office in Olsztyn, is a company in the environmental protection industry, listed on NewConnect.

In thousands of PLN

Holicon Group S.A.

On 16 April 2010, BZ WBK Inwestycje bought 753 853 shares of Holicon Group S.A. at PLN 1 per share. At the same time, an investment agreement was signed, whereby BZ WBK Inwestycje acquired 3 296 147 convertible bonds at PLN 1. Following the conversion of bonds into shares in April 2011, BZ WBK holds 4 050 000 shares at the nominal price of PLN 1, i.e. 47.09% of the total voting rights at AGM.

48. Investment in joint ventures

BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A

In September 2011 BZ WBK made a capital contribution of PLN 5 000 k to BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. seated in Poznań. The raised capital was registered on 26.09.2011.

BZ WBK share of votes remained unchanged at 50%.

In the consolidated financial statements the investment is accounted for using the equity method.

49. Events which occurred subsequently to the end of the period

Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

Transaction

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK and Kredyt Bank S.A. The transaction was settled through the issue of merger shares. As a result, eligible shareholders of Kredyt Bank S.A. were entitled to acquire shares in accordance with the agreed exchange ratio of 6.96 Merger Shares for every 100 shares of the Kredyt Bank. This represents a total of 18 907 458 ordinary shares with a nominal value of PLN 10 each, with a total nominal value of PLN 189 074 580. For the purposes of the settlement, the price of the new shares was determined in the amount of PLN 240.32. This price was calculated on the basis of the average BZ WBK share price over the thirty trading days between 21 November 2012 and 8 January 2013, excluding trading days without required turnover. The table below shows the total amount of the consideration transferred in a business combination and its effects on the equity of the combined entity.

as at:	04.01.2013
Share capital	189 074
Other reserve funds	4 354 766
Total consideration	**4 543 840**

The merger transaction is designed to implement the strategic objectives of the Bank and its major shareholder Banco Santander on the Polish market and will position the bank among the top three universal banks in Poland. As a result of the merger, there will be an increase of the geographical scope of banking distribution network and the complementary businesses of the two banks will be integrated. Bank will increase scope of the services offered and will expand the customer base. This will provide significant strengthening of the bank’s market penetration potential and with the blended knowledge and experience of the two banks, the merged entity will be more effective and will achieve a higher quality of its solutions. With the economies of scale and harmonised risk management, the bank's profitability and effectiveness will increase. Cost synergies will be primarily achieved by improvement of processes, adoption of the most effective operational solutions, merger and optimisation of organisational structures and integration of IT systems. Revenue synergies will result from combination of the complementary offerings, cross-selling of the both banks’ products, harmonisation of service styles and an increase in productivity.

Analysis of acquired assets and liabilities on a merger day

As at the date of issuance of the Consolidated Annual Report of Bank Zachodni WBK Group for the year ended 31 December 2012 Bank Zachodni WBK Group performed a preliminary and provisional valuation related to the Kredyt Bank acquisition.
The financial information as of 4 January 2013 of Kredyt Bank which formed the basis of this provisional settlement is currently being audited by a qualified auditor, the process is in progress and audit of Kredyt Bank S.A. has not yet been finalized. Consequently, as a result of the audit of the financial statements, the data is still subject to change. Moreover, Bank Zachodni WBK has not completed the process of fair value estimation for the selected assets and liabilities of the Kredyt Bank S.A., in particular: loans and advances to customers, non-current assets, deposits from customers and contingent liabilities. Bank has not completed the fair value estimation of intangible assets that can be recognized in transaction. As a result, the total additional deferred tax asset and liabilities have been calculated based on the best estimates of the Management Board.
As an addition to the above, the auditor of Kredyt Bank has issued and audit opinion to Kredyt Bank Group consolidated financial statements for the year ended 31 December 2012 which contained the following qualification:

BZ WBK Group for 2012 In thousands of PLN

“As described in the note 4 to the attached consolidated financial statements the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012. Additionally, PLN 258 million out of the above increase in impairment allowances which relates to IBNR and collective impairment was presented in “Provisions” in the liabilities which is not compliant with the adopted accounting standards.”

The final purchase price allocation may differ materially from the preliminary allocation described below due to further refinement of the allocation of purchase price to the fair values of assets and liabilities acquired, and for any impacts resulting from the resolution of the qualification reported by Kredyt Bank Group’s independent auditors, described above. Additionally the above mentioned qualification impacts presented proforma revenue for continuing operations and proforma profit from continuing operations disclosed under “The impact of the acquisition on the results of the Group” section further in this note.

The following table shows the initial estimate of the fair value of acquired assets and liabilities.

as at:	04.01.2013
ASSETS	
Cash and balances with central banks	1 429 283
Loans and advances to banks	680 206
Financial assets held for trading	1 152 738
Hedging derivatives	111 200
Loans and advances to customers	27 568 167
Investment securities	10 377 912
Intangible assets	233 831
Property, plant and equipment	191 063
Net deferred tax assets	352 177
Investment property	16 002
Assets classified as held for sale	5 709
Other assets	77 663
Total assets	**42 195 951**
LIABILITIES	
Deposits from banks	(5 760 512)
Hedging derivatives	(78 970)
Financial liabilities held for trading	(1 130 233)
Deposits from customers	(31 044 324)
Subordinated liabilities	(978 237)
Current income tax liabilities	(7 238)
Other liabilities	(341 113)
Total liabilities	**(39 340 627)**
Fair value of identifiable net assets	**2 855 324**

During the merger Bank recognized PLN 207 756 k of additional assets that meet the conditions for recognition as intangible assets. These assets resulted from the revaluation of the acquired deposits of individual and business customers as well as customer relationships created in former Kredyt Bank. As at the release date of these financial statements, Bank has not completed the process of identification of intangible assets, which would be recognized in accordance with the principles set out in IFRS 3.

In thousands of PLN

Non-controlling interest

Due to the fact that the business combination considered all of the operations of former Kredyt Bank S.A. and the exchange covered 100% of Kredyt Bank SA shares, any non-controlling interests were recognized in the consolidated financial statements of combined entity for the transaction.

Provisional calculation of goodwill

as at:	04.01.2013
Goodwill	
Total consideration	4 543 840
Less: fair value of identifiable net assets	(2 855 324)
Total	**1 688 516**

Goodwill arising on the date of the merger basically represents a premium for control, and results from a potential ability to achieve additional benefits resulting from expected synergies, revenue growth, gained market share, combining competences of employees and increase the efficiency of processes as compared to the fair value of the net assets acquired. These benefits were not recognized separate intangible assets as in this instance the conditions for their individual recognition have not been meet.

Bank does not expect tax deductibility of goodwill in future periods.

The impact of the acquisition on the results the Group

If the combination of Bank Zachodni WBK and Kredyt Bank S.A. took place on 1 January 2012, the Group's combined revenue for continuing operations for the year ended 31 December 2012 would amount to PLN 5 758 048 k (including net interest income, net fee and commission income, dividend income, sale of associates, net trading income and revaluation, gains (losses) from other financial securities, other operating income and share in net profits (loss) of entities accounted for by the equity method) and combined profit from continuing operations for the year would total 1 311 398 k (including net interest income, net fee and commission income, dividend income, sale of associates, net trading income and revaluation, gains (losses) from other financial securities, other operating income, operating losses on loans and advances, operating expenses and share in net profits (loss) of entities accounted for by the equity method less corporate income tax).

Management of the Group considers these provisional values as representative and claims them to be an approximate measure of combined performance for the year ended 31 December 2012 assuming the acquisition as of the beginning of the annual reporting period.

In order to provisionally determine the revenues and profits of the Group, assuming that the acquisition took place at the beginning of the current accounting period, the Management Board:

- calculated depreciation of acquired intangible and tangible fixed assets for the year 2012 based on depreciation rates applicable in the Group of Bank Zachodni WBK,
- took into account adjustments resulting from the harmonization of accounting policies, accounting estimates and internal regulations and respectively has calculated their impact for the year 2012,
- adjusted the combined profit for period of the Acquirer for costs that would not have occurred in 2012 if the business combination was already set at the beginning of 2012 (net amount of PLN 13.150k) and for result of non-recurring transaction (net amount of PLN 11.535k).

Fitch's rating action on Bank Zachodni WBK.

On 10th January 2013 Fitch Ratings affirmed ratings for Bank Zachodni WBK and withdrew ratings for Kredyt Bank.

KBC Group NV and KBC Bank NV - notification

Bank Zachodni WBK released the notification received on 9th January 2013 from:
- KBC Group NV and
- KBC Bank NV
on the number of shares directly acquired by KBC Bank NV and indirectly acquired by KBC Group NV due to a merger of BZ WBK with Kredyt Bank S.A. and the percentage share in the total number of votes gained because of the merger, i.e. the notification on exceeding 15% of the total number of votes at the general meeting of BZ WBK shareholders.

Banco Santander S.A. – notification (Reduction of the percentage of the total number of votes)

Bank Zachodni WBK released the notification received on 9th January 2013 from Banco Santander S.A. on the reduction on a total number of votes by 19.04% due to the merger of BZ WBK with Kredyt Bank.

Until 4 January 2013 i.e. the date of the merger Santander held 70 334 512 shares of Bank Zachodni WBK which represented 94.23% of the share capital and the total number of votes at the general meeting of shareholders of Bank Zachodni WBK.
As a result of the merger, effective from 4 January 2013, its interest in the Bank Zachodni WBK share capital and voting rights at the GM of Shareholders was 75.19%.
Santander's subsidiaries do not hold shares of Bank Zachodni WBK.

Resolution of the National Depository for Securities (the "KDPW") on the registration of the series J shares in Bank Zachodni WBK and setting the reference date.

The Management Board of Bank Zachodni WBK announced that on 8 January 2013 it became aware that the management board of the KDPW adopted resolution No. 24/13 on the registration of 18 907 458 series J shares in the Bank, i.e. the shares in the Bank issued in connection with its merger with Kredyt Bank. Pursuant to the KDPW resolution, the registration of the series J shares under code PLBZ00000044 was conditional on the decision of the company operating the regulated market to introduce these shares to trading on the regulated market.

Furthermore, based on this resolution of the KDPW, the reference date was set at 9 January 2013. The information memorandum prepared by the Bank in connection with the merger defines the reference date as the date at which the number of shares in Kredyt Bank held by shareholders of Kredyt Bank will be determined in exchange for which the series J shares in the Bank will be allotted to such shareholders in accordance with an agreed exchange ratio.

Message from the Operations Department of the National Depository for Securities regarding the registration of J series shares in Bank Zachodni WBK.

On 24 January 2013 the Management Board of Bank Zachodni WBK announced that it had received a message from the Operations Department of the National Depository for Securities (Dział Operacyjny Krajowego Depozytu Papierów Wartościowych S.A.) ("KDPW") stating that on 25 January 2013 the KDPW would register 18 907 458 series J shares in the Bank with a nominal value of PLN 10 each, i.e. the merger shares in the Bank issued in connection with its merger with Kredyt Bank which were assigned the code: PLBZ00000044 in compliance with resolution No. 24/13 of the Management Board of the KDPW dated 8 January 2013.

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 7th of March 2013 by the Management Board of Bank Zachodni WBK The financial statements will be presented for approve by the shareholders at their Annual General Meeting.

50. 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 after the term of employment).

Within these categories, the companies of the BZ WBK Group create the following types of provisions:

Provisions for unused holidays

Liabilities related to unused holidays are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to bonuses 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).

In thousands of PLN

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	31.12.2012	31.12.2011
Provisions for unused holidays	23 428	21 289
Provisions for employee bonuses	125 334	139 978
Provisions for retirement allowances	38 934	42 044
Other staff-related provisions	3 169	2 963
Total	**190 865**	**206 274**

Detailed information about movements on staff-related provisions is available in additional note 34.

Awards for the year 2011 granted in 2012 to the members of the Management Board of Bank Zachodni WBK:

First and last name	Position	Period	Awards for 2011
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 870,00
Andrzej Burliga	Member of the Management Board	01.01.2012-31.12.2012	850,00
Eamonn Crowley	Member of the Management Board	01.01.2012-31.12.2012	777,60
Justyn Konieczny	Member of the Management Board	01.01.2012-10.05.2012	1 026,00
Janusz Krawczyk	Member of the Management Board	01.01.2012-10.05.2012	925,00
Michael McCarthy	Member of the Management Board	01.01.2012-31.12.2012	1 004,40
Piotr Partyga	Member of the Management Board	10.05.2012-31.12.2012	0,00
Juan de Porras Aguirre	Member of the Management Board	01.01.2012-31.12.2012	0,00
Marcin Prell	Member of the Management Board	01.01.2012-31.12.2012	799,20
Marco Antonio Silva Rojas*	Member of the Management Board	01.11.2012-31.12.2012	0,00
Mirosław Skiba	Member of the Management Board	01.01.2012-31.12.2012	850,00
Feliks Szyszkowiak	Member of the Management Board	01.01.2012-31.12.2012	864,00

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012

According to the approved remuneration system in the Bank, in case of fulfilling certain criteria, members of the Management Board of the Bank, can be entitled to receive an award for 2012 that would be paid in 2013. As at the date of preparation of these financial statements, the decision in this regard has not been made by the Supervisory Board of the Bank.

Awards for the year 2010 granted in 2011 to the members of the Management Board of Bank Zachodni WBK:

First and last name	Position	Period	Awards for 2010
Mateusz Morawiecki	President of the Management Board	01.01.2011-31.12.2011	1 404,00
Paul Barry	Member of the Management Board	01.01.2011-31.07.2011	479,76
Andrzej Burliga	Member of the Management Board	01.01.2011-31.12.2011	831,60
Declan Flynn	Member of the Management Board	01.01.2011-13.04.2011	635,07
Justyn Konieczny	Member of the Management Board	01.01.2011-31.12.2011	970,00
Janusz Krawczyk	Member of the Management Board	01.01.2011-31.12.2011	740,00
Michael McCarthy	Member of the Management Board	01.01.2011-31.12.2011	719,64
Marcin Prell	Member of the Management Board	01.01.2011-31.12.2011	700,00
Mirosław Skiba	Member of the Management Board	01.01.2011-31.12.2011	831,60
Feliks Szyszkowiak	Member of the Management Board	01.01.2011-31.12.2011	815,00

Additionally, in 2011 the Management Board of the Bank has received bonus in the total amount of PLN 6 725 k reflecting both the retention of Management Board members in the context of the change in ownership and the departure of a number of long-serving Management Board members (Declan Flynn and Paul Barry) on assignment from the previous majority shareholder.

In thousands of PLN

51. Share based incentive scheme

Third edition expired as at 31 March 2011. The scheme did not vest as the condition were not met.

In 2011 4th edition of the BZ WBK incentive scheme has been granted to no more than 500 individuals and is still in operation.

Vesting condition will be considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit before tax (PBT) growth. The range of the scale requires PBT growth between 8% and 15% in first year and between 15% and 22% in second and third year of duration of scheme.

Shares vested in any single year will be allocated to individual after maturity of the edition.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PBT compound annual growth rate in 3 years' time between 12.6% and 19.6%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

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.

Share based payments granted:

	2011
Number of share based payments	312 755
Number of share based payments allocated after initial grant date	6 312
Share price (PLN)	227,90
Excercise price (PLN)	10
Vesting period	2,75 years
Expected volatility	9,98%
Award life	3 years
Risk free rate	5,19%
Fair value per award	PLN 195,08
Dividend yield	3,51%

The following table summarizes the share based payments activity:

	12 months of 2012	12 months of 2011
	Number of share based payments	Number of share based payments
Outstanding at 1 January	317 971	268 020
Granted	4 523	319 067
Exercised	-	-
Forfeited	(6 577)	(4 713)
Expired	-	(264 403)
Outstanding at 31 December	315 917	317 971
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 2012 and as at 31 December 2011 the average remaining contractual life is approximately 1 year and 2 years respectively.

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2012 and 2011 amounts to PLN 20 471 k, and PLN 20 748 k. respectively. The cost of incentive program was recognized based on assumption that the vesting conditions were at the maximum level.

In thousands of PLN

Taking up the Bank's share rights by the Management Board Members under the 2011 Incentive Scheme

On 25 March 2011, the Supervisory Board of Bank Zachodni WBK passed a resolution to launch the 4th Performance Share Incentive Plan. Under the Plan, a total of 321 399 entitlements to conditional share rights were allocated to 498 employees, including 44 852 conditional share rights taken up by the Members of the Bank Management Board. On 17 May 2011 the Supervisory Board of Bank Zachodni WBK passed a resolution stating that the condition of the Third Incentive Scheme from 2008 were not met.

The tables below show details of conditional share rights granted to the Members of the Management Board of BZ WBK.
The implementation of these rights depends on certain conditions, the fulfillment of which will be confirmed in future periods.

No. of awards	2012
Outstanding at 1 January	44 852
Granted	2 855
Termination of appointment	(9 137)
Expired	-
Outstanding at 31 December	38 570
Exercisable at 31 December	**-**

First and last name	Total as at 01.01.2012	Termination of appointment	Granted during 2012	Total as at 31.12.2012
Mateusz Morawiecki	10 120	-	-	10 120
Andrzej Burliga	4 282	-	-	4 282
Eamonn Crowley	4 003	-	-	4 003
Justyn Konieczny	5 283	(5 283)	-	-
Janusz Krawczyk	3 854	(3 854)	-	-
Michael McCarthy	4 875	-	-	4 875
Piotr Partyga	-	-	2 855	2 855
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	3 704	-	-	3 704
Marco Antonio Silva Rojas	-	-	-	-
Mirosław Skiba	4 282	-	-	4 282
Feliks Szyszkowiak	4 449	-	-	4 449
Total	**44 852**	**(9 137)**	**2 855**	**38 570**

No. of awards	2011
Outstanding at 1 January	31 093
Granted	44 852
Expired	(31 093)
Outstanding at 31 December	44 852
Exercisable at 31 December	**-**

First and last name	Total as at 01.01.2011	Expired during 2011	Granted during 2011	Total as at 31.12.2011
Mateusz Morawiecki	7 403	(7 403)	10 120	10 120
Andrzej Burliga	3 332	(3 332)	4 282	4 282
Eamonn Crowley	-	-	4 003	4 003
Justyn Konieczny	5 182	(5 182)	5 283	5 283
Janusz Krawczyk	4 442	(4 442)	3 854	3 854
Michael McCarthy	-	-	4 875	4 875
Marcin Prell	4 442	(4 442)	3 704	3 704
Mirosław Skiba	1 850	(1 850)	4 282	4 282
Feliks Szyszkowiak	4 442	(4 442)	4 449	4 449
Total	**31 093**	**(31 093)**	**44 852**	**44 852**

52. Staff level

As at 31 December 2012 the Bank employed 8 295 persons, i.e. 8 217 FTE's.
As at this date, in subsidiaries there were 665 persons employed (incl. 83 persons in the Bank), i.e. 618 FTE's.
In 2012, the average staffing level in Bank Zachodni WBK was 8 386 FTE's whereas the average staffing level in subsidiaries was 628 FTE's.

As at 31 December 2011 the Bank employed 8 802 persons, i.e. 8 726 FTE's.
As at this date, in subsidiaries there were 687 persons employed (incl. 76 persons in the Bank), i.e. 657 FTE's.
In 2011, the average staffing level in Bank Zachodni WBK was 8 992 FTE's whereas the average staffing level in subsidiaries was 678 FTE's.

53. Dividend per share

The Management Board of the Bank will propose a dividend payment to the Shareholders in the amount of PLN 7.60 per share from the profit for 2012.
As disclosed in the note 49, after the balance sheet date, the Bank has issued 18 907 458 shares that are entitled to dividend from 2012 profit.

The final decision on dividend payment and amount shall be made by the Annual General Meeting of Bank Zachodni WBK Shareholders.

On 10 May 2012, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 584 608 k to dividend for shareholders, from the profit for 2011, which meant that the proposed dividend was PLN 8 per share.

Signatures of Members of the Management Board

Date	Name	Function	Signature
7.03.2013	Mateusz Morawiecki	President	
7.03.2013	Andrzej Burliga	Member	
7.03.2013	Eamonn Crowley	Member	
7.03.2013	Michael McCarthy	Member	
7.03.2013	Piotr Partyga	Member	
7.03.2013	Juan de Porras Aguirre	Member	
7.03.2013	Marcin Prell	Member	
7.03.2013	Marco Antonio Silva Rojas	Member	
7.03.2013	Mirosław Skiba	Member	
7.03.2013	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account

Date	Name	Function	Signature
7.03.2013	Wojciech Skalski	Financial Accounting Area Director	

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Kredyt Bank S.A.

1. We have audited the attached consolidated financial statements of Kredyt Bank S.A. Group ('the Group'), for which the holding company is Kredyt Bank S.A. ('the Bank') located in Warsaw at Kasprzaka 2/8, for the year ended 31 December 2010 containing the consolidated income statement for the period from 1 January 2010 to 31 December 2010, the consolidated statement of comprehensive income for the period from 1 January 2010 to 31 December 2010, the consolidated balance sheet as at 31 December 2010, the statement of changes in consolidated equity for the period from 1 January 2010 to 31 December 2010, the consolidated cash flow statement for the period from 1 January 2010 to 31 December 2010, and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board of the Bank, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. In our opinion, the attached consolidated financial statements, in all material respects:

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position[3] as at 31 December 2010;
- have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

4. We have read the Management Board's report on the operations of Kredyt Bank S.A. Capital Group for the year ended 31 December 2010 and the rules of preparation of annual statements ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, 2009, item 259).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Dorota Snarska-Kuman
certified auditor
No. 9667

Warsaw, 25 February 2011

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

Kredyt Bank

Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2010

CONTENTS

1. Consolidated Income Statement

in PLN '000'	**Note**	**01.01.2010 - 31.12.2010**	**Comparable data 01.01.2009 - 31.12.2009**
Interest income	13	2 204 572	2 290 209
Interest expense	14	-1 076 806	-1 228 990
Net interest income		**1 127 766**	**1 061 219**
Fee and commission income	15	426 889	433 717
Fee and commission expense	16	-97 016	-129 610
Net fee and commission income		**329 873**	**304 107**
Dividend income	17	1 841	1 629
Net trading income	18	121 555	159 359
Net result on derivatives used as hedging instruments and hedged items	19	887	25
Net gains from investment activities	20	6 486	4 108
Net result on disposal of Zagiel's shares	67	0	268 274
Other operating income	22	100 930	117 346
Total operating income		**1 689 338**	**1 916 067**
General and administrative expenses	23	-928 103	-1 024 052
Other operating expenses	25	-57 781	-43 950
Total operating expenses		**-985 884**	**-1 068 002**
Net impairment losses on financial assets, other assets and provisions	24	-471 971	-803 232
Net operating income		**231 483**	**44 833**
Share in profit of associates		3 224	1 824
Profit before tax		**234 707**	**46 657**
Income tax expense	26	-48 771	-12 098
Net profit from continued operations		**185 936**	**34 559**
Net profit from discontinued operations		0	0
Net profit		**185 936**	**34 559**
Including:			
Attributable to the Shareholders of the Bank	**27**	**185 936**	**34 559**
Attributable to non-controlling interests		0	0
Weighted average number of ordinary shares		271 658 880	271 658 880
Earnings per ordinary share (in PLN)	**28**	**0.68**	**0.13**

The Bank does not calculate diluted earnings per share due to the absence of capital categories resulting in dilution.

2. Consolidated Statement of Comprehensive Income

in PLN '000'	**01.01.2010 - 31.12.2010**	**Comparable data 01.01.2009 - 31.12.2009**
Net profit for the period	**185 936**	**34 559**
Other comprehensive income		
Valuation of financial assets available-for-sale	42 542	-13 677
- including deferred tax	-9 979	3 208
Effects of valuation of derivatives designated for cash flow hedge	11 163	-78 545
- including deferred tax	-2 618	18 424
Other comprehensive income (loss) recognized directly in equity	**53 705**	**-92 222**
Total comprehensive income (loss)	**239 641**	**-57 663**
Including:		
Attributable to the Shareholders of the Bank	**239 641**	**-57 663**
Attributable to non-controlling interests	0	0

Consolidated statement of comprehensive income should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

3. Consolidated Balance Sheet

in PLN '000'	Note	31.12.2010	Comparable data 31.12.2009
Assets			
Cash and balances with Central Bank	29	1 943 636	1 175 453
Gross loans and advances to banks	30	1 466 249	190 013
Impairment losses on loans and advances to banks	31	-2 260	-2 260
Receivables arising from repurchase transactions	32	87 218	331 875
Financial assets designated upon initial recognition as at fair value through profit or loss	33	118 562	155 400
Financial assets held for trading (excluding derivatives)	34	1 601 283	1 179 949
Derivatives, including:	35	463 159	571 410
- derivatives used as hedging instruments	41	74 340	55 741
Gross loans and advances to customers	36	29 108 520	27 297 744
Impairment losses on loans and advances to customers	37	-1 914 000	-1 575 886
Investment securities:	39	9 467 240	8 789 642
- available-for-sale		6 219 461	6 036 304
- held-to-maturity		3 247 779	2 753 338
Investments in associates valued using the equity method	42	15 179	11 955
Property, plant and equipment	43	290 444	353 534
Intangible assets	44	50 201	51 248
Deferred tax asset	26	350 387	217 383
Non-current assets held for sale	45	7 070	0
Investment properties	46	225 668	222 240
Other assets	47	95 690	106 898
Total assets		**43 374 246**	**39 076 598**

Consolidated Balance Sheet (cont.)

in PLN '000'	Note	31.12.2010	Comparable data 31.12.2009
Liabilities			
Amounts due to Central Bank	48	6	1 321 802
Amounts due to banks	49	12 150 706	11 081 690
Liabilities arising from repurchase transactions	51	228 693	0
Derivatives, including:	35	1 131 078	541 068
- derivatives used as hedging instruments	41	1 274	3 166
Amounts due to customers	50	25 660 758	22 469 154
Current tax liability		155 197	32 282
Provisions	52	92 811	53 917
Deferred tax liability	26	869	1 289
Other liabilities	53	214 804	180 997
Subordinated liabilities	54	911 100	805 816
Total liabilities		**40 546 022**	**36 488 015**

in PLN '000'	Nota	31.12.2010	Comparable data 31.12.2009
Equity			
Share capital	55	1 358 294	1 358 294
Supplementary capital	55	889 340	784 039
Revaluation reserve	55	59 421	5 716
Reserves	55	400 942	340 942
Retained earnings (loss)		-65 709	65 033
Current net profit (loss) attributable to the Shareholders of the Bank	27	185 936	34 559
Total equity attributable to the Shareholders of the Bank		**2 828 224**	**2 588 583**
Attributable to non-controlling interests		0	0
Total equity		**2 828 224**	**2 588 583**
Total equity and liabilities		**43 374 246**	**39 076 598**

4. Off-Balance Sheet Items

in PLN '000'	Note	31.12.2010	Comparable data 31.12.2009
Liabilities granted and received			
Liabilities granted:	**56**	**6 038 697**	**5 803 368**
- financial	56	3 958 357	4 008 224
- guarantees	56	2 080 340	1 795 144
Liabilities received:		**2 085 702**	**2 409 623**
- financial		1 007 341	1 185 242
- guarantees		1 078 361	1 224 381
Liabilities related to the sale / purchase transactions		**134 779 591**	**89 935 737**
Other:		**7 950 015**	**7 140 633**
- collateral received		7 950 015	7 140 633
- other		0	0

5. Statement of Changes in Consolidated Equity

Changes in the period 01.01.2010-31.12.2010

in PLN '000'	Note	Share capital	Supplementary capital	Revaluation reserve	Reserves	Retained earnings (losses)	Current net profit (loss) attributable to the Shareholders of the Bank	Total equity attributable to the Shareholders of the Bank	Equity attributable to non-controlling interests	Total equity
Equity at the opening balance - as of 01.01.2010		**1 358 294**	**784 039**	**5 716**	**340 942**	**99 592**	**0**	**2 588 583**	**0**	**2 588 583**
Valuation of financial assets available-for-sale	55			52 521				52 521		52 521
Effects of valuation of derivatives designated for cash flow hedge	55			13 781				13 781		13 781
Deferred tax on items recognized in equity	55			-12 597				-12 597		-12 597
Net profit (loss) recognized directly in the equity				**53 705**				**53 705**		**53 705**
Net profit (loss) for the period							185 936	185 936		185 936
Total of recognized income and expenses				**53 705**			**185 936**	**239 641**		**239 641**
Profit allowance	55		105 301		60 000	-165 301		0		0
Equity at the end of the period - as of 31.12.2010		**1 358 294**	**889 340**	**59 421**	**400 942**	**-65 709**	**185 936**	**2 828 224**	**0**	**2 828 224**

Statement of changes in consolidated equity should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

Changes in the period 01.01.2009-31.12.2009 (comparable data)

in PLN '000'	Note	Share capital	Supplementary capital	Revaluation reserve	Reserves	Currency translation differences from the translation of subordinated companies	Retained earnings (losses)	Current net profit (loss) attributable to the Shareholders of the Bank	Total equity attributable to the Shareholders of the Bank	Equity attributable to non-controlling interests	Total equity
Equity at the opening balance - as of 01.01.2009		**1 358 294**	**604 966**	**97 938**	**240 942**	**-733**	**344 106**	**0**	**2 645 513**	**0**	**2 645 513**
Valuation of financial assets available-for-sale	55			-16 885					-16 885		-16 885
Effects of valuation of derivatives designated for cash flow hedge	55			-96 969					-96 969		-96 969
Deferred tax on items recognized in equity	55			21 632					21 632		21 632
Net profit (loss) recognized directly in the equity				**-92 222**					**-92 222**		**-92 222**
Net profit (loss) for the period								34 559	34 559		34 559
Total of recognized income and expenses				**-92 222**				**34 559**	**-57 663**		**-57 663**
Other changes			-21 999			733	21 999		733		733
Profit allowance	55		201 072		100 000		-301 072		0		0
Equity at the end of the period - as of 31.12.2009		**1 358 294**	**784 039**	**5 716**	**340 942**	**0**	**65 033**	**34 559**	**2 588 583**	**0**	**2 588 583**

Statement of changes in consolidated equity should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

6. Consolidated Cash Flow Statement

in PLN '000'	Note	okres 01.01.2010 - 31.12.2010	Comparable data 01.01.2009 - 31.12.2009
Cash flow from operating activities			
Net profit (loss)		**185 936**	**34 559**
Adjustments to net profit (loss) and net cash from operating activities:		**3 955 162**	**1 558 130**
Current and deferred tax recognized in financial result		48 771	12 098
Non-realised profit (loss) from currency translation differences	66b	40 712	-21 618
Depreciation	23	100 954	114 501
Share in profit (loss) of associates		-3 224	-1 824
Net increase/decrease in impairment	66c	339 568	647 003
Dividends	17	-1 841	-1 629
Interest	66d	-183 128	-176 048
Net increase/decrease in provisions		38 894	-5 557
Profit (loss) on disposal of investments	66e	-5 088	-273 031
Net increase/decrease in assets (excluding cash)		**-1 623 296**	**1 683 440**
Net increase/decrease in loans and advances to banks	66f	-834 117	25 849
Net increase/decrease in financial assets designated upon initial recognition as at fair value through profit or loss		36 838	-43 552
Net increase/ decrease in financial assets held for trading and derivatives	66g	-356 002	24 499
Valuation of derivatives (except for derivatives used as hedging instruments)	66g	126 850	1 620 176
Net increase/decrease in receivables arising from repurchase transactions		244 657	-331 875
Net increase/decrease in gross loans and advances to customers		-1 810 776	362 903
Net increase/decrease in other assets	66h	969 254	25 440
Net increase/decrease in operating liabilities		**5 202 840**	**-419 205**
Net increase/decrease in amounts due to Central Bank		-1 321 796	208 527
Net increase/decrease in amounts due to banks	66i	2 749 793	-1 242 116
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		591 902	-1 350 611
Net increase/decrease in amounts due to customers	66j	2 994 605	2 178 798
Net increase/decrease in liabilities arising from repurchase transactions		228 693	-8 991
Net increase/decrease in other liabilities	66k	31 533	-73 725
Paid/received income tax		-71 890	-131 087
Net cash flow from operating activities		**4 141 098**	**1 592 689**

in PLN '000'	Note	01.01.2010 - 31.12.2010	Comparable data 01.01.2009 - 31.12.2009
Cash flow from investing activities			
Inflows		**55 428 362**	**8 582 290**
Disposal of property, plant and equipment, intangible assets and investment properties		4 711	1 861
Disposal of interests in equity investments		1 450	350 005
Disposal of investment securities	66l	55 205 555	7 961 693
Dividends	17	1 841	1 629
Interest received	66l	214 805	267 102
Outflows		**-56 761 607**	**-10 565 217**
Acquisition of property, plant and equipment, intangible assets and investment properties		-51 988	-75 368
Acquisition of interests in equity investments		-50	0
Acquisition of investment securities	66l	-56 709 569	-10 489 849
Net cash flows from investing activities		**-1 333 245**	**-1 982 927**
Cash flow from financing activities			
Inflows		**325 764**	**1 989 087**
Proceeds from a subordinated loan	66n	0	560 116
Proceeds from loans and advances		325 764	1 428 971
Outflows		**-1 923 315**	**-1 368 961**
Repayment of loans and advances		-1 825 104	-1 200 000
Other financial outflows	66m	-98 211	-168 961
Net cash flow from financing activities		**-1 597 551**	**620 126**
Net increase/decrease in cash		**1 210 302**	**229 888**
Cash at the beginning of the period		**1 191 141**	**961 253**
Cash at the end of the period, including:	**66a**	**2 401 443**	**1 191 141**
Restricted cash	66a	1 078 101	784 875

7. General information

Kredyt Bank Spółka Akcyjna ('Kredyt Bank S.A.', 'Bank', 'parent company') with its registered office In Warsaw, (Poland), ul. Kasprzaka 2/8, was established in 1990 and entered into the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw under No. KRS 0000019597.

Kredyt Bank S.A. is a universal bank which provides banking services addressed and tailored to the needs of all customer groups. A wide range of the Bank's services is addressed to business entities, individual customers and local authorities. The Bank provides convenient access to its services via an extended network of banking outlets and ATMs as well as an Internet banking system.

These consolidated financial statements of Kredyt Bank S.A. Capital Group ('Capital Group', 'Group', or 'Group's Companies') as at 31.12.2010 comprise the financial statements of the Bank and its subsidiaries.

Below, there are subsidiaries, which, as at 31.12.2010, were consolidated with the full method:

Parent company	Seat		
Kredyt Bank S.A.	Warsaw		
Subsidiary	**Seat**	**Share (%) in votes at GMS as at 31.12.2010**	**Share (%) in votes at GMS as at 31.12.2009**
1. Reliz Sp. z o.o.	Katowice	100.00	100.00
2. Kredyt Lease S.A.	Warsaw	100.00	100.00
3. Kredyt Trade Sp. z o.o.	Warsaw	100.00	100.00

The Group's financial statements also entail an associate measured with the equity method.

Associate	Seat	Share (%) in votes at GMS as at 31.12.2010	Share (%) in votes at GMS as at 31.12.2009
KBC Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	30.00	30.00

As compared to figures as at 31.12.2009, the list of companies consolidated with the full method and of associates valued using the equity method has not changed.

Moreover, the Group holds 100% of shares in BFI Serwis Sp. z o.o. and Lizar Sp. z o.o., which are not consolidated as their financial figures are not material.

KBC Banking and Insurance Capital Group

Kredyt Bank S.A. is a subsidiary of KBC Banking and Insurance Capital Group ('KBC Group') established in 1998 as a result of a merger of ABB Insurance Group, Almanij-Kreditbank Group and CERA Bank Group. As at 31.12.2010, KBC Group held 87.22% of shares of Kredyt Bank. Changes in the shareholding structure after the balance sheet date are described in Note 73. KBC Group has been operating in the present structure since 2005, i.e. the merger of KBC Bank and Insurance Holding Company with Almanij. The shares of KBC Group NV are listed on the Euronext Stock Exchange in Brussels.

KBC Group focuses on bancassurance-type operations for individual customers, provides services to businesses, is involved in assets management and other types of market activities. It is one of the three largest banking and insurance companies on its home market in Belgium.

In Poland, KBC Group is also a sole shareholder of Żagiel S.A., TUiR WARTA S.A., KBC TFI S.A., and KBC Autolease Polska Sp. z o.o.

8. Basis of preparation

8.1. Declaration of compliance with the IFRS

Under Article 55 clause 5 of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, No. 152, item 1223) as amended ('the Act'), starting from 01.01.2005, the consolidated financial statements of the Group have been prepared in compliance with the International Accounting Standards ('IAS') and the International Financial Reporting Standards ('IFRS') that were approved by the European Union ('EU').

Under Article 45 clause 1c of the Accounting Act and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25.04.2005, from 01.01.2005, also the Bank's standalone financial statements have been prepared in accordance with the IAS/IFRS.

These consolidated financial statements of the Group for the year ended 31.12.2010 have been prepared in accordance with the IAS and the IFRS in force as at 31.12.2010 approved by the European Union. Matters not governed by the above-mentioned standards are regulated by the Accounting Act and executive regulations thereto, and the Ordinance of the Minister of Finance of 19.02.2009 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259).

The IFRS include standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC').

8.2. Other information about the financial statements

These consolidated financial statements were prepared based on the assumption that the Group's companies would remain going concern in the foreseeable future. As at the approval date of these financial statements, the Bank's Management Board fails to confirm the existence of circumstances which could threaten the continuation of the business of the Group's companies for the period of minimum 12 months from the balance sheet date.

These consolidated financial statements of Kredyt Bank S.A. Capital Group were approved for publication by the Management Board of Kredyt Bank S.A. on 25.02.2011.

These consolidated financial statements were audited by the key certified auditor acting on behalf of the authorized entity, i.e. Ernst & Young Audit sp. z o.o. The audit was performed in accordance with the Polish law and the National Financial Review Standards issued by the National Chamber of Statutory Auditors.

The Polish zloty is the functional currency of the Group's companies. These consolidated financial statements have been presented in the Polish zloty ('PLN'), and all values, if not stated otherwise, are presented in thousands.

These financial statements were prepared according to the historical cost concept, except for financial assets and financial liabilities which are measured at fair value through profit or loss, loans and advances to customers and financial instruments measured at amortised cost having regard for impairment losses, accepted inter-bank deposits measured at amortised cost, available-for-sale financial instruments which are carried at fair value through revaluation reserve, as well as held-for-sale financial assets, recognized at the lower of: carrying amount as at the classification in this category and fair value less selling costs.

Accounting principles adopted to prepare these financial statements are applied in a continuous manner in all presented periods.

9. The description of major accounting policies applied for the purpose of preparing these financial statements

9.1. New or amended IAS and IFRS and new IFRIC interpretations

Below, we present new and amended IAS/IFRS and new IFRIC interpretations that the Group has applied this year. Their application has not materially affected the financial statements.

- Restated IFRS 1 *First–time Adoption of the International Financial Reporting Standards* (amended in November 2008) – applicable to annual periods beginning on 1 July 2009 or later;
- Amendments to IFRS 1 *First-time Adoption of the International Financial Reporting Standards*: *Additional Exemptions for First-time Adopters* – applicable to annual periods beginning on 1 January 2010 or later;
- Amendments to IFRS 2 *Share-based Payments: Group Cash-settled Share-based Payment Transactions* (amended in June 2009) – applicable to annual periods beginning on 1 January 2010 or later; by the date of the approval of these financial statements, not approved by the EU;
- IFRS 3 *Business Combinations* (amended in January 2008) – applicable to annual periods beginning on 1 July 2009 or later;
- IAS 27 *Consolidated and Separate Financial Statements* (amended in January 2008) – applicable to annual periods beginning on 1 July 2009 or later;
- Amendments to IAS 39 *Financial Instruments: Recogniton and Measurement: Eligible Hedged Items* (amendments published in July 2008) – applicable to annual periods beginning on 1 July 2009 or later;
- IFRIC 17 *Distributions of Non-cash Assets to Owners* – applicable to annual periods beginning on 1 July 2009 or later;
- The amendments resulting from the IFRS review (published in May 2008) – a part of the amendments is applicable to annual periods beginning on 1 January 2010;
- Amendments resulting from the IFRS review (published in April 2009) – a part of the amendments is applicable to annual periods beginning on 1 July 2009 and a part to annual periods beginning on 1 January 2010.

The following standards and interpretations have been issued by the IASB or the IFRIC, however are not in force yet:

- Amendment to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – applicable to annual periods beginning on 1 July 2010 or later;
- IAS 24 *Related Party Disclosures* (amended in November 2009) – applicable to annual periods beginning on 1 January 2011 or later;
- Amendments to IAS 32 *Financial Instruments: presentation: Classification of Rights Issues* – applicable to annual periods beginning on 1 February 2010 or later;
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements* – applicable to annual periods beginning on 1 January 2011 or later;
- IFRIC 19 *Regulating Financial Liabilities with the Use of Equity Instruments* – applicable to annual periods beginning on 1 July 2010 or later;
- Amendments to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual

periods beginning on 1 July 2011 or later; by the date of the approval of these financial statements, not approved by the EU;

- Amendments to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on 1 July 2011 or later; by the date of the approval of these financial statements, not approved by the EU;
- IFRS 9 *Financial Instruments* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IAS 12 *Income Tax Expense: Realisation of the deferred tax asset* – applicable to annual periods beginning on 1 January 2012 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments resulting from the IFRS review (published in May 2010) – a part of the amendments is applicable to annual periods beginning on 1 July 2010 and a part to annual periods beginning on 1 January 2011; by the date of the approval of these financial statements, not approved by the EU.

Management Boards of the Group's companies do not predict that the introduction of the above standards and interpretations will materially affect the Group's accounting principles (policy), except for the amendments which will result from introducing IFRS 9. According to the analysis carried out in the Group concerning a part of IFRS 9 (the so called Phase 1) published by the date of the approval of these financial statements, it is estimated that the amendments will not affect the Group's net profit to a large extent; however, they may affect other income recognized directly in the equity and the disclosures presented in notes.

9.2. Consolidation of financial statements

These consolidated financial statements include the financial statements of Kredyt Bank S.A. and the financial statements of subsidiaries for the period of 12 months ended 31.12.2010. Financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent company.

A part of the Group's companies keep their accounting books according to the accounting policy (principles) set out in the Accounting Act and executive regulations thereto ('Polish Accounting Standards'). These consolidated financial statements include respective adjustments made to ensure the compliance of the financial statements of these entities with the IFRS.

9.2.1. Subsidiaries

Subsidiaries are all entities, in relation to which the Bank may, directly or indirectly, exert control and govern their financial and operating policies in order to gain benefits from their businesses.

9.2.2. Associates

Associates are entities not controlled by the Group in terms of their financial or operational policies, but the Group exerts a significant influence upon them, which is often accompanied by 20%-50% stake in the total number of votes within their decision-making bodies. Investments in shares in associates are initially recognized in the balance sheet at cost and further on, they are measured with the equity method. Investments in shares in associates classified as held for sale are recognized in accordance with the IFRS 5.

9.3. Transactions in foreign currencies

Transactions in foreign currencies are translated into PLN at the exchange rate as at the transaction date. Monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at the average exchange rate of the National Bank of Poland as of the balance sheet date. Gains/losses from the translation of the resulting currency translation differences are recognized in the income statement.

Non-monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at an exchange rate as at the transaction date, and items carried at fair value are translated at the average exchange rate of the National Bank of Poland (NBP) as of the measurement date. Currency translation differences on non-monetary items measured at fair value through profit or loss are recognized in net trading income.

Below, we present NBP average rates of exchange applied by the Group to translate balance sheet items.

	31.12.2010	31.12.2009
EUR	3.9603	4.1082
USD	2.9641	2.8503
CHF	3.1639	2.7661

9.4. Recognition of financial assets and liabilities in the balance sheet

The Group recognizes financial assets and liabilities in the balance sheet only when it is a party to a transaction.

Sale/purchase transactions related to financial assets valued at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognized in the balance sheet always on the date of the transaction settlement. Loans and receivables are recognized at the time of the payment of cash to the borrower.

9.5. Derecognition of financial assets from the balance sheet

The Group derecognizes financial assets from the balance sheet when and only when contractual rights to cash flows from such assets expire or when the Group transfers a financial asset pursuant to paragraphs 18 and 19 of IAS 39, and the transfer meets the requirements for the derecognition from the balance sheet provided for in paragraph 20 of IAS 39. Particularly, the Group writes off loan receivables from the balance sheet to impairment losses when such receivables are uncollectible receivables, particularly when:

- the costs of further debt recovery will exceed the expected proceeds from debt recovery;
- the ineffectiveness of the Group's debt recovery process is confirmed with a respective document issued by a respective enforcement body;
- the debtor's assets that can be subjected to enforcement, and the debtor's whereabouts cannot be established;
- claims are prescribed.

Following the decision on writing off an asset, the Group fails to undertake any further debt recovery action, and any possible proceeds from a given asset are only of incidental nature.

9.6. Classification and measurement of financial assets and liabilities

9.6.1. Financial assets and liabilities at fair value through profit or loss

This category includes:

- assets or liabilities held for trading, i.e. those acquired or contracted with the intention to sell or repurchase them in the nearest future. This category comprises portfolios of the financial assets and liabilities portfolios managed jointly in order to generate profits in a short time horizon. This category also includes derivatives;
- financial assets or liabilities designated by the Group's entities upon initial recognition as at fair value through profit or loss, as the items are managed in a portfolio on the basis of the valuation at fair value, pursuant to the recorded risk management principles or the Group's investment strategy.

Fair value is determined on the basis of quotations on active markets, including prices of the latest transactions and generally adopted measurement models based on variables that can be observed in the market environment. For a part of assets to which the above-mentioned methods do not apply, the valuation technique is not based on observable market data.

Interest and acquired discount or premium on securities is settled over time in net interest income based on the effective interest rate method. Securities are carried at fair value, and its change is recognized in the profit/loss on financial operations.

Net gains from assets disposal are calculated with the FIFO method.

Financial derivatives are recognized at fair value, without deductions of transaction expenses that can be incurred at the disposal. The transaction price is the best indicator of fair value at the initial recognition of a derivative. The valuation of derivatives also entails credit risk; the respective charges are recognized in the income statement.

Derivatives with positive valuation as at the date of measurement are recognized in the balance sheet as assets, and derivatives with negative valuation from measurement – in liabilities.

9.6.2. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's entities intend and are able to hold to maturity or by the date very close to maturity, other than:

a) designated by an entity upon initial recognition as at fair value through profit or loss;

b) designated by an entity as available-for-sale and

c) meeting the definition of loans and receivables.

Held-to-maturity investments are measured at amortised cost using the effective interest method, taking account of impairment losses. Accrued interest and settled discount or premium is recognized in net interest income.

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

b) financial assets that the company upon initial recognition designates as available-for-sale, or

c) financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans are measured in the balance sheet at amortised cost based on the effective interest rate method, taking account of impairment losses.

Accrued interest with net commission (commissions received less commissions paid) are settled over time using the effective interest rate method and are recognized in interest income. The commission settled on a straight-line basis is recognized in fee and commission income. Impairment charge is recognized in the income statement in correspondence with accounts of provisions which adjust assets value.

9.6.4. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated as available for sale or not classified as financial assets valued at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value on the balance sheet. Changes in fair value are recognized in revaluation reserve until the financial asset is derecognized or impairment is recognized; then accumulated gains/losses included in equity are recognized in the income statement. In the case of debt securities, interest income and discount or premium is settled over time in net interest income using the effective interest rate method.

If fair value cannot be determined, assets are recognized at cost less impairment charge. Impairment charge is recognized in the income statement in correspondence with accounts of provisions which adjust assets value.

Dividends from available-for-sale equity instruments are recognized in the income statement at the time when the right to obtain them arises.

Net gains from assets disposal are calculated with the FIFO method.

9.6.5. Financial liabilities not held for trading

This category includes amounts due to banks and customers, loans borrowed by the Group, own debt securities issued, liabilities arising from repurchase transactions and subordinated liabilities, following the deduction of transaction expenses.

Financial liabilities not held for trading are recognized in the balance sheet at amortised cost with the application of the effective interest rate method.

9.6.6. Hedge accounting

Hedge accounting recognizes the effects of compensating for changes in fair value of the hedging instrument and the hedged item, which exert an impact on the income statement. According to adopted hedge accounting principles, the Group designates certain derivatives to hedge fair value and future cash flows of specific assets, on condition that the criteria provided for in IAS 39 are met. Hedge accounting is applied in the Group to hedge certain items, when all the following criteria are met:

- upon the inception of hedge, the Group officially determines and documents hedging relations as well as the purpose of risk management and the strategy of hedge; the documentation identifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the method of the Group’s assessment of hedging instrument effectiveness in offsetting the risk of changes in fair value of the hedged item or cash flows related to the hedged risk;
- the hedging is expected to be highly effective in achieving offsetting changes in fair value (or cash flows) attributable to the hedged risk, according to the initially documented risk management strategy related to a specific hedging relationship;
- in the case of the cash flow hedge, the planned hedged transaction must be highly probable and must be subject to the threat of changes in the cash flow which, as a result, may affect the income statement;

- the hedge effectiveness may be assessed reliably, i.e. fair value or cash flows attributable to the hedged item resulting from the hedged risk and the fair value of the hedging instrument may be measured reliably;
- the hedge is assessed on an ongoing basis and is found highly effective in all reporting periods in which the hedge was established.

Fair value hedge, which meets hedge accounting conditions, is recognized by the Group as follows:

- gains or losses resulting from the revaluation of fair value of a hedging derivative are disclosed in the income statement;
- gains or losses related to the hedged item, resulting from the hedged risk, adjust the carrying amount of the hedged item and are recognized in the income statement.

Future cash flows hedge, which meets hedge accounting conditions, is recognized by the Group as follows:

- a portion of gains or losses associated with the hedging instrument, which constitutes an effective hedge, is recognized directly in equity;
- a non-effective portion of gains or losses associated with the hedging instrument is recognized in the income statement.

Interest received and paid on derivatives used as hedging instruments is recognized in the income statement in interest income/expense respectively.

9.6.7. Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to the stand-alone derivative.

An embedded derivative is separated from the host contract and accounted for as a derivative only if:

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

When an embedded derivative is separated, the host contract is accounted for in accordance with accounting principles appropriate for such a contract.

9.7. Finance lease receivables

Contracts of lease under which the Group generally transfers all the risks and rewards related to the possessed assets are recognized by the Group as finance lease contracts. Receivables due under finance lease contracts are presented by the Group in the balance sheet in the amount equal to net leasing investment, as loans and advances to customers.

Interest income under finance lease contracts is settled with the effective interest rate method in order to reflect the constant, in a given period, rate of return on net leasing investment.

9.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet, when the Group has a legally enforceable right to offset the recognized amounts and intends to settle it on a net basis, or realise the asset and settle the liability simultaneously.

9.9. Sale and repurchase agreements

Securities sold under repurchase agreements ('repos' and 'sell buy back') are not excluded from the balance sheet. Payments due to the counterparty are recognized as financial liabilities as 'Liabilities arising from repurchase transactions'. Securities purchased under repurchase agreements ('reverse repos' and 'buy sell back') are reported in 'Receivables arising from repurchase transactions'. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the agreements using the effective interest method.

9.10. Property, plant and equipment

9.10.1. Non-current assets

Property, plant and equipment, complete, prepared for direct use, with a foreseeable useful life of over one year, held by the Group and used by it, are recognized in the balance sheet at cost less depreciation and impairment losses. Property, plant and equipment with low individual value are fully depreciated in the month of putting them into use.

Property, plant and equipment also include construction in progress and property, plant and equipment put into use under a contract of operating lease as well as property, plant and equipment obtained for use under a contract of finance lease. Property, plant and equipment not used by the Group, but classified as held for sale, are recognized in the balance sheet at the lower of: carrying amount as at the classification in this category and fair value less selling costs and classified as 'Non-current assets classified as held for sale'.

Fixed assets at the time of their acquisition are divided into components which are items of material significance and which can be assigned a separate period of useful life.

9.10.2. Capital expenditure incurred in future period

The Group recognizes, in the carrying amount of property, plant and equipment, expenses of the increase in value or of the replacement of parts of property, plant and equipment at the time of their incurrence, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

9.10.3. Amortisation

Property, plant and equipment are depreciated with the straight-line method in line with the depreciation schedule. The period of economic useful life is taken into consideration while determining the depreciation period and the annual depreciation rate. Land is not depreciated. Property, plant and equipment that are used together, but which have various useful lives, are depreciated separately.

Estimated periods of expected economic useful life of property, plant and equipment:

Buildings	40 years
Leasehold improvements	10 years
Motor vehicles	6 years
Plant and machinery	between 3 and 7
Other property, plant and equipment	5 years

The assets' residual values and useful lives are reviewed on an annual basis. Moreover, the Group carries out an annual analysis of the evidence indicating impairment for particular classes of property, plant and equipment.

Amortisation rates resulting from the tax regulations in force are applied for the purpose of tax settlements.

9.11. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are assets, which comply with the following criteria:

- they can be separated from a business unit and sold, transferred, licensed or given for gratuitous use to third parties, both individually and jointly with related agreements, assets or liabilities; or
- they arise from contracts or other titles, irrespective of whether they can be transferred or separated from a business unit.

Intangible assets with a foreseeable useful life of over one year, held by the Group and used by it, are recognized in the balance sheet at cost less amortisation and impairment losses. Intangible assets with low individual value are fully amortised in the month of putting them into use.

The Group's costs that are associated with the production, at own cost and expense and for internal use, of intangible assets with a planned useful life of over one year from which, according to expectations, the entity will generate future economic benefits., are also recognized as intangible assets in the balance sheet. Direct costs of the production of intangible assets activated in this way are amortised in the estimated useful life not exceeding 5 years.

The Group's companies recognize, in the carrying amount of intangible assets, expenses of the increase in value or replacement of the parts of such assets at the time of their incurrence, when it is probable that greater future economic benefits associated with the item will flow to such companies and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

9.11.1. Computer software

Acquired computer software licenses are recognized as intangible assets at costs incurred to acquire and bring to use the specific software. The Group amortizes activated expenses in the estimated useful life of 5 years.

The Group's expenditures on maintenance and technical service of computer software are recognized as expense as incurred.

9.11.2. Other intangible assets

Other intangible assets are recognized by the Group in the balance sheet at cost less accumulated amortisation and any impairment loss.

9.11.3. Amortisation

Intangible assets are amortised with the straight-line method according to the amortisation schedule. The economic useful life is taken into consideration while determining the amortisation period and the annual amortisation rate. Estimated periods of the expected useful life for intangible assets are equal to 5 years.

Amortisation rates resulting from the tax regulations in force are applied for the purpose of tax settlements.

The Group does not have any intangible assets with an indefinite useful life.

9.12. Investment properties

Under IAS 40 and pursuant to the policy of the Group's main shareholder, the Group values investment properties at cost.

9.13. The methods of the measurement of impairment of assets other than financial assets

Carrying amounts of particular assets are periodically tested for impairment. If the Group identifies evidence for impairment, further it determines whether the present book value of a given asset is higher than the value that can be obtained from its further use or sale, i.e. the recoverable amount of a given asset is established. If the recoverable amount is lower than the present carrying amount of a given asset, impairment charge is accounted for in the income statement.

9.13.1. Measurement of recoverable amount

A recoverable amount of an asset is determined as the higher of the following: a price than can be obtained from the sale less costs of sale and value in use of a given asset. Value in use is determined as estimated future cash flows generated by a given asset discounted with the market rate and increased with the margin for the risk specific for a given class of assets.

Cash-generating units (CGU), i.e. groups of financial assets and liabilities directly attributable to goodwill and generating cash inflows independent of other groups, are separated for the purpose of goodwill impairment tests. If negative trends in the generated flows are identified, the impairment of the whole group of assets and liabilities is measured and recognized in attributed goodwill.

The analysis of circumstances and any possible impairment tests for property, plant and equipment and intangible assets are performed once a year. The impairment test for goodwill is performed annually, regardless of whether the evidences for impairment were present or not.

9.13.2. Reversal of impairment

In the case of assets held by the Group's companies, except for equity instruments classified as available for sale, impairment losses may be reversed if evidence for impairment ceases to exist or the parameters taken into account in estimates of recoverable amount are changed.

Impairment charge may be reversed only up to the carrying amount of an asset, which, having regard for accumulated depreciation, would have been determined if the impairment charge had not been made.

9.14. Trade and other receivables

Trade and other receivables are reported in the amount due less impairment.

In the case when the impact of time value of money (TVM) is material, the value of receivables is determined by discounting forecasted future cash flows to present value, applying a discount rate corresponding to present market valuations of time value of money. In the case the discounting method was applied, the increase in receivables due to the elapse of time is recognized as 'other operating income'.

9.15. Assets taken over for debts

Assets taken over for debts are measured at their fair value, including the cost of sale. If fair value of assets taken over is lower than the nominal value of receivables, impairment charge is recognized. If the selling price of the assets is higher than debt, the difference constitutes a liability towards the borrower.

9.16. Non-current assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Pursuant to IFRS 5, assets held for sale are measured at the lower of: present carrying amount or fair value less costs to sell. Non-current assets, when they are classified as held for sale, are not depreciated.

9.17. Deferred tax asset and liability

Deferred tax asset is recognized for all deductible temporary differences as well as for carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is subject to a respective decrease by the amount, which corresponds to the lower degree of the probability of generating taxable income or partial or total utilisation of a deferred tax asset.

Deferred tax liability is recognized for all taxable temporary differences. Deferred tax asset and deferred tax liability are measured at tax rates that are expected to apply to the period when an asset is realised or a liability settled, based on tax rates (and tax laws) in force as at the balance sheet date or certain to be in force in the future as at the balance sheet date. Deferred tax liability is not discounted.

Deferred tax related to items recognized directly in equity is also charged or credited directly in equity at the present tax rate.

The Group's companies offset deferred tax asset against deferred tax liability.

9.18. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term balances used to settle short-term monetary liabilities, with less than three months maturity from the date of acquisition, including cash and balances with Central Bank and other qualifying short-term receivables, including term deposits on the interbank market.

9.19. Provisions

The Group recognizes provisions in the balance sheet when:

- an entity has a present obligation (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The provision is recognized at the amount of the estimated outflow of cash. The amount of the provision is determined as the value of the discounted future cash flow for the period after which the provision will be utilized.

9.19.1. Restructuring provision

Pursuant to IAS 37, the Group recognizes a restructuring provision in the balance sheet for evidenced costs of restructuring. The provision is made on the basis of a detailed, official and published restructuring plan. The provision does not include future operating expense.

9.19.2. Employee benefits

The Group does not offer a specific pension scheme for its employees, thus has no commitments to its employees in this respect. The Group's entities, as employers, fulfilling the obligations indicated in the law, are obliged to withhold and pay social security and health insurance contributions for its employees and contributions to the Labour Fund and the Guaranteed Employee Benefits Fund. These payments are a part of short-term employee benefits, including remuneration, bonuses, paid leaves. Short-term benefits are recognized in general expenses under general principles.

A provision for retirement severance pays, which is determined annually by actuarial calculations is the only component of long-term employee benefits.

9.20. Equity

Equity comprises capitals and own funds established pursuant to the specific legal regulations, i.e. applicable laws and the Bank’s Memorandum and Articles of Association.

9.20.1. Share capital

Registered share capital is recognized at nominal value according to the Bank’s Memorandum and Articles of Association and the entry in the Court Register.

9.20.2. Supplementary capital

Supplementary capital is established pursuant to the Bank’s Memorandum and Articles of Association from profit allowances and from issue premiums generated from the issue of shares, and is allocated to cover balance sheet losses that may result in relation to the Bank’s operations, and from profit allowances obtained after the purchase date in the Group’s companies.

9.20.3. Revaluation reserve

Revaluation reserve is established as a result of the valuation of financial instruments classified as ‘available-for-sale’ and of a non-effective portion of the valuation of financial instruments designated for cash flow hedge.

9.20.4. Reserves

Reserves comprise the general banking risk reserve established pursuant to the Banking Law of 29.08.1997 (Journal of Laws of 2002, No. 72, item 665, as amended) from profit after tax and are designated for unidentified risks of the Bank’s operations.

Equity also comprises net profit/loss for the period and retained profit or loss from previous periods. In the case of subsidiaries, the Group’s equity also comprises net profit/loss of such companies generated from the date of their acquisition by the parent company.

9.21. Granted off-balance sheet liabilities

Within its operations, the Group enters into transactions, which, at the time of their conclusion, are not recognized in the balance sheet as assets or liabilities, but result in contingent liabilities. A contingent liability is:

- a possible obligation that arises firm past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly controlled by the Group’s entities;
- a present obligation resulting from past events, but not recognized in the balance sheet, as it is not probable that the outflow of cash or other assets in order to settle the obligation is necessary, or the obligation amount cannot be measured with sufficient reliability.

Granted credit lines and guarantees are the most significant items of granted off-balance sheet liabilities.

Customers' undrawn credit lines granted by the Group and liabilities under guarantees issued by the Group to customers are recognized in off-balance sheet liabilities in the amount resulting from contracts.

Provisions for estimated risk, related to the granted off-balance sheet liabilities, are reported in 'Provisions' in the Group's balance sheet. Credit risk arising from off-balance sheet liabilities is assessed on the basis of IAS 37 and IAS 39.

9.22. Company Social Benefit Fund (CSBF)

CSBF is created on the basis of write-downs made by the Bank and the Group's companies and charged to operating expenses as required by the CSBF Act. The objective of the Fund is to finance social benefits for employees. The Fund's liabilities are accumulated write-downs made by the Bank and the Group's companies for CSBF less non-returnable expenditure from CSBF. The Group has no social assets; all CSBF liabilities are expressed in cash deposited on a separate banking account.

For the purpose of presentation in these financial statements, the Group sets off assets and liabilities of CSBF, as they do not constitute Group's assets.

9.23. Net interest income

Interest income and expense generated by financial assets and liabilities are recognized in the income statement at amortised cost using the effective interest rate method.

The following financial assets and liabilities are measured by the Group at amortised cost:

- loans and receivables not held for trading,
- held-to-maturity investments,
- non-derivative financial liabilities not held for trading,
- financial assets (not equity instruments) for which fair value cannot be determined reliably.

In addition, as indicated in 'Financial assets and liabilities' section, in the case of debt securities carried at fair value, the coupon rates and acquired discounts or premiums are amortised using the effective interest rate method in the income statement.

The effective interest rate is the rate that discounts a future, expected flow of cash payments to present net carrying amount during the period until maturity or by the time of the next market evaluation of a particular financial asset and liability, and its determination entails any due or cash payments as well as cash flows paid or received by the Group under the agreement on a given instrument, excluding future, possible credit losses.

The method of settling coupon rates, commissions/fees and certain external costs connected with the financial instruments (with the effective interest method rate or straight-line method) depends on the nature of a given instrument. In the case of financial instruments with fixed cash flows schedules, the method of the effective interest rate is applied. In the case of instruments with undefined cash flows schedules, it is impossible to calculate the effective interest rate and commissions/fees are settled on the straight-line basis over time.

The method of recognizing particular types of commissions/fees in the income statement depends on the economic nature of a commission/fee.

The items included in the commissions/fees settled over time include, e.g. fees for a positive appraisal of a loan application, commissions for granting a credit, commissions for releasing a credit, fees for establishing additional collateral, fees paid to loans extension intermediaries. The collection of the above commissions and fees constitutes an integral part of the return generated by a specific financial instrument. This category also includes fees and costs of changes in contractual terms, what modifies the value of initial effective interest rate. Any significant amendment to the conditions of a given financial instrument in economic terms is connected with the expiry of the financial instrument of the previous type and creation of a new instrument with different characteristics. The fees that are collected in this category include, among others, fees for preparing an annex changing a future cash flows schedule, fees for restructuring loan agreements, fees for postponement of payment dates, etc. The above-mentioned types of fees are deferred and settled over time in the income statement applying the effective interest rate method or on a straight-line basis, depending on the type of a product.

In the case of assets for which evidence for the impairment was identified, interest income is charged on the basis of net investment defined as the difference between the gross exposure value (having regard for unsettled commissions) and impairment charge.

9.24. Net fee and commission income

As stated above, fees and commissions deferred and amortised over time using the effective interest rate method are reported in 'net interest income'.

However, fees and commissions not amortised using the effective interest rate, but settled over time with the straight-line method or recognized one-off, are reported in 'net fee and commission income'. Income settled over time with the straight-line method includes commissions on revolving loans, overdraft facilities, credit cards, guarantee lines, as well as letters of credit lines. All fees for the activities in which the Group acts as an agent or provides services related to the distribution of shares of investment funds and insurance products, transfers, and payments, etc. are recognized once.

9.25. Net trading income

Net trading income comprises gains or losses on the disposal or a change in the fair value of financial assets and liabilities measured at fair value through profit or loss. This item also includes result on foreign exchange and interest on swaps as well as valuation write-downs of active derivatives due to credit risk.

9.26. Dividend income

In the case of equity investments recognized in the balance sheet at historical cost, dividend income is recognized in the income statement at the time when the right to dividend is established. In the case of equity investments recognized in the balance sheet with equity method, dividend income is already included in the measurement with the accrual concept, initially recognized in the measurement with the equity method.

9.27. Other operating income and expenses

Other operating income and expenses include items not related directly to the Bank's operations. These are in particular income and expenses on sale and liquidation of property, plant and equipment, received and paid indemnities, lease income, and income and expenses on other services.

Other operating income and expenses also include impairment losses on loans and advances to various debtors.

9.28. Taxation

The deductions from profit before tax entail current income tax payable and deductions/credits associated with the change in deferred income tax.

Current tax for the period is calculated by the Group's companies on the basis of their profit before tax as per books adjusted with income and expense which, under the present income tax act, are excluded from the tax base. Furthermore, the book profit before tax in the current year is adjusted to take account of the cash realisation of income and expenses in the current reporting period, which are recognized in profit before tax in previous years. Deferred income tax recognized as an element of income tax charge/credit on book profit before tax is calculated as the net effect of the change in deferred tax assets and liabilities.

Details on the method of calculating deferred tax are presented in Note 9.17.

9.29. Comparable data

Accounting principles adopted to prepare these financial statements are applied in a continuous manner in all presented periods.

Comparable data for previous reporting periods included in these financial statements comprise the presentation changes introduced in the financial statements prepared as at 31.12.2010. The description of adjustments concerning the presentation of comparable data is available in Note 11.

10. Accounting estimates

The preparation of financial statements in line with the IFRS requires a professional judgment of the Bank's Management Board and Management Boards of the Group's companies on the adopted accounting principles and accounting estimates applied with respect to balance sheet items and income statement items. Estimates are related to uncertain future events and are made basing on historical data and a number of assumptions based on the facts available as at the balance sheet date, resulting from internal and external conditions. The actual results of future business operations may differ from the present accounting estimates as at the balance sheet date. Therefore, accounting estimates are verified on a regular basis. Changes in estimates are recognized in the financial statements in the period they were introduced. If such changes are also related to future periods, the assumptions being the basis for the estimates for future periods are also adjusted.

The most important accounting estimates prepared for the purpose of these financial statements refer to:

- identification and measurement of impairment losses for financial assets measured at amortised cost and historical cost;
- measurement of financial assets and liabilities at fair value, including derivatives for which no active market exists;
- a value of deferred tax assets;
- provisions.

The Group did not introduce any material changes in the applied accounting principles and methods of performing accounting estimates as compared to the principles and methods described in the Group's published consolidated financial statements as of 31.12.2009, except for:

- the modification, introduced in the third quarter of 2010, of the methodology of establishing provisions for mortgage loans, which involves the separation of more homogenous subportfolios; the negative impact of the change upon profit before tax in 2010 amounted to PLN 57 million;
- the change, introduced in the fourth quarter of 2010, in the estimates of the ratio defining the percentage of impairment losses which are the basis for the establishment of the deferred tax asset (the positive impact upon the net profit for 2010 amounted to PLN 4 million), having regard for other changes concerning the deferred tax asset).

10.1. Valuation of financial assets and liabilities at fair value

In the case of financial assets and liabilities recognized in the balance sheet at fair value, for which no active market is identified, except for equity instruments, they are measured on the basis of generally adopted measurement models based on variables that can be observed in the market environment. Certain variables, e.g. future interest rates, volatility parameters, correlations, must be assessed professionally. The models and variables are verified on a regular basis. The change in adopted models or variables in these models might affect accounting estimates related to measurement.

10.2. Impairment of financial assets valued at amortised cost and historical cost

At each balance sheet date (at least once per quarter), the Group analyses whether there is an indication that a financial asset and/or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence for impairment as a result of one or more events that occurred after initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows generated by the financial asset or the group of financial assets, assuming that reliable estimation is possible. Expected future losses are not taken into account in estimates of impairment.

If the Group identifies an evidence for impairment, the amount of the impairment loss is determined as the difference between the carrying amount of the loan and its economic value measured as the present value of estimated future cash flows discounted using the initial effective interest rate of contracts. Impairment loss is recognized in the income statement in correspondence with provision account which adjusts assets' value.

Loan receivables constitute the most significant class of financial assets recognized in the Group's balance sheet at amortised cost and subject to impairment.

10.2.1. Evidence for impairment

The analysis of the evidence indicating the risk of impairment is performed for individual loans as well as portfolios (groups) of loans.

The list of objective evidence includes:

a) significant financial problems of an issuer or a debtor;
b) a breach of contract, e.g. failure to pay or delaying payment of interest or the principal amount;
c) granting a facility by the lender to the borrower, for economic or legal reasons related to the borrower's financial problems, where such a facility would not have been granted otherwise;
d) high probability of the borrower's bankruptcy or their another financial reorganization;
e) in the case of cash loans, exceeding specific factors used in the credit risk assessment process of all customers.

If there is no evidence that the impairment occurred, the previously recognized impairment losses are reversed through income statement.

10.2.2. Measurement of individual impairment

Individual impairment is measured for loan receivables over a specific exposure level, for which certain individual evidence indicating impairment were identified. The process of estimating future, expected cash flows is carried out in a specially dedicated IT tool.

Expected future cash flows from collateral are estimated on the basis of debt recovery value which is calculated with the application of periodically verified adjusting indicators determined for each type of hedging on the basis of historical data collected by the Bank concerning the time of debt collection process, recovered amounts from hedging and their value determined in the valuation.

The quality of the measurement of individual impairment of loan receivables is verified during a multi-stage independent process.

10.2.3. Measurement of collective impairment

A collective analysis is conducted in the following cases:

- In the event where no objective evidence for loan impairment assessed on individual basis occurred, regardless of whether or not it constitutes a significant reporting item, such exposure is included in the credit portfolio of similar nature and the collective analysis of the impairment is conducted;
- In the event of objective evidence for the impairment of an asset which is not individually significant (below the defined exposure level).

Homogenous loans portfolios are created basing upon similar characteristics of credit risks that are specific for the defined groups of customers and products. The collective impairment is measured basing on historical parameters of losses generated by similar assets portfolios. Historical trends for losses are cleared of one-off events and are updated against a current risk profile of homogenous groups of assets. Hence, the portfolios systematic risk is identified. The following issues, apart from corrected historical trends, have a material impact on the level of the collective impairment:

- fluctuations in the receivables portfolios;
- the Group’s operating effectiveness in credit risk management processes, particularly taking into account the restructuring and debt collecting activities;
- a macroeconomic situation.

10.3. Impairment of financial assets available-for-sale

If the Group identifies objective evidence for the impairment of an asset classified as available for sale, the cumulative negative measurement of this asset, previously accounted for in the revaluation reserve, is written off and recognized directly in the income statement, despite the fact that this asset is not excluded from the balance sheet.

In the case of an equity instrument classified as available for sale for which fair value cannot be determined reliably, i.e. measured at historical cost having regard for impairment, impairment losses are not reversed. In the case of a debt instrument measured at fair value at the time when the circumstances indicating impairment are no longer identified, the amount of the reversed impairment loss is recognized in the income statement.

10.4. The values of deferred tax assets

The probability of realising net deferred tax asset is determined on the basis of financial plans and tax forecasts prepared by the Bank’s Management Board, updated on an ongoing basis as at the end of each quarter, having regard for the prudence principle.

The subsidiaries recognize a deferred tax liability for all temporary differences whereas the deferred tax asset is recognized up to the amount justified by financial plans approved by the Management Boards of such subsidiaries concerning the probable realisation of the asset.

11. Comparable data

Comparable data for previous reporting periods included in these financial statements comprise the presentation changes introduced in the financial statements prepared as at 31.12.2010.

Consolidated Income Statement

in PLN '000'	Published data	Changes	Comparable data
	01.01.2009 - 31.12.2009		01.01.2009 - 31.12.2009
General and administrative expenses	-1 023 304	-748	-1 024 052
Other operating expenses	-44 698	748	-43 950

Clarifications
- the reclassification of side costs (mainly sponsoring costs) to 'General and administrative expenses'.

Consolidated Balance Sheet

in PLN '000'	Published data	Changes	Comparable data
	31.12.2009		31.12.2009
Financial assets at fair value through profit or loss, including financial assets held for trading (excluding derivatives)	1 335 349	-1 335 349	0
Financial assets designated upon initial recognition as at fair value through profit or loss	0	+155 400	155 400
Financial assets held for trading (excluding derivatives)	0	+1 179 949	1 179 949

Clarifications:

- a separate presentation in the balance sheet of Financial assets designated upon initial recognition as at fair value through profit or loss as well as of financial assets held for trading (excluding derivatives)

12. Segment reporting

Since 1.01.2009, in accordance with the assumptions of IFRS 8, the method of presenting disclosures concerning operating segments has changed. The criterion for separating a segment now entails the method of carrying business and the type and scope of information used by the management in a given entity.

An operating segment is a type of activities reviewed regularly by the authorities responsible for making operating decisions, including decisions concerning the method of allocating resources within the reviewed segment. The figures originate from internal reports used by the Bank's management to review the results of the activities of a given segment. The presentation of particular items follows the approach applied in management reporting.

As compared to 2009, the Group's operations were resegmented. They were divided into three basic categories: retail, corporate, treasury. Due to the sale of the shares of Żagiel, the Consumer Finance Segment was combined with the Retail Segment.

Due to the changes described above, the Group accordingly restated the comparable data as of 2009.

The Group's operations are not diversified in geographical terms. Operations are focused on the Polish market; the main customer base is composed of national natural and legal persons and foreign customers operating on the Polish market.

Retail Segment

Retail Segment, in management terms, incorporates products targeted at individual customers, private banking, as well as Small and Medium-sized Enterprises (SME), whose annual sales revenue does not exceed PLN 1 million.

The offer entails a wide choice of deposit, credit and insurance (bancassurance) products offered in cooperation with TUnŻ WARTA S.A. and TUiR WARTA S.A., and investment products offered by KBC TFI S.A. This offer is addressed to customers through traditional channels of distribution via the Bank's nationwide network of branches and offices as well as KB24 – an Internet network.

Corporate Segment

Corporate Segment, in management terms, entails transactions with average companies (SME with annual sales revenue exceeding PLN 1 million, but not exceeding PLN 25 million), large companies (with annual sales revenue exceeding PLN 25 million) as well as state budgetary units at central and local levels.

Beside the traditional products, such as loans, deposits, settlement services, derivatives, the customers from this segment are offered specific services. They are tailored to customers' individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments. The Bank's offer in this segment is expanded by the products of Kredyt Lease, which offers a complete range of services for companies in respect of leasing of property, plant and equipment.

Treasury Segment

Treasury Segment, in management terms, comprises the result of the transactions performed by the Bank on its own account as an active participant of the money market (Treasury and NBP bills), bonds market (Treasury and commercial bonds), currency market and the interbank market. The result of the segment also includes net income on derivative instruments transactions: forward, FX swap, IRS, CIRS, FRA, interest rate and currency options, except for write-downs for credit risk. Besides the trading activities carried by the Bank on its own account, the segment is responsible for the activities aiming to hedge the Banking Book position.

Other

Income and expenses not assigned to above segments have been presented as 'Other' segment.

In addition, this category entails the results of the operations of Reliz and Kredyt Trade.

Respective eliminations were made for the presentation of the results of particular segments.

Additional clarifications

The results presented in all segments include the costs of the financing of lending activities and interest income on the sales of deposit resources in internal transactions and they result from the application of an internal price (transfer rate) determined on the basis of reference rates (money market rates) for particular deposit and credit products.

Net interest income includes net interest income from deposit and lending activities and the total net income from loan commissions treated, in management terms, as an element of interest margin. The Bank's Management Board, when making operating decisions, bases them mainly on interest margin. In addition, particular segments entail the costs of financing the cash maintained in the Bank's branches.

Net commission income and other net income entails:

- commissions for the keeping of accounts and transactions;
- commissions related to credit, debit and other cards;
- commissions related to the distribution of the shares of the societies of investment funds and other services provided to societies of investment funds;
- commissions related to insurance products;

- commissions related to foreign transactions, i.e. export and import payment orders, transfers and guarantees, letters of credit, bill guarantees and cash collections;

- other net income entailing net income from other commissions and net income from other operating income and expenses (including the reversal of provisions due to the sale of debt).

Net income from treasury transactions in the Retail Segment and in the Corporate Segment is the net income from exchange operations and net income from financial transactions which are a margin on such products as repos, bonds, IRS and FX options.

Net income from treasury transactions is the aggregate of the following items from the financial statements:

- net trading income,

- net result on derivatives used as hedging instruments and hedged items.

Net gains from investment activities – the presented item is the sum of the items from the financial statements: net gains from investment activities and dividend income.

In management reporting, the item *'Net impairment losses on financial assets, other assets and provisions'* includes an additional provision for potential losses related to open/active derivatives (presented in these financial statements in net trading income).

Group's general expenses – the Group allocates the costs on the basis of direct costs accounting and statistical key figures applied in own management system; operating expenses of the Bank's branches and affiliates are fully charged to the retail function. The costs of the Head Office and general and administrative expenses are allocated according to the structure of direct costs. The Bank has been implementing the Activity-based Costing (ABC), which will affect the method of allocating costs to particular segments.

The assets of the segment were divided into four basic categories:

Loans and advances to customers – net loans and advances to customers, excluding interest receivables, as well as debt securities classified in the portfolio of loans and receivables.

Loans and advances to banks – net loans and advances to banks, excluding interest receivables, as well as debt securities classified in the portfolio of loans and receivables. The category is presented in the treasury segment.

Securities – this category is presented in the treasury segment, entails debt securities, securities with the right to equity and shares in investment funds, excluding debt securities classified in the portfolio of loans and receivables.

Other – this category entails all other assets not presented above.

Total equity and liabilities are presented in five lines:

Amounts due to customers – customers' deposits, except for interest liabilities.

Interbank deposits – amounts due to the National Bank of Poland, except for the lombard loan and repos as well as current and term amounts due to banks.

Borrowed loans and advances – the lombard loan and borrowed loans and advances.

Subordinated liabilities – subordinated liabilities, except for interest, both included in and excluded from own funds.

Other liabilities and total equity

Group's net profit for 2010 by business segments (breakdown according to management reporting)

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Interest income, including:	**695 032**	**282 202**	**202 397**	**-8 976**	**1 170 655**
- lending activities	574 145	187 582	0	-9 049	752 678
- depositing activities	130 571	102 331	0	73	232 975
- the cost of financing cash kept in the Bank's branches	-9 684	-7 711	17 395	0	0
Commission income and other income	**188 545**	**111 716**	**0**	**47 689**	**347 950**
- commissions related to the keeping of accounts and transactions	84 438	52 900	0	900	138 238
- commissions related to cards	82 319	4 645	0	-3 217	83 747
- commissions related to shares in investment funds societies	44 685	2 787	0	0	47 472
- commissions related to insurance products	-4 441	-172	0	0	-4 613
- commissions related to foreign transactions	91	15 624	0	454	16 169
- other	-18 547	35 932	0	49 552	66 937
Net income from treasury transactions	**47 017**	**47 678**	**7 432**	**-792**	**101 335**
- exchange transactions	46 934	45 720	18 642	74	111 370
- derivatives and securities	83	1 958	-11 210	-866	-10 035
Net gains from investment activities	**0**	**100**	**6 486**	**1 741**	**8 327**
Operating income before tax	**930 594**	**441 696**	**216 315**	**39 662**	**1 628 267**
Net impairment losses on financial assets, other assets and provisions	**-386 205**	**-58 838**	**0**	**-23 638**	**-468 681**
Group's general and administrative expenses, including:	**-687 242**	**-175 938**	**-40 764**	**-24 159**	**-928 103**
- the costs of the operation of business functions (direct costs)	-397 398	-115 720	-24 178	-289 853	-827 149
- allocated expenses	-212 433	-50 122	-12 588	275 143	0
- depreciation (direct costs)	-49 726	-3 564	-2 358	-45 306	-100 954
- depreciation (allocated costs)	-27 685	-6 532	-1 640	35 857	0
Net operating income	**-142 853**	**206 920**	**175 551**	**-8 135**	**231 483**
Share in profit (loss) of associates					3 224
Income tax expense					-48 771
Net profit/loss					**185 936**

Group's net profit for 2009 by business segments (breakdown according to management reporting) (comparable data)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Interest income, including:	**810 474**	**288 107**	**17 715**	**-8 110**	**1 108 186**
- lending activities	706 092	181 365	0	-8 227	879 230
- depositing activities	114 016	114 250	0	117	228 383
- the cost of financing cash kept in the Bank's branches	-9 634	-7 508	17 142	0	0
Commission income and other income	**179 354**	**115 530**	**0**	**50 211**	**345 095**
- commissions related to the keeping of accounts and transactions	84 265	49 524	0	1 110	134 899
- commissions related to cards	61 326	4 647	0	0	65 973
- commissions related to shares in investment funds societies	28 898	2 187	0	0	31 085
- commissions related to insurance products	-19 876	-281	0	633	-19 524
- commissions related to foreign transactions	248	13 839	0	520	14 607
- other	24 493	45 614	0	47 948	118 055
Net income from treasury transactions	**24 563**	**49 916**	**83 770**	**16 817**	**175 066**
- exchange transactions	24 427	46 557	62 206	15 869	149 059
- derivatives and securities	136	3 359	21 564	948	26 007
Net gains from investment activities	**0**	**0**	**706**	**5 031**	**5 737**
Net gains from the sale of the shares of Żagiel	**0**	**0**	**0**	**268 274**	**268 274**
Operating income before tax	**1 014 391**	**453 553**	**102 191**	**332 223**	**1 902 358**
Net impairment losses on financial assets, other assets and provisions	**-614 657**	**-219 528**	**0**	**712**	**-833 473**
Group's general and administrative expenses, including:	**-825 781**	**-133 835**	**-41 244**	**-23 192**	**-1 024 052**
- the costs of the operation of business functions (direct costs)	-555 648	-94 205	-26 622	-233 076	-909 551
- allocated expenses	-177 766	-32 357	-10 764	220 887	0
- depreciation (direct costs)	-58 933	-2 846	-2 141	-50 581	-114 501
- depreciation (allocated costs)	-33 434	-4 427	-1 717	39 578	0
Net operating income	**-426 047**	**100 190**	**60 947**	**309 743**	**44 833**
Share in profit (loss) of associates					1 824
Income tax expense					-12 098
Net profit/loss					**34 559**

The allocation of assets by business segments as at 31.12.2010

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Loans and advances to customers	19 536 318	7 559 754	0	0	27 096 072
Loans and advances to banks	0	0	1 463 279	0	1 463 279
Securities	0	0	11 187 085	0	11 187 085
Other	0	0	463 159	3 164 651	3 627 810
Total	**19 536 318**	**7 559 754**	**13 113 523**	**3 164 651**	**43 374 246**

The allocation of assets by business segments as at 31.12.2009 (comparable data)

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Loans and advances to customers	17 208 961	8 421 804	0	0	25 630 765
Loans and advances to banks	0	0	186 267	0	186 267
Securities	0	0	10 124 991	0	10 124 991
Other	0	0	571 410	2 563 165	3 134 575
Total	**17 208 961**	**8 421 804**	**10 882 668**	**2 563 165**	**39 076 598**

The allocation of liabilities by business segments as at 31.12.2010

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Amounts due to customers	15 749 960	9 846 688	0	0	25 596 648
Inter-bank deposits	0	0	6 498 969	0	6 498 969
Borrowed loans and advances	0	0	5 649 530	0	5 649 530
Subordinated liabilities	0	0	910 688	0	910 688
Other liabilities and total equity	0	0	1 131 078	3 587 333	4 718 411
Total	**15 749 960**	**9 846 688**	**14 190 265**	**3 587 333**	**43 374 246**

The allocation of liabilities by business segments as at 31.12.2009 (comparable data)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Amounts due to customers	14 299 577	8 086 966	0	0	22 386 543
Inter-bank deposits	0	0	4 262 590	0	4 262 590
Borrowed loans and advances	0	0	6 809 296	0	6 809 296
Subordinated liabilities	0	0	805 380	0	805 380
Other liabilities and total equity	0	0	541 068	4 271 721	4 812 789
Total	**14 299 577**	**8 086 966**	**12 418 334**	**4 271 721**	**39 076 598**

Below, we present the reconciliation of particular items with the consolidated income statement and the balance sheet published in this report.

in PLN '000'	**01.01.2010-31.12.2010**
Net interest income – management information	**1 170 655**
- commissions on loans	45 934
+ operating expenses (interest on finance lease)	-1 440
+ operating income (the collection of statutory interest)	12 492
+ commissions related to foreign transactions	377
- structured deposit – interest adjustment	8 384
Net interest income – financial statements	**1 127 766**
Net commission income and other net income – management information	**347 950**
+ commissions on loans	45 934
- operating expenses (interest on finance lease)	-1 440
- operating income (the collection of statutory interest)	12 492
- commissions related to foreign transactions	377
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
- net increase/decrease in provisions related to the sale of debt	4 581
Net commission income and other income – financial statements – presented as:	**373 022**
Net fee and commission income	329 873
Other operating income	100 930
Other operating expenses	-57 781
Net income from treasury transactions – management information	**101 335**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
+ structured deposit – interest adjustment	8 384
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**122 442**
Net trading income	121 555
Net result on derivatives used as hedging instruments and hedged items	887
Net gains from investment activities – management information	**8 327**
Net gains from investment activities and dividend income – financial statements – presented as:	**8 327**
Net gains from investment activities	6 486
Dividend income	1 841
Operating income before tax – management information	**1 628 267**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
- net increase/decrease in provisions related to the sale of debt	4 581
Operating income before tax – financial statements – presented as:	**1 631 557**
Total operating income	1 689 338
Other operating expenses	-57 781

Net impairment losses on financial assets, other assets and provisions – management information	**-468 681**
- net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ net increase/decrease in provisions related to the sale of debt	4 581
Net impairment losses on financial assets, other assets and provisions – financial statements	**-471 971**

in PLN '000'	**01.01.2009-31.12.2009**
Net interest income – management information	**1 108 186**
- commissions on loans	54 524
+ operating expenses (interest on finance lease)	-2 237
+ operating income (the collection of statutory interest)	9 272
+ commissions related to foreign transactions	514
+ other	8
Net interest income – financial statements	**1 061 219**
Net commission income and other net income – management information	**345 095**
+ commissions on loans	54 524
- net increase/decrease in provisions related to the sale of debt	14 559
- operating expenses (interest on finance lease)	-2 237
- operating income (the collection of statutory interest)	9 272
- commissions related to foreign transactions	514
- other	8
Net commission income and other income – financial statements – presented as:	**377 503**
Net fee and commission income	304 107
Other operating income	117 346
Other operating expenses	-43 950
Net income from treasury transactions – management information	**175 066**
+ net increase/decrease in provisions for potential losses related to active derivatives	-15 682
Net trading income and net result on derivatives used as hedging instruments - financial statements – presented as:	**159 384**
Net trading income	159 359
Net result on derivatives used as hedging instruments and hedged items	25
Net gains from investment activities – management information	**5 737**
Net gains from investment activities and dividend income – financial statements – presented as:	**5 737**
Net gains from investment activities	4 108
Dividend income	1 629
Operating income before tax – management information	**1 902 358**
+ net increase/decrease in provisions for potential losses related to active derivatives	-15 682
- net increase/decrease in provisions related to the sale of debt	14 559
Operating income before tax – financial statements – presented as:	**1 872 117**
Total operating income	1 916 067
Other operating expenses	-43 950

Net impairment losses on financial assets, other assets and provisions – management information	**-833 473**
- net increase/decrease in provisions for potential losses related to active derivatives	-15 682
+ net increase/decrease in provisions related to the sale of debt	14 559
Net impairment losses on financial assets, other assets and provisions – financial statements	**-803 232**

in PLN '000'	**Management information**	**Interest**	**Financial statements**
31.12.2010			
Net loans and advances to customers	27 096 072	98 448	27 194 520
Net loans and advances to banks	1 463 279	710	1 463 989
31.12.2009 (comparable data)			
Net loans and advances to customers	25 630 765	91 093	25 721 858
Net loans and advances to banks	186 267	1 486	187 753

in PLN '000'	**31.12.2010**
Securities – management information	**11 187 085**
Securities – financial statements – presented as:	**11 187 085**
Financial assets designated upon initial recognition as at fair value through profit or loss	118 562
Financial assets held for trading (excluding derivatives)	1 601 283
Investment securities	9 467 240

	Comparable data **31.12.2009**
Securities – management information	**10 124 991**
Securities – financial statements – presented as:	**10 124 991**
Financial assets designated upon initial recognition as at fair value through profit or loss	155 400
Financial assets held for trading (excluding derivatives)	1 179 949
Investment securities	8 789 642

in PLN '000'	**Management information**	**Interest**	**Financial statements**
31.12.2010			
Amounts due to customers	25 596 648	64 110	25 660 758
Subordinated liabilities	910 688	412	911 100
31.12.2009 (comparable data)			
Amounts due to customers	22 386 543	82 611	22 469 154
Subordinated liabilities	805 380	436	805 816

in PLN '000'	**31.12.2010**
Inter-bank deposits – management information	**6 498 969**
Borrowed loans and advances – management information	**5 649 530**
+ interest	2 213
- other amounts due to the National Bank of Poland	6
Amounts due to banks – financial statements	**12 150 706**

Comparable data

	31.12.2009
Inter-bank deposits – management information	**4 262 590**
Borrowed loans and advances – management information	**6 809 296**
+ interest	9 810
- other amounts due to the National Bank of Poland	6
Amounts due to banks – financial statements	**11 081 690**

13. Interest income

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
On account of:		
Loans and advances to banks	81 415	40 909
Loans and advances to customers, including:	1 465 507	1 675 466
- financial sector	12 217	31 633
- non-financial sector	1 442 641	1 628 800
- budgetary sector	10 649	15 033
Leasing fees	30 969	33 929
Securities:	528 538	448 541
- at fair value through profit or loss	5 446	11 428
- held for trading	53 869	66 924
- available-for-sale	322 198	251 260
- held-to-maturity	147 025	118 929
Receivables arising from repurchase transactions	4 332	130
Interest on hedging instruments	93 811	91 234
Total	**2 204 572**	**2 290 209**

Interest income comprises, e.g. cash interest and interest calculated on an accrual basis on receivables for which evidence for impairment was identified. Interest was calculated with the effective interest rate applied in discounting expected cash flows for the purpose of estimating the impairment loss on loan receivables. The amount of interest on receivables for which individual evidence for impairment was identified recognized in interest income for 2010 amounts to PLN 15,375 thousand as compared to PLN 11,634 thousand for 2009. Accrued interest was taken into consideration when estimating impairment losses on such receivables.

14. Interest expense

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
On account of:		
Amounts due to banks	89 262	223 409
Amounts due to customers	880 701	847 156
- financial sector	114 859	155 022
- non-financial sector	702 294	629 724
- budgetary sector	63 548	62 410
Liabilities arising from repurchase transactions	10 990	64 496
Other subordinated liabilities	34 584	22 692
Interest on hedging instruments	61 269	71 237
Total	**1 076 806**	**1 228 990**

Net interest income	**1 127 766**	**1 061 219**

15. Fee and commission income

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Fees and commissions on loans	40 003	46 993
Fees and commissions on deposit-related transactions with customers	138 166	134 796
Fees and commissions due for payment cards processing and ATMs maintenance	138 057	170 517
Fees and commissions on foreign clearing operations	15 638	16 312
Fees and commissions on guarantee commitments	18 899	19 093
Commissions on the distribution and management of combined investment and insurance products	65 754	37 025
Commissions on other custodian services	3 316	2 584
Other fees and commissions	7 056	6 397
Total	**426 889**	**433 717**

16. Fee and commission expense

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Brokerages	1 363	890
Fees and commissions due for payment cards processing and ATMs maintenance	54 718	89 975
Fees related to loan guarantees	21 379	20 399
Fees of credit reference agency	6 398	6 273
Other fees and commissions	13 158	12 073
Total	**97 016**	**129 610**

Net fee and commission income	**329 873**	**304 107**

17. Dividend income

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Equity instruments	1 841	1 629
Total	**1 841**	**1 629**

18. Net trading income

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Net trading income, including:		
- debt securities, including:	1 375	19 213
- held for trading	1 263	19 998
- at fair value through profit or loss	112	-785
- equity instruments	6 002	2 495
- derivatives	-623 661	-202 345
- foreign exchange	737 839	339 996
Total	**121 555**	**159 359**

19. Net result on derivatives used as hedging instruments and hedged items

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Result on cash flows hedge	**887**	**25**
- on hedging derivatives**	887	25
Total *	**887**	**25**

* result on derivatives used as hedging instruments also comprises amounts of transactions settled prior to the balance sheet date

** an ineffective part of profits and losses connected with hedging instruments

20. Net gains from investment activities

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Available-for-sale financial assets:	**3 674**	**3 969**
- equity instruments	30	3 402
- debt instruments	3 644	567
Held-to-maturity assets:	**2 812**	**139**
- debt instruments	2 812	139
Total	**6 486**	**4 108**

21. Result for particular categories of financial assets and liabilities

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
- designatedupon initial recognition as at fair value through profit or loss	11 560	13 138
- held for trading**	-575 187	-179 789
- hedging instruments	33 429	20 022
- available-for-sale	325 872	255 229
- held-to-maturity	149 837	119 068
- loans and advances to banks and to customers	1 603 885	1 794 264
- amounts due to banks and customers	-746 588	-862 554
- subordinated liabilities, issue of securities	-34 584	-22 692
- other	80 504	52 136
Total *	**848 728**	**1 188 822**

* Tthe item comprises net interest income, net fee and commission income, net trading income net of result on foreign exchange, result on derivatives used as hedging instruments and hedged items, net gains from investment activity.
**The item contains the result on derivatives, instruments held for sale and repurchase transactions.

22. Other operating income

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Sale or liquidation of property, plant and equipment and non-current assets held for sale	6 624	4 542
Recovered bad debts, including reimbursed debt recovery costs	21 803	37 880
Indemnities, penalties and fines received	3 923	3 273
Side income	6 862	2 530
Reversal of impairment losses on receivables from other debtors	1 571	7 959
Lease income	36 670	41 868
Other operating income	23 477	19 294
Total	**100 930**	**117 346**

23. General and administrative expenses

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Staff costs, including:	**416 688**	**456 864**
- remunerations	352 006	378 318
- deductions from salaries and wages	55 662	65 631
- other operating expenses	9 020	12 915
General expenses, including:	**410 461**	**452 687**
- costs of buildings lease	83 904	104 364
- IT and telecommunications fees	75 236	77 608
- costs of buildings maintenance and renovations	20 875	23 017
- energy costs	18 793	20 519
- advisory and specialist services costs	21 781	22 092
- postal fees	29 868	31 789
- transportation services	14 061	14 806
- property protection expenses	9 055	10 459
- taxes and fees	89 244	97 907
- promotion and advertising services	19 410	15 829
- purchase of other materials	3 519	6 786
- training expenses	3 249	2 988
- business trips	1 958	2 128
- other	19 508	22 395
Depreciation and amortisation, including:	**100 954**	**114 501**
- property, plant and equipment	74 323	81 905
- investment properties	9 690	10 634
- intangible assets	16 941	21 962
Total	**928 103**	**1 024 052**

Operating lease rental

Leasing contracts under which the lessor retains the whole risk and all rewards arising from the possession of the leased property, are accounted for as an operating lease. Fees under operating lease are recognized as expenses in the income statement on a straight-line basis over the period of leasing.

Contracts of operating lease under which the parent company acts as the lessee are mainly related to the lease of real estate and real estate used by the parent company in the normal course of business. All contracts are executed on market terms, without any exceptional or non-standard terms or conditions.

Net leasing payments paid by the Group and recognized in particular reporting periods as general expenses were as follows (net of VAT):

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Leasing payments	90 224	92 349

The majority of fees were the fees for the leasing of real estates.

The total amount of future gross minimum leasing fees that the Group is obliged to pay under irrevocable contracts of operating leasing, determined as at the balance sheet date, is as follows:

	31.12.2010	Comparable data 31.12.2009
Future gross minimum lease payments (with VAT)		
- not later than one year	84 649	97 139
- later than 1 year and not later than 5 years	235 924	183 244
- over five years	11 032	13 613
Total	**331 605**	**293 996**

Under operating leasing contracts, the parent company operates two Head Office buildings, which, towards the end of 2004, were sold to companies not related to the Bank and are now leased from them. Sale transactions were executed on market terms; contracts of lease were also executed on market terms. The contracts do not meet the criteria of financial leasing and, therefore, are classified as operating leasing contracts.

24. Net impairment losses on financial assets, other assets and provisions

Recognition of impairment on assets and provisions

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Recognition of impairment on assets		
Loans and advances	2 357 019	2 379 227
Non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	8 953	4 008
Total impairment	**2 365 972**	**2 383 235**
Additions of provisions		
Provision for restructuring	0	8 700
Provisions for employee benefits	335	184
Provisions for liabilities	17 771	17 521
Provision for off-balance sheet liabilities	292 518	318 037
Total provisions	**310 624**	**344 442**
Total	**2 676 596**	**2 727 677**

Reversal of impairment for assets and provisions

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Reversal of impairment losses on assets		
Loans and advances	1 946 635	1 587 836
Non-current assets held for sale property, plant and equipment, intangible assets and investment properties	418	8 741
Other assets	0	1
Total impairment	**1 947 053**	**1 596 578**
Reversal of provisions		
Provision for restructuring	0	420
Provisions for employee benefits	6	15
Provisions for liabilities	3 524	15 446
Provision for off-balance sheet liabilities	254 042	311 986
Total provisions	**257 572**	**327 867**
Total	**2 204 625**	**1 924 445**

Net impairment losses on financial assets, other assets and provisions	**-471 971**	**-803 232**

25. Other operating expenses

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Writing-off receivables	1 770	1 228
Debt recovery expenses	40 702	26 025
Other impairment – loans and advances to various debtors	306	353
Disposal or liquidation of property, plant and equipment and intangible assets	8 037	4 499
Indemnities, penalties and fines paid	654	860
Other expenses	6 312	10 985
Total	**57 781**	**43 950**

26. Taxation

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Profit before tax	**234 707**	**46 657**
Share in profit (loss) of associates	**-3 224**	**-1 824**
Income tax expense at basic tax rate (19%)	**43 982**	**8 518**
Permanent differences, including:	**4 891**	**3 659**
- sale of receivables	270	2 260
- dividends received	-558	-613
- provisions and impairment losses	1 132	6 324
- the sale of the shares of Żagiel	0	-11 306
- thin capitalisation	4 728	8 493
- other permanent differences	-681	-1 499
Recognized asset surplus related to differences from previous periods	-102	-79
Actual deductions from (crediting to) net profit	**48 771**	**12 098**
Effective tax rate	**20.78%**	**25.93%**

Income tax expense (credit) in the income statement	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Current income tax	194 792	110 471
Net increase/decrease in deferred income tax	-146 021	-98 373
Deductions from net profit	**48 771**	**12 098**

Deferred tax on the valuation of available-for-sale securities, cash flow hedge instruments, charged to revaluation reserve	31.12.2010	Comparable data 31.12.2009
Debt instruments	9 117	-862
Cash flow hedge instruments	4 821	2 203
Total	**13 938**	**1 341**

	31.12.2010		31.12.2009		Impact upon the result/ equity for 2010
Deferred tax asset/liability	**Asset**	**Liability**	**Asset**	**Liability**	
Cash and balances with Central Bank	0	0	0	0	0
Gross loans and advances to banks	0	-3 624	0	-2 985	-639
Impairment losses on loans and advances to banks	418	0	395	0	23
Receivables arising from repurchase transactions	0	-7	0	-19	12
Financial assets designated upon initial recognition as at fair value through profit or loss	0	-6 456	0	-7 892	1 436
Financial assets held for trading (excluding derivatives)	0	-428	0	-438	10
Derivatives	0	-86 114	0	-108 273	22 159
Gross loans and advances to customers	0	-1 859	17 977	0	-19 836
Impairment losses on loans and advances to customers	196 764	0	165 855	0	30 909
Investment securities, including:	4 739	-18 026	8 465	-7 208	-14 544
- available-for-sale	4 088	-18 026	8 071	-7 208	-14 801
- held-to-maturity	651	0	394	0	257
Investments in subsidiaries, associates and jointly controlled entities	0	0	0	0	0
Property, plant and equipment	8 163	0	9 955	0	-1 792
Intangible assets	0	-4 475	0	-3 402	-1 073
Deferred tax assets	0	0	0	0	0
Non-current assets classified as held for sale	0	0	0	0	0
Other assets	5 915	0	2 898	0	3 017
Total assets	**215 999**	**-120 989**	**205 545**	**-130 217**	**19 682**

	31.12.2010		31.12.2009		Impact upon the result/equity for 2010
Deferred tax asset/liability	**Asset**	**Liability**	**Asset**	**Liability**	
Amounts due to Central Bank	0	0	2 051	0	-2 051
Amounts due to banks	2 914	0	4 454	-144	-1 396
Derivatives	218 464	0	103 905	0	114 559
Amounts due to customers	12 181	0	15 696	0	-3 515
Liabilities arising from repurchase transactions	8	0	0	0	8
Current tax liability	0	0	0	0	0
Financial liabilities held for trading (excluding derivatives)	0	-481	0	0	-481
Provisions	12 397	0	5 797	0	6 600
Other liabilities	9 025	0	10 804	0	-1 779
Subordinated liabilities	0	0	0	-1 797	1 797
Total liabilities	**254 989**	**-481**	**142 707**	**-1 941**	**113 742**
Total asset/liability	**470 988**	**-121 470**	**348 252**	**-132 158**	**133 424**
Asset/provison recognized with the income statement (in the period and in previous periods)	466 900	-103 444	339 355	-121 920	146 021
Asset/provison recognized in revaluation reserve (in the period and in previous periods)	4 088	-18 026	8 897	-10 238	-12 597

Presented as	**31.12.2010**	**31.12.2009**
Deferred tax asset	350 387	217 383
Deferred tax liability	869	1 289

27. Net profit attributable to the shareholders of the Bank

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Net profit of the parent company for 12 months	111 239	165 301
Net profit (loss) of subsidiaries for 12 months	5 440	-1 715
Consolidation adjustments	69 257	-129 027
Net profit attributable to the shareholders of the Bank	**185 936**	**34 559**

28. Earnings per share (EPS)

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Net profit	185 936	34 559
Weighted average number of ordinary shares	271 658 880	271 658 880
Net profit (loss) per share (in PLN)	**0.68**	**0.13**

Earnings per share were calculated as the quotient of profit per Bank's shareholders and weighted average number of shares. Diluted earnings per share are not calculated due to the absence (in the period and in previous periods) of capital categories resulting in dilution.

29. Cash and balances with Central Bank

By types

	31.12.2010	Comparable data 31.12.2009
Cash in hand	625 339	702 501
Current account in the Central Bank	1 318 297	472 952
Total	**1 943 636**	**1 175 453**

30. Gross loans and advances to banks

By types

	31.12.2010	Comparable data 31.12.2009
Current accounts	19 704	8 756
Deposits in other banks	440 391	26 812
Loans and advances to banks	70 760	133 907
Purchased debt	15 762	11 151
Other	20 881	9 387
Total	**567 498**	**190 013**
Debt securities classified in the portfolio of loans and receivables	898 751	
Total	**1 466 249**	**190 013**

The presentation in the notes below does not include the receivables related to debt securities classified as loans and receivables. No impairment was identified for the non-listed bonds classified in this portfolio.

By maturity dates

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	480 260	31 188
- 1-3 months	2 454	7 146
- 3-6 months	10 081	20 326
- 6 months to 1 year	15 986	53 828
- 1-3 years	34 098	24 491
- 3-5 years	22 359	25 041
- 5-10 years	0	25 733
- past due	2 260	2 260
Total	**567 498**	**190 013**

Classification due to impairment

	31.12.2010	Comparable data 31.12.2009
Loans and advances with no evidence for impairment	565 238	187 749
Loans and advances with evidence for impairment	2 260	2 264
Total	**567 498**	**190 013**

31. Impairment losses on loans and advances to banks

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Impairment on loans and advances to banks at period beginning	2 260	2 261
a) increase	1	176
b) decrease	1	177
- reversal of impairment	1	177
c) utilization	0	0
Period end	**2 260**	**2 260**

32. Receivables arising from repurchase transactions

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	87 218	331 875
Total	**87 218**	**331 875**

33. Financial assets designated upon initial recognition as at fair value through profit or loss

	31.12.2010	Comparable data 31.12.2009
Treasury securities	26 903	61 716
- bonds	26 903	61 716
Other securities	31 149	30 385
- bonds	31 149	30 385
Shares in investment funds	19 713	18 564
Equity securities	40 797	44 735
Total	**118 562**	**155 400**

All investment securities classified upon initial recognition to the portfolio of financial assets at fair value through profit or loss, are measured at fair value on the basis of market quotations, except for SINPLN commercial bonds issued by HONGKONG AND SHANGHAI BANKING CORPORATION, and equity investments.

The fair value of SINPLN bonds is determined by discounting cash flows from the bonds with PLN-BOND curve having regard for the credit spread, as there are no quotations on an active market. The bonds are with fixed coupon.

For equity investments, the Group developed a valuation model based, inter alia, on the data originating from the active market.

	31.12.2010	Comparable data 31.12.2009
Listed	**67 700**	**106 451**
- shares	40 797	44 735
- bonds	26 903	61 716
Non-listed	**50 862**	**48 949**
- shares in investment funds	19 713	18 564
- bonds	31 149	30 385
Total	**118 562**	**155 400**

By maturity dates

	31.12.2010	Comparable data 31.12.2009
- 1-3 months	0	35 312
- 1-3 years	58 052	30 385
- 3-5 years	0	26 404
- with unspecified maturity dates	60 510	63 299
Total	**118 562**	**155 400**

34. Financial assets held for trading (excluding derivatives)

	31.12.2010	Comparable data 31.12.2009
Treasury securities	1 151 591	730 321
- bonds	162 650	77 624
- bills	988 941	652 697
Central Bank securities	449 692	449 628
- bills	449 692	449 628
	1 601 283	**1 179 949**

All securities classified in the portfolio of financial assets held for trading are measured at fair value on the basis of market quotations, except for Treasury Eurobonds, and money bills of the National Bank of Poland.

The Treasury Eurobonds are valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR) or USD-BOND curve (for securities in USD), having regard for the credit spread. Dla There is an active market for these bonds, but with limited liquidity.

The money bills of the National Bank of Poland are valued with the application of PLN-SWAP curve, not having regard for the credit spread.

	31.12.2010	Comparable data 31.12.2009
Listed	**1 601 283**	**1 179 949**
- bonds	162 650	77 624
- bills	1 438 633	1 102 325
Total	**1 601 283**	**1 179 949**

By maturity dates

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	450 510	449 628
- 1-3 months	250 480	5 691
- 3-6 months	345 012	48 989
- 6 months to 1 year	438 950	657 337
- 1-3 years	20 802	8 440
- 3-5 years	4 314	606
- 5-10 years	90 016	5 699
- 10-20 years	1 199	3 559
Total	**1 601 283**	**1 179 949**

35. Derivatives

Derivatives (by types)

	31.12.2010		Comparable data 31.12.2009	
	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	**387 869**	**925 995**	**476 102**	**427 120**
Options purchased	561	0	798	0
Options sold	0	549	0	358
IRS	373 157	920 077	433 840	378 678
FRA	14 151	5 369	41 464	48 084
Foreign exchange transactions	**75 290**	**199 194**	**95 308**	**112 952**
FX swap	52 667	76 872	49 858	73 473
CIRS	6 088	104 772	7 151	7 337
Forward	6 802	10 642	19 454	7 574
Options purchased	9 502	0	18 669	0
Options sold	0	6 604	0	24 347
Spot	231	304	176	221
Embedded instruments	**0**	**5 889**	**0**	**996**
Total	**463 159**	**1 131 078**	**571 410**	**541 068**

Derivatives (by maturity dates)

	31.12.2010		Comparable data 31.12.2009	
	Assets	Liabilities	Assets	Liabilities
Interest rate transactions (fair value)	**387 869**	**925 995**	**476 102**	**427 120**
Interest rate transactions (nominal value)	**60 721 420**	**59 590 531**	**39 561 883**	**36 553 961**
- up to 1 month	5 164 318	3 382 015	3 091 525	1 725 000
- 1-3 months	7 743 851	5 655 000	5 729 609	2 317 102
- 3-6 months	30 258 617	30 581 076	10 543 963	11 086 162
- 6 months to 1 year	10 311 015	11 508 630	13 342 755	11 870 379
- 1-3 years	6 182 969	6 980 986	4 837 731	6 775 523
- 3-5 years	790 000	1 211 084	1 507 996	2 115 178
- 5-10 years	270 650	271 740	508 304	664 617
Foreign exchange transactions (fair value)	**75 290**	**199 194**	**95 308**	**112 952**
Foreign exchange transactions (nominal value)	**6 977 284**	**7 123 654**	**6 396 706**	**6 419 881**
- up to 1 month	2 784 696	2 861 667	3 483 299	3 494 182
- 1-3 months	1 537 591	1 569 532	796 630	819 519
- 3-6 months	1 090 342	1 093 911	741 302	738 319
- 6 months to 1 year	1 399 741	1 434 245	797 715	782 272
- 1-3 years	148 954	149 098	545 823	557 368
- 3-5 years	15 960	15 201	31 937	28 221
Total fair value *	**463 159**	**1 125 189**	**571 410**	**540 072**
Total nominal value **	**67 698 704**	**66 714 185**	**45 958 589**	**42 973 842**

* net of embedded derivatives

** the item 'Liabilities related to the sale/purchase transactions' in Note 4 also comprises current currency exchange transactions and transactions on securities.

36. Gross loans and advances to customers

By types

	31.12.2010	Comparable data 31.12.2009
Loans and advances	28 323 722	26 578 579
Purchased debt	133 911	148 986
Realised guarantees and sureties	2 665	6 904
Other receivables	580 690	563 275
- including leasing fees	533 130	518 448
Total	**29 040 988**	**27 297 744**
Debt securities classified in the portfolio of loans and receivables	67 532	
Total	**29 108 520**	**27 297 744**

The presentation in the notes below does not include the receivables related to debt securities classified as loans and receivables (except for the note presenting the quality ratios for receivables). No impairment was identified for the non-listed bonds classified in this portfolio.

Maturity dates

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	666 091	959 941
- 1-3 months	921 420	936 336
- 3-6 months	1 011 620	900 979
- 6 months to 1 year	2 870 410	2 621 214
- 1-3 years	4 010 702	3 605 961
- 3-5 years	2 470 133	2 306 614
- 5-10 years	3 926 722	3 756 451
- 10-20 years	6 152 841	5 247 392
- over 20 years	3 686 473	3 396 550
- past due	3 324 576	3 566 306
Total	**29 040 988**	**27 297 744**

Receivables by classes

	31.12.2010	Comparable data 31.12.2009
Individuals*	**22 171 091**	**19 461 874**
- overdraft facilities	860 214	793 184
- purchased debt	12 841	7 440
- term loans **	783 239	829 717
- cash loans, instalment loans and cards	4 298 157	4 118 645
- mortgages	16 183 199	13 685 315
- realised guarantees	1 340	1 519
- other receivables	32 101	26 054
Corporate customers and SME	**6 702 504**	**7 617 507**
- overdraft facilities	1 624 480	1 468 747
- term loans **	4 407 040	5 464 609
- purchased debt	121 070	141 546
- realised guarantees	1 325	5 384
- other receivables, including leasing fees	548 589	537 221
Budgetary sector	**167 393**	**218 363**
- overdraft facilities	2 735	1 828
- term loans **	164 658	216 535
Total	**29 040 988**	**27 297 744**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.
** The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary sector – investment and working capital loans.

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2010

	Gross receivables	Impaired gross receivables	Impairment losses for receivables with evidence for impairment	Non-impaired gross receivables by days of delay in payment						Impairment losses IBNR
				no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90 days*	Non-impaired gross receivables	
Individuals**	**22 171 091**	**1 947 548**	**1 356 134**	**18 796 137**	**1 200 301**	**182 325**	**44 534**	**246**	**20 223 543**	**102 832**
- overdraft facilities	860 214	129 768	95 699	576 439	142 947	7 822	3 066	172	730 446	8 263
- purchased debt	12 841	1 890	1 890	10 816	135	0	0	0	10 951	7
- term loans***	783 239	69 593	50 840	652 677	58 868	2 045	56	0	713 646	1 022
- cash loans, instalment loans and cards	4 298 157	1 162 089	1 008 078	2 836 915	210 877	59 412	28 793	71	3 136 068	58 685
- mortgages	16 183 199	573 804	189 657	14 696 253	787 474	113 046	12 619	3	15 609 395	34 855
- realised guarantees	1 340	1 340	917	0	0	0	0	0	0	0
- other receivables	32 101	9 064	9 053	23 037	0	0	0	0	23 037	0
Corporate customers and SME	**6 702 504**	**874 435**	**437 427**	**5 714 159**	**103 414**	**9 902**	**593**	**1**	**5 828 069**	**17 563**
- overdraft facilities	1 624 480	241 940	127 855	1 328 085	52 256	2 070	128	1	1 382 540	5 901
- term loans***	4 407 040	547 269	261 269	3 826 563	28 501	4 707	0	0	3 859 771	9 481
- purchased debt	121 070	7 243	6 042	91 170	22 657	0	0	0	113 827	51
- realised guarantees	1 325	1 325	1 122	0	0	0	0	0	0	0
- other receivables, including leasing fees	548 589	76 658	41 139	468 341	0	3 125	465	0	471 931	2 130
Budgetary sector	**167 393**	**1**	**1**	**163 749**	**3 643**	**0**	**0**	**0**	**167 392**	**43**
- overdraft facilities	2 735	1	1	2 734	0	0	0	0	2 734	3
- term loans***	164 658	0	0	161 015	3 643	0	0	0	164 658	40
Total	**29 040 988**	**2 821 984**	**1 793 562**	**24 674 045**	**1 307 358**	**192 227**	**45 127**	**247**	**26 219 004**	**120 438**

*in the case of a delay in payment of at least one instalment, the total debt is presented as delayed.
** The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.
*** The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary sector – investment and working capital loans

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2009 (comparable data)

	Gross receivables	Impaired gross receivables	Impairment losses for receivables with evidence for impairment	Non-impaired gross receivables by days of delay in payment						Impairment losses IBNR
				no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90 days*	Non-impaired gross receivables	
Individuals**	**19 461 874**	**1 523 261**	**992 828**	**16 772 235**	**963 990**	**143 291**	**57 582**	**1 515**	**17 938 613**	**95 488**
- overdraft facilities	793 184	129 371	100 856	549 270	106 699	5 658	2 008	178	663 813	3 252
- purchased debt	7 440	1 908	1 908	5 511	21	0	0	0	5 532	6
- term loans***	829 717	74 180	55 571	709 235	43 312	2 640	343	7	755 537	1 289
- cash loans, instalment loans and cards	4 118 645	999 392	760 518	2 757 371	252 666	69 244	39 843	129	3 119 253	76 186
- mortgages	13 685 315	314 502	70 677	12 727 183	561 292	65 749	15 388	1 201	13 370 813	14 754
- realised guarantees	1 519	1 519	914	0	0	0	0	0	0	0
- other receivables	26 054	2 389	2 384	23 665	0	0	0	0	23 665	1
Corporate customers and SME	**7 617 507**	**854 961**	**443 001**	**6 621 284**	**138 637**	**2 235**	**365**	**25**	**6 762 546**	**44 447**
- overdraft facilities	1 468 747	125 550	92 621	1 267 800	74 246	786	365	0	1 343 197	8 821
- term loans***	5 464 609	626 444	294 885	4 777 891	59 514	735	0	25	4 838 165	34 656
- purchased debt	141 546	10 568	3 412	125 660	4 604	714	0	0	130 978	91
- realised guarantees	5 384	5 384	4 019	0	0	0	0	0	0	0
- other receivables, ncluding leasing fees	537 221	87 015	48 064	449 933	273	0	0	0	450 206	879
Budgetary sector	**218 363**	**0**	**0**	**215 014**	**3 349**	**0**	**0**	**0**	**218 363**	**122**
- overdraft facilities	1 828	0	0	1 828	0	0	0	0	1 828	1
- term loans***	216 535	0	0	213 186	3 349	0	0	0	216 535	121
Total	**27 297 744**	**2 378 222**	**1 435 829**	**23 608 533**	**1 105 976**	**145 526**	**57 947**	**1 540**	**24 919 522**	**140 057**

*in the case of a delay in payment of at least one instalment, the total debt is presented as delayed.

** The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.

*** The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary sector – investment and working capital loans

As at 31.12.2010, the amount of non-amortised loan commissions settled with the effective interest rate method, which, according to the concept of the measurement of financial assets at amortised cost, decreases the value of gross receivables, amounted to PLN 110,943 thousand, as at 31.12.2009 – PLN 171,942 thousand.

Receivables quality ratio

in PLN '000'	**31.12.2010**	**Comparable data 31.12.2009**
Loans and advances with no evidence for impairment, including interest	26 286 536	24 919 522
Loans and advances with evidence for impairment, including interest	2 821 984	2 378 222
Total gross loan and advances to customers	**29 108 520**	**27 297 744**
Impairment losses on loans and advances to customers	1 914 000	1 575 886
including: impairment losses on loans and advances with evidence for impairment	1 793 562	1 435 829
Total net loans and advances to customers	**27 194 520**	**25 721 858**
The share of loans and advances with evidence for impairment in total gross loans and advances	9.7%	8.7%
Coverage of loans and advances with evidence for impairment with impairment losses	63.6%	60.4%
Coverage of gross loans and advances to customers with corresponding impairment losses	6.6%	5.8%

The quality ratio for the portfolio of the Group's gross loans and advances understood as 'The share of loans and advances with evidence for impairment in total gross loans and advances' as at 31.12.2010 amounted to 9.7% and in 2010 deteriorated by 1.0 p.p.

The Group, when estimating credit risk for individual credit exposures and loan portfolios, follows the overriding prudence concept. As at 31.12.2010, the coverage of loans and advances with evidence for impairment with impairment losses was at the level of 63.6% and increased by 3.2 p.p. as compared to the balance as at 31.12.2009.

Receivables assessed individually

	31.12.2010	**Comparable data 31.12.2009**
Gross receivables	771 234	727 459
Impairment losses	381 424	381 470
Net receivables	389 810	345 989

Accepted loan collateral

In the case of receivables assessed individually, the total fair value of collateral approved by the Group considered in estimated future cash flows is presented in the table below.

	31.12.2010	Comparable data 31.12.2009
Value of accepted collateral for loans and advances assessed individually	238 280	228 997

Apart from standard loan collateral specified in loan agreements which are in line with the practices applied in the industry (mortgage, transfers of ownership to secure a loan, registered pledges, sureties, guarantees and transfers of receivables), the Group does not apply any other loan collateral, e.g. credit derivatives.

The Group monitors established legal securities of loan transactions by evaluation of the value of approved collateral on the basis of documents lodged by the borrower and internal databases including historic data about the recoverability of collateral.

Carrying amount of restructured receivables

	31.12.2010	Comparable data 31.12.2009
Carrying amount	408 746	282 232

37. Impairment losses on loans and advances to customers

	Impairment 31.12.2009	Recognized	Reversed	Written off	Other changes	Impairment 31.12.2010
Individuals*	**1 088 316**	**1 825 324**	**-1 433 186**	**-22 996**	**1 508**	**1 458 966**
- overdraft facilities	104 108	142 372	-127 741	-13 476	-1 301	103 962
- purchased debt	1 914	315	-331	0	-1	1 897
- term loans **	56 860	16 010	-18 299	-2 520	-189	51 862
- cash loans, instalment loans and cards	836 704	1 173 567	-936 940	-6 553	-15	1 066 763
- mortgages	85 431	485 353	-348 839	-447	3 014	224 512
- realised guarantees	914	298	-295	0	0	917
- other receivables	2 385	7 409	-741	0	0	9 053
Corporate customers and SME	**487 448**	**531 360**	**-513 036**	**-50 858**	**76**	**454 990**
- overdraft facilities	101 442	209 648	-175 682	-3 315	1 663	133 756
- purchased debt	3 503	28 982	-25 657	-716	-19	6 093
- term loans **	329 541	270 493	-291 476	-36 445	-1 363	270 750
- realised guarantees	4 019	1 887	-4 534	0	-250	1 122
- other receivables, including leasing fees	48 943	20 350	-15 687	-10 382	45	43 269
Budgetary sector	**122**	**334**	**-412**	**0**	**0**	**44**
- overdraft facilities	1	246	-243	0	0	4
- term loans **	121	88	-169	0	0	40
Total	**1 575 886**	**2 357 018**	**-1 946 634**	**-73 854**	**1 584**	**1 914 000**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.

** The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary sector – investment and working capital loans

	Impairment 31.12.08	Recognized	Reversed	Written off	Other changes	Impairment 31.12.2009
Individuals*	**496 840**	**1 624 896**	**-972 749**	**-40 152**	**-20 519**	**1 088 316**
- overdraft facilities	70 293	132 827	-95 904	-2 102	-1 006	104 108
- purchased debt	6 345	81	-115	0	-4 397	1 914
- term loans **	75 787	36 222	-26 724	-24 863	-3 562	56 860
- cash loans, instalment loans and cards	290 504	1 248 754	-681 867	-10 484	-10 203	836 704
- mortgages	52 878	204 520	-167 915	-2 703	-1 349	85 431
- realised guarantees	1 032	4	-58	0	-64	914
- other receivables	1	2 488	-166	0	62	2 385
Corporate customers and SME	**430 247**	**753 850**	**-614 482**	**-77 133**	**-5 034**	**487 448**
- overdraft facilities	42 666	223 387	-159 845	-3 320	-1 446	101 442
- purchased debt	4 777	8 292	-7 708	-1 837	-21	3 503
- term loans **	345 829	430 991	-367 139	-69 634	-10 506	329 541
- realised guarantees	3 381	4 885	-4 089	0	-158	4 019
- other receivables, including leasing fees	33 594	86 295	-75 701	-2 342	7 097	48 943
Budgetary sector	**244**	**305**	**-428**	**0**	**1**	**122**
- overdraft facilities	4	91	-93	0	-1	1
- term loans **	240	214	-335	0	2	121
Total	**927 331**	**2 379 051**	**-1 587 659**	**-117 285**	**-25 552**	**1 575 886**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.

** The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary sector – investment and working capital loans

IBNR

Impairment losses on incurred but not reported (IBNR) credit losses for homogenous balance sheet and off-balance sheet receivables portfolios as at 31.12.2010 amounted to PLN 126,845 thousand, including PLN 6,407 thousand related to off-balance sheet liabilities; and as at 31.12.2009, amounted to PLN 143,625 thousand, including PLN 3,568 thousand related to off-balance sheet liabilities.

38. Finance lease receivables and a change in charges for lease receivables

	31.12.2010	Comparable data 31.12.2009
Gross investments in finance lease	584 028	568 688
Unrealised future financial income	50 898	50 240
Present value of minimum leasing fees (gross carrying amount)	533 130	518 448
Gross investments in finance lease for each period	584 028	568 688
- up to one year	236 056	218 785
- later than 1 year and not later than 5 years	319 125	312 517
- over five years	28 847	37 386
Present value of minimum leasing fees for each period	533 130	518 448
- up to one year	210 682	194 683
- later than 1 year and not later than 5 years	293 967	286 471
- over five years	28 481	37 294

Impairment losses on lease receivables

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Period beginning	40 367	33 117
a) increase	17 095	38 980
- impairment losses on lease receivables	16 959	38 980
- other changes	136	0
b) reversal	13 905	29 387
- reversal of impairment losses on lease receivables	13 815	29 387
- other changes	90	0
c) utilization	5 315	2 343
- leasing fees written off in the period as bad debts	5 315	2 343
Period end	**38 242**	**40 367**

39. Investment securities

	31.12.2010	Comparable data 31.12.2009
Available-for-sale securities	**6 219 461**	**6 036 304**
Treasury securities	5 608 099	4 977 936
- bonds	5 608 099	4 684 356
- bills	0	293 580
Central Bank securities	299 765	749 307
- bills	299 765	749 307
Other securities	307 674	303 767
- bonds	307 674	303 767
Equity securities	3 923	5 294
Held-to-maturity securities	**3 247 779**	**2 753 338**
Treasury securities	3 247 779	2 165 443
- bonds	3 247 779	2 165 443
Other securities	0	587 895
- bonds	0	587 895
Total	**9 467 240**	**8 789 642**

All investment securities classified in the portfolio of available-for-sale financial assets are measured at fair value on the basis of market quotations, except for SINPLN commercial bonds issued by HONGKONG AND SHANGHAI BANKING CORPORATION, Treasury Eurobonds, money bills of the National Bank of Poland and non-listed equity investments.

The fair value of SINPLN bonds is determined by discounting cash flows from the bonds with PLN-BOND curve having regard for the credit spread, as there are no quotations on an active market. The bonds are with fixed coupon.

The Treasury Eurobonds are valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR) or USD-BOND curve (for securities in USD), having regard for the credit spread.

The money bills of the National Bank of Poland are valued with the application of PLN-SWAP curve, not having regard for the credit spread.

	31.12.2010	Comparable data 31.12.2009
Available-for-sale securities	**6 219 461**	**6 036 304**
Listed	**5 907 864**	**5 727 243**
- bonds	5 608 099	4 684 356
- bills	299 765	1 042 887
Non-listed	**311 597**	**309 061**
- shares	3 923	5 294
- bonds	307 674	303 767
Held-to-maturity securities	**3 247 779**	**2 753 338**
Listed	**3 247 779**	**2 165 443**
- bonds	3 247 779	2 165 443
Non-listed	**0**	**587 895**
- bonds	0	587 895
Total	**9 467 240**	**8 789 642**

Maturities of available-for-sale investment securities

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	299 764	749 307
- 1-3 months	33 379	233 781
- 3-6 months	580 507	0
- 6 months to 1 year	192 150	498 026
- 1-3 years	1 623 773	1 637 809
- 3-5 years	2 297 947	1 445 621
- 5-10 years	1 188 018	1 466 466
- with unspecified maturity dates	3 923	5 294
Total	**6 219 461**	**6 036 304**

Maturities of held-to-maturity investment securities

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	0	13 073
- 1-3 months	20 796	304 577
- 3-6 months	425 050	0
- 6 months to 1 year	0	482 391
- 1-3 years	1 195 114	442 947
- 3-5 years	1 225 146	934 430
- 5-10 years	381 673	575 920
Total	**3 247 779**	**2 753 338**

40. The hierarchy of financial instruments measured at fair value based on the method of fair value measurement

Below, we present the hierarchy of financial assets and liabilities measured at fair value based on the method of fair value measurement according to IFRS 7.

Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total 31.12.2010**
Financial assets held for trading				
Debt securities	1 144 179	457 104		1 601 283
Derivatives		388 819		388 819
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	26 903	31 149		58 052
Equity securities		40 797		40 797
Shares in investment funds		19 713		19 713
Available-for-sale financial assets*				
Debt securities	5 295 703	919 835		6 215 538
Hedging instruments				
Derivatives		74 340		74 340
Total	**6 466 785**	**1 931 757**	**0**	**8 398 542**

**except for equity securities measured at cost*

Liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total 31.12.2010**
Financial liabilities held for trading				
Derivatives		1 123 915	5 889	1 129 804
Hedging instruments				
Derivatives		1 274		1 274
Total		**1 125 189**	**5 889**	**1 131 078**

Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total 31.12.2009**
Financial assets held for trading				
Debt securities	725 904	454 046		1 179 950
Derivatives		513 206	2 463	515 669
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	61 716	30 385		92 101
Equity securities		44 735		44 735
Shares in investment funds		18 564		18 564
Available-for-sale financial assets*				
Debt securities	4 672 232	1 358 778		6 031 010
Hedging instruments				
Derivatives		55 741		55 741
Total	**5 459 852**	**2 475 455**	**2 463**	**7 937 770**

**except for equity securities measured at cost*

Liabilities measured at fair value	Level 1	Level 2	Level 3	Total 31.12.2009
Financial liabilities held for trading				
Derivatives		537 902		537 902
Hedging instruments				
Derivatives		3 166		3 166
Total		**541 068**		**541 068**

Change in financial assets at fair value – level 3

Assets measured at fair value	Level 3
Opening balance – as at 01.01.2010	**2 463**
Derivatives	-2 463
Closing balance – as at 31.12.2010	**0**

Assets measured at fair value	Level 3
Opening balance – as at 01.01.2009	**8 410**
Transfers to level 3	15 974
Total profit or loss recognized in the income statement, including:	-13 511
- established impairment losses	-13 757
- valuation	246
Transfer from the portfolio of financial assets at fair value	-8 410
Closing balance – as at 31.12.2009	**2 463**
Total profit or loss for the period recognized in the income statement for assets held at the end of the period	**-2 860**

41. Financial assets subject to hedge accounting

The Group applies cash flow hedge accounting for asset swaps. The transactions involve hedging cash flows from floating interest rate bonds, as a result of which the Group receives fixed and pays floating interest flows.

The aim of loans-related cash flow hedge is to change floating interest rate cash flows generated by the loans portfolio to cash flows based on a fixed interest rate to match the structure of the interest rate risk for assets and liabilities based on a fixed interest rate. The hedge involves swap transactions in which the Group, on the whole, pays cash flows based on a variable O/N interest rate matched to the interest rate of the loans portfolio and receives interest flows at a fixed interest rate with required maturity. The above structure makes it possible to change the floating interest rate into the fixed interest rate without the necessity for employing additional liquid cash for the purchase of new assets (e.g. fixed coupon bonds), at the same time ensuring a stable impact on the result by recognizing changes in fair value of swaps in the Bank's equity.

As at 31.12.2010 and 31.12.2009, the Group did not apply hedge accounting to hedge fair value of financial assets.

The rules of recognizing and measuring the effectiveness of the hedges for transactions subject to hedge accounting are described in Note 9.6.6 of these financial statements.

As at 31.12.2010

Financial assets subject to cash flow hedge accounting

- bonds

Hedged assets – available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment
80 000	25.01.2018	variable 3.99% (31.12.2010)	every 6 months

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (excluding interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
80 000	29.08.2011	fixed 5.66%	WIB 6M	annually	every 6 months	1 123	0
					Total	**1 123**	**0**

- loans portfolio

Hedged assets – mortgage loans of PLN 1,935,000 thousand.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate: Coupon received	Interest rate: Coupon paid	Coupon rate payment: Coupon received	Coupon rate payment: Coupon paid	Balance sheet valuation with interest	Valuation in income statement (excluding interest presented in net interest income)
100 000	09.07.2012	fixed 5.698%	WIB 3M	annually	every quarter	3 417	0
100 000	13.08.2012	fixed 5.615%	WIB 3M	annually	every quarter	3 124	0
50 000	13.08.2012	fixed 5.615%	WIB 3M	annually	every quarter	1 562	0
120 000	12.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	2 913	0
20 000	12.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	485	0
150 000	09.11.2012	fixed 5.75%	WIB 3M	annually	every quarter	3 046	0
30 000	17.12.2014	fixed 5.9%	WIB 3M	annually	every quarter	696	82
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	5 312	142
100 000	07.02.2011	fixed 5.73%	WIB 3M	annually	every quarter	4 740	17
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	5 153	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	5 639	82
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	7 078	87
70 000	05.03.2015	fixed 5.9%	WIB 3M	annually	every quarter	4 776	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	2 814	85
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	2 700	110
50 000	17.04.2012	fixed 5.92%	WIB 3M	annually	every quarter	2 536	93
30 000	08.05.2012	fixed 5.94%	WIB 3M	annually	every quarter	1 511	18
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	4 295	155
60 000	02.10.2013	fixed 5.538%	WIB 3M	annually	every quarter	1 041	33
60 000	23.12.2013	fixed 4.3%	WIB 3M	annually	every quarter	-1 274	-328
75 000	08.10.2012	fixed 5.13%	WIB 3M	annually	every quarter	734	0
75 000	14.10.2011	fixed 4.9%	WIB 3M	annually	every quarter	489	0
50 000	05.11.2012	fixed 5.305%	WIB 3M	annually	every quarter	601	0
50 000	05.11.2012	fixed 5.3%	WIB 3M	annually	every quarter	596	0
75 000	07.11.2011	fixed 4.95%	WIB 3M	annually	every quarter	472	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	2 465	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	5 022	0
					Total	**71 943**	**576**

As at 31.12.2009 (comparable data)

Financial assets subject to cash flow hedge accounting

- bonds

Hedged assets – available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment
50 000	24.09.2011	variable 4.34% (31.12.2009)	every 6 months
50 000	25.01.2018	variable 4.40% (31.12.2009)	every 6 months
80 000	25.01.2018	variable 4.40% (31.12.2009)	every 6 months

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (excluding interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
50 000	25.07.2010	fixed 5.5075%	WIB 6M	annually	every 6 months	552	0
50 000	23.05.2011	fixed 4.76%	WIB 6M	annually	every 6 months	1 270	0
80 000	29.08.2011	fixed 5.66%	WIB 6M	annually	every 6 months	1 350	0
					Total	**3 172**	**0**

- loans portfolio

Hedged assets – mortgage loans of PLN 1,785,000 thousand.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in income statement (excluding interest presented in net interest income)
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	09.07.2012	fixed 5.6975%	WIB 3M	annually	every quarter	2 781	0
100 000	13.08.2012	fixed 5.615%	WIB 3M	annually	every quarter	2 319	0
50 000	13.08.2012	fixed 5.615%	WIB 3M	annually	every quarter	1 160	0
120 000	10.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	3 265	0
20 000	10.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	544	0
150 000	09.11.2012	fixed 5.75%	WIB 3M	annually	every quarter	1 717	0
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	191	-36
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	4 652	-132
100 000	07.02.2011	fixed 5.73%	WIB 3M	annually	every quarter	5 782	-79
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	4 140	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	4 187	0
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	6 145	-10
70 000	05.03.2015	fixed 5.9%	WIB 3M	annually	every quarter	3 610	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	2 285	-69
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	2 161	-91
50 000	17.04.2012	fixed 5.92%	WIB 3M	annually	every quarter	2 452	-96
30 000	08.05.2012	fixed 5.94%	WIB 3M	annually	every quarter	1 448	-19
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	3 499	-121
60 000	02.10.2013	fixed 5.5375%	WIB 3M	annually	every quarter	28	164
60 000	22.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	-2 863	328
75 000	07.10.2012	fixed 5.13%	WIB 3M	annually	every quarter	-252	240
75 000	14.10.2011	fixed 4.9%	WIB 3M	annually	every quarter	127	0
50 000	04.11.2012	fixed 5.305%	WIB 3M	annually	every quarter	-22	113
50 000	04.11.2012	fixed 5.3%	WIB 3M	annually	every quarter	-29	119
75 000	06.11.2011	fixed 4.95%	WIB 3M	annually	every quarter	76	0
					Total	**49 403**	**311**

In the case of cash flow hedge, the amount recognized in equity in 2010 was PLN 25,378 thousand, and the amount derecognized from equity and recognized in the income statement (ineffective part) amounted to PLN 576 thousand. The amount recognized in equity at the end of 2009 was PLN 11,286 thousand, and the amount derecognized from equity and recognized in the income statement (ineffective part) amounted to PLN 311 thousand.

Summary of valuations of hedging derivatives

	31.12.2010	Comparable data 31.12.2009
Total positive valuations (with interest)	74 340	55 741
Total negative valuations (with interest)	-1 274	-3 166

42. Investments in associates valued using the equity method

As at 31.12.2010 and as at 31.12.2009, the Group held shares in one associate measured with the equity method., i.e. KBC Towarzystwo Funduszy Inwestycyjnych S.A., which is involved in the management of investment funds.

	31.12.2010	Comparable data 31.12.2009
Carrying amount of shares	15 179	11 955
Entity's total assets	61 500	48 219
Entity's equity, including:	50 598	39 866
- share capital	25 258	25 258
- called up share capital not paid (negative value)	0	0
- supplementary capital	14 822	9 674
- other equity, including:	10 518	4 934
- retained earnings (loss)	0	0
- net profit (loss)	10 518	4 934
Entity's liabilities, including:	10 902	8 353
- short-term liabilities	10 902	8 353
- long-term liabilities	0	0
Entity's receivables, including:	24 585	8 187
- short-term receivables	24 585	8 187
- long-term receivables	0	0
Total income	67 961	50 310
% of capital held	30%	30%
Share in the total number of votes at the General Meeting of Shareholders	30%	30%

43. Property, plant and equipment

	31.12.2010	Comparable data 31.12.2009
Property, plant and equipment, including:	269 893	323 672
- land	11 036	11 724
- buildings and premises	131 123	154 780
- plant and machinery	77 170	89 205
- motor vehicles	434	734
- other property, plant and equipment	50 130	67 229
Construction in progress	20 551	29 862
Total	**290 444**	**353 534**

Movement on property, plant and equipment

For the period of 12 months ended 31.12.2010

	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total property, plant and equipment
a) gross property, plant and equipment as at 01.01.2010	12 816	237 384	436 944	2 089	183 126	29 862	902 221
b) increase	0	3 876	37 107	64	6 757	33 276	81 080
- purchase	0	0	4 519	0	755	33 211	38 485
- other increases*	0	3 876	32 588	64	6 002	65	42 595
c) decrease	690	22 414	59 439	585	11 115	42 587	136 830
- sale	0	4 460	1 070	199	372	0	6 101
- liquidation	0	3 654	49 244	0	7 895	0	60 793
- other decrease**	690	14 300	9 125	386	2 848	42 587	69 936
d) gross property, plant and equipment as at 31.12.2010	12 126	218 846	414 612	1 568	178 768	20 551	846 471
e) accumulated amortisation as at 01.01.2010	1 092	78 121	345 084	1 201	115 017	0	540 515
f) net property, plant and equipment as at 01.01.2010	11 724	154 780	89 205	734	67 229	29 862	353 534
g) changes in depreciation	-2	-2 191	-11 073	-221	12 912	0	-575
- amortisation	0	4 841	46 887	285	22 310	0	74 323
- sale	0	-1 297	-657	-120	-301	0	-2 375
- liquidation	0	-270	-48 222	0	-6 363	0	-54 855
- other changes	-2	-5 465	-9 081	-386	-2 734	0	-17 668
h) accumulated amortisation as at 31.12.2010	1 090	75 930	334 011	980	127 929	0	539 940
i) impairment as at 01.01.2010	0	4 483	2 655	154	880	0	8 172
- increases	0	7 564	1 457	0	79	0	9 100
- decreases	0	254	681	0	250	0	1 185
j) impairment as at 31.12.2010	0	11 793	3 431	154	709	0	16 087
Net property, plant and equipment as at 31.12.2010	**11 036**	**131 123**	**77 170**	**434**	**50 130**	**20 551**	**290 444**

*Other increases are related mainly to the taking over for use of property, plant and equipment previously presented in ‘construction in progress’

**Other decreases are related mainly to the transfer to assets held for sale, the termination of leasing contracts as well as to the taking over for use of property, plant and equipment previously presented in ‘construction in progress’

For the period of 12 months ended 31.12.2009 (comparable data)

	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress	Total property, plant and equipment
a) gross property, plant and equipment as at 01.01.2009	18 751	282 872	454 076	3 894	169 517	57 053	986 163
b) increase	185	1 966	53 345	35	17 582	51 122	124 235
- purchase	1	0	7 809	0	903	45 105	53 818
- other increases*	184	1 966	45 536	35	16 679	6 017	70 417
c) decrease	6 120	47 454	70 477	1 840	3 973	78 313	208 177
- sale	62	1 274	727	1 072	0	0	3 135
- liquidation	0	77	44 978	32	3 429	3	48 519
- deconsolidation of Żagiel	246	11 856	23 505	645	328	2 866	39 446
- other decrease**	5 812	34 247	1 267	91	216	75 444	117 077
d) gross property, plant and equipment as at 31.12.2009	12 816	237 384	436 944	2 089	183 126	29 862	902 221
e) accumulated amortisation as at 01.01.2009	1 581	84 573	359 733	2 152	95 678	0	543 717
f) net property, plant and equipment as at 01.01.2009	14 135	185 392	91 257	1 579	72 611	56 892	421 866
g) changes in depreciation	-489	-6 452	-14 649	-951	19 339	0	-3 202
- amortisation	0	6 413	52 439	487	22 566	0	81 905
- sale	0	-121	-680	-797	2	0	-1 596
- liquidation	0	-10	-44 209	-8	-2 752	0	-46 979
- deconsolidation of Żagiel	0	-3 329	-20 990	-541	-263	0	-25 123
- other changes	-489	-9 405	-1 209	-92	-214	0	-11 409
h) accumulated amortisation as at 31.12.2009	1 092	78 121	345 084	1 201	115 017	0	540 515
i) impairment as at 01.01.2009	3 035	12 907	3 086	163	1 228	161	20 580
- increases	0	1 924	246	0	0	0	2 170
- decreases	3 035	10 348	677	9	348	161	14 578
j) impairment as at 31.12.2009	0	4 483	2 655	154	880	0	8 172
Net property, plant and equipment as at 31.12.2009	**11 724**	**154 780**	**89 205**	**734**	**67 229**	**29 862**	**353 534**

*Other increases are related mainly to the taking over for use of property, plant and equipment previously presented in 'construction in progress'

** Other decreases are related mainly to the transfer to assets held for sale, the termination of leasing contracts and taking over for use of property, plant and equipment previously presented in 'construction in progress'

44. Intangible assets

	31.12.2010	Comparable data 31.12.2009
Internally developed computer software	11	42
Acquired computer software	39 169	44 506
Other intangible assets, including capital expenditure	11 021	6 700
Total	**50 201**	**51 248**

Movement on intangible assets

For the period of 12 months ended 31.12.2010

	Internally developed computer software	Acquired computer software	Other intangible assets, including capital expenditure	Total intangible assets
a) gross intangible assets as at 01.01.2010	42	302 734	20 886	323 662
b) increase	0	12 442	14 749	27 191
- purchase	0	1 074	12 089	13 163
- other increases*	0	11 368	2 660	14 028
c) decrease	0	16 450	21 761	38 211
- sale	0	2	3	5
- liquidation	0	14 696	5 716	20 412
- other decrease**	0	1 752	16 042	17 794
d) gross intangible assets as at 31.12.2010	42	298 726	13 874	312 642
e) accumulated amortisation as at 01.01.2010	0	253 854	6 563	260 417
f) net intangible assets as at 01.01.2010	42	44 506	6 700	51 248
g) amortisation in the period	31	1 549	-6 222	-4 642
- amortisation	8	16 899	34	16 941
- sale	0	0	-2	-2
- liquidation	0	-14 265	-5 714	-19 979
- other changes	23	-1 085	-540	-1 602
h) accumulated amortisation as at 31.12.2010	31	255 403	341	255 775
i) impairment as at 01.01.2010	0	4 374	7 623	11 997
- increases	0	302	0	302
- decreases	0	522	5 111	5 633
j) impairment as at 31.12.2010	0	4 154	2 512	6 666
Net intangible assets as at 31.12.2010	**11**	**39 169**	**11 021**	**50 201**

*Other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure.
**Other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure, and the termination of leasing contracts.

For the period of 12 months ended 31.12.2009 (comparable data)

	Internally developed computer software	Acquired computer software	Other intangible assets, including capital expenditure	Total intangible assets
a) gross intangible assets as at 01.01.2009	42	289 448	49 489	338 979
b) increase	0	26 601	15 683	42 284
- purchase	0	5 484	15 666	21 150
- other increases*	0	21 117	17	21 134
c) decrease	0	13 315	44 286	57 601
- sale	0	1 018	0	1 018
- liquidation	0	4 057	45	4 102
- deconsolidation of Żagiel	0	8 240	17 104	25 344
- other decrease**	0	0	27 137	27 137
d) gross intangible assets as at 31.12.2009	42	302 734	20 886	323 662
e) accumulated amortisation as at 01.01.2009	0	243 566	23 400	266 966
f) net intangible assets as at 01.01.2009	42	42 015	18 867	60 924
g) amortisation in the period	0	10 288	-16 837	-6 549
- amortisation	0	21 766	196	21 962
- sale	0	-697	0	-697
- liquidation	0	-3 826	-45	-3 871
- deconsolidation of Żagiel	0	-6 955	-16 988	-23 943
- other changes	0	0	0	0
h) accumulated amortisation as at 31.12.2009	0	253 854	6 563	260 417
i) impairment as at 01.01.2009	0	3 867	7 222	11 089
- increases	0	507	1 448	1 955
- decreases	0	0	1 047	1 047
j) impairment as at 31.12.2009	0	4 374	7 623	11 997
Net intangible assets as at 31.12.2009	**42**	**44 506**	**6 700**	**51 248**

*Other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure.
**Other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure.

45. Non-current assets classified as held for sale

	31.12.2010	Comparable data 31.12.2009
Fixed assets classified as held for sale	**7 070**	**0**
Gross total	8 200	0
Impairment losses	1 130	0
Investments in associates held for sale	**0**	**0**
Gross investments in associates	3 707	0
Impairment losses	3 707	0
Total	**7 070**	**0**

Non-current assets classified as held for sale are available for immediate sale. They are actively marketed for sale on market terms, without any exceptional or non-standard conditions, at a sales price reasonable in relation to their present fair value. The Group expects that the sale will be recognized as sale made within one year from the date of the reclassification of such assets to the category of non-current assets held for sale.

46. Investment properties

The table below presents changes in investment properties in 2010 and in 2009:

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Gross value as at the beginning of the period	**306 514**	**268 825**
Increases	18 562	40 593
Decreases	4 143	2 904
Gross value as at the end of the period	**320 933**	**306 514**
Depreciation as at the beginning of the period	**79 392**	**58 958**
Changes in depreciation	**12 121**	**20 434**
Amortisation	9 690	10 634
Other increases	2 650	9 800
Decreases	219	0
Depreciation as at the end of the period	**91 513**	**79 392**
Impairment losses as at the beginning of the period	**4 882**	**0**
Increases	0	12 836
Decreases	1 130	7 954
Impairment losses as at the end of the period	**3 752**	**4 882**
Carrying amounts as at the end of the period	**225 668**	**222 240**

In 2010, income from rent related to the investment properties amounted to PLN 32,320 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 12,778 thousand.

In 2009, income from rent related to the investment properties amounted to PLN 36,750 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 11,768 thousand.

The investment properties comprise mainly buildings, which are depreciated on a straight-line basis (annual depreciation rate is from 2.5% to 5%). Other plant and machinery are depreciated at the rates of 7%, 10%, 14%, 18%, 20% and 30%.

47. Other assets

	31.12.2010	Comparable data 31.12.2009
Inventory	9	18
Various debtors*, including:	75 485	86 829
- gross various debtors	81 730	93 506
- impairment losses	-6 245	-6 677
Prepaid expenses	20 196	20 042
Other assets, including:	0	9
- gross assets taken over for debts	0	9
Total	**95 690**	**106 898**

* The item contains: amounts due from the sale of financial assets and property, plant and equipment, returnable security deposits paid by the Bank under operating lease agreements for real properties used by the Bank, settlements under payment cards, amounts due to the State Treasury.

48. Amounts due to Central Bank

By types

	31.12.2010	Comparable data 31.12.2009
Open market transactions	0	1 321 796
Liabilities	6	6
Total	**6**	**1 321 802**

By maturity dates

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	6	1 276 456
- 1-3 months	0	45 346
Total	**6**	**1 321 802**

49. Amounts due to banks

By types

	31.12.2010	Comparable data 31.12.2009
Current accounts	3 573 391	2 560 645
Term deposits	2 922 345	1 699 362
Borrowed loans and advances	5 650 993	6 818 610
Other amounts due	3 977	3 073
Total	**12 150 706**	**11 081 690**

Amounts due to banks (by maturity dates as at the balance sheet date)

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	6 009 725	4 236 842
- 1-3 months	489 787	26 238
- 3-6 months	0	796 099
- 6 months to 1 year	2 826 848	1 031 672
- 1-3 years	2 824 346	4 990 839
Total	**12 150 706**	**11 081 690**

50. Amounts due to customers

By types

	31.12.2010	Comparable data 31.12.2009
Current accounts	17 715 210	13 917 908
- including Savings Account:	9 850 124	7 626 000
Term deposits	7 622 618	8 458 114
Borrowed loans and advances	197 122	144
Other amounts due	125 808	92 988
Total	**25 660 758**	**22 469 154**

By maturity dates (by maturity dates as at the balance sheet date)

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	19 716 891	16 671 535
- 1-3 months	1 978 374	2 412 093
- 3-6 months	2 169 911	2 251 609
- 6 months to 1 year	1 044 007	418 747
- 1-3 years	535 003	608 810
- 3-5 years	17 585	101 277
- 5-10 years	198 242	4 216
- 10-20 years	745	867
Total	**25 660 758**	**22 469 154**

Liabilities by customer types

	31.12.2010	Comparable data 31.12.2009
Individuals*	**16 004 138**	**14 208 107**
- in current account (including Savings Account)	12 536 406	10 109 149
- term deposits	3 346 027	4 022 658
- other	121 705	76 300
Corporate customers and SME	**7 668 821**	**6 461 829**
- in current account	3 819 591	2 540 948
- term deposits	3 648 005	3 904 049
- loans and advances	197 122	144
- other	4 103	16 688
Budgetary sector	**1 987 799**	**1 799 218**
- in current account	1 359 213	1 267 811
- term deposits	628 586	531 407
Total	**25 660 758**	**22 469 154**

* The item contains: amounts due to private persons, individual entrepreneurs, individual farmers, non-commercial institutions providing services to households.

51. Liabilities arising from repurchase transactions

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	228 693	0
Total	**228 693**	**0**

The securities repurchase price is determined on the basis of or equal to the selling price plus financing cost. In the case when the Bank fails to meet its commitments, the securities subject to the transaction remain in the possession of the Bank's customer.

52. Provisions

	31.12.2010	Comparable data 31.12.2009
Employee benefits provision	1 585	1 408
Provision for off-balance sheet items	49 877	11 429
Restructuring provision	0	2 279
Provision for litigations	40 699	36 877
Other	650	1 924
Total	**92 811**	**53 917**

The litigations with the highest value claims are described in Note 75 below.

'Employee benefits provisions' are composed of provisions for retirement benefits.

Net increase/decrease in provisions

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Period beginning	**53 917**	**59 474**
- employee benefits provision	1 408	1 785
- provision for off-balance sheet items	11 429	14 899
- restructuring provision	2 279	419
- provision for litigations	36 877	42 371
- other	1 924	0
a) recognition	310 624	344 442
- employee benefits provision	335	184
- provision for off-balance sheet items	292 518	318 037
- restructuring provision	0	8 700
- provision for litigations	17 771	17 521
b) utilization	-13 118	-18 482
- employee benefits provision	-196	-480
- provision for off-balance sheet items	0	-9 464
- restructuring provision	-2 279	-6 420
- provision for litigations	-10 643	-2 118
c) reversal	-257 572	-327 867
- employee benefits provision	-6	-15
- provision for off-balance sheet items	-254 042	-311 986
- restructuring provision	0	-420
- provision for litigations	-3 524	-15 446
d) other changes	-1 040	-3 650
- employee benefits provision	44	-66
- provision for off-balance sheet items	-28	-57
- provision for litigations	218	-5 451
- other	-1 274	1 924
Period end (by items)	**92 811**	**53 917**
- employee benefits provision	1 585	1 408
- provision for off-balance sheet items	49 877	11 429
- restructuring provision	0	2 279
- provision for litigations	40 699	36 877
- other	650	1 924
Period end	**92 811**	**53 917**

53. Other liabilities

	31.12.2010	Comparable data 31.12.2009
Amounts due to the State Treasury	19 403	19 911
Various creditors	52 008	63 319
Expenses and income settled over time, including:	128 583	82 554
- income collected in advance	19 335	22 373
- expenses to be paid	42 376	41 655
- provision for bonuses	57 031	8 879
- provision for unused annual leaves	9 841	9 647
Inter-bank clearings	14 810	15 213
Total	**214 804**	**180 997**

54. Subordinated liabilities

	31.12.2010	Comparable data 31.12.2009
Amount of subordinated liabilities	911 100	805 816
Total	**911 100**	**805 816**

Balance sheet as at 31.12.2010

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabi lities
	by currency	in '000			
KBC Bank NV O/Dublin	CHF	100 000	3M LIBOR+1,6p.p.	15.06.2018	315 616
KBC Bank NV O/Dublin	CHF	165 000	3M LIBOR+4,5p.p.	28.06.2019	520 541
KBC Bank NV O/Dublin	PLN	75 000	WIBOR+3,0p.p.	30.01.2019	74 943
Total					**911 100**

Balance sheet as at 31.12.2009 (comparable data)

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabi lities
	by currency	in '000			
KBC Bank NV O/Dublin	CHF	100 000	3M LIBOR+1,6p.p.	15.06.2018	275 818
KBC Bank NV O/Dublin	CHF	165 000	3M LIBOR+4,5p.p.	28.06.2019	455 060
KBC Bank NV O/Dublin	PLN	75 000	WIBOR + 3,0p.p.	30.01.2019	74 938
Total					**805 816**

55. Equity

Share capital

As at 31.12.2010, the parent company's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares of nominal value of PLN 5.00 each. The parent company's shares are registered shares and bearer shares, but not preference shares. Each share entitles its holder to one vote at the parent company's General Meeting of Shareholders. The parent company's shares are admitted to public trading on the main market of the Warsaw Stock Exchange. The share capital did not change in 2010.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2010.

Registered shares

The parent company's Shareholders hold 65,864 registered shares, which account for 0.02% of the share capital. Registered shares as at 31.12.2010:

Series	Number of shares
A	2 942
C	1 425
F	5 792
P	29 042
S1	26 663
Total	**65 864**

Series A, C and F shares were admitted to stock exchange trading on condition that they are converted into bearer shares, and series P and S1 shares may be admitted to stock exchange trading when respective authorizations are obtained.

Bearer shares

The parent company's shareholders hold 271,593,016 bearer shares, which account for 99.98% of the share capital. Originally, the number of bearer shares amounted to 264,204,350. In addition, as a result of the conversion of registered shares into bearer shares, there are 7,388,666 bearer shares. Bearer shares as at 31.12.2010:

(Original) Bearer shares		Following the conversion of registered shares into bearer shares	
Series	**Number of shares**	**Series**	**Number of shares**
B	2 500 000	A	2 497 058
D	100 000	C	98 575
E	1 580 425	F	308 923
G	480 000	P	3 660 640
H	3 777 350	S1	823 470
I	5 600 000		
J	4 400 000		
K	2 278 814		
L	2 000 000		
M	10 000 000		
N	847 000		
O	25 000 000		
R	32 583 993		
T	49 301 056		
U	63 387 072		
W	60 368 640		
Total	**264 204 350**	**Total**	**7 388 666**
Total bearer shares			**271 593 016**

The table below presents the list of major shareholders of Kredyt Bank S.A. as at 31.12.2010.

Shareholder	Line of business	Number of shares and votes at GMS	Share in votes and in share capital (in %)
KBC Bank NV* – party of KBC Group*	Banking	217 327 103	80.00
KBC Securities NV* – subsidiary of KBC Bank NV **	Brokerage house	11 751 771	4.33
KBC Insurance NV* – party of KBC Group***	Insurance	7 860 918	2.89
Pioneer Fundusz Inwestycyjny Otwarty	Investment fund	20 040 203	7.38

** By the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, KBC Bank N.V. is entitled to exercise no more than 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A.*
*** Figures as at 09.09.2009 received from KBC Group NV and KBC Bank NV*
**** Figures received on 15.07.2010 from KBC Group NV*

On 15.04.2010, Kredyt Bank S.A. was informed by Pioneer Pekao Investment Management S.A. ('PPIM') about the exceeding by Pioneer Fundusz Inwestycyjny Otwarty ('Pioneer FIO') of the threshold of 5% of votes at the General Meeting of Shareholders of Kredyt Bank S.A. PPIM, indicating the performance of the agreement on the provision of services related to the management of the investment portfolio of funds, informed, in the notification mentioned above, that, as at 9.04.2010, the portfolio of Pioneer FIO had comprised the total of 20,040,203 shares of Kredyt Bank S.A. accounting for 7.38% of the share capital and giving the right to 7.38% of the total number of votes at the General Meeting of Shareholders of Kredyt Bank S.A.

On 15.07.2010, a notification was received concerning the transaction made between entities in KBC Group. KBC Insurance purchased from KBL Private Bankers 7,860,918 shares of Kredyt Bank S.A. accounting for 2.89% in the capital and votes at the Bank's General Meeting of Shareholders.

On 8 and 15 February 2011, the Bank was notified of the decrease in the number of shares in the Bank's capital held to these dates by the entities of KBC Group NV by more than 1% of the total number of votes. The details of the transactions are described in Note 73.

Supplementary capital

	31.12.2010	Comparable data 31.12.2009
From the distribution of retained profit	889 340	784 039
Total supplementary capital	**889 340**	**784 039**

The Bank's net profit for 2009 amounting to PLN 165,300,922.87 was allocated to:

- reserves – PLN 60,000,000.00;
- the remaining amount, i.e. PLN 105,300,922.87 to supplementary capital.

Revaluation reserve

	31.12.2010	Comparable data 31.12.2009
Valuation of available-for-sale financial assets	47 981	-4 540
Valuation of derivatives designated for cash flow hedge	25 378	11 597
Deferred tax on items recognized in revaluation reserve	-13 938	-1 341
Total revaluation reserve	**59 421**	**5 716**

Reserves

	31.12.2010	Comparable data 31.12.2009
General banking risk reserve created from profit	400 942	340 942
Total reserves	**400 942**	**340 942**

General banking risk reserve is created from profit after tax according to the Banking Law.

56. Granted off-balance sheet liabilities

By types

	31.12.2010	Comparable data 31.12.2009
Financing	**3 958 357**	**4 008 224**
- undrawn credit lines	2 738 911	2 818 780
- undrawn overdraft facilities	636 999	632 284
- limits on credit cards	446 973	434 988
- opened import letters of credit	135 474	121 459
- term deposits to be released	0	713
Guarantees	**2 080 340**	**1 795 144**
- guarantees granted	2 079 880	1 793 780
- export letters of credit	460	1 364
Total	**6 038 697**	**5 803 368**

Financing by maturity dates

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	348 777	362 421
- 1-3 months	313 351	255 586
- 3-6 months	291 334	295 411
- 6 months to 1 year	1 470 460	1 572 538
- 1-3 years	437 070	287 770
- 3-5 years	214 972	655 978
- over five years	882 393	578 520
Total	**3 958 357**	**4 008 224**

Guarantees by maturity dates

	31.12.2010	Comparable data 31.12.2009
- up to 1 month	35 594	69 577
- 1-3 months	86 333	79 191
- 3-6 months	52 915	82 497
- 6 months to 1 year	232 753	279 518
- 1-3 years	463 754	435 272
- 3-5 years	644 706	219 948
- over five years	564 285	629 141
Total	**2 080 340**	**1 795 144**

Major items in 'contingent liabilities' related to the guarantees issued for customers are guarantees of good contracts performance and loan repayment guarantees. The Bank offers its customers guarantees as a standard loan product offer mainly for corporate customers. Commission income from guarantees granted are charged to fee and commission income in the income statement on a straight-line basis over the lifetime of the guarantee.

The Group treats guarantees granted and unconditional financing liabilities as an exposure with credit risk for the purpose of credit risk management. The assessment of risk under issued guarantees is an element of the credit risk assessment process resulting from other credit products held by particular customers, i.e. all credit facilities, including guarantees, issued to particular borrowers are at the same time analysed for the occurrence of the impairment indicators and required level of allowance for impairment.

As at 31.12.2010, the estimated amount of provisions for the guarantees granted and unconditional financing liabilities amounted to PLN 49,877 thousand and as at 31.12.2009, to PLN 11,429 thousand. This amount is presented in Note 52 as 'provision for off-balance sheet items'.

57. Capital adequacy ratio

	31.12.2010	Comparable data 31.12.2009
Capital requirement, including:	**2 278 833**	**2 238 980**
- credit risk	2 016 969	1 973 217
- market risk	32 749	26 532
- operational risk	229 115*	239 231**
Own funds and short-term capital	**3 562 209**	**3 309 476**
Basic capitals	**2 549 062**	**2 459 492**
- share capital	1 358 294	1 358 294
- supplementary capital	889 340	784 039
- revaluation reserve included in basic equity	-15 806	-34 555
- other reserves	400 942	340 942
- retained earnings (loss)	-65 709	65 033
- net profit included in the calculation of capital adequacy ratio	73 312	4 053
- dividends predicted	-33 728	0
- intangible assets	-50 201	-51 248
- shares in financial entities (50%)	-7 382	-7 066
Supplementary funds	**1 013 147**	**849 984**
- revaluation reserve included in supplementary equity	53 995	18 526
- subordinated liabilities included in equity	913 434	808 017
- shares in financial entities (50%)	-7 382	-7 066
- short-term capital	53 100	30 507
Capital adequacy ratio (%)	**12.51**	**11.82**
Ratio, including basic funds%	**8.95**	**8.79**

* estimated on the basis of the Standardized Approach
** estimated on the basis of the Basic Indicator Approach (BIA)

As at 31.12.2010 and 31.12.2009, the capital adequacy ratio was calculated as required by the regulations of the Polish Financial Supervision Authority.

Below, we present the information concerning the compliance with capital requirements:

1) Amounts accounting for 8% of risk weighted exposures separately for each class of exposure defined in § 20 clause 1 of Annex No. 4 to the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

	31.12.2010	Comparable data 31.12.2009
The amount of the capital requirement for credit risk*, including counterparty credit risk:	**2 016 969**	**1 973 217**
- central governments and central banks	0	0
- regional governments and local authorities	2 454	3 603
- administrative bodies and non-commercial undertakings	8 450	9 523
- multilateral development banks	0	0
- international organisations	0	0
- institutions – banks	71 045	78 971
- corporates	376 390	453 347
- retail	773 399	691 125
- secured by real estate property	694 970	643 981
- past due items	32 706	30 597
- exposures belonging to regulatory high-risk categories	6 865	6 951
- covered bonds	0	0
- securitisation positions	0	0
- exposures to banks and corporates with a short-term credit rating	0	0
- in collective investment undertakings	0	0
- other exposures	50 690	55 119

* estimated on the basis of the Standardized Approach

2) The amounts of minimum capital requirements referred to in § 6 clause 1 items 2-5 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

	31.12.2010	Comparable data 31.12.2009
The amount of the capital requirement for credit risk, including:	**32 749**	**26 532**
- currency risk	0	0
- commodity price risk	0	0
- equity securities price risk	0	0
- price risk of debt instruments	23	0
- general interest rate risk	32 726	26 532

3) The amounts of minimum capital requirements referred to in § 6 clause 1 item 6 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

	Year	2010
Result*	2007	1 442 179
Result*	2008	1 685 448
Result*	2009	1 647 521
Capital Charge	2007	207 300
Capital Charge	2008	242 268
Capital Charge	2009	237 776
Operational risk requirement**		**229 115**

* calculated according to Annex No. 14 to Resolution No. 76/2010 of the Polish Financial Supervision Authority, as amended
* estimated on the basis of the Standardized Approach

	Year	2009
Result*	2007	1 442 179
Result*	2008	1 698 846
Result*	2009	1 643 589
Capital Charge	2007	216 327
Capital Charge	2008	254 827
Capital Charge	2009	246 538
Operational risk requirement**		**239 231**

* calculated according to Annex No. 14 to Resolution No. 380/2008 of the Polish Financial Supervision Authority of 17.12.2008
** estimated on the basis of the Basic Indicator Approach (BIA)

As at 31.12.2010 and 31.12.2009, the exposure concentration limit, the large exposure limit and the capital concentration threshold were not exceeded in Kredyt Bank S.A.

The risk management process is strictly related to the capital management process. According to the industry standards, the amount of the internal capital is defined from the economic point of view. In consequence, the internal capital of Kredyt Bank S.A. is estimated by applying the internal capital model of KBC Group, having regard for all material types of risk and represents:

- the amount of required internal capital on the basis of the present situation;
- an additional amount, if the excess of 'free' internal capital, defined as the difference between available funds and the required internal capital decreases in the scenario based on three years' forecasts of the further development of Kredyt Bank S.A. Capital Group. This additional amount should secure the excess of free internal capital against its full use.

58. Risk metrics underlying the calculations of the capital requirements for credit risk, including counterparty credit risk, set forth in the Banking Law

Balance sheet as at 31.12.2010

Balance sheet instruments

Instrument type	Carrying amount	Risk weighted value
Banking portfolio		
Cash	625 339	0
Receivables	**29 010 523**	**21 778 105**
Net loans and advances to banks (including Central Bank)	1 883 535	177 545
Net loans and advances to customers	27 126 988	21 600 560
Individuals*	**20 712 125**	**15 676 475**
- overdraft facilities	756 252	620 965
- purchased debt	10 944	10 899
- term loans	731 377	649 620
- cash loans, instalment loans and cards	3 231 394	2 456 926
- mortgages	15 958 687	11 914 594
- realised guarantees	423	423
- other receivables	23 048	23 048
Corporate customers and SME	**6 247 514**	**5 876 135**
- overdraft facilities	1 490 724	1 475 577
- term loans	4 136 290	3 798 416
- purchased debt	114 977	114 967
- realised guarantees	203	203
- other receivables, including leasing fees	505 320	486 972
Budgetary sector	**167 349**	**47 950**
- overdraft facilities	2 731	1 421
- term loans	164 618	46 529
Debt securities**	10 487 652	71 812
Other securities, shares and derivatives	175 030	152 372
Non-current assets	523 182	531 109
Intangible assets	50 201	0
Other	446 077	95 691
Total banking portfolio	**41 318 004**	**22 629 089**
Trading portfolio (counterparty risk)	**2 056 242**	**184 232**
Total balance sheet instruments	**43 374 246**	**22 813 321**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.
**in the Banking Book

Off-balance-sheet instruments

Instrument	Nominal value	Balance sheet equivalent	Risk weighted value
Banking portfolio			
Interest rate derivatives	2 687 600	10 088	4 968
Currency derivatives	10 266	103	51
Credit lines	3 804 400	1 486 546	1 314 249
Guarantees granted	2 040 145	970 458	932 331
Letters of credit	135 928	67 964	67 758
Other	9 277	9 277	9 277
Total banking portfolio	**8 687 616**	**2 544 436**	**2 328 634**
Trading portfolio (counterparty risk)	**124 565 768**	**208 930**	**70 156**
Total off-balance-sheet instruments	**133 253 384**	**2 753 366**	**2 398 790**

	Risk weighted value	Capital requirement
Total exposure to credit risk, including counterparty credit risk	**25 212 111**	**2 016 969**

Balance sheet as at 31.12.2009

Balance sheet instruments

Instrument	Carrying amount	Risk weighted value
Banking portfolio		
Cash	702 501	0
Receivables	**26 382 563**	**20 663 681**
Net loans and advances to banks (including Central Bank)	660 705	133 371
Net loans and advances to customers	25 721 858	20 530 310
Individuals*	**18 373 558**	**13 883 109**
- overdraft facilities	689 076	572 483
- purchased debt	5 526	5 501
- term loans	772 856	678 821
- cash loans, instalment loans and cards	3 281 942	2 474 166
- mortgages	13 599 884	10 127 865
- realised guarantees	605	605
- other receivables	23 669	23 668
Corporate customers and SME	**7 130 059**	**6 591 112**
- overdraft facilities	1 367 305	1 346 339
- term loans	5 135 068	4 622 205
- purchased debt	138 043	138 045
- realised guarantees	1 365	1 865
- other receivables, including leasing fees	488 278	482 658
Budgetary sector	**218 241**	**56 089**
- overdraft facilities	1 827	919
- term loans	216 414	55 170
Debt securities**	9 008 410	67 833
Other securities, shares and derivatives	149 408	140 945
Non-current assets	575 774	578 843
Intangible assets	51 248	0
Other	324 281	106 898
Total banking portfolio	**37 194 185**	**21 558 200**
Trading portfolio (counterparty risk)	**1 882 413**	**279 956**
Total balance sheet instruments	**39 076 598**	**21 838 156**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.
**in the Banking Book

Off-balance-sheet instruments

Instrument	Nominal value	Balance sheet equivalent	Risk weighted value
Banking portfolio			
Interest rate derivatives	2 547 600	13 988	6 919
Currency derivatives	2 890	29	29
Credit lines	3 887 365	1 711 405	1 505 488
Guarantees granted	1 782 285	1 206 662	1 165 946
Letters of credit	122 146	61 073	60 748
Other	12 767	12 767	12 197
Total banking portfolio	**8 355 053**	**3 005 924**	**2 751 327**
Trading portfolio (counterparty risk)	**79 560 654**	**233 972**	**75 729**
Total off-balance-sheet instruments	**87 915 707**	**3 239 896**	**2 827 056**

	Risk weighted value	Capital requirement
Total exposure to credit risk, including counterparty credit risk	**24 665 212**	**1 973 217**

59. Discontinued operations

The Group did not carry out operations which were discontinued in 2010 or in 2009.

60. Social assets and the Company Social Benefit Fund (CSBF)

The Group's companies which meet the requirements of the Company Social Benefit Fund Act of 4 March 1994, as amended, establish the Company Social Benefit Fund and create periodical charges for this purpose. The Funds have no property, plant and equipment. The objective of the Funds is to subsidize the Company's employee-related operations, loans borrowed to employees and other employee-related expenses.

The Group's companies set off the Fund assets against its liabilities to them, as these assets are not separate assets.

The table below presents the analysis of the Fund's assets, liabilities and CSBF expenses.

	31.12.2010	Comparable data 31.12.2009
Employee cash loans	9 925	8 706
Cash on CSBF's bank accounts	4 742	5 817
Fund-related payables	14 667	14 523
Charges to the Fund in the period	3 889	3 891

61. Employee benefits

61.1. Employee Stock Ownership Plan

No employee stock ownership plan is implemented in the Group.

61.2. Retirement benefits and other benefits after retirement

The Group's companies pay retirement severance pays to employees who become retired in the amount set out in the Labour Code. As at the balance sheet date, a provision is established on the basis of an actuary's estimate.

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Period beginning	1 408	1 785
Provision recognized	335	184
Paid benefits	-196	-480
Provision reversed	-6	-15
Other changes	44	-66
Total	**1 585**	**1 408**

61.3. Benefits related to the dissolution of employment

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Period beginning	2 279	0
Recognized	0	8 700
Reversed	0	0
Utilization	-2 279	-6 421
Period end	**0**	**2 279**

Furthermore, in 2009, the Group incurred the costs of terminating contracts of employment amounting to PLN 7,073 thousand; they were not subject to the restructuring provision.

62. Related party transactions

In 2010, no significant non-standard transactions had place with related parties whose nature and terms were not related to current operations. All transactions were executed on market terms, without any exceptional or non-standard terms or conditions.

Transaction volumes as well as related income and expenses are presented below.

Balance sheet as at 31.12.2010

Assets	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Loans and advances to banks	0	88 777	17 538	106 315
Derivatives	0	91 481	9 810	101 291
Loans and advances to customers	20 204	0	83 203	103 407
Other assets	1 915	87	10 142	12 144
Total assets	**22 119**	**180 345**	**120 693**	**323 157**

* Including WARTA Group

Liabilities	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Amounts due to banks	0	8 465 593	2 902 893	11 368 486
Derivatives	0	193 330	28 534	221 864
Amounts due to customers	24 591	0	1 420 876	1 445 467
Subordinated liabilities	0	911 100	0	911 100
Other liabilities	0	1 088	11 585	12 673
Total liabilities	**24 591**	**9 571 111**	**4 363 888**	**13 959 590**

* Including WARTA Group

Off-balance sheet items	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Granted financing liabilities	0	0	240 150	240 150
Guarantees granted	0	219 376	152 992	372 368
Received financing liabilities	0	977 267	0	977 267
Guarantees received	0	875 070	116 196	991 266
Derivatives	0	12 094 379	2 559 963	14 654 342
Total off-balance sheet items	**0**	**14 166 092**	**3 069 301**	**17 235 393**

* Including WARTA Group

Income	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2010
Interest income**	0	17 076	496	17 572
Commission income	16 144	274	51 297	67 715
Other operating income	14	62	10 267	10 343
Total income	**16 158**	**17 412**	**62 060**	**95 630**

* Including WARTA Group
**commissions settled according to EIR

Expenses	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2010
Interest expense	515	78 403	27 418	106 336
Commission expense	0	446	-19 888	-19 442
Net trading income	-138	200 816	53 884	254 562
General and administrative expenses, as well as other operating expenses	0	3 660	29 080	32 740
Total expenses	**377**	**283 325**	**90 494**	**374 196**

* Including WARTA Group

Balance sheet as at 31.12.2009

Assets	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Loans and advances to banks	0	28 048	4 638	32 686
Derivatives	0	72 180	18 412	90 592
Loans and advances to customers	0	0	337 880	337 880
Other assets	1 842	5	7 130	8 977
Total assets	**1 842**	**100 233**	**368 060**	**470 135**

* Including WARTA Group

Liabilities	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2009
Amounts due to banks	0	7 530 172	3 436 903	10 967 075
Derivatives	0	126 884	15 552	142 436
Amounts due to customers	8 188	0	1 658 902	1 667 090
Subordinated liabilities	0	805 816	0	805 816
Other liabilities	0	1 435	12 048	13 483
Total liabilities	**8 188**	**8 464 307**	**5 123 405**	**13 595 900**

* Including WARTA Group

Off-balance sheet items	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2009
Granted financing liabilities	0	0	181 150	181 150
Guarantees granted	0	315 538	174 015	489 553
Received financing liabilities	0	1 042 486	0	1 042 486
Guarantees received	0	855 477	173 605	1 029 082
Derivatives	0	12 403 258	1 788 987	14 192 245
Total off-balance sheet items	**0**	**14 616 759**	**2 317 757**	**16 934 516**

* Including WARTA Group

Income	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2009
Interest income**	0	32 564	102 886	135 450
Commission income	9 314	253	27 125	36 692
Other operating income	15	2 950	7 216	10 181
Net gains from the sale of the shares of Żagiel	0	268 274	0	268 274
Total income	**9 329**	**304 041**	**137 227**	**450 597**

* Including WARTA Group
**commissions settled according to EIR

Expenses	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total for 2009
Interest expense	125	108 298	168 331	276 754
Commission expense	0	405	-20 271	-19 866
Net trading income	0	159 725	-4 797	154 928
General and administrative expenses, as well as other operating expenses	0	4 362	24 233	28 595
Total expenses	**125**	**272 790**	**167 496**	**440 411**

* Including WARTA Group

63. Remuneration of the Members of the Supervisory Board and the Management Board of Kredyt Bank S.A. as well as of the Group's companies

Remunerations, awards, bonuses and other benefits paid to Members of the Bank's Management Board.

Bank's Management Board	Term on the Board	01.01.2010-31.12.2010				
		Basic remuneration	Bonus	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2010-31.12.2010	1 220	0	691	0	**1 911**
Lidia Jabłonowska - Luba	01.01.2010-14.03.2010	286	0	631	0	**917**
Gert Rammeloo	01.01.2010-31.12.2010	946	0	447	0	**1 393**
Krzysztof Kokot	01.01.2010-31.12.2010	1 027	0	76	0	**1 103**
Umberto Arts	01.01.2010-31.12.2010	1 587	0	498	0	**2 085**
Zbigniew Kudaś	26.04.2010-31.12.2010	828	0	35	0	**863**
Piotr Sztrauch	15.09.2010-31.12.2010	231	0	21	0	**252**
Total		**6 125**	**0**	**2 399**	**0**	**8 524**

Bank's Management Board	Term on the Board	01.01.2009-31.12.2009				
		Basic remuneration	Bonus**	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2009-31.12.2009	1 215	453	371	0	**2 039**
Lidia Jabłonowska - Luba	01.01.2009-31.12.2009	1 215	370	367	0	**1 952**
Gert Rammeloo	01.06.2009-31.12.2009	473	0	288	0	**761**
Krzysztof Kokot	01.01.2009-31.12.2009	1 045	395	86	0	**1 526**
Umberto Arts	01.01.2009-31.12.2009	1 418	0	447	0	**1 865**
Michał Oziembło*	01.01.2009-15.12.2009	89	0	14	0	**103**
Total		**5 455**	**1 218**	**1 573**	**0**	**8 246**

* Mr. Michał Oziembło received the remuneration for the work on the position of the President of the Management Board of Żagiel S.A., which in 2009 amounted to PLN 553 thousand
**The bonus for 2008 was paid in 2009

Remunerations, awards, bonuses and other benefits for members of the managing authorities in the Group's companies.

Management Boards of Group's Companies	Gross remuneration in the period 01.01.2010-31.120.2010	Gross remuneration in the period 01.01.2009-31.120.2010
Reliz Sp. z o.o.	225	239
Żagiel S.A.	-	2 434
including Michał Oziembło	-	553
Kredyt Lease S.A.	1 108	1 181
Kredyt Trade Sp. z o.o.	473	271
BFI Sp. z o.o.	26	26
Net Fund Administration Sp. z o.o. (01.01.2010-31.03.2010)	60	20
Lizar Sp. z o.o.	0	0
Total	**1 892**	**4 171**

Remunerations, awards, bonuses and other benefits paid to Members of the Bank's Supervisory Board.

Bank's Supervisory Board	Term on the Board	01.01.2010-31.12.2010		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2010-31.12.2010	350	14	**364**
Adam Noga	01.01.2010-31.12.2010	306	14	**320**
Ronny Delchambre	01.01.2010-31.12.2010	0	0	**0**
Dirk Mampaey	01.01.2010-31.12.2010	0	0	**0**
Francois Gillet	01.01.2010-23.02.2010	44	0	**44**
Marek Michałowski	01.01.2010-23.03.2010	66	0	**66**
John Hollows	01.01.2010-26.05.2010	0	0	**0**
Feliks Kulikowski	01.01.2010-26.05.2010	109	14	**123**
Krzysztof Trębaczkiewicz	01.01.2010-26.05.2010	109	14	**123**
Jarosław Parkot	26.05.2010-31.12.2010	0	0	**0**
Stefan Kawalec	26.05.2010-31.12.2010	158	0	**158**
Marko Voljc	26.05.2010-31.12.2010	0	0	**0**
Total		**1 142**	**56**	**1 198**

Bank's Supervisory Board	Term on the Board	01.01.2009-31.12.2009		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2009-31.12.2009	328	14	**342**
Adam Noga	01.01.2009-31.12.2009	287	14	**301**
Francois Gillet	01.01.2009-31.12.2009	246	0	**246**
John Hollows	01.01.2009-31.12.2009	0	0	**0**
Feliks Kulikowski	01.01.2009-31.12.2009	246	14	**260**
Marek Michałowski	01.01.2009-31.12.2009	246	0	**246**
Luc Philips	01.01.2009-27.05.2009	0	0	**0**
Jan Vanhevel	01.01.2009-16.09.2009	0	0	**0**
Krzysztof Trębaczkiewicz	01.01.2009-31.12.2009	246	14	**260**
Delchambre Ronny	16.09.2009-31.12.2009	0	0	**0**
Mampaey Dirk	27.05.2009-31.12.2009	0	0	**0**
Total		**1 599**	**56**	**1 655**

Total remuneration for each category of benefits paid to the Members of the Bank's Management Board and of the Bank's Supervisory Board.

Benefit	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Short-term employee benefits	9 706	9 901
Benefits paid after employment termination	16	0
Severance pays	0	0
Total	**9 722**	**9 901**

In 2010 and 2009, the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries (except for Michał Oziembło, Vice-President of the Management Board).

All disclosures concerning the Members of the Management Board and the Members of the Supervisory Board are presented in this Note and no other material remuneration-related benefits for the Members of the Management Board and the Members of the Supervisory Board were paid.

64. Value of loans and advances granted to Members of the Management Board and of the Supervisory Board of the Bank and in its subsidiaries

Transactions concluded with the Bank's Management Staff are executed within the standard product offer.

As at 31.12.2010, the receivables related to loans and cash loans extended by the Bank amounted to PLN 262,500 thousand for the Bank's employees. As at 31.12.2010, there were no receivables from the Members of the Bank's Management Board and of the Bank's Supervisory Board.

As at 31.12.2009, receivables due to loans and cash loans granted by the Bank amounted to:

- for Members of the Bank's Management Board – PLN 383 thousand;
- for Members of the Bank's Supervisory Board – PLN 628 thousand;
- for the Bank's employees – PLN 233,907 thousand.

As at 31.12.2010, past due debts of employees amount to PLN 66 thousand.

The Members of the Management Board and the Members of the Supervisory Board did not receive any loans and advances in subsidiaries.

All disclosures concerning the Members of the Management Board and the Members of the Supervisory Board are presented in this Note and there is no other material information concerning loans and advances granted to the Members of the Management Boards and the Members of the Supervisory Boards in the Bank and in subsidiaries.

65. Employment structure

FTEs	**31.12.2010**	**Comparable data 31.12.2009**
Bank	4 747	4 809
- Head Office	2 113	2 035
- branches and affiliates	2 634	2 774
Companies	87	87
Total	**4 834**	**4 896**

66. Consolidated cash flow statement – additional information

a) Cash and cash equivalents	**31.12.2010**	**Comparable data 31.12.2009**
Cash and balances with Central Bank	1 943 636	1 175 453
Due from other banks (up to 3 months)	457 807	15 688
Cash and cash equivalents	**2 401 443**	**1 191 141**

In 'Cash and cash equivalents', the Bank presents its obligatory reserve held in line with the adequate regulations, on NBP account, presented as restricted cash, which, as at 31.12.2010 amounted to PLN 1,078,101 thousand, and as at 31.12.2009 – PLN 784,875 thousand.

b) Operating activities – unrealised gains (losses) on currency translation differences	**01.01.2010-31.12.2010**	**Comparable data 01.01.2009-31.12.2009**
Currency translation differences for investment securities	1 380	11 322
Currency translation differences from financial assets held for trading	-64 194	2 583
Currency translation differences from the assets designated upon initial recognition as at fair value through profit or loss	-1 138	-1 115
Currency translation differences on subordinated liabilities	104 664	-34 408
Total	**40 712**	**-21 618**

c) Operating activities - net increase/decrease in impairment	**01.01.2010-31.12.2010**	**Comparable data 01.01.2009-31.12.2009**
Net increase/decrease in impairment losses on loans and advances to banks	0	1
Net increase/decrease in impairment losses on loans and advances to customers	338 114	648 555
Deconsolidation of Żagiel	0	5 065
Net increase/decrease in impairment of property, plant and equipment, intangible assets and investment properties	1 454	-6 618
Total	**339 568**	**647 003**

d) Operating activities – interest	**01.01.2010-31.12.2010**	**Comparable data 01.01.2009-31.12.2009**
Interest on investment securities	-297 496	-315 217
Interest on borrowed loans	79 746	116 373
Interest on leasing	38	104
Interest on subordinated liabilities	34 584	22 692
Total	**-183 128**	**-176 048**

e) Operating activities – gains (losses) from the sale of investments

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Profit/loss on the sale of equity investments	-30	-313 948
Deconsolidation of Żagiel	0	45 663
Profit/loss on the sale of available-for-sale investment securities	-3 644	-4 564
Profit/loss on the sale of held-to-maturity investment securities	-2 812	-139
Profit/loss on sale of property, plant and equipment and intangible assets	1 398	-43
Total	**-5 088**	**-273 031**

f) Loans and advances to banks

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Net balance sheet change	-377 485	150 852
Deconsolidation of Żagiel	0	-7 408
Change in Nostro accounts – cash	12 548	-7 684
Change in term deposits up to 3 months – cash	429 571	-109 910
Debt securities classified in the portfolio of loans and receivables	-898 751	0
Impairment	0	-1
Total	**-834 117**	**25 849**

g) Financial assets held for trading and valuation of derivatives

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Balance sheet change in financial assets held for trading	-421 334	25 967
Balance sheet change in derivatives, excluding the change in derivatives used as hedging instruments in the form of assets	126 850	1 620 176
Currency translation differences in operating activities	65 332	-1 468
Total	**-229 152**	**1 644 675**

h) Operating activities – net increase/decrease in other assets

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Balance sheet change in other assets	11 208	28 472
Deconsolidation of Żagiel	0	-50 332
Net increase/decrease in property, plant and equipment held for sale	-7 070	0
Other net increase/decrease in investment properties	-12 630	-27 489
Debt securities classified in the portfolio of loans and receivables	965 146	0
Other net increase/decrease in property, plant and equipment and intangible assets	16 810	58 790
Other changes	-4 210	15 999
Total	**969 254**	**25 440**

i) Amounts due to banks

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Balance sheet change in amounts due to banks	1 069 016	-1 043 323
Proceeds from loans and advances	-129 069	-1 428 971
Repayment of borrowed loans/advances	1 825 104	1 200 000
Interest on borrowed loans in operating activities	-76 419	-116 373
Paid interest on borrowed loans – presentation in financing activities	61 161	146 551
Total	**2 749 793**	**-1 242 116**

j) Amounts due to customers

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Balance sheet change in amounts due to customers	3 191 604	2 193 788
Deconsolidation of Żagiel	0	-14 990
Proceeds from loans and advances	-196 695	0
Interest on borrowed loans in operating activities	-3 327	0
Paid interest on borrowed loans – presentation in financing activities	3 023	0
Total	**2 994 605**	**2 178 798**

k) Operating activities – net increase/decrease in other liabilities

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Balance sheet change in other liabilities	33 807	-99 025
Deconsolidation of Żagiel	0	22 002
Payment of leasing payables from financing activities	25	79
Valuation of derivatives used as hedging instruments	-1 892	1 458
Other changes	-407	1 761
Total	**31 533**	**-73 725**

l) Net increase/decrease in investment securities

	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Balance sheet change in investment securities	-1 643 881	-2 551 631
Net increase/decrease in interest receivables in operating activities	297 496	315 217
Net increase/decrease in available-for-sale financial assets in operating activities	55 977	-12 133
Net increase/decrease in held-to-maturity investments in operating activities	3 949	139
Balance sheet change in equity investments classified as available-for-sale	-1 370	-1 324
Currency translation differences in operating activities	-1 380	-11 322
Total balance sheet change	**-1 289 209**	**-2 261 054**
Presented as:		
Acquisition in investment activity	-56 709 569	-10 489 849
Disposal in investment activity	55 205 555	7 961 693
Interest received in investment activity	214 805	267 102

m) Financing activities – other financial expenses	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Interest repayment on loans received	-64 184	-146 551
Interest repayment on subordinated liabilities	-33 964	-22 227
Payment of leasing payables	-63	-183
Total	**-98 211**	**-168 961**

n) Subordinated liabilities	01.01.2010-31.12.2010	Comparable data 01.01.2009-31.12.2009
Repayment of interest on subordinated liabilities – presentation in financing activities	33 964	22 227
Accrued interest on subordinated liabilities – presentation in operating activities	-34 584	-22 692
Currency translation differences on subordinated liabilities – presentation in operating activities	-104 664	34 408
Balance sheet change in subordinated liabilities	105 284	526 173
Proceeds from a subordinated loan	**0**	**560 116**

67. Disposal of subordinated companies

On 1.04.2010, the Bank sold:

- to KBC TFI S.A., 970 shares in Net Fund Administration Sp. z o.o. (former Net Banking Sp. z o.o.);
- to PTE WARTA S.A., 1,868 shares in Net Fund Administration Sp. z o.o. (former Net Banking Sp. z o.o.).

Hence, the Bank sold all its shares held in Net Fund Administration Sp. z o.o.

In addition, the Bank's subsidiary, Kredyt Trade Sp. z o.o., sold, on 1.04.2010, to PTE WARTA S.A., one share held by it in Net Fund Administration Sp. z o.o.

In 2009, the Bank sold the shares of Żagiel S.A. Gross profit from this transaction amounted to PLN 268,274 thousand, and net profit, including the income tax deduction, amounted to PLN 228,608 thousand. The net gains from the transaction at the level of the Capital Group differs from the result at the Bank's level by the written off goodwill and other consolidation adjustments.

In the case of the sale of the shares of Żagiel by KBC to an outside entity for an amount lower than PLN 350 million, the Bank's risk is limited to 10% of the selling price (PLN 35 million). According to the best knowledge of the Bank's Management Board, the Bank does not envisage the necessity of incurring expenses by the Bank due to the above-mentioned condition in the agreement. As a result, the Bank failed to recognize the provision on this account.

According to the independent opinion prepared by a consulting company, KPMG Advisory, upon the order of the Management Board of Kredyt Bank S.A., the financial conditions of the sale of the shares of Żagiel S.A. were included in the fair value range for the shares of Żagiel S.A. estimated by KPMG Advisory (including the repositioning of Żagiel S.A. in December 2009) and, as a result, they were fair from the viewpoint of the interests of Kredyt Bank S.A.

Below, we present the calculation of the result at the Group level.

Sales revenue	350 000
Tax value of the shares of Żagiel	*141 231*
Taxable income	*208 769*
Company's net assets as at the date of the sale (expense)	45 674
Goodwill as at the date of the sale (expense)	36 052
Gross result on sale	**268 274**
Taxation	39 666
Net result on sale	**228 608**

68. Assets pledged as collateral

As at 31.12.2010, the following assets in the form of debt securities were collateral for the Group's own liabilities:

- Treasury bonds of the nominal value of PLN 130,000 thousand and of the carrying amount of PLN 130,600 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 240,000 thousand and of the carrying amount of PLN 235,899 thousand as security for the loan extended by the European Investment Bank;
- Treasury bonds of the nominal value of PLN 190,000 thousand and of the carrying amount of PLN 198,767 thousand and Treasury bills with the nominal value of PLN 200,000 thousand and the carrying amount of PLN 209,032 thousand pledged in relation to IRS transactions hedging cash flow with the Ministry of Finance.

As at 31.12.2009, the following assets in the form of Treasury bonds were collateral for the Group's own liabilities:

- Treasury bonds of the nominal value of PLN 105,000 thousand and of the carrying amount of PLN 106,301 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds with the nominal value of PLN 1,400,000 thousand and with the carrying amount of PLN 1,424,872 thousand and Treasury bills with the nominal value of PLN 50,000 thousand and carrying amount of PLN 48,989 thousand pledged in relation to REPO transactions with the National Bank of Poland (NBP).

69. Changes in the Management Board and in the Supervisory Board of Kredyt Bank S.A. in 2010

On 14.03.2010, Ms. Lidia Jabłonowska-Luba resigned from the position of the Vice President of the Management Board and the membership in the Management Board of the Bank. The above resignation is related to Ms. Lidia Jabłonowska-Luba's acceptance of the job offer in the Head Office of KBC.

On 26.04.2010, the Bank's Supervisory Board appointed Mr. Zbigniew Kudaś as a Member and Vice President of the Bank's Management Board.

In relation to the decision of the Supervisory Board of the Bank that, since 15.09.2010, the Management Board of the Bank will be composed of six members, Mr. Piotr Sztrauch was appointed the Vice President of the Management Board.

As at 31.12.2010, the Management Board of Kredyt Bank S.A. was composed of:

Mr. Maciej Bardan	- President of the Management Board, CEO
Mr. Umberto Arts	- Vice President of the Management Board, Vice CEO
Mr. Krzysztof Kokot	- Vice President of the Management Board, Vice CEO
Zbigniew Kudaś	- Vice President of the Management Board, Vice CEO
Mr. Gert Rammeloo	- Vice President of the Management Board, Vice CEO
Piotr Sztrauch	- Vice President of the Management Board, Vice CEO

In 2010, the following persons resigned from the membership in the Bank's Supervisory Board: Mr. Francois Gillet from 23.02.2010 and Mr. Marek Michałowski from 23.02.2010.

Furthermore, on 26.05.2010, the Ordinary General Meeting of Shareholders of the Bank appointed the Supervisory Board with an altered composition. As a result, Mr. John Hollows, Mr. Feliks Kulikowski and Mr. Krzysztof Trębaczkiewicz terminated their work as Members of the Supervisory Board, and Mr. Jarosław Parkot, Mr. Marko Voljč and Mr. Stefan Kawalec were appointed as new Members of the Supervisory Board.

As at 31.12.2010, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board
Mr. Adam Noga	- Vice Chairman of the Supervisory Board
Mr. Ronny Delchambre	- Member of the Supervisory Board
Mr. Dirk Mampaey	- Member of the Supervisory Board
Jarosław Parkot	- Member of the Supervisory Board
Marko Voljc	- Member of the Supervisory Board
Stefan Kawalec	- Member of the Supervisory Board

70. Seasonality or cyclical nature of operations

The operations of the Group's companies are not of seasonal nature.

71. Non-typical factors and events

In 2010, no untypical events occurred in the Group (not related to operating activities) that would affect the structure of balance sheet items and the financial result to a large extent, and which were not presented in these financial statements.

Apart from the transaction presented in section 67 of the Notes, in 2009, no untypical events occurred in the Group (not related to operating activities) that would affect the structure of balance sheet items and the financial result to a large extent, and which were not presented in these financial statements.

72. Dividends paid and declared

The final conclusions concerning the payment and amount of dividend for 2010 or the decision not to pay dividend will be submitted to the Supervisory Board by the Bank's Management Board prior to the convening of the General Meeting of Shareholders which will approve the Bank's financial statements for 2010. Following their examination, the Supervisory Board will submit its opinion to the General Meeting of Shareholders. The Management Board's recommendation concerning the distribution of the Bank's result for 2010 will take into account both the Bank's current financial situation and its development plans for the future.

Pursuant to the Resolution of the General Meeting of Shareholders of Kredyt Bank S.A. concerning the distribution of profit for 2009 adopted on 26.05.2010, the dividend for 2009 was not be paid.

73. Events after the reporting period

On 8 and 15 February 2011, the Bank was notified of the decrease in the number of shares in the Bank's capital held to these dates by the entities of KBC Group NV by more than 1% of the total number of votes. According to the received information, as a result of the sale of the shares of Kredyt Bank S.A., KBC Securities NV and KBC Insurance NV disposed of all the Bank's shares held by them. However, the number of the Bank's shares held by KBC Bank NV did not change. The details of the transactions are available in the Bank's current reports dated 8 and 16 February 2011.

In February 2011, the Bank signed two credit lines agreements with the European Investment Bank under which it obtained EUR 150 million of long-term financing. The Bank will allocate all the funds to provide attractive financing in the form of loans, leasing and municipal bonds to entrepreneurs and local government units. Details of the signed agreements are presented in the current report dated 9.02.2011.

Apart from the above issues, no significant events which should be disclosed in the financial statements had place from the balance sheet date to the publication date of these financial statements.

74. Fair value of financial assets and liabilities not recognized at fair value in the balance sheet

74.1. Fair value

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

The main categories of financial assets and liabilities not measured in the Group's balance sheet at fair value are assets or liabilities measured at amortised cost or historical cost:

- loans and advances granted as well as other own receivables not held for trading;
- held-to-maturity investments;
- available-for-sale financial assets recognized at cost, including equity investments;
- financial liabilities not held for trading.

The table below shows the carrying amount and estimated fair value of the Group's financial assets and liabilities not recognized in the Group's balance sheet at fair value.

31.12.2010

	Carrying amount	Fair value
Assets		
Cash and balances with Central Bank	**1 943 636**	**1 943 636**
Net loans and advances to banks	**1 463 989**	**1 463 853**
Net loans and advances to customers	**27 126 988**	**25 090 361**
Individuals*	**20 712 125**	**18 713 044**
- overdraft facilities	756 252	744 510
- purchased debt	10 944	10 860
- term loans **	731 377	719 605
- cash loans, instalment loans and cards	3 231 394	3 099 182
- mortgages	15 958 687	14 115 382
- realised guarantees	423	352
- other receivables	23 048	23 153
Corporate customers and SME	**6 247 514**	**6 212 751**
- overdraft facilities	1 490 724	1 483 616
- term loans **	4 136 290	4 110 815
- purchased debt	114 977	112 677
- realised guarantees	203	241
- other receivables, including leasing fees	505 320	505 402
Budgetary sector	**167 349**	**164 566**
- overdraft facilities	2 731	2 731
- term loans **	164 618	161 835
Held-to-maturity investment securities	**3 247 779**	**3 238 283**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.
** The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary sector – investment and working capital loans

The significantly lower fair value as compared to the carrying amount of mortgages is an effect of changes in margins related to such types of loans. At the end of 2010, they were definitely higher than those related to the majority of the portfolio of mortgages (granted prior to 2009).

	Carrying amount	Fair value
Liabilities		
Amounts due to banks and Central Bank	12 150 712	12 151 055
Amounts due to customers	25 660 758	25 666 079
Other financial liabilities recognized in the balance sheet at amortised cost ***	911 100	911 100

*** The item contains: subordinated liabilities and liabilities arising from repurchase transactions.

31.12.2009 (comparable data)

	Carrying amount	Fair value
Assets		
Cash and balances with Central Bank	**1 175 453**	**1 175 453**
Net loans and advances to banks	**187 753**	**186 151**
Net loans and advances to customers	**25 721 858**	**22 865 454**
Individuals*	**18 373 558**	**15 574 883**
- overdraft facilities	689 076	684 310
- purchased debt	5 526	5 556
- term loans **	772 857	746 355
- cash loans, instalment loans and cards	3 281 941	3 257 960
- mortgages	13 599 884	10 856 459
- realised guarantees	605	553
- other receivables	23 669	23 690
Corporate customers and SME	**7 130 059**	**7 077 522**
- overdraft facilities	1 367 305	1 363 397
- term loans **	5 135 068	5 086 639
- purchased debt	138 043	137 853
- realised guarantees	1 365	1 355
- other receivables, including leasing fees	488 278	488 278
Budgetary sector	**218 241**	**213 049**
- overdraft facilities	1 827	1 866
- term loans **	216 414	211 183
Held-to-maturity investment securities	**2 753 338**	**2 750 885**

* The item contains: amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.
** The item contains mainly: in the case of individuals – investment loans and working capital loans for individual entrepreneurs and mortgage loans, and in the case of corporate and budgetary sector – investment and working capital loans

The significantly lower fair value as compared to the carrying amount of mortgages is an effect of changes in margins related to such types of loans. At the end of 2009, they were definitely higher than those related to the majority of the portfolio of mortgages (granted prior to 2009).

	Carrying amount	Fair value
Liabilities		
Amounts due to banks and Central Bank	12 403 492	12 403 621
Amounts due to customers	22 469 154	22 495 553
Other financial liabilities recognized in the balance sheet at amortised cost ***	805 816	805 816

*** The item contains: subordinated liabilities and liabilities arising from repurchase transactions.

74.2. Loans and advances to banks and to customers

As stated in the sections concerning the accounting principles adopted by the Group and the material accounting estimates, granted loans and advances and other own receivables not held for trading are measured at amortised cost with the effective interest rate method, having regard for impairment measured on the basis of future expected cash flows (including those generated upon the sale of loan collateral) discounted with the original effective interest rate.

Poland does not have an active market on which loans and receivables may be traded, therefore, it is not possible to reliably determine the market price of these assets. Estimates performed on the basis of the models of measurement relying on discounted expected cash flows of the principal and interest is the best reflection of the fair value. The discount rate is the market rate as at the balance sheet date plus credit margin offered on the market for particular loan facilities and specific customer groups/segments.

74.3. Held-to-maturity investments and available-for-sale financial assets

As stated in the section on the accounting principles adopted by the Group, held-to-maturity investments are measured at amortised cost with the effective interest rate methodology. Available-for-sale debt securities not measured at fair value in the balance sheet are also measured in this way. The market prices of securities applied in the measurement of fair value, for both categories of assets, do not take into consideration any potential adjustments resulting from the limited liquidity of the market or transaction costs.

The Group has no material commitment in shares of companies which are recognized at historical cost. Minority interests are also of specific nature, as, to a large extent, they are shares taken up for a borrowers' debt, therefore there is no active market for those assets and the fair value estimation may significantly differ from the real offers.

74.4. Other financial assets not recognized in the balance sheet at fair value

In the case of certain groups of financial assets held at the value of the payment due, it was assumed that fair value was equal to the book value. It is mainly related to cash and current receivables.

74.5. Financial liabilities not held for trading

As stated in Note 49 and Note 50, the bulk of deposits made in banks and customer deposits are deposits on current accounts and term deposits with balance sheet maturities of less than three months.

75. Information on proceedings before a court, an authority competent for arbitration proceedings or a public administration authority

In 2010, the companies of the Group were not a party to any proceedings before a court, an authority competent for arbitration proceedings or a public administration authority, where the amount(s) claimed would amount to at least 10% of the Bank's (issuer's) equity.

Below are presented those proceedings, in which the amounts claimed are the highest and in which a company of the Group is the defendant.

- Two court proceedings regarding a credit granted to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec ('LFO'). The Bank is the leader of the syndicate of five banks, which, under the agreement of 04.03.1997, granted a syndicated loan to LFO. The loan was secured by, among others, a registered pledge on the company's property, plant and equipment and the surety of the State Treasury up to 60% of the drawn amount of the loan and accrued interest. As the investment project for which the loan was extended had not been completed and the dates of the payment of commitments had not been met, the Bank, representing the syndicate, terminated the agreement under its terms and conditions and called LFO to pay claims.

- The State Treasury requested for determination whether the syndicated loan agreement concluded between LFO and the syndicate of five banks had expired on 28.02.1998 as a result of the occurrence of a contractual condition, and, as a result, the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement had expired as well. The State Treasury is represented by the General Public Prosecutor's Office of the State Treasury. Experts' opinions and auxiliary opinions were prepared and additional witnesses were questioned. In the first quarter of 2007, the State Treasury changed the lawsuit and claimed PLN 8,207 thousand including interest. The parties exchanged pleadings. In the fourth quarter of 2008, the court requested the Bank to submit documents concerning the debt collection process carried out against the State Treasury on the basis of a banking executory title with the enforceability clause. The Bank delivered the required documents to the court. In September 2010, the court ordered the Bank to hand over the documents confirming the launch of the loan (the launches dates and amounts) to an accounting expert.
- Claims of LFO for damages due to the termination of the loan agreement amounting to PLN 119,477 thousand. At present, after being heard by courts of all instances, the case was referred to the circuit court in Warsaw, which, as a result of LFO bankruptcy, stayed legal proceedings. Upon the request of LFO, the court called upon the trustee in bankruptcy of LFO to participate in the case. In the meantime, the parties submitted pleadings.

- A trustee in bankruptcy of a company operating in the real estate developing sector (the name of the company is subject to confidentiality application) claims for payment of indemnity of PLN 32,256 thousand by the reason of effecting by the Bank of financial orders from the company's account on the basis of bank transfers orders and checks bearing a forged signature of one of the persons authorized to represent the company in dealings with the Bank. At the hearing on 21.11.2006, the plaintiff limited its claim for interest. The total amount claimed by the plaintiff equals PLN 20,665 thousand. On 20.03.2007, the court announced its decision and claimed the whole disputed amount with interest from the Bank. Having received the justification of the judgment, the Bank lodged the appeal and requested to summon the member of the company's management board who had forged signatures. By the judgment of 8.04.2008, the appeal court overruled the judgment of the court of first instance (in the judgment, the court stated that the limitation of claims for damages by lapse of time had not been examined) and referred the case to the circuit court to be re-examined. The first hearing at which the positions of the parties were established was held on 25.07.2008. At the hearing on 3.07.2009, the court continued the examination of the facts concerning the original bank transfer orders. At the hearing held on 30.12.2009, the court dismissed the lawsuit of the trustee in bankruptcy, adjudging for the Bank the reimbursement of the costs of the proceedings, including the costs of legal representation. The trustee in bankruptcy appealed against the judgment. The Bank replied to the appeal. On 09.11.2010, the District Court dismissed the appeal of the trustee, taking the decision in the case in favour of the Bank.
- On 17.01.2001, the President of the Office for Competition and Customer Protection, upon the request of the Polish Organization of Commerce and Distribution (POHiD), initiated proceedings concerning competition-restricting practices on the payment cards market by VISA and MasterCard as well as 20 banks, including Kredyt Bank S.A. On 29.12.2006, the President of the Office for Competition and Customer Protection issued the decision in which:
  - they imposed a fine on Kredyt Bank of PLN 12,158.4 thousand;

- HSBC Bank Polska S.A. was fined with PLN 193.0 thousand and the proceedings against this company were discontinued (under a binding agreement between HSBC and Kredyt Bank S.A., the fine for HSBC should be paid by Kredyt Bank S.A. as well).

The decision was to be enforced immediately as regards the order to discontinue the practice of joint determination of the intercharge fee rate. On 17.01.2006 and 19.01.2007, appeals against Decision No. DAR 15/2006 of the President of the Office for Competition and Customer Protection were made on behalf of HSBC Bank Polska and Kredyt Bank. In this decision, the President of the Office for Competition and Customer Protection resolved that joint determination by the Banks, Visa and MasterCard of the interchange fee restricted competition. On 18.01.2007, the President of the Office for Competition and Customer Protection issued a decision in which they obliged the banks to jointly and severally pay PLN 157.6 thousand to the Polish Organization of Commerce and Distribution (POHiD) as reimbursement of the proceedings costs. Kredyt Bank S.A. complained against this decision on 31.01.2007 and deemed it unjustified. The case was referred to the Economic Court in Warsaw which split the case into separate proceedings against each of the banks involved in the case. On 25.08.2008, the court decided to withhold the execution of the decision issued in the case of interchange fees. On 12.11.2008, the circuit court in Warsaw, the Competition and Customer Protection Court, issued a judgment amending the contested decision, in which the court stated that the Banks had not applied monopolistic practices in this respect. On 3.02.2009, the Bank received the appeal against the judgment made by the President of the Office for Competition and Customer Protection. The Bank submitted its reply to the appeal of the President of the Office for Competition and Customer Protection. At the hearing held on 22.04.2010, the court issued a judgment by which it overruled the judgment of the circuit court and referred the case to the circuit court to be re-examined.

- In relation to a loan transaction to finance the construction of ‘Altus’ building in Katowice, the Bank and Reliz Sp. z o.o. (the building owner) are involved in certain disputesof legal nature. The Bank owns 100% shares of Reliz. The said disputes are related to claims of the guarantor of the loan to finance the building, i.e. Mostostal Zabrze Holding S.A. MZH), against the Bank and the building owner. The present dispute concerns fraudulent conveyance charge by Mostostal Zabrze Holding S.A. against Reliz Sp. z o.o. regarding the failure to recognize the agreement on the transfer of ownership title to ‘Altus’ building by Business Center 2000 Sp. z o.o. (‘BC 2000’) to Reliz Sp. z o.o. as effective. The value of the subject of litigation amounts to PLN 46 million. In the Bank’s opinion, a part of potential claims is prescribed. On 31.07.2009, the circuit court announced the judgment which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning ‘Altus’ building concluded between BC 2000 and Reliz. On 12.03.2010, the court of appeal overruled the judgment of the circuit court and referred the case to the circuit court to be re-examined. On 16.06.2010, as a result of the re-examination of the case, the circuit court in Katowice issued a judgment which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning the real estate with ‘Altus’ building in relation to MZH’s claims up to the amount of PLN 46 million. The Bank asked for the judgment with the justification. Having received the judgment with the justification, an appeal to the judgment was made. The date of the appeal proceedings was set by the court for 01.03.2011. In December 2010, the Bank was informed that MZH had filed two further lawsuits against BC 2000 concerning the claim, which would possibly be satisfied from the said real property.
- The plaintiff claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 20 million and PLN 10 million as the satisfaction of the claim. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company and the plaintiff in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff’s opinion, Prosper Bank violated the agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment issued by the district court on 11.01.1999 resulted in the loss of his

property and his detriment amounting to PLN 30 million. Kredyt Bank submitted a reply to the lawsuit on its own and HSBC's behalf. On 28.09.2010, the circuit court in Warsaw issued a judgment on the dismissal of the plaintiff's lawsuit against Kredyt Bank S.A. and HSBC Bank Polska S.A. The plaintiff made an appeal to this decision, and the Bank replied to it.

- The plaintiff (a company engaged in leasing activities) claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 89 million. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff's opinion, Prosper Bank violated the bill agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment of 11.01.1999 issued by the District Court resulted in the collapse of the company's financial situation; as a result, the plaintiff recorded damage to his assets of PLN 73.7 million increased with interest. On 9.04.2010, the court dismissed the plaintiff's lawsuit. On 15.07.2010, the Bank received the plaintiff's appeal to which the Bank replied.
- On 23.12.2010, a plaintiff (a production company) filed a lawsuit against Kredyt Bank S.A. questioning the validity of the settlements of option transactions made between July 2008 and August 2009. The plaintiff claims and accuses the Bank of, inter alia, unauthorized financial advisory and persuading him to make the transactions, the failure to exercise due diligence, the contradiction between the option transaction structure and the hedging function of such transactions. On 30.12.2010, the circuit court in Gliwice issued an order for the Bank, delivered to the Bank on 13.01.2011, to pay the claimed amount to the plaintiff. The Bank's representatives prepared and filed an objection to the payment order. The filing of the objection will result in the re-examination of the case, within the normal procedure of fact-finding proceedings.

The Management Boards of the Group's companies are of the opinion that any risks related to the proceedings before courts or public administration authorities are properly secured by the provisions established by the Bank.

76. Custodian services

An offer of the Bank's custodian services entails maintaining securities accounts for domestic and foreign, both institutional and individual, customers. For the special group of customers, i.e. investment funds, the Bank also plays a role of a custodian bank and an issue sponsor.

The Bank holds an authorization of the Polish Securities and Exchange Commission to maintain securities accounts; it is also a direct participant of the National Depository for Securities (KDPW) as a Custodian Bank and a participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP). On this basis, the Bank maintains accounts for securities admitted to public trading, deposited in KDPW or RPW. The Financial Transactions Clearing Office in the Bank's Head Office is the Bank's unit responsible for maintaining securities accounts and the provision of the services of the issue sponsor.

In 2010, income related to the maintenance of securities accounts and registers as well as the services of an issue sponsor and of the custodian bank amounted to PLN 5,661 thousand as compared to PLN 4,673 thousand in 2009.

77. Risk management at Kredyt Bank S.A. Capital Group

The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, play the most important role in the risk management process.

The Bank's Supervisory Board, through the Audit Committee, Risk and Compliance is informed about the most vital decisions and gives opinions about the actions of the Management Board in this respect.

In 2010, particular risks were dealt with directly management by specialised Committees:

- Assets and Liabilities Management Committee – responsible for management of the risk in the banking portfolio and in the trading portfolio as well as management of the Bank's structural liquidity;
- Operating Risk Committee – supervising the management of the operational risk;
- Credit Risk Committee – supervising the credit risk management process.

Members of the Management Board supervise works of the above committees; there are at least two Board Members in each committee.

All types of risk in Kredyt Bank are measured and monitored by the departments in the Risk and Capital Management Function, which is supervised by the Member of the Management Board accountable for the risk and capital management. The following departments operate in the Risk and Capital Management Function:

- Capital Management Department;
- Corporate and SME Loans Risk Department;
- Retail Loans Risk Department;
- Operational Risk Department;
- Market Risk Department.

These units monitor and report all risk-related aspects, at the same time being fully independent of the Bank's business units.

In the process of the identification, measurement and risk management, the Bank applies techniques relevant to a given type of risk.

The overriding objectives of risk management policy concerning mainly the observance of internal and external limits and optimising and mitigating risk in the process of ongoing monitoring are being systematically implemented. The risk management process is strictly related to the capital management process. The main objective of capital management in the Bank is to optimise it and, at the same time, to meet external capital requirements. To achieve this goal, in the first half of 2008, the Bank implemented ICAAP (Internal Capital Adequacy Assessment Process).

77.1. Credit risk

Credit risk in Kredyt Bank S.A. is defined as the potential shortfall relative to the value expected for a financial instrument consequent on non-payment or non-performance by a borrower, guarantor or counter-guarantor, counterparty (in relation to treasury transactions) or an issuer (of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The Bank is the main entity in the Group that generates credit risk.

Credit risk management process in Kredyt Bank entails the following phases:

- risk identification,
- risk measurement (e.g. maximum approach, risk weighted assets, Exposure At Default – EAD, Expected Loss – EL, Unexpected Loss – UL),
- limits monitoring (e.g. exposures concentrations related to loans used to finance commercial properties, related to residential properties, industrial properties, professional properties and commercial properties),
- reporting,
- an analysis and formulation of recommendations,
- a decision-making process.

The main participants in the credit risk management process, within the organisation of the risk management system, are as follows:

- Supervisory Board;
- Audit, Risk and Compliance Committee;
- Bank's Management Board,
- Credit Risk Committee,
- Retail Loans Risk Department,
- Corporate and SME Loans Risk Department,
- Business lines managers,
- Audit and Inspection Department.

Credit risk is managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective.

The process of risk management for individual transactions entails risk assessment for such a transaction and, depending on its level, application of an appropriate decision-making process. The Corporate and SME Loans Risk Department and the Retail Loans Risk Department play the key role in the process of risk management for individual transactions.

The portfolio risk management is the main responsibility of the Credit Risk Committee. The main tasks of the Committee are as follows:

- supporting the Management Board in:
  - the development and review of the risk management system, including the lending policy;
  - informing about the risk management system;
  - monitoring the implementation status of the risk management system;
  - establishing tolerance to risk (e.g. portfolio limits);
  - monitoring the implementation status of measures taken in response to observed risk;
- taking measures in response to observed risk;
- mathematical and operational aspects (such as the application of models, monitoring measures, etc.) of all credit risk models developed and/or applied in Kredyt Bank,
- taking decisions concerning credit risk related to the powers granted by the Management Board.

The Group's gross exposure towards 10 major corporate customers

31.12.2010		31.12.2009	
Company	**Share (%) in the portfolio**	**Company**	**Share (%) in the portfolio**
Customer 1	3.8	Customer 1	3.4
Customer 2	3.4	Customer 2	2.6
Customer 3	2.7	Customer 3	2.4
Customer 4	2.0	Customer 4	2.4
Customer 5	2.0	Customer 5	2.4
Customer 6	1.8	Customer 6	2.2
Customer 7	1.8	Customer 7	2.1
Customer 8	1.5	Customer 8	1.8
Customer 9	1.5	Customer 9	1.8
Customer 10	1.4	Customer 10	1.7
Total	**21.9**	**Total**	**22.8**

The Group's exposure in geographical segments

Province	Gross loans structure (%) 31.12.2010	Comparable data Gross loans structure (%) 31.12.2009
Mazowieckie	21.0	21.7
Lubelskie	11.8	13.3
Dolnośląskie	10.6	10.6
Wielkopolskie	8.9	8.7
Pomorskie	8.6	7.9
Małopolskie	7.3	7.2
Śląskie	6.4	6.3
Zachodniopomorskie	5.2	4.9
Łódzkie	4.3	4.0
Podlaskie	3.2	3.1
Kujawsko-pomorskie	3.1	3.0
Podkarpackie	2.7	2.7
Warmińsko-mazurskie	2.4	2.2
Lubuskie	2.0	1.8
Świętokrzyskie	1.2	1.3
Opolskie	1.2	1.1
Non-resident	0.1	0.2
Total	**100.0**	**100.0**

The Bank's debt in industrial segments (excluding individuals)

Industry	Exposure % 31.12.2010	Comparable data Exposure % 31.12.2009
Production activities	30.5	30.5
Retail and wholesale; repairs of motor vehicles and articles for personal and home use	25.2	25.2
Real estate administration and lease	17.8	17.7
Financial intermediation	7.1	7.1
Construction	5.8	5.8
Transport, storing and communication	3.5	3.5
Agriculture, hunting and forestry	2.4	2.5
Public administration and national defence, legally guaranteed social care	2.0	2.0
Mining	1.7	1.7
Health care and social care	1.1	1.1
Supplies of electricity, gas and water	1.0	1.0
Hotels and restaurants	0.8	0.8
Other services for municipalities, social and individual services	0.8	0.8
Education	0.2	0.2
Fishing and fish culture	0.1	0.1
Total	**100.0**	**100.0**

As at 31.12.2010 and 31.12.2009, the limits of the concentration were not exceeded.

The Bank monitors established legal securities of loan transactions by evaluation of the value of approved collateral on the basis of documents lodged by the borrower (including valuations of appraisers) and internal databases including historic data about the recoverability of collateral.

The Group's maximum exposure to credit risk

Balance sheet instruments	31.12.2010	31.12.2009
Debt securities and shares in investment funds:	**12 108 649**	**10 074 962**
- available-for-sale	6 215 539	6 031 010
- held-to-maturity*	4 214 062	2 753 338
- financial assets at fair value through profit or loss	1 679 048	1 290 614
Derivatives	**463 159**	**571 410**
Borrowed loans and granted deposits	**29 010 523**	**26 382 563**
- net loans and advances to banks* (including Central Bank)	**1 883 535**	**660 705**
- net loans and advances to customers*, including:	**27 126 988**	**25 721 858**
Individuals	**20 712 126**	**18 373 558**
- overdraft facilities	756 253	689 076
- purchased debt	10 944	5 526
- term loans	731 377	772 857
- cash loans, instalment loans and cards	3 231 394	3 281 941
- mortgages	15 958 687	13 599 884
- realised guarantees	424	605
- other receivables	23 047	23 669
Corporate customers and SME	**6 247 513**	**7 130 059**
- overdraft facilities	1 490 724	1 367 305
- term loans	4 136 290	5 135 068
- purchased debt	114 977	138 043
- realised guarantees	203	1 365
- other receivables, including leasing fees	505 319	488 278
Budgetary sector	**167 349**	**218 241**
- overdraft facilities	2 731	1 827
- term loans	164 618	216 414
Various debtors (receivables recognized in other assets)	**75 485**	**86 829**
Total	**41 657 816**	**37 115 764**

Granted off-balance sheet liabilities	31.12.2010	31.12.2009
Financial	3 958 357	4 008 224
Guarantees	2 080 340	1 795 144
Total liabilities granted	**6 038 697**	**5 803 368**
Total assets and off-balance sheet items	**47 696 513**	**42 919 132**

* Debt securities classified as loans and receivables are presented in 'held-to-maturity debt securities'.

Having regard for the existing macroeconomic situation, which is characterized by a high level of uncertainty as regards the future evolution and a relatively low rate of its improvement, the Bank focused on the monitoring of credit risk with the use of cyclical and provisional reports and analyses in order to response fast to disadvantageous trends in the quality of the loans portfolio. The Group established early warning signs within portfolio limits, the principles for their monitoring and procedure in the case they are exceeded. On the basis of the findings of the analyses, the Bank introduced changes in the credit policy aiming at improving the quality of the loans portfolio.

The main areas of changes in terms of credit policy include:

a) for the portfolio of retail customers:

- tightening the credit policy and requirements for the customers without any borrowings history or other product relation with the Bank;
- implementing 'T Recommendation';
- tightening up the credit verification of individual customers borrowing mortgage loans by centralizing the process of making credit decisions and a partial centralization of the decision-making process for the remaining loan products for individual customers;
- addressing the product offer mainly at existing customers with good behavioural assessments;
- introducing changes into the monitoring and debt recovery process for mortgage loans, which involve, inter alia, the expansion of the scope of the restructuring process for individual loans;

b) for the portfolio of corporate and SME customers:

- implementing new, more flexible financing conditions for hotels;
- implementing new principles of financing commercial real properties;
- continuing to limit the financing of more risky corporate customers (with lower PD ratings) and more risky industries;
- reviewing the parametrization of the products offered by the Bank to corporate and SME customers, e.g. the review of the investment loan, the working capital loan in a credit account and discount products.

Currency derivatives (net of embedded derivatives)

	31.12.2010		Comparable data 31.12.2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Total balance sheet exposure, excluding banks	24 967	23 339	44 964	18 622
Net position aggregated at customer level, excluding banks	17 669	16 041	35 625	9 283

As at 31.12.2010, the Bank hedged concluded currency contracts by freezing cash on bank accounts in the total amount of PLN 9 million. The valuation of derivatives also entails credit risk. In 2010, the write–downs for active and mature derivatives of PLN 26 million, including PLN 8 million related to active transactions (presented in net trading income), and PLN 18 million related to mature transactions (presented in impairment losses), were reversed in the Bank's income statement.

As at 31.12.2009, the Bank hedged concluded currency contracts by freezing cash on bank accounts in the total amount of PLN 18 million. The valuation of derivatives also entails credit risk. In 2009, the write–down for active and mature derivatives of PLN 69 million, including PLN 16 million related to active transactions (presented in net trading income), and PLN 53 million – mature transactions (presented in impairment losses), was disclosed in the Bank's income statement.

77.2. Operational risk

The Group defines the operational risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents.

To calculate the capital requirement for operational risk, the Group applies the Standardized Approach.

As a result, the Bank, inter alia:

- has specified roles and responsibilities of employees within this system;
- keeps a record of operational events and losses resulting from the operational risk;
- has the operational risk management system which is regularly reviewed by independent auditors.

Pursuant to the requirements concerning the application of the Standardized Approach, the Bank strengthened the operational risk assessment system. Risk self-assessment (RSA) is carried out systematically in particular business areas, action plans to reduce the risk are implemented and the level of risks is measured with the applications of key risk indicators (KRI).

Business units play a significant role in the implementation of operational risk management tools and techniques, as the direct responsibility for the operational risk management is on the managers of particular business lines.

The infrastructure of management and methodology are coherent within the Bank and its subsidiaries. Identification and operational risk rating tools are identical. The whole process is supervised by the Operational Risk Committee and the Bank's Management Board.

77.3. Market risk and ALM

Market risk is defined as a degree of the hazard to the Bank's financial standing resulting from adverse changes in market parameters (interest rates, exchange rates and prices of shares) and their market volatility.

The Bank does not trade on the stock market (investments in shares are long-term investments or investments in strategic subsidiaries). The Bank does not trade on commodity markets. In the Bank, among all types of market risks, we deal with interest rate risk and currency risk.

The Bank's activity is divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk is monitored in each book separately.

77.3.1. Trading Book

The Trading Book is a separated part of the Bank's portfolio, where the Bank intends to generate income resulting from short-term changes in prices, interest rates, exchange rates or other market parameters. The main activity of the Trading Book is associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.

Value at Risk (VaR) is the basic metric of risk in the trading portfolio. Value at Risk means such a value that the probability of the Bank's loss exceeding this value amounts to 1% (with assumed 99% level of significance) Value at Risk (VaR) in the Bank is calculated by historical method in the time horizon of 10 days, taking into account market figures for the previous 500 days. VaR limit for the Trading Book overlaps Global VaR, which includes both the currency risk and the interest rate risk. All presented calculations of risk metrics for the Trading Book relate to the Bank's positions.

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

	Limit	31.12.2010	Data for 2010		
			Average	Minimum	Maximum
VaR	3 000.00	706.11	1 778.10	644.97	3 202.60

Comparable data as at 31.12.2009:

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

	Limit	31.12.2009	Data for 2009		
			Average	Minimum	Maximum
VaR	3 000.00	1 562.61	1 102.51	438.19	2 084.90

77.3.1.1 Interest rate risk

Interest rate risk reflects a degree of a hazard to the Bank's financial standing arising from adverse changes in market interest rates.

The level of interest rate risk is monitored and limited (by establishment of limits) against BPV (basis point value – price sensitivity to parallel shifts in interest rates on the yield curve).

All above-mentioned limits concern the total Trading Book. The Trading Book Unit in the Cash Processing Department managing the Trading Book is divided into two sections (with the primary term of instruments/transactions made on the interbank market as the basic division criterion): Short Term Desk and Long Term Desk. The activities of the Trading Book in the area of interest rate risk are limited by an internal limit on VaR for the interest rate position and stop-loss limits (the maximum acceptable value of the loss). Interest rate risk VaR is calculated using the same parameters as Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon.

In the first half of 2010, the limit on interest rate HVaR was exceeded, which resulted from the maintenance of large positions in PLN. It should be noted that, for the same reason, in the first half of the year, we recorded incidental cases of exceeding the global HVaR limit in the Trading Book.

VaR for particular sections – in EUR '000'

	Limit	31.12.2010	Data for 2010		
			Average	Minimum	Maximum
Trading*	2 600.00	708.19	1 659.73	597.28	3 220.61
Short term Desk**	1 300.00	-	1 691.67	1 060.52	2 767.96
Long Term Desk**	1 300.00	-	671.56	224.92	1 317.28

* the limit has been valid since 24 March 2010 (the data presented in the table refer to the period 24.03.2010 – 31.12.2010)
** the limit abolished on 24 March 2010 (the data presented in the table refer to the period 1.01.2010 – 23.03.2010)

Comparable data as at 31.12.2009:

VaR for particular sections – in EUR '000'

	Limit	31.12.2009	Data for 2009		
			Average	Minimum	Maximum
Short term Desk	1 300.00	1 500.86	1 009.63	384.14	1 895.44
Long Term Desk	1 300.00	528.67	462.70	120.05	1 027.89

The interest rate risk analysis is supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.

Interest rate options

The Bank also offers interest rate options. The Bank does not maintain an options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of interest rate option transactions does not exist.

77.3.1.2 Currency risk

Position in currencies

Exchange rate risk is a degree of the risk for the Bank's financial standing resulting from adverse changes in exchange rates on the market. This risk covers income on currency exchange operations and measurement of open position in currencies resulting from the difference between the value of assets and liabilities in a given currency. The Bank's position in currencies is managed for the Trading Book and the Banking Book jointly. The Bank's position in currencies is managed in the Trading Book.

The daily analysis of the sensitivity of the total Trading Book position to currency risk is performed through the calculation of currency risk VaR (with the same parameters as Global VaR, i.e. the significance range of 99%, 10-day time horizon and 500-day observation horizon). Currency risk VaR values are as follows:

VaR for the Trading Book – currency risk – in EUR '000'

	31.12.2010	Data for 2010		
		Average	Minimum	Maximum
Trading	19.11	114.27	15.24	1 117.65

Comparable data as at 31.12.2009:

VaR for the Trading Book – currency risk – in EUR '000'

	31.12.2009	Data for 2009		
		Average	Minimum	Maximum
Trading	155.54	223.77	15.35	1 371.54

In the event of the currency risk, 'value at risk' method is supplemented daily by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in exchange rates.

Currency options

The Bank also offers currency options. The Bank does not maintain an options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of currency option transactions does not exist.

Below, we present the breakdown of balance sheet and off-balance sheet items by main currencies.

Balance sheet as at 31.12.2010:

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	3 079	45 405	6 187	19 227	1 862 169	7 569	1 943 636
Gross loans and advances to banks	24 320	387 007	2 951	37 230	994 625	20 116	1 466 249
Impairment losses on loans and advances to banks	0	0	0	0	-2 260	0	-2 260
Receivables arising from repurchase transactions	0	0	0	0	87 218	0	87 218
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	31 149	87 413	0	118 562
Financial assets held for trading (excluding derivatives)	0	7 030	0	1 581	1 592 672	0	1 601 283
Derivatives	2 319	38 000	138	4 612	418 035	55	463 159
Gross loans and advances to customers	10 294 388	2 295 813	19 122	328 414	16 170 117	666	29 108 520
Impairment losses on loans and advances to customers	-36 206	-49 894	-4	-9 152	-1 818 721	-23	-1 914 000
Investment securities:	0	353 883	0	0	9 113 357	0	9 467 240
- available-for-sale	0	312 444	0	0	5 907 017	0	6 219 461
- held-to-maturity	0	41 439	0	0	3 206 340	0	3 247 779
Investments in associates valued using the equity method	0	0	0	0	15 179	0	15 179
Property, plant and equipment	0	0	0	0	290 444	0	290 444
Intangible assets	0	0	0	0	50 201	0	50 201
Deferred tax assets	0	0	0	0	350 387	0	350 387
Non-current assets classified as held for sale	0	0	0	0	7 070	0	7 070
Investment properties	0	0	0	0	225 668	0	225 668
Other assets	271	7 615	20	116	87 632	36	95 690
Total assets	**10 288 171**	**3 084 859**	**28 414**	**413 177**	**29 531 206**	**28 419**	**43 374 246**

Balance sheet as at 31.12.2010 (cont.)

in PLN '000'	**CHF**	**EUR**	**GBP**	**USD**	**PLN**	**Other currencies**	**Total**
Liabilities							
Amounts due to Central Bank	0	0	0	0	6	0	6
Amounts due to banks	8 024 194	1 478 413	4 104	2 225 862	397 759	20 374	12 150 706
Derivatives	169	47 663	1 030	5 567	1 076 642	7	1 131 078
Amounts due to customers	9 143	1 885 733	83 942	688 276	22 985 939	7 725	25 660 758
Liabilities arising from repurchase transactions	0	0	0	0	228 693	0	228 693
Current tax liability	0	0	0	0	155 197	0	155 197
Provisions	54	25 365	0	1 013	66 379	0	92 811
Deferred tax liability	0	0	0	0	869	0	869
Other liabilities	80	7 055	86	648	206 909	26	214 804
Subordinated liabilities	836 156	0	0	0	74 944	0	911 100
Total liabilities	**8 869 796**	**3 444 229**	**89 162**	**2 921 366**	**25 193 337**	**28 132**	**40 546 022**

Off-balance-sheet items as at 31.12.2010

in PLN '000'	**CHF**	**EUR**	**GBP**	**USD**	**PLN**	**Other currencies**	**Total**
Off-balance sheet items							
Liabilities granted:	**28 754**	**1 566 937**	**23 744**	**196 431**	**4 193 579**	**29 252**	**6 038 697**
- financial	28 754	666 003	368	168 823	3 094 409	0	3 958 357
- guarantees	0	900 934	23 376	27 608	1 099 170	29 252	2 080 340
Liabilities received:	**973 848**	**312 423**	**0**	**0**	**794 039**	**5 392**	**2 085 702**
- financial	973 848	0	0	0	28 101	5 392	1 007 341
- guarantees	0	312 423	0	0	765 938	0	1 078 361
Liabilities related to the sale/purchase transactions	**6 150 912**	**6 926 354**	**118 980**	**4 955 853**	**116 597 183**	**30 309**	**134 779 591**
Other:	**2 452 739**	**557 463**	**0**	**35 118**	**4 904 651**	**44**	**7 950 015**
- collateral received	2 452 739	557 463	0	35 118	4 904 651	44	7 950 015

Balance sheet as at 31.12.2009 (comparable data)

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	2 323	44 679	7 161	21 707	1 098 344	1 239	1 175 453
Gross loans and advances to banks	65 014	85 348	1 708	20 060	10 864	7 019	190 013
Impairment losses on loans and advances to banks	0	0	0	0	-2 260	0	-2 260
Receivables arising from repurchase transactions	0	0	0	0	331 875	0	331 875
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	30 385	125 015	0	155 400
Financial assets held for trading (excluding derivatives)	0	594	0	7 378	1 171 977	0	1 179 949
Derivatives	1 347	57 462	18	18 303	494 196	84	571 410
Gross loans and advances to customers	9 563 306	2 096 201	23 725	361 371	15 252 462	679	27 297 744
Impairment losses on loans and advances to customers	-18 656	-55 947	-11	-9 719	-1 491 529	-24	-1 575 886
Investment securities:	0	417 662	0	0	8 371 980	0	8 789 642
- available-for-sale	0	305 755	0	0	5 730 549	0	6 036 304
- held-to-maturity	0	111 907	0	0	2 641 431	0	2 753 338
Investments in associates valued using the equity method	0	0	0	0	11 955	0	11 955
Property, plant and equipment	0	0	0	0	353 534	0	353 534
Intangible assets	0	0	0	0	51 248	0	51 248
Deferred tax assets	0	0	0	0	217 383	0	217 383
Investment properties	0	0	0	0	222 240	0	222 240
Other assets	2	8 238	60	2 350	96 219	29	106 898
Total assets	**9 613 336**	**2 654 237**	**32 661**	**451 835**	**26 315 503**	**9 026**	**39 076 598**

Balance sheet as at 31.12.2009 (comparable data) (cont.)

in PLN '000'	**CHF**	**EUR**	**GBP**	**USD**	**PLN**	**Other currencies**	**Total**
Liabilities							
Amounts due to Central Bank	0	0	0	0	1 321 802	0	1 321 802
Amounts due to banks	7 162 205	2 455 292	368	814 062	639 830	9 933	11 081 690
Derivatives	16	59 295	22	14 877	466 770	88	541 068
Amounts due to customers	9 159	1 743 903	82 949	807 089	19 815 631	10 423	22 469 154
Current tax liability	0	0	0	0	32 282	0	32 282
Provisions	78	1 398	0	273	52 168	0	53 917
Deferred tax liability	0	0	0	0	1 289	0	1 289
Other liabilities	62	7 347	20	1 029	172 537	2	180 997
Subordinated liabilities	730 878	0	0	0	74 938	0	805 816
Total liabilities	**7 902 398**	**4 267 235**	**83 359**	**1 637 330**	**22 577 247**	**20 446**	**36 488 015**

Off-balance-sheet items as at 31.12.2009 (comparable data)

in PLN '000'	**CHF**	**EUR**	**GBP**	**USD**	**PLN**	**Other currencies**	**Total**
Off-balance sheet items							
Liabilities granted:	**53 589**	**971 362**	**21 059**	**257 858**	**4 469 454**	**30 046**	**5 803 368**
- financial	53 589	451 129	15 929	126 063	3 349 930	11 584	**4 008 224**
- guarantees	0	520 233	5 130	131 795	1 119 524	18 462	**1 795 144**
Liabilities received:	**1 163 422**	**378 960**	**0**	**74 652**	**791 817**	**772**	**2 409 623**
- financial	1 163 422	0	0	0	21 048	772	**1 185 242**
- guarantees	0	378 960	0	74 652	770 769	0	**1 224 381**
Liabilities related to the sale/purchase transactions	**4 819 012**	**5 816 530**	**53 743**	**3 295 340**	**75 926 195**	**24 917**	**89 935 737**
Other:	**2 371 920**	**369 790**	**0**	**53 093**	**4 345 786**	**44**	**7 140 633**
- collateral received	2 371 920	369 790	0	53 093	4 345 786	44	**7 140 633**

77.3.1.3 Capital market risk

The Bank does not operate on the stock market within the Trading Book.

77.3.1.4 Commodity price risk

The Bank is not active on the commodity market within the Trading Book.

77.3.1.5 Capital requirements

The capital requirements for the Trading Book as of 31.12.2010 and 31.12.2009 are as follows:

Capital requirements for the Trading Book (data in PLN '000')

	31.12.2010	Comparable data 31.12.2009
Equity securities price risk	0	0
Specific risk of debt instruments	23	0
General interest rate risk	32 726	26 532
Settlement risk and counterparty risk	20 351	28 455
Currency risk (total for the Trading Book and the Banking Book)	0	0
Total capital requirement in the Trading Book	**53 100**	**54 987**

77.3.2. Banking Book

The Banking Book covers operations not covered by the trading portfolio, i.e. commercial activities of branches, credit intermediaries and the portfolios of securities hedging the liquidity and constant interest income.

77.3.2.1. Interest rate risk

The Bank actively manages the interest rate risk for 5 main currencies of the balance sheet: PLN, EUR, USD, CHF, GBP.

An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics are calculated on that basis:

- sensitivity of the measurement of assets and liabilities (BPV);
- duration;
- accumulated gap ratios.

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book is based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes in interest rates. In the case of financial instruments without defined maturity dates (according to stability analyses for each type of product), the Bank implemented the model of periodic deposits rollover, which replicates the behaviour of particular products. This approach allows for effective management of risk associated with this type of instruments and for the generation of constant income from investments of these assets.

Stress-testing and VaR calculations are additional interest rate risk monitoring tools in the Banking Book.

The following items are in the Banking Book:

- Hedging – the item resulting from the operation of branches (with hedging transactions) composed of:
  - benchmark portfolios of current accounts in PLN, EUR and USD,
  - a benchmark portfolio of savings accounts in PLN,
  - the branch position excluding the part of stable current and savings accounts.
- Transformation, composed of:
  - a benchmark portfolio of Free Capital,
  - the position with credit risk (Credit Book),
  - ALCO portfolio – the portfolio of tactical investments.

Interest rate risk analysis

The interest rate risk analysis was conducted upon the following assumptions:

- the stable part of current accounts in PLN and EUR is cyclically invested for the period of:
  1. 8 years for PLN;
  2. 5 years for EUR;
- due to the noticeable many-year downward trend for current accounts in USD and a low total balance, a decision was made in May 2009 to gradually eliminate the benchmark of current accounts in USD by not extending the maturing benchmark structure and assets in the portfolio (so far, based on the 2-year investment horizon) – the benchmark of current accounts in USD will finally expire on 1.08.2011;
- the stable portion of savings accounts in PLN is invested cyclically (every month) for the period of 5 years;
- unstable parts of current accounts in PLN, EUR and USD, and current accounts in other currencies are classified in the shortest time horizon;
- the unstable part of savings accounts in PLN is invested in terms from 1 to 3 months (cyclically every month) and O/N; savings accounts in other currencies are classified in the shortest time horizon;
- free capital approved for the whole year is still invested cyclically for the period of 10 years (with 1/120th of the free capital invested monthly), an excess or shortage compared to an actual amount of free capital is classified in the shortest time horizon, and the passive portion of the free capital portfolio is deemed as insensitive to changes in interest rates;
- a benchmark is applied to items of loans classified by the Capital Management Department as non-performing (40% - ON, 30% - 1M, 30% - 3M);
- loans are recognized in net terms;
- loans are presented according to repayment schedules;
- the gap report, apart from for nominal flows, also presents known future interest flows;
- each flow is divided proportionally into two parts which are classified in adjoining nodes of the curve;
- a cumulative gap is calculated from the longest to the shortest term periods.

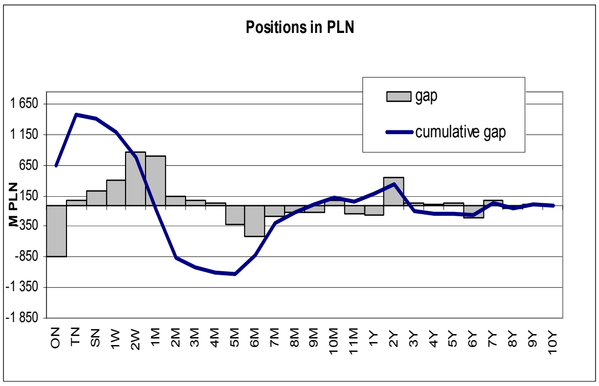
The interest rate gaps diagrams for the position resulting from the operation of branches (including derivatives used as hedging instruments) based on an internal system of transfer rates in particular currencies: PLN, EUR, USD, CHF and GBP, are presented below.

The diagrams present the mismatch between the repricing periods for assets and liabilities in time ranges: from ON time range (overnight) to 10Y time range (10 years). The accumulated gap presents the total mismatch for a given time horizon; the gaps are accumulated beginning from the most remote date. The most noticeable mismatch both in particular time ranges and accumulated ranges appear in time ranges up to 3 months. It is related to the structure of the Bank's balance sheet, namely customers' floating interest rate loans portfolio with repricing periods of 1 month and 3 months and financing, i.e. customers' deposits and long-term floating interest rate loans are the main position affecting the interest rate gap.

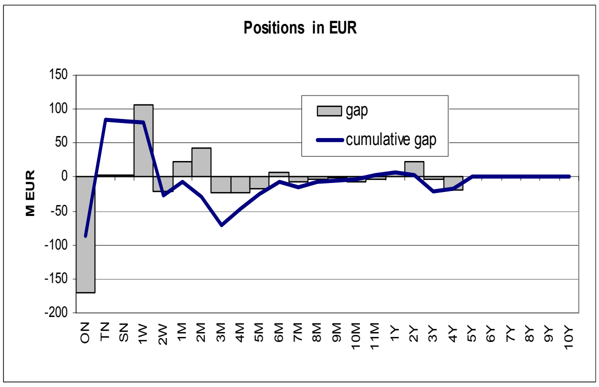
The Bank actively mitigates the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

Data for the Bank as at 31.12.2010:

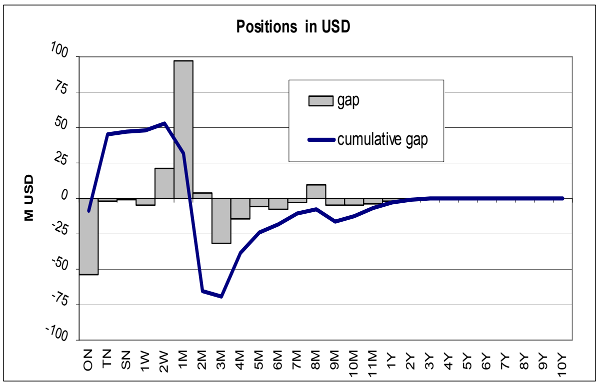
PLN



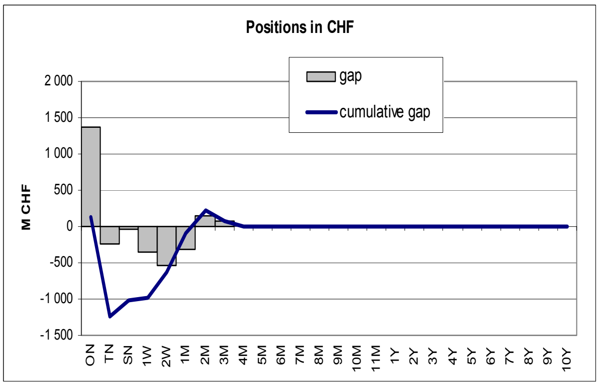
EUR



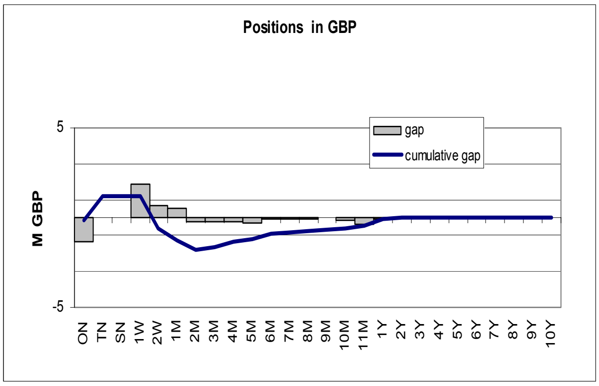
USD



CHF

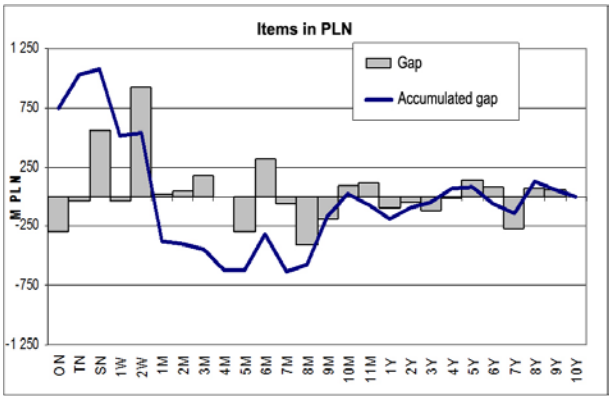


GBP

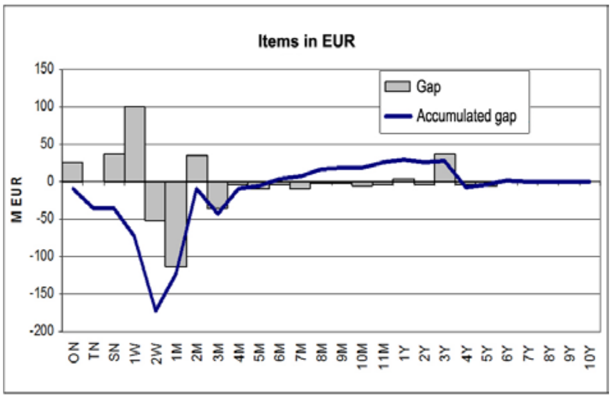


Comparable data for the Bank as at 31.12.2009:

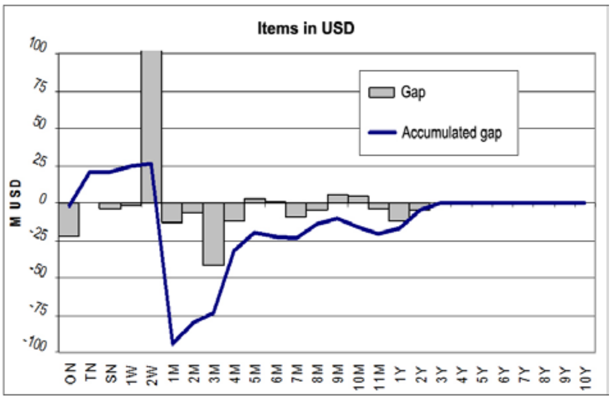
PLN



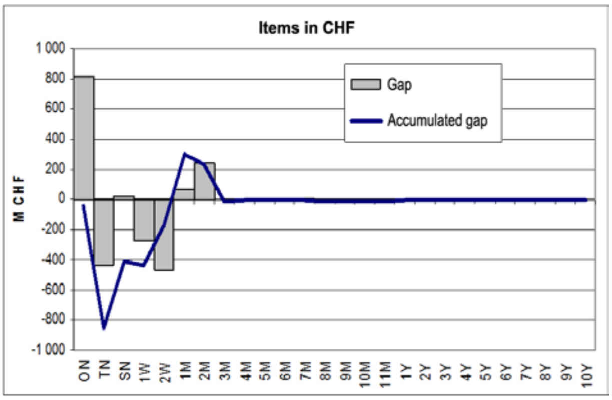
EUR



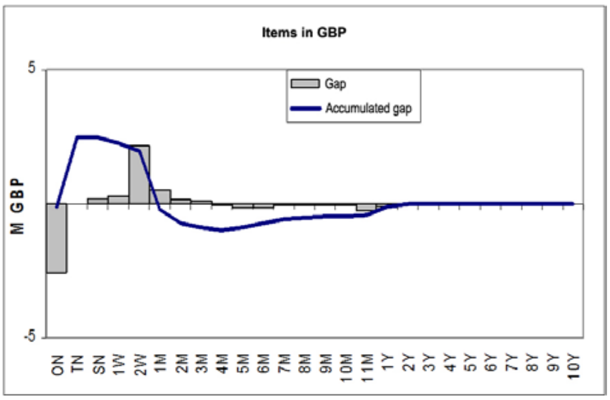
USD



CHF



GBP



The Bank analyses BPV of the Bank, with the simultaneous upward shift of interest rates by 10 b.p. in breakdown into particular currencies.

The total BPV for the Banking Book is presented below. It is calculated as the aggregate BPV for particular currencies and portfolios. According to the methodology of calculating BPV for limits, the liabilities side of the Free Capital portfolio, as insensitive to changes in interest rates, is not included in calculations.

	31.12.2010	Comparable data 31.12.2009
BPV in millions of EUR (calculation to limit)	-2.134	-1.888

77.3.2.2. Hedge accounting

Fair value hedging accounting

In 2010 and 2009, the Bank did not apply hedge accounting for fair value hedge for asset swaps.

Hedge accounting of cash flows

In 2010, as in 2009, the Bank continued to apply hedge accounting of cash flows for asset swaps which consists in hedging cash flows resulting from floating interest rate bonds (which involves the conclusion of an IRS in which the Bank receives fixed and pays floating interest flows).

In 2010, as in 2009, the Bank continued to apply hedge accounting for the part of the mortgage loans portfolio based on 3-month WIBOR rate, which involves the conclusion of an IRS in which the Bank receives fixed and pays floating interest rates. Interest rate risk resulting from a change in the 3-month interest rate is the hedged risk in this case.

77.3.2.3. Currency risk

As mentioned above, the position in currencies is managed in the Trading Book. The positions related to the Bank's customers' transactions arising during the day are transferred, via internal transactions, to the Trading Book.

It should be noted here that the currency risk at Kredyt Bank is perceived not only as the risk occurring for an open position in currencies, but also as the risk of a change in the value of certain products as a result of changes in exchange rates. In particular, this risk occurs in the case of loans extended in foreign currencies. In order to mitigate credit risk, increasing in the case of the growth in the exchange rate of the loan currency (this also refers to loans granted in PLN, with its value indexed to the foreign currency exchange rate), the loans agreements for institutional customers contain clauses on the establishment of additional collateral or permit to translate the loan, when the customer does not generate income in the loan currency. Additionally, in order to hedge the exchange rate risk the customer is exposed to, derivatives (forwards, options) are offered to him.

In order to mitigate the currency risk on granting mortgages in a foreign currency to individual customers, the Bank, analysing the creditworthiness:

a) determines the value of the highest monthly interest and principal repayment instalment for the applied loan with the assumption that the principal of the applied loan is 20% higher;

b) calculates the maximum level of LtV *(Loan To Value)* ratio on a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio);

c) additionally, the applicant is informed about the foreign exchange risk.

In May 2010, the Bank eliminated from its offer mortgages denominated in CHF, focusing on the development of the offer in PLN and EUR.

77.3.3. Liquidity risk

The liquidity risk is strictly associated with activities of any bank. It results, among other things, from the mismatch of assets and liabilities in terms of maturity dates what is a natural effect of varied customers' requirements as regards deposits and loans. Maintenance of financial liquidity, understood as the ability to timely meet financial liabilities, is the crucial element of the policy on assets and liabilities management applied by the Bank. The current liquidity is maintained through correcting the surplus or shortage of liquid cash by operations conducted on the interbank money market. The Bank's safety calls for the maintenance of liquid reserves as well as the term and quality structure of the whole balance sheet. Decisions related to liquidity risk management are made by the Bank's Assets and Liabilities Management Committee. The Market Risk Department measures and monitors strategic (long-term) liquidity.

The Bank hedges the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account the volume of statutory provisions;
- possession of a proper volume of portfolios of liquid securities (governmental bonds);
- performing transactions on derivatives;
- maintenance of a diversified portfolio of deposits as regards terms and customers;
- access to the interbank market and open market transactions;
- access to the lombard loan.

Support of KBC Group, the strategic investor, is a crucial factor affecting the safety of the Bank's operations.

An analysis of the Bank's liquidity is performed mainly on the basis of the liquidity gap report and the assessment of the deposit base stability by, among others, monitoring the mismatch of the maturity dates of assets and liabilities, what makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date.

Amounts due to customers as at 31.12.2010 and at 31.12.2009 – contractual flows (interest flows according to the methodology of Financial Services Authority are recognized up to 6 months); the stable part of savings and current accounts is recognized in the shortest term range.

Liquidity gap report

Data for the Bank (in millions of PLN) as at 31.12.2010

Assets	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	Over 5Y	Total
Cash in hand	625	0	0	0	0	0	0	0	**625**
NOSTRO	1 346	0	0	0	0	0	0	0	**1 346**
Liabilities granted:	966	1 114	1 585	2 054	2 950	2 143	2 656	13 937	**27 405**
Loans and receivables	96	0	0	0	0	0	0	0	**96**
Liquid bonds, money and Treasury bills	304	52	677	190	441	922	2 672	1 383	**6 641**
Non-liquid bonds/to become mature	0	22	493	0	1 209	378	1 189	387	**3 678**
Liquid bonds in the Trading Book	1 694	0	0	0	0	0	0	0	**1 694**
Reverse repos/BSB	87	0	0	0	0	0	0	0	**87**
Equity investments	0	0	0	0	0	107	0	0	**107**
Other	0	44	0	0	2	0	0	0	**46**
Derivatives – cash flows to be received									
FX derivatives	2 547	2 176	2 538	1 111	138	0	0	0	**8 510**
IR derivatives	117	546	462	0	0	0	0	0	**1 125**
CIRS – cash flows to be received	402	3	13	454	0	20	24	0	**916**
Total	**8 184**	**3 957**	**5 768**	**3 809**	**4 740**	**3 570**	**6 541**	**15 707**	**52 276**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	Over 5Y	Total
Current accounts	4 005	5	6	0	0	0	0	0	**4 016**
Deposits/savings accounts	14 109	1 792	1 972	743	429	4	1	1	**19 051**
Deposits of the budgetary sector	1 571	101	53	10	20	0	0	0	**1 755**
Inter-bank deposits	6 012	651	518	17	4	0	0	0	**7 202**
Perpetual bonds and cash loans	5	19	25	2 827	2 445	81	14	1 110	**6 526**
LORO	25	0	0	0	0	0	0	0	**25**
REPO	229	0	0	0	0	0	0	0	**229**
Free capital*	0	0	0	0	0	0	0	2 341	**2 341**
Other	0	78	0	834	28	0	0	0	**940**
Derivatives – cash flows to be paid									
FX derivatives	2 548	2 241	2 548	1 125	140	0	0	0	**8 602**
IR derivatives	147	349	1 097	0	0	0	0	0	**1 593**
CIRS - cash flows to be paid	475	2	10	483	0	17	22	0	**1 009**
Total	**29 126**	**5 238**	**6 229**	**6 039**	**3 066**	**102**	**37**	**3 452**	**53 289**

* equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.

Comparable data for the Bank (in millions of PLN) as at 31.12.2009

Assets	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	Over 5Y	Total
Cash in hand	702	0	0	0	0	0	0	0	**702**
NOSTRO	513	0	0	0	0	0	0	0	**513**
Liabilities granted:	1 157	1 391	1 654	2 651	2 457	1 997	2 632	12 716	**26 655**
Loans and receivables	9	0	16	0	0	0	0	0	**25**
Liquid bonds, money and Treasury bills	0	284	82	500	788	694	1 433	1 490	**5 271**
Non-liquid bonds/to become mature	12	309	58	485	437	328	907	569	**3 105**
Liquid bonds in the Trading Book	1 180	0	0	0	0	0	0	0	**1 180**
Reverse repos/BSB	332	0	0	0	0	0	0	0	**332**
DBI positions	0	0	0	0	0	112	0	0	**112**
Other	0	41	0	0	2	0	0	0	**43**
Derivatives – cash flows to be received									
FX derivatives	2 261	531	460	622	123	12	0	0	**4 009**
IR derivatives	147	330	361	2	0	0	0	0	**840**
CIRS – cash flows to be received	0	1	149	3	432	0	45	10	**640**
Total	**6 313**	**2 887**	**2 780**	**4 263**	**4 239**	**3 143**	**5 017**	**14 785**	**43 427**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	Over 5Y	Total
Current accounts	3 211	1	1	0	0	0	0	0	**3 213**
Deposits/savings accounts	11 711	2 350	2 350	362	369	200	0	1	**17 343**
Deposits of the budgetary sector	1 630	115	43	9	16	0	0	0	**1 813**
Inter-bank deposits	4 271	117	0	0	19	4	0	0	**4 411**
Perpetual bonds and cash loans	8	20	820	1 031	2 600	2 137	95	808	**7 519**
LORO	43	0	0	0	0	0	0	0	**43**
REPO	1 278	46	0	0	0	0	0	0	**1 324**
Free capital*	0	0	0	0	0	0	0	2 089	**2 089**
Other	0	76	0	552	7	0	0	0	**635**
Derivatives – cash flows to be paid									
FX derivatives	2 272	554	458	607	127	13	0	0	**4 031**
IR derivatives	145	323	281	2	0	0	0	0	**751**
CIRS - cash flows to be paid	0	1	146	2	436	0	40	9	**634**
Total	**24 569**	**3 603**	**4 099**	**2 565**	**3 574**	**2 354**	**135**	**2 907**	**43 806**

* equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.

The liquidity gap presented above was prepared on the basis of contractual maturities for particular balance sheet items. Liabilities without a defined maturity (current accounts and savings accounts) are recognized in the shortest term range, although the actual/made real maturity for such instruments occurs in further tenors.

At the end of 2010, as compared to the end of 2009, the following changes in the structure of the Bank's financial liabilities can be noticed:

- an increase in the balance of customers' deposits by PLN 2,452 million;
- the amount of accepted inter-bank deposits increased by PLN 2,790 million;
- a decrease in the balance of loans on the wholesale market by PLN 993 million;
- a decrease in the balance of repos by PLN 1,095 million.

The Bank's financial liquidity is also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 10 years.

- the ratio of the coverage of the 5- and 30-day liquidity gap with liquid assets – Short Term Liquidity Surplus (STLS) – short-term liquidity ratio (to 5 and 30 working days respectively);
- Liquidity Mismatch Ratio (LMR) – medium-term liquidity ratio (up to 3, 6 months);
- Coverage Ratio (CR) – liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3, 5 and 10 years).

The Bank's liquidity is also monitored through the set of regulatory liquidity ratios pursuant to the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority.

77.3.3.1. Regulatory liquidity ratios

Within the liquidity management process, the Bank has been required to maintain the ratios listed in the Resolution of the Polish Financial Supervision Authority No. 386/2008 above the established minimum limit.

Data as at 31.12.2010:

	Assets	in PLN '000'
A1	Basic liquidity reserve	11 826 102
A2	Supplementary liquidity reserve	3 027 888
A3	Other transactions on the wholesale financial market	10 347 994
A4	Limited liquidity assets	27 201 586
A5	Non-liquid assets	673 934
	Other liabilities and total equity	**in PLN '000'**
B1	Own funds less total capital requirements related to market risk, and to settlement risk and counterparty risk	3 453 781
B2	Stable external financing	28 803 751
B3	Other liabilities on the wholesale financial market	9 867 395
B4	Other liabilities	297 089
B5	Unstable external financing	12 531 790

	Liquidity ratios	Minimum value	Value
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	2 322 200.49
M2	Short-term liquidity ratio:((A1+A2)/B5)	1.00	1.19
M3	Own funds to non-liquid assets: (B1/A5)	1.00	5.12
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets:((B1+B2)/(A5+A4))	1.00	1.16

Data as at 31.12.2009:

	Assets	in PLN '000'
A1	Basic liquidity reserve	9 254 558
A2	Supplementary liquidity reserve	3 804 992
A3	Other transactions on the wholesale financial market	5 768 352
A4	Limited liquidity assets	25 999 611
A5	Non-liquid assets	596 544
	Other liabilities and total equity	**in PLN '000'**
B1	Own funds less total capital requirements related to market risk, and to settlement risk and counterparty risk	3 142 164
B2	Stable external financing	27 560 036
B3	Other liabilities on the wholesale financial market	5 392 406
B4	Other liabilities	219 798
B5	Unstable external financing	10 391 773

	Liquidity ratios	Minimum value	Value
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	2 667 776.79
M2	Short-term liquidity ratio:((A1+A2)/B5)	1.00	1.26
M3	Own funds to non-liquid assets: (B1/A5)	1.00	5.27
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets:((B1+B2)/(A5+A4))	1.00	1.15

77.3.3.2. Stability of financing sources

in PLN '000'	31.12.2010	Comparable data 31.12.2009
Loans and advances from KBC Group	5 650 993	6 818 610
- including loans and advances in foreign currencies	*5 340 993*	*6 216 705*
Term deposits	2 922 345	1 699 362
- including term deposits from KBC Group	*2 909 169*	*1 696 985*
Current accounts	3 573 391	2 560 645
Other amounts due	3 977	3 073
Total amounts due to banks	**12 150 706**	**11 081 690**
Subordinated liabilities (from KBC Group)	911 100	805 816
Total	**13 061 806**	**11 887 506**

The Group finances the lending activities (especially loans in foreign currencies) not only with deposits but also, to a large extent, with financing made available by KBC, the Bank's main shareholder. Borrowed loans and advances as well as received deposits will be renewed at their maturities, what enables the Bank to treat them as long-term financing.

The diversification of the deposit base, however, allows for the Bank's clear independence of any specific market segment, customer group or specific deposit type.

The structure of customers' deposits was presented in Note 50.

The change in the structure by type of the deposit base reflects mainly the Bank's policy regarding the products offered to individual customers (an increase in the balance of savings accounts). The structure of term deposits (except for interbank term deposits and negotiable term deposits) is advantageous from the point of view of an initial maturity date.

Signatures of all Management Board Members

date	25.02.2011	Maciej Bardan	President of the Management Board	....
date	25.02.2011	Piotr Sztrauch	Vice President of the Management Board	....
date	25.02.2011	Umberto Arts	Vice President of the Management Board	....
date	25.02.2011	Krzysztof Kokot	Vice President of the Management Board	....
date	25.02.2011	Zbigniew Kudaś	Vice President of the Management Board	....
date	25.02.2011	Gert Rammeloo	Vice President of the Management Board	....

Signature of a person responsible for keeping the accounting books

date	25.02.2011	Grzegorz Kędzior	Director of Accounting and External Reporting Department	....

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Kredyt Bank S.A.

1. We have audited the attached consolidated financial statements of Kredyt Bank S.A. Capital Group ('the Group'), for which the holding company is Kredyt Bank S.A. ('the Bank') located in Warsaw at Kasprzaka 2/8, for the year ended 31 December 2011 containing the consolidated income statement for the period from 1 January 2011 to 31 December 2011, the consolidated statement of comprehensive income for the period from 1 January 2011 to 31 December 2011, the consolidated balance sheet as at 31 December 2011, the statement of changes in consolidated equity for the period from 1 January 2011 to 31 December 2011, the consolidated cash flow statement for the period from 1 January 2011 to 31 December 2011, and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152, item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board of the Bank, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2011 to 31 December 2011, as well as its financial position[3] as at 31 December 2011;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the Management Board's report on the operations of Kredyt Bank S.A. Capital Group for the year ended 31 December 2011 and the rules of preparation of annual statements ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (2009 Journal of Laws No. 33, item 259 with subsequent amendments).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Dorota Snarska-Kuman
certified auditor
No. 9667

Warsaw, 22 February 2012

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

Kredyt Bank

Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2011

CONTENTS

I. Consolidated Income Statement

in PLN '000'	**Note**	**01.01.2011 - 31.12.2011**	**01.01.2010 - 31.12.2010**
Interest income	6	2 386 873	2 204 572
Interest expense	7	-1 236 777	-1 076 806
Net interest income		**1 150 096**	**1 127 766**
Fee and commission income	8	403 791	426 889
Fee and commission expense	9	-88 871	-97 016
Net fee and commission income		**314 920**	**329 873**
Dividend income	10	1 699	1 841
Net trading income	11	80 136	121 555
Net result on derivatives used as hedging instruments and hedged items	12	-1 714	887
Net gains from investment activities	13	1 162	6 486
Other operating income	15	133 188	100 930
Total operating income		**1 679 487**	**1 689 338**
General and administrative expenses	16	-999 500	-928 103
Other operating expenses	17	-54 035	-57 781
Total operating expenses		**-1 053 535**	**-985 884**
Net impairment losses on financial assets, other assets and provisions	18	-198 784	-471 971
Net operating income		**427 168**	**231 483**
Share in profit (loss) of associates		3 973	3 224
Profit (loss) before tax		**431 141**	**234 707**
Income tax expense	19	-103 897	-48 771
Net profit (loss)		**327 244**	**185 936**
including:			
Attributable to the Shareholders of the Bank	**20**	**327 244**	**185 936**
Attributable to non-controlling interests		0	0
Weighted average number of ordinary shares		271 658 880	271 658 880
Earnings per ordinary share (in PLN)	**21**	**1.20**	**0.68**

The Bank does not calculate diluted earnings per share due to the absence of capital categories resulting in dilution.

II. Consolidated Statement of Comprehensive Income

in PLN '000'	**01.01.2011 - 31.12.2011**	**01.01.2010 - 31.12.2010**
Net profit (loss) for the period	**327 244**	**185 936**
Other comprehensive income		
Valuation of financial assets available-for-sale	2 087	42 542
- including deferred tax	-489	-9 979
Effects of valuation of derivatives designated for cash flow hedge	8 584	11 163
- including deferred tax	-2 014	-2 618
Other comprehensive income (loss) recognized directly in equity	**10 671**	**53 705**
Total comprehensive income (loss)	**337 915**	**239 641**
including:		
Attributable to the Shareholders of the Bank	**337 915**	**239 641**
Attributable to non-controlling interests	0	0

Consolidated Statement of Comprehensive Income should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

III. Consolidated Balance Sheet

in PLN '000'	Note	31.12.2011	31.12.2010
Assets			
Cash and balances with Central Bank	22	784 668	1 943 636
Gross loans and advances to banks	23	1 188 012	1 466 249
Impairment losses on loans and advances to banks	24	0	-2 260
Receivables arising from repurchase transactions	25	0	87 218
Financial assets designated upon initial recognition as at fair value through profit or loss	26	100 684	118 562
Financial assets held for trading (excluding derivatives)	27	60 493	1 601 283
Derivatives, including:	28	1 071 089	463 159
- derivatives used as hedging instruments	29	95 592	74 340
Gross loans and advances to customers	30	30 493 915	29 108 520
Impairment losses on loans and advances to customers	30, 31	-1 408 161	-1 914 000
Investment securities:	33	8 678 712	9 467 240
- available-for-sale		5 262 038	6 219 461
- held-to-maturity		3 416 674	3 247 779
Investments in associates valued using the equity method	34	19 152	15 179
Property, plant and equipment	35	259 797	290 444
Intangible assets	36	59 711	50 201
Deferred tax assets	19	263 257	350 387
Current tax receivable	50l	116 870	0
Investment properties	37	209 065	225 668
Non-current assets held for sale	38	12 128	7 070
Other assets	39	93 692	95 690
Total assets		**42 003 084**	**43 374 246**

Consolidated Balance Sheet (cont.)

in PLN '000'	Note	31.12.2011	31.12.2010
Liabilities			
Amounts due to Central Bank	40	32	6
Amounts due to banks	41	8 486 491	12 150 706
Liabilities arising from repurchase transactions	42	0	228 693
Derivatives, including:	28	982 916	1 131 078
- derivatives used as hedging instruments	29	1 669	1 274
Amounts due to customers	43	28 043 157	25 660 758
Current tax liability		182	155 197
Provisions	44	116 402	92 811
Deferred tax liability	19	725	869
Other liabilities	45	271 044	214 804
Subordinated liabilities	46	1 036 510	911 100
Total liabilities		**38 937 459**	**40 546 022**

in PLN '000'	Note	31.12.2011	31.12.2010
Equity			
Share capital	47	1 358 294	1 358 294
Supplementary capital	47	900 065	889 340
Revaluation reserve	47	70 092	59 421
Other reserves	47	400 942	400 942
Retained earnings (loss)		8 988	-65 709
Current net profit (loss) attributable to the Shareholders of the Bank	20	327 244	185 936
Total equity attributable to shareholders of the Bank		**3 065 625**	**2 828 224**
Attributable to non-controlling interests		0	0
Total equity		**3 065 625**	**2 828 224**
Total equity and liabilities		**42 003 084**	**43 374 246**
Capital adequacy ratio (%)	**49**	**12.51**	**12.51**

Consolidated Balance Sheet should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

IV. Statement of Changes in Consolidated Equity

Changes in the period 01.01.2011-31.12.2011

in PLN '000'	Note	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Equity attributable to the Shareholders of the Bank	Equity attributable to non-controlling interests	Total equity
Equity at opening balance – as of 01.01.2011		**1 358 294**	**889 340**	**59 421**	**400 942**	**120 227**	**0**	**2 828 224**	**0**	**2 828 224**
Valuation of financial assets available-for-sale	47			2 576				2 576		2 576
Effects of valuation of derivatives designated for cash flow hedge	47			10 598				10 598		10 598
Deferred tax on items recognized in other comprehensive income	47			-2 503				-2 503		-2 503
Other comprehensive income (loss) recognized directly in equity				**10 671**				**10 671**		**10 671**
Net profit (loss) for the period							327 244	327 244		327 244
Total comprehensive income (loss)				**10 671**			**327 244**	**337 915**		**337 915**
Profit distribution	47		10 725			-10 725		0		0
Dividend payment	59					-100 514		-100 514		-100 514
Equity at the end of period – as of 31.12.2011		**1 358 294**	**900 065**	**70 092**	**400 942**	**8 988**	**327 244**	**3 065 625**	**0**	**3 065 625**

Statement of Changes in Consolidated Equity should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

Changes in the period 01.01.2010-31.12.2010

in PLN '000'	Note	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Equity attributable to the Shareholders of the Bank	Eequity attributable to non-controlling interests	Total equity
Equity at opening balance – as of 01.01.2010		**1 358 294**	**784 039**	**5 716**	**340 942**	**99 592**	**0**	**2 588 583**	**0**	**2 588 583**
Valuation of financial assets available-for-sale	47			52 521				52 521		52 521
Effects of valuation of derivatives designated for cash flow hedge	47			13 781				13 781		13 781
Deferred tax on items recognized in other comprehensive income	47			-12 597				-12 597		-12 597
Other comprehensive income (loss) recognized directly in equity				**53 705**				**53 705**		**53 705**
Net profit (loss) for the period							185 936	185 936		185 936
Total comprehensive income (loss)				**53 705**			**185 936**	**239 641**		**239 641**
Profit distribution	47		105 301		60 000	-165 301		0		0
Equity at end of period – as of 31.12.2010		**1 358 294**	**889 340**	**59 421**	**400 942**	**-65 709**	**185 936**	**2 828 224**	**0**	**2 828 224**

Statement of Changes in Consolidated Equity should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

V. Consolidated Cash Flow Statement

in PLN '000'	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Cash flow from operating activities			
Net profit (loss)		**327 244**	**185 936**
Adjustments to net profit (loss) and net cash from operating activities, and net increase/decrease in assets and liabilities		**-609 201**	**3 955 162**
Current and deferred tax recognized in financial result	19	103 897	48 771
Non-realised profit (loss) from currency translation differences	50b	82 443	40 712
Depreciation	16	89 760	100 954
Share in profit (loss) of associates		-3 973	-3 224
Net increase/decrease in impairment	50c	-505 190	339 568
Dividends	10	-1 699	-1 841
Interest	50d	-189 321	-183 128
Net increase/decrease in provisions		23 591	38 894
Profit (loss) on disposal of investments	50e	-4 636	-5 088
Net increase/decrease in assets (excluding cash)		**-470 531**	**-1 623 296**
Net increase/decrease in gross loans and advances to banks	50f	-22 731	-834 117
Net increase/decrease in receivables arising from repurchase transactions		87 218	244 657
Net increase/decrease in financial assets designated upon initial recognition as at fair value through profit or loss		17 878	36 838
Net increase/decrease in financial assets held for trading	50g	1 546 245	-356 002
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		-586 678	126 850
Net increase/decrease in gross loans and advances to customers		-1 385 395	-1 810 776
Net increase/decrease in current tax receivable	50l	-116 870	0
Net increase/decrease in other assets	50h	-10 198	969 254
Net increase/decrease in liabilities		**266 458**	**5 202 840**
Net increase/decrease in amounts due to Central Bank		26	-1 321 796
Net increase/decrease in amounts due to banks	50i	-934 333	2 749 793
Net increase/decrease in liabilities arising from repurchase transactions		-228 693	228 693
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		-148 557	591 902
Net increase/decrease in amounts due to customers	50j	1 700 327	2 994 605
Net increase/decrease in other liabilities	50k	52 108	31 533
Paid/received income tax	50l	-174 420	-71 890
Net cash flow from operating activities		**-281 957**	**4 141 098**

in PLN '000'	Note	01.01.2011 - 31.12.2011	01.01.2010 - 31.12.2010
Cash flow from investing activities			
Inflows		**92 530 230**	**55 428 362**
Disposal of property, plant and equipment, intangible assets and investment properties		2 399	4 711
Disposal of interests in equity investments		0	1 450
Disposal of investment securities	50m	92 283 935	55 205 555
Dividends	10	1 699	1 841
Interest received	50m	242 197	214 805
Outflows		**-91 402 859**	**-56 761 607**
Acquisition of property, plant and equipment, intangible assets and investment properties		-58 377	-51 988
Acquisition of interests in equity investments		0	-50
Acquisition of investment securities	50m	-91 344 482	-56 709 569
Net cash flow from investing activities		**1 127 371**	**-1 333 245**
Cash flow from financing activities			
Inflows		**735 080**	**325 764**
Proceeds from loans and advances		735 080	325 764
Outflows		**-3 040 430**	**-1 923 315**
Dividend payment	59	-100 514	0
Repayment of loans and advances		-2 833 472	-1 825 104
Other financial outflows	50n	-106 444	-98 211
Net cash flow from financing activities		**-2 305 350**	**-1 597 551**

Net increase/decrease in cash		**-1 459 936**	**1 210 302**
Cash at the beginning of the period		**2 401 443**	**1 191 141**
Cash at the end of the period, including:	**50a**	**941 507**	**2 401 443**
Restricted cash*		1 059 021	1 078 101

Interest paid **		950 620	991 685
Interest received**		1 829 133	1 678 815

** an amount from the declaration on the amount of the Bank's statutory provision, i.e. the minimum average balance of cash in the current account in the National Bank of Poland; the requirement was satisfied by the Bank in the period from 30.11.2011 to 01.01.2012, despite the fact that the balance as at 31.12.2011 was lower than the declared amount*
*** refers to the items recognized in 'interest income' and 'interest expense' lines*

VI. Additional information to the consolidated financial statements

1. General information on issuer

Kredyt Bank Spółka Akcyjna ('Kredyt Bank S.A.', 'Bank', 'parent company') with its registered office in Warsaw (Poland), ul. Kasprzaka 2/8, was established in 1990 and entered into the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw under No. KRS 0000019597.

Kredyt Bank S.A. is a universal bank which provides banking services addressed and tailored to the needs of all customer groups. A wide range of the Bank's services is addressed to individual customers, business entities and local authorities. The Bank provides convenient access to its services via an extended network of banking outlets and ATMs as well as an Internet banking system.

Consolidated financial statements of Kredyt Bank S.A. Capital Group ('Capital Group', 'Group') as at 31.12.2011 comprise the financial statements of the Bank and its subsidiaries.

Below, there are subsidiaries, which, as at 31.12.11, were consolidated with the full method.

	Parent company	Seat		
	Kredyt Bank S.A.	Warsaw		
	Subsidiary	**Seat**	**Share (%) in votes at GMS as at 31.12.2011**	**Share (%) in votes at GMS as at 31.12.2010**
1.	Reliz Sp. z o.o.	Katowice	100.00	100.00
2.	Kredyt Lease S.A.	Warsaw	100.00	100.00
3.	Kredyt Trade Sp. z o.o.	Warsaw	100.00	100.00

The Group's consolidated financial statements also entail an associate measured with the equity method.

Associate	Seat	Share (%) in votes at GMS as at 31.12.2011	Share (%) in votes at GMS as at 31.12.2010
KBC Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	30.00	30.00

As compared to figures as at 31.12.2010, the list of companies consolidated with the full method and of associates valued using the equity method has not changed.

Moreover, the Group holds 100% of shares in BFI Serwis Sp. z o.o. and Lizar Sp. z o.o., which are not consolidated as the range of their operating activities as well as financial figures are not material.

KBC Banking and Insurance Capital Group

Kredyt Bank S.A. is a subsidiary of KBC Banking and Insurance Capital Group ('KBC Group') established in 1998 as a result of a merger of ABB Insurance Group, Almanij-Kreditbank Group and CERA Bank Group. As at 31.12.2011, KBC Group held 80.00% of shares of Kredyt Bank S.A. Changes in the shareholding structure as compared to the balance as at 31.12.2010 and after the balance sheet date are described in Note 47. KBC Group has been operating in the present structure since 2005, i.e. the merger of KBC Bank and Insurance Holding Company with Almanij. The shares of KBC Group NV are listed on the Euronext Stock Exchange in Brussels.

KBC Group focuses on bancassurance-type operations for individual customers, provides services to businesses, is involved in assets management and other types of market activities. It is one of the three largest banking and insurance companies on its home market in Belgium.

In Poland, KBC Group is also a sole shareholder of Żagiel S.A., TUiR WARTA S.A. (as at 31.12.2011; on 20.01.2012, KBC Group announced that it had reached an agreement with the Talanx Group concerning the sale of 100% of shares of TUiR WARTA S.A.), KBC TFI S.A. and KBC Autolease Polska Sp. z o.o.

On 13.07.2011, KBC Group published the press release of the following content:

"KBC Group confirms that, after careful and thorough consideration, it and the Belgian authorities yesterday formally applied to the European Commission to amend the strategic plan which had been submitted on 30 September 2009 and which the European Commission had approved on 18 November 2009 (the 'EC Decision'). The relevant notification has also been made to the National Bank of Belgium.

Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS changes on leases) and the difficulty involved in floating K&H Zrt. (Keresekedelmi es Hitelbank, Hungary) in the current circumstances, some measures presented in the initial plan have become less effective in achieving the intended aim. In their application to the European Commission, KBC and the Belgian Authorities therefore propose replacing those measures by others.

KBC and the Belgian Authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake of CSOB Bank (Ceskoslovenska obchodni banka A.S., Czech Republic) and K&H Bank Zrt. and the sale and lease back of KBC's headquarter offices in Belgium by the divestment of KBC's Polish banking and insurance subsidiaries, i.e. Kredyt Bank S.A. ('Kredyt Bank') and Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. ('Warta') (and their subsidiaries) and the sale or unwind of selected ABS and CDO assets."

On 27.07.2011, KBC Group received the approval from the European Commission to amend its 2009 strategic plan.

The announced intention of KBC Group, the major shareholder, to sell its stakes in Kredyt Bank S.A. will not result in changes in strategic objectives of Kredyt Bank S.A. Capital Group adopted in 2010.

2. Basis of preparation of consolidated financial statements

2.1. Declaration of compliance with the IFRS

Pursuant to Article 55 clause 5 of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, No. 152, item 1223) as amended ('the Act'), starting from 01.01.2005, the consolidated financial statements of the Group have been prepared in compliance with the International Accounting Standards ('IAS') and the International Financial Reporting Standards ('IFRS') that were approved by the European Union ('EU').

Under Article 45 clause 1c of the Accounting Act and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25.04.2005, from 01.01.2005, also the Bank's standalone financial statements have been prepared in accordance with the IAS/IFRS.

Consolidated financial statements of the Group for the year ended 31.12.11 have been prepared in accordance with the IAS and the IFRS in force as at 31.12.11 approved by the European Union. Matters not governed by the above-mentioned standards are regulated by the Accounting Act and executive regulations thereto, and the Ordinance of the Minister of Finance of 19.02.2009 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259, as amended).

The IFRS include standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC').

2.2. Other information about the financial statements

These consolidated financial statements were prepared based on the assumption that the Group's companies would remain going concern in the foreseeable future. As at the approval date of these consolidated financial statements, the Bank's Management Board fails to confirm the existence of circumstances which could threaten the continuation of the business of the Group's companies for the period of minimum 12 months from the balance sheet date.

These consolidated financial statements of Kredyt Bank S.A. Capital Group were approved for publication by the Management Board of Kredyt Bank S.A. on 22.02.2012.

These consolidated financial statements were audited by Ernst & Young Audit sp. z o.o., the key certified auditor acting on behalf of the authorized entity. The audit was performed in accordance with the Polish law and the National Financial Review Standards issued by the National Chamber of Statutory Auditors.

The Polish zloty is the functional currency of the Group's companies. These consolidated financial statements have been presented in the Polish zloty ('PLN'), and all values, if not stated otherwise, are presented in thousands.

Consolidated financial statements were prepared according to the historical cost concept, except for financial assets and financial liabilities which are measured at fair value through profit or loss, loans and advances to customers and financial instruments measured at amortized cost having regard for impairment losses, accepted inter-bank deposits measured at amortized cost, available-for-sale financial instruments which are carried at fair value through revaluation reserve, as well as held-for-sale financial assets, recognized at the lower of: carrying amount as at the classification in this category and fair value less selling costs.

Accounting principles adopted to prepare financial statements are applied in a continuous manner in all presented periods.

3. Description of major accounting policies applied for the purpose of preparing consolidated financial statements

3.1. New or amended IAS and IFRS and new IFRIC interpretations

Below, we present new and amended IAS/IFRS and new IFRIC interpretations that the Group has applied this year. Their application has not materially affected the consolidated financial statements:

- An amendment to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – applicable to annual periods beginning on 1 July 2010 or later;
- Amended IAS 24 *Related Party Disclosures* (November 2009) – applicable to annual periods beginning on 1 January 2011 or later;
- Amendments to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues* – applicable to annual periods beginning on 1 February 2010 or later;
- Amendments to IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements* – applicable to annual periods beginning on 1 January 2011 or later;
- IFRIC 19 *Regulating Financial Liabilities with the Use of Equity Instruments* – applicable to annual periods beginning on 1 July 2010 or later;
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on 1 July 2011 or later;
- Amendments resulting from the IFRS review (published in May 2010) – a part of the amendments is applicable to annual periods beginning on 1 July 2010 and a part to annual periods beginning on 1 January 2011;

The following standards and interpretations have been issued by the IASB or the IFRIC, however are not in force yet:

- Phase 1 of IFRS 9 *Financial Instruments* – applicable to annual periods beginning on 1 January 2015 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments to IAS 12 *Income Tax Expense: Realisation of the deferred tax asset* – applicable to annual periods beginning on 1 January 2012 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – applicable to annual periods beginning on 1 July 2011 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IFRS 12 *Disclosure of Interests in Other Entities* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IAS 27 *Separate Financial Statements* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IAS 28 *Investments in Associates and Joint Ventures* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments to IAS 19 *Employee benefits* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on 1 July 2012 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting financial assets and financial liabilities* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these financial statements, not approved by the EU;
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting financial assets and financial liabilities* – applicable to annual periods beginning on 1 January 2014 or later; by the date of the approval of these financial statements, not approved by the EU;

Management Boards of the Group's companies do not predict that the introduction of the above standards and interpretations will materially affect the Group's accounting principles (policy), except for the amendments which will result from introducing IFRS 9. According to the analysis carried out in the Group concerning a part of IFRS 9 (the so called Phase 1) published by the date of the approval of these financial statements, it is estimated that the amendments will not affect the Group's net profit to a large extent; however, they may affect other income recognized directly in the equity and the disclosures presented in notes.

Furthermore, the Group has not finished the process of estimating the impact of IFRS 10 and IFRS 13 upon the consolidated financial statements for the period in which they will be applied for the first time.

3.2. Consolidation of financial statements

Consolidated financial statements include the financial statements of Kredyt Bank S.A. and the financial statements of subsidiaries for the period of 12 months ended 31.12.2011. Financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent company.

A part of the Group's companies keep their accounting books according to the accounting policy (principles) set out in the Accounting Act and executive regulations thereto ('Polish Accounting Standards'). Consolidated financial statements include respective adjustments made to make financial figures of these companies more consistent with the principles applied in the parent company.

3.2.1. Subsidiaries

Subsidiaries are all entities, in relation to which the Bank may, directly or indirectly, exert control and govern their financial and operating policies in order to gain benefits from their businesses.

3.2.2. Associates

Associates are entities not controlled by the Group in terms of their financial or operational policies, but the Group exerts a significant influence upon them, which is often accompanied by 20%-50% stake in the total number of votes within their decision-making bodies. Investments in shares in associates are initially recognized in the balance sheet at cost and further on, they are measured with the equity method.

3.3. Transactions in foreign currencies

Transactions in foreign currencies are translated into PLN at the exchange rate as at the transaction date. Monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at the average exchange rate of the National Bank of Poland as of the balance sheet date. Gains/losses from the translation of the resulting currency translation differences are recognized in the income statement.

Non-monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at an exchange rate as at the transaction date, and items carried at fair value are translated at the average exchange rate of the National Bank of Poland (NBP) as of the measurement date. Currency translation differences on non-monetary items measured at fair value through profit or loss are recognized in net trading income.

Below, we present NBP average rates of exchange applied by the Group to translate balance sheet items at the ends of particular periods.

	31.12.2011	31.12.2010
EUR	4.4168	3.9603
USD	3.4174	2.9641
CHF	3.6333	3.1639

3.4. Recognition of financial assets and liabilities in the balance sheet

The Group recognizes financial assets and liabilities in the balance sheet only when it is a party to a transaction.

Sale/purchase transactions related to financial assets valued at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognized in the balance sheet always on the date of the transaction settlement. Loans and receivables are recognized at the time of the payment of cash to the borrower.

3.5. Derecognition of financial assets from the balance sheet

The Group derecognizes financial assets from the balance sheet when and only when contractual rights to cash flows from such assets expire or when the Group transfers a financial asset pursuant to paragraphs 18 and 19 of IAS 39, and the transfer meets the requirements for the derecognition from the balance sheet provided for in paragraph 20 of IAS 39. Particularly, the Group writes off loan receivables from the balance sheet to impairment losses when such receivables are uncollectible receivables, particularly when:

- the costs of further debt recovery will exceed the expected proceeds from debt recovery;
- the ineffectiveness of the Group's debt recovery process is confirmed with a respective document issued by a respective enforcement body;
- the debtor's assets that can be subjected to enforcement, and the debtor's whereabouts cannot be established;
- claims are lapsed.

Following the decision on derecognition of an asset, the Group fails to undertake any further debt recovery action, and any possible proceeds from a given asset are only of incidental nature.

3.6. Classification and measurement of financial assets and liabilities

3.6.1. Financial assets and liabilities at fair value through profit or loss

This category includes:

- assets or liabilities held for trading, i.e. those acquired or contracted with the intention to sell or repurchase them in the nearest future. This category comprises portfolios of the financial assets and liabilities portfolios managed jointly in order to generate profits in a short time horizon. This category also includes derivatives;
- financial assets or liabilities designated by the Group's entities upon initial recognition as measured at fair value through profit or loss as the items are managed on the basis of the valuation at fair value, pursuant to the recorded risk management principles or investment strategy of the Group.

The method of determining the fair value for this group of assets is described in Note 4.1.

Interest and acquired discount or premium on debt securities is settled over time in net interest income based on the effective interest rate method. Securities are carried at fair value, and its change is recognized in the profit/loss on financial operations.

Net gains from assets disposal are calculated with the FIFO method.

Derivatives are recognized at fair value, without deductions of transaction expenses that can be incurred at the disposal. The valuation of derivatives also entails credit risk; the respective charges are recognized in the income statement.

Derivatives with positive valuation as at the date of measurement are recognized in the balance sheet as assets, and derivatives with negative valuation from measurement – in liabilities.

3.6.2. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's entities intend and are able to hold to maturity or by the date very close to maturity, different from:

a) designated by an entity upon initial recognition as at fair value through profit or loss;

b) designated by an entity as available-for-sale; and

c) meeting the definition of loans and receivables.

Held-to-maturity investments are measured at amortized cost using the effective interest rate method, taking account of impairment losses. Accrued interest and settled discount or premium is recognized in net interest income.

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

b) financial assets that the company upon initial recognition designates as available-for-sale, or

c) financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables are measured in the balance sheet at amortized cost based on the effective interest rate method, taking account of impairment losses.

Accrued interest with net commission (commissions received less commissions paid) are settled over time using the effective interest rate method and are recognized in interest income. Impairment loss is recognized in the income statement in correspondence with accounts of provisions which adjust assets value.

In the case of the customers for whom the possibilities of servicing loans within the time limits specified in agreements deteriorated, and whose conditions of the debt service are renegotiated, as a principle, the Bank, having regard for the new conditions, re-estimates the discounted cash flows. If the present value of estimated future cash flows discounted using the effective interest rate method is not significantly lower than before the renegotiation, a given loan will remain in the portfolio of exposures with no evidence for impairment. Otherwise, a loan is classified in the portfolio of loans with evidence for impairment.

3.6.4. Financial assets available for sale

Financial assets available for sale are non-derivative financial assets designated as available for sale or not classified as financial assets valued at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value on the balance sheet. Changes in fair value are recognized in revaluation reserve until the financial asset is derecognized or impairment is recognized; then accumulated gains/losses included in equity are recognized in the income statement. In the case of debt securities, interest income and discount or premium is settled over time in net interest income using the effective interest rate method.

The method of determining the fair value for this group of assets is described in Note 4.1.

Dividends from available-for-sale equity instruments are recognized in the income statement at the time when the right to obtain them arises.

Net gains from assets disposal are calculated with the FIFO method.

If fair value of equity instruments cannot be determined, then assets are recognized at cost less impairment charge.

A significant or prolonged decrease in the fair value of an investment in the equity instrument in the portfolio of available-for-sale financial assets below cost constitutes objective evidence for impairment. Impairment charges are recognized in the income statement in correspondence with accounts of provisions which adjust assets value.

3.6.5. Financial liabilities not held for trading

This category includes amounts due to banks and customers, loans borrowed by the Group, own debt securities issued, liabilities arising from repurchase transactions and subordinated liabilities, following the deduction of transaction expenses.

Financial liabilities not held for trading are recognized in the balance sheet at amortized cost with the application of the effective interest rate method.

3.6.6. Hedge accounting

Hedge accounting recognizes the effects of compensating for changes in fair value of the hedging instrument and the hedged item, which exert an impact on the income statement. According to adopted hedge accounting principles, the Group designates certain derivatives to hedge fair value and future cash flows of specific assets, on condition that the criteria provided for in IAS 39 are met. Hedge accounting is applied in the Group to hedge certain items, when all the following criteria are met:

- upon the inception of hedge, the Group officially determines and documents hedging relations as well as the purpose of risk management and the strategy of hedge. The documentation identifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the method of the Group’s assessment of hedging instrument effectiveness in offsetting the risk of changes in fair value of the hedged item or cash flows related to the hedged risk;
- the hedging is expected to be highly effective in achieving offsetting changes in fair value (or cash flows) attributable to the hedged risk, according to the initially documented risk management strategy related to a specific hedging relationship;
- in the case of the cash flow hedge, the planned hedged transaction must be highly probable and must be subject to the threat of changes in the cash flow which, as a result, may affect the income statement;
- the hedge effectiveness may be assessed reliably, i.e. fair value or cash flows attributable to the hedged item resulting from the hedged risk and the fair value of the hedging instrument may be measured reliably;
- the hedge is assessed on an ongoing basis and is found highly effective in all reporting periods in which the hedge was established.

Fair value hedge, which meets hedge accounting conditions, is recognized by the Group as follows:

- gains or losses resulting from the revaluation of fair value of a hedging derivative are recognised in the income statement;
- gains or losses related to the hedged item, resulting from the hedged risk, adjust the carrying amount of the hedged item and are recognized in the income statement.

Future cash flows hedge, which meets hedge accounting conditions, is recognized by the Group as follows:

- a portion of gains or losses associated with the hedging instrument, which constitutes an effective hedge, is recognized directly in equity;

- a non-effective portion of gains or losses associated with the hedging instrument is recognized in the income statement.

Interest received and paid on derivatives used as hedging instruments is recognized in the income statement in interest income/expense respectively.

3.6.7. Embedded derivatives

An embedded derivative is a component of a combined (hybrid) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to the stand-alone derivative.

An embedded derivative is separated from the host contract and accounted for as a derivative only if:

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

When an embedded derivative is separated, the host contract is accounted for in accordance with accounting principles appropriate for such a contract.

3.7. Finance lease receivables

Lease contracts under which the Group generally transfers all the risks and rewards related to the possessed assets are recognized by the Group as finance lease contracts. Receivables due under finance lease contracts are presented by the Group in the balance sheet in the amount equal to net leasing investment, as loans and advances to customers.

Interest income under finance lease contracts is settled with the effective interest rate method in order to reflect the constant, in a given period, rate of return on net leasing investment.

3.8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet, when the Group has a legally enforceable right to offset the recognized amounts and intends to settle it on a net basis, or realise the asset and settle the liability simultaneously.

3.9. Sale and repurchase agreements

Securities sold under repurchase agreements (‘repos’ and ‘sell buy back’) are not excluded from the balance sheet. Payments due to the counterparty are recognized as financial liabilities as ‘Liabilities arising from repurchase transactions’. Securities purchased under repurchase agreements (‘reverse repos’ and ‘buy sell back’) are reported in ‘Receivables arising from repurchase transactions’. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the agreements using the effective interest method.

3.10. Property, plant and equipment

3.10.1. Non-current assets

Property, plant and equipment are the fixed assets that are complete, prepared for direct use, with a foreseeable useful life of over one year, held by the Group and used by it, are recognized in the balance sheet at cost less depreciation and impairment losses.

Property, plant and equipment also include construction in progress and property, plant and equipment put into use under a contract of operating lease as well as property, plant and equipment obtained for use under a contract of finance lease.

Property, plant and equipment not used by the Group, but classified as held for sale, are recognized in the balance sheet at the lower of: carrying amount as at the classification in this category and fair value less selling costs and classified as 'Non-current assets classified as held for sale'.

Fixed assets at the time of their acquisition are divided into components which are items of material significance (components) and which can be assigned a separate period of useful life.

3.10.2. Capital expenditure incurred in a future period

The Group recognizes, in the carrying amount of property, plant and equipment, expenses of the increase in value or of the replacement of parts of property, plant and equipment at the time of their incurrence, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

3.10.3. Depreciation

Property, plant and equipment are depreciated with the straight-line method in line with the depreciation schedule. The period of economic useful life is taken into consideration while determining the depreciation period and the annual depreciation rate. Land is not depreciated. Property, plant and equipment that are used together, but which have various useful lives, are depreciated separately.

Estimated periods of expected economic useful life of property, plant and equipment:

Buildings	40 years
Leasehold improvements	for the duration of the contract or 10
Motor vehicles	6 years
Plant and machinery	between 3 and 7 years
Other property, plant and equipment	5 years

The assets' residual values and useful lives are reviewed on, at least, an annual basis. Moreover, the Group carries out an annual analysis of the evidence indicating impairment for particular classes of property, plant and equipment.

3.11. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are assets, which comply with the following criteria:

- they can be separated from a business unit and sold, transferred, licensed or given for gratuitous use to third parties, both individually and jointly with related agreements, assets or liabilities; or
- they arise from contracts or other titles, irrespective of whether they can be transferred or separated from a business unit.

Intangible assets, held by the Group and used by it, are recognized in the balance sheet at cost less amortization and impairment losses.

The Group's costs that are associated with the production, at own cost and expense and for internal use, of intangible assets from which, according to expectations, the entity will generate future economic benefits, are also recognized as intangible assets in the balance sheet. Direct costs of the production of intangible assets activated in this way are amortized in the estimated useful life not exceeding 5 years.

The Group's companies recognize, in the carrying amount of intangible assets, expenses of the increase in value or replacement of the parts of such assets at the time of their incurrence, when it is probable that greater future economic benefits associated with the item will flow to such companies and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

3.11.1. Computer software

Acquired computer software licenses are recognized as intangible assets at costs incurred to acquire and bring to use the specific software.

The Group's expenditures on maintenance and technical service of computer software are recognized as expense as incurred.

3.11.2. Other intangible assets

Other intangible assets are recognized by the Group in the balance sheet at cost less accumulated amortization and any impairment loss.

3.11.3. Amortization

Intangible assets are amortized with the straight-line method according to the amortization schedule. The economic useful life is taken into consideration while determining the amortization period and the annual amortization rate. Estimated periods of the expected useful life for intangible assets are equal to 5 years.

Amortization rates resulting from the tax regulations in force are applied for the purpose of tax settlements.

The Group does not have any intangible assets with an indefinite useful life.

3.12. Investment properties

Under IAS 40, the Group recognizes investment properties at cost. Following the initial recognition, the value of investment properties is decreased with depreciation and impairment losses.

Investment properties are derecognized from the balance sheet upon their disposal or in the case of the permanent withdrawal of a given investment property from use, when no future profits from its sale are expected. Any gains or losses resulting from the derecognition of an investment property from the balance sheet are recognized in the income statement in the period in which such an investment property was derecognized.

Assets are transferred to investment properties only when there is a change in the method of their use, confirmed with the termination of the use of an asset by its owner or the conclusion of an operating lease agreement. The assets that the Group uses for its own needs only in a small part also constitute investment properties.

3.13. The methods of the measurement of impairment of assets other than financial assets

Carrying amounts of particular assets are periodically tested for impairment. If the Group identifies evidence for impairment, further it determines whether the present book value of a given asset is higher than the value that can be obtained from its further use or sale, i.e. the recoverable amount of a given asset is established. If the recoverable amount is lower than the present carrying amount of a given asset, impairment charge is accounted for in the income statement.

3.13.1. Measurement of recoverable amount

A recoverable amount of an asset is determined as the higher of the following: a price that can be obtained from the sale less costs of sale and value in use of a given asset. Value in use is determined as estimated future cash flows generated by a given asset discounted with the market rate and increased with the margin for the risk specific for a given class of assets.

Cash-generating units (CGU), i.e. groups of financial assets and liabilities directly attributable to goodwill and generating cash inflows independent of other groups, are separated for the purpose of goodwill impairment tests. If negative trends in the generated flows are identified, the impairment of the whole group of assets and liabilities is measured and recognized in attributed goodwill.

The analysis of circumstances and any possible impairment tests for property, plant and equipment and intangible assets is performed at least once a year. The impairment test for goodwill is performed annually, regardless of whether the evidence for impairment was present or not.

3.13.2. Reversal of impairment

In the case of assets held by the Group's companies, except for equity instruments classified as available for sale, impairment losses may be reversed if evidence for impairment ceases to exist or the parameters taken into account in estimates of recoverable amount are changed.

Impairment charge may be reversed only up to the carrying amount of an asset, which, having regard for accumulated depreciation, would have been determined if the impairment charge had not been made.

3.14. Trade and other receivables

Trade and other receivables are reported in the amount due less impairment.

In the case when the impact of time value of money (TVM) is material, the value of receivables is determined by discounting forecasted future cash flows to present value, applying a discount rate corresponding to present market valuations of time value of money. In the case the discounting method was applied, the increase in receivables due to the elapse of time is recognized as other operating income.

3.15. Assets taken over for debts

Assets taken over for debts are measured at their fair value, including the cost of sale. If fair value of assets taken over is lower than the nominal value of receivables, impairment charge is recognized. If the selling price of the assets is higher than debt, the difference constitutes a liability towards the borrower.

3.16. Non-current assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Pursuant to IFRS 5, assets held for sale are measured at the lower of: present carrying amount or fair value less costs to sell. Non-current assets, when they are classified as held for sale, are not depreciated.

3.17. Deferred tax asset and liability

Deferred tax asset is recognized for all deductible temporary differences as well as for carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is subject to a respective decrease by the amount, which corresponds to the lower degree of the probability of generating taxable income or partial or total utilisation of a deferred tax asset.

Deferred tax liability is recognized for all taxable temporary differences. Deferred tax asset and deferred tax liability are measured at tax rates that are expected to apply to the period when an asset is realised or a liability settled, based on tax rates (and tax laws) in force as at the balance sheet date or certain to be in force in the future as at the balance sheet date. Deferred tax liability is not discounted.

Deferred tax related to items recognized directly in equity is also charged or credited directly in equity at the present tax rate.

The Group's companies offset deferred tax asset against deferred tax liability.

3.18. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term balances used to settle short-term monetary liabilities, with less than three months maturity from the date of acquisition, including cash and balances with Central Bank and other qualifying short-term receivables, including term deposits on the interbank market.

3.19. Provisions

The Group recognizes provisions in the balance sheet when:

- an entity has a present obligation (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The provision is recognized at the amount of the estimated outflow of cash. The amount of the provision is determined as the value of the discounted future cash flow for the period after which the provision will be utilized.

3.19.1. Restructuring provision

Pursuant to IAS 37, the Group recognizes a restructuring provision in the balance sheet for evidenced costs of restructuring. The provision is made on the basis of a detailed, official and published restructuring plan. The provision does not include future operating expense.

3.19.2. Employee benefits

The Group does not offer a specific pension scheme for its employees, thus has no commitments to its employees in this respect. The Group's entities, as employers, fulfilling the obligations indicated in the law, are obliged to withhold and pay social security and health insurance contributions for its employees and contributions to the Labour Fund and the Guaranteed Employee Benefits Fund. These payments are a part of short-term employee benefits, including remuneration, bonuses. Short-term benefits are recognized in general expenses under general principles.

A provision for retirement severance pays, which is determined annually by actuarial calculations is the only component of long-term employee benefits.

3.20. Equity

Equity comprises capitals and own funds established pursuant to the specific legal regulations, i.e. applicable laws.

3.20.1. Share capital

Registered share capital is recognized at nominal value according to the Bank's Memorandum and Articles of Association and the entry in the Court Register.

3.20.2. Supplementary capital

Supplementary capital is established pursuant to the Bank's Memorandum and Articles of Association from profit allowances and from issue premiums generated from the issue of shares, and is allocated to cover balance sheet losses that may result in relation to the Bank's operations, and from profit allowances obtained after the purchase date in the Group's companies.

3.20.3. Revaluation reserve

Revaluation reserve is established as a result of the valuation of financial instruments classified as 'available-for-sale' and of an effective portion of the valuation of financial instruments designated for cash flow hedge.

3.20.4. Other reserves

Reserves comprise the general banking risk reserve established pursuant to the Banking Law of 29.08.1997 (Journal of Laws of 2002, No. 72, item 665, as amended) from profit after tax and are designated for unidentified risks of the Bank's operations.

Equity also comprises net profit/loss for the period and retained profit or loss from previous periods. In the case of subsidiaries, the Group's equity also comprises net profit/loss of such companies generated from the date of their acquisition by the parent company.

3.21. Granted off-balance sheet liabilities

Within its operations, the Group enters into transactions, which, at the time of their conclusion, are not recognized in the balance sheet as assets or liabilities, but result in contingent liabilities. A contingent liability is:

- a possible obligation that arises firm past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly controlled by the Group's entities;
- a present obligation resulting from past events, but not recognized in the balance sheet, as it is not probable that the outflow of cash or other assets in order to settle the obligation is necessary, or the obligation amount cannot be measured with sufficient reliability.

Granted credit lines and guarantees are the most significant items of granted off-balance sheet liabilities.

Customers' undrawn credit lines granted by the Group and liabilities under guarantees issued by the Group to customers are recognized in off-balance sheet liabilities in the amount resulting from contracts.

Provisions for estimated risk, related to the granted off-balance sheet liabilities, are reported in 'Provisions' in the Group's balance sheet. Credit risk arising from off-balance sheet liabilities is assessed on the basis of IAS 37 and IAS 39.

3.22. Company Social Benefit Fund

Company Social Benefit Fund (CSBF) is created on the basis of write-downs made by the Bank and the Group's companies and charged to operating expenses as required by the CSBF Act of 04.03.1994 (Journal of Laws of 1994, No. 43, item 163, as amended). The objective of the Fund is to finance social benefits for employees. The Fund's liabilities are accumulated write-downs made by the Bank and the Group's companies for CSBF less non-returnable expenditure from CSBF. The Group has no social assets; all CSBF liabilities are expressed in cash deposited on a separate banking account.

For the purpose of presentation in these financial statements, the Group sets off assets and liabilities of CSBF, as they do not constitute Group's assets.

3.23. Net interest income

Interest income and expense generated by financial assets and liabilities are recognized in the income statement at amortized cost using the effective interest rate method.

The following financial assets and liabilities are measured by the Group at amortized cost, by using the effective interest method:

- loans and receivables;
- held-to-maturity investments;
- non-derivative financial liabilities not held for trading;
- repurchase transactions.

In addition, in the case of debt securities carried at fair value through profit or loss and available-for-sale assets, the coupon rates and acquired discounts or premiums are charged to the income statement also at amortized cost.

The effective interest rate is the rate that discounts a future, expected flow of net cash payments to present net carrying amount during the period until maturity or by the time of the next market evaluation of a particular financial asset and liability, and its determination entails any due or cash payments as well as cash flows paid or received by the Group under the agreement on a given instrument, excluding future, possible credit losses.

The method of settling coupon rates, commissions/fees and certain external costs connected with the financial instruments (with the effective interest method rate or straight-line method) depends on the nature of a given instrument. In the case of financial instruments with fixed cash flows schedules, the method of the effective interest rate is applied. In the case of instruments with undefined cash flows schedules, it is impossible to calculate the effective interest rate and commissions/fees are settled on the straight-line basis over time.

The method of recognizing particular types of commissions/fees in the income statement depends on the economic nature of a commission/fee.

The items included in the commissions/fees settled over time include, e.g. fees for a positive appraisal of a loan application, commissions for granting a credit, commissions for releasing a credit, fees for establishing additional collateral, fees paid to loans extension intermediaries. The above commissions and fees constitute an integral part of the return generated by a specific financial instrument. This category also includes fees and costs of changes in contractual terms, what modifies the value of initial effective interest rate. Any significant amendment to the conditions of a given financial instrument in economic terms is connected with the expiry of the financial instrument of the previous type and creation of a new instrument with different characteristics. The fees that are collected in this category include, among others, fees for preparing an annex changing a future cash flows schedule, fees for restructuring loan agreements, fees for postponement of payment dates, etc. The above-mentioned types of fees are deferred and settled over time in the income statement applying the effective interest rate method or on a straight-line basis, depending on the type of a product.

In the case of assets for which evidence for the impairment was identified, interest income is charged on the basis of net investment defined as the difference between the gross exposure value (having regard for unsettled commissions) and impairment charge.

3.24. Net fee and commission income

As stated above, fees and commissions (including insurance commissions), directly attributable to particular transactions, are deferred and amortized over time using the effective interest rate method. The Group recognizes them in net interest income.

However, fees and commissions not amortized using the effective interest rate, but settled over time with the straight-line method or recognized one-off, are reported in 'net fee and commission income'. Income settled over time with the straight-line method includes commissions on revolving loans, overdraft facilities, credit cards, guarantee lines, as well as letters of credit lines. All fees for the activities in which the Bank provides services related to transfers, payments, the distribution of insurance products and shares of investment funds as well as other incidental fees, are recognized once.

3.25. Net trading income

Net trading income comprises gains or losses on the disposal or a change in the fair value of financial assets and liabilities measured at fair value through profit or loss. This item also includes result on foreign exchange and interest on swaps as well as valuation write-downs of active derivatives due to credit risk.

3.26. Dividend income

In the case of equity investments recognized in the balance sheet at historical cost, dividend income is recognized in the income statement at the time when the right to dividend is established. In the case of equity investments recognized in the balance sheet with equity method, dividend income is already included in the measurement with the accrual concept, initially recognized in the measurement with the equity method.

3.27. Other operating income and expenses

Other operating income and expenses include items not related directly to the Group's operations. These are in particular income and expenses on sale and liquidation of property, plant and equipment, received and paid indemnities, lease income, and income and expenses on other services.

Other operating income and expenses also include impairment losses on loans and advances to various debtors.

3.28. Taxation

The deductions from profit before tax entail current income tax payable and deductions/credits associated with the change in deferred income tax.

Current tax for the period is calculated by the Group's companies on the basis of their profit before tax as per books adjusted with income and expense which, under the present income tax act, are excluded from the tax base. Furthermore, the book profit before tax in the current year is adjusted to take account of the cash realisation of income and expenses in the current reporting period, which are recognized in profit before tax in previous years. Deferred income tax recognized as an element of income tax charge/credit on book profit before tax is calculated as the net effect of the change in deferred tax assets and liabilities.

Details on the method of calculating deferred tax are presented in Note 3.17.

3.29. Comparable data

Accounting principles adopted to prepare these financial statements are applied in a continuous manner in all presented periods.

4. Accounting estimates

The preparation of financial statements in line with the IFRS requires a professional judgment of the Bank's Management Board and Management Boards of the Group's companies on the adopted accounting principles and accounting estimates applied with respect to balance sheet items and income statement items. Estimates are made basing on historical data and a number of assumptions based on the facts available as at the balance sheet date, resulting from internal and external conditions. The actual results of future business operations may differ from the present accounting estimates as at the balance sheet date. Therefore, accounting estimates are verified on a regular basis. Changes in estimates are recognized in the financial statements in the period they were introduced. If such changes are also related to future periods, the assumptions being the basis for the estimates for future periods are also adjusted.

The most important accounting estimates prepared for the purpose of these consolidated financial statements refer to:

- identification and measurement of impairment losses for financial assets measured at amortized cost and historical cost;
- measurement of financial assets and liabilities at fair value, including derivatives for which no active market exists;
- a value of deferred tax assets;
- provisions.

The Group did not introduce any material changes in the applied accounting principles and methods of performing accounting estimates as compared to the principles and methods described in the Group's published consolidated financial statements as of 31.12.2010.

4.1. Valuation of financial assets and liabilities at fair value

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

The transaction price is the best indicator of fair value at the initial recognition of a financial instrument.

Fair value of financial assets and liabilities is determined on the basis of quotations on active markets, including prices of the latest transactions.

In the case of financial assets and liabilities recognized in the balance sheet at fair value (except for equity instruments from the portfolio of available-for-sale assets), for which no active market is identified and there is no possibility of determining the fair value using market prices, they are measured on the basis of generally adopted measurement models based on variables that can be observed in the market environment.

The fair value of such financial assets and liabilities is determined on the basis of the net present value, i.e. the sum of all cash flows discounted using the yield curve applicable to a given currency and adjusted with the issuer's credit risk.

Certain variables, e.g. future interest rates, volatility parameters, correlations, must be assessed professionally. The models and variables are verified on a regular basis. The change in adopted models or variables in these models might affect accounting estimates related to measurement.

Financial instruments measured at fair value are classified according to a three-level hierarchy of fair value:

- Level 1 comprises financial instruments quoted in an active market, whose measurement at fair value is determined on the basis of present and readily available market prices,
- Financial assets presented at Level 2 are not quoted in an active market, but the inputs used to measure the fair value are based on observable market inputs,
- Level 3 comprises financial instruments that are not quoted in an active market, and their measurement at fair value is not based on observable market inputs.

4.2. Impairment of financial assets valued at amortized cost and historical cost

At each balance sheet date (at least once per quarter), the Group analyzes whether there is an indication that a financial asset and/or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence for impairment as a result of one or more events that occurred after initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows generated by the financial asset or the group of financial assets, assuming that reliable estimation is possible. Expected future losses are not taken into account in estimates of impairment.

If the Group identifies an evidence for impairment, the amount of the impairment loss is determined as the difference between the carrying amount of the loan and its economic value measured as the present value of estimated future cash flows discounted using the initial effective interest rate of contracts. Impairment loss is recognized in the income statement in correspondence with provision account which adjusts assets' value.

Loan receivables constitute the most significant class of financial assets recognized in the Group's balance sheet at amortized cost and subject to impairment.

4.2.1. Evidence for impairment

The analysis of the evidence indicating the risk of impairment is performed for individual loans as well as portfolios (groups) of loans.

A list of objective evidence includes:

a) significant financial problems of an issuer or a debtor;

b) a breach of contract, e.g. failure to pay or delaying payment of interest or the principal amount;

c) granting a facility by the lender to the borrower, for economic or legal reasons related to the borrower's financial problems, where such a facility would not have been granted otherwise;

d) high probability of the borrower's bankruptcy or their another financial reorganisation;

e) in the case of cash loans, exceeding specific factors used in the credit risk assessment process of all customers.

If there is no evidence that the impairment occurred, the previously recognized impairment losses are reversed through income statement.

4.2.2. Measurement of individual impairment

Individual impairment is measured for loan receivables over a specific exposure level, for which certain individual evidence indicating impairment was identified. The process of estimating future, expected cash flows is carried out in a specially dedicated IT tool.

Expected future cash flows from collateral are estimated on the basis of debt recovery value which is calculated with the application of periodically verified adjusting indicators determined for each type of hedging on the basis of historical data collected by the Group concerning the time of the debt collection process, recovered amounts from hedging and their value determined in the valuation.

4.2.3. Measurement of collective impairment

A collective analysis is conducted in the following cases:

- In the event where, regardless of the exposure value, no objective evidence for loan impairment occurred, such exposure is included in the credit portfolio of similar nature and the collective analysis of the impairment is conducted;
- In the event of objective evidence for the impairment of an asset which is not individually significant (below the defined exposure level).

Homogenous loans portfolios are created basing upon similar characteristics of credit risks that are specific for the defined groups of customers and products. The collective impairment is measured basing on historical parameters of losses generated by similar assets portfolios. Historical trends for losses are cleared of one-off events and are updated against a current risk profile of homogenous groups of assets. Hence, the portfolios systematic risk is identified. The following issues, apart from corrected historical trends, have a material impact on the level of the collective impairment:

- fluctuations in the receivables portfolios;
- the Group’s operating effectiveness in credit risk management processes, particularly taking into account the restructuring and debt collecting activities;
- a macroeconomic situation.

4.3. Impairment of financial assets available-for-sale

If the Group identifies objective evidence for the impairment of an asset classified as available for sale, the cumulative negative measurement of this asset, previously accounted for in the revaluation reserve, is written off and recognized directly in the income statement, despite the fact that this asset is not excluded from the balance sheet.

In the case of an equity instrument classified as available for sale for which fair value cannot be determined reliably, i.e. measured at historical cost having regard for impairment, impairment losses are not reversed. In the case of a debt instrument measured at fair value at the time when the circumstances indicating impairment are no longer identified, the amount of the reversed impairment loss is recognized in the income statement.

4.4. The values of deferred tax assets

The probability of realising net deferred tax asset is determined on the basis of financial plans and tax forecasts prepared by the Bank’s Management Board, updated on an ongoing basis as at the end of each quarter.

The subsidiaries recognize a deferred tax liability for all temporary differences whereas the deferred tax asset is recognized up to the amount justified by financial plans approved by the Management Boards of such subsidiaries concerning the probable realisation of the asset.

5. Segment reporting

The criterion for separating a segment entails the method of carrying business and the type and scope of information used by the management in a given entity. An operating segment is a type of activities reviewed regularly by the authorities responsible for making operating decisions, including decisions concerning the method of allocating resources within the reviewed segment. The figures originate from internal reports used by the Bank's management to review the results of the activities of a given segment. The presentation of particular items follows the approach applied in management reporting. At the same time, one should notice that the management segmentation differs from the financial reporting segmentation applied in the remaining parts of the financial statements.

The Group's operating activities were divided into three basic categories: retail, corporate, treasury.

The Group's operations are not diversified in geographical terms. Operations are focused on the Polish market; the main customer base is composed of national natural and legal persons and foreign customers operating on the Polish market.

Retail Segment

Retail Segment, in management terms, incorporates products targeted at individual customers, private banking, as well as micro and small enterprises (SME), whose annual sales revenue does not exceed PLN 1 million.

The offer entails a wide choice of deposit, credit and insurance (bancassurance) products offered in cooperation with TUnŻ WARTA S.A. and TUiR WARTA S.A., and investment products offered by KBC TFI S.A. This offer is addressed to customers through traditional channels of distribution via the Bank's nationwide network of branches and affiliates, KB24 online service as well as creditonline service, as well as intermediaries operating in the market.

Corporate Segment

Corporate Segment, in management terms, entails transactions with medium-sized companies (SME with annual sales revenue exceeding PLN 1 million, but not exceeding PLN 25 million), large companies (with total sales revenue exceeding PLN 25 million) as well as state budgetary units at central and local levels.

Beside the traditional products, such as loans, deposits, settlement services, derivatives, the customers from this segment are offered specialist services. They are tailored to customers' individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments. The Bank's offer in this segment is expanded by the products of Kredyt Lease, which offers a complete range of services for companies in respect of leasing of property, plant and equipment.

Treasury Segment

Treasury Segment, in management terms, comprises the result of the transactions performed by the Bank on its own account as an active participant of: the money market (Treasury and NBP bills), bonds market (Treasury and commercial bonds), currency market and interbank market. The result of the segment also includes net income on derivative instruments transactions: forward, FX swap, IRS, CIRS, FRA, interest rate and currency options, except for write-downs for credit risk. Besides the trading activities carried by the Bank on its own account, the segment is responsible for the activities aiming to hedge the Banking Book position.

Other

Income and expenses not assigned to above segments have been presented as 'Other' segment. In addition, this category entails the results of the operations of Reliz and Kredyt Trade.

Respective consolidation eliminations were made for the presentation of the results of particular segments.

Additional clarifications

The results presented in all segments include the costs of the financing of lending activities and interest income on sales of deposit resources in internal transactions and they result from the application of an internal price (transfer rate) determined on the basis of reference rates (money market rates) for particular deposit and credit products.

The reconciliation of particular balance sheet items and income statement items for reporting segments with the items of the consolidated balance sheet and the items of the consolidated income statement must encompass the adjustments presented further in this Note.

Net interest income includes mainly net interest income from deposit and lending activities and the total net income from loan commissions treated, in management terms, as an element of interest margin. The Bank's Management Board, when making operating decisions, bases them mainly on the interest margin. In addition, particular segments entail the costs of financing the cash maintained in the Bank's branches.

Net commission income and other net income entails:

- commissions for keeping accounts and transactions;
- commissions related to credit, debit and other cards;
- commissions related to the distribution of the shares of the societies of investment funds and other services provided to societies of investment funds;
- commissions related to insurance products;
- commissions related to foreign transactions, i.e. export and import payment orders, transfers and guarantees, letters of credit, bill guarantees and cash collections;
- other net income entailing net income from other commissions and net income from other operating income and expenses.

Net income from treasury transactions in the Retail Segment and in the Corporate Segment is the net income from exchange operations and net income from financial transactions which are a margin on such products as repurchase transactions, bonds, IRS and FX options.

Net income from treasury transactions is composed of the following items of the consolidated financial statements:

- net trading income (except for, e.g. net increase/decrease in the provisions for potential losses related to open/active derivatives and the valuation of embedded instruments related to the enterprises function) and
- net result on derivatives used as hedging instruments and hedged items.

Net gains from investment activities – the presented item is the sum of the items from the financial statements: net gains from investment activities and dividend income.

In management reporting, the item *'Net impairment losses on financial assets, other assets and provisions'* includes an additional provision for potential losses related to open/active derivatives (presented in these consolidated financial statements in net trading income).

Group's general expenses – the Group allocates the costs on the basis of direct costs accounting and statistical key figures applied in own management system; operating expenses of the Bank's branches and affiliates are fully charged to the retail function. The costs of the Head Office and general and administrative expenses are allocated according to the structure of direct costs. The Bank has been implementing the Activity-based Costing (ABC), which will affect the method of allocating costs to particular segments.

The assets of the segment were divided into four basic categories:

- *Loans and advances to customers* – include net loans and advances to customers (including leasing fees), excluding interest receivables, as well as debt securities classified as loans and receivables.
- *Loans and advances to banks* – include net loans and advances to banks, excluding interest receivables, as well as debt securities issued by other banks and classified as loans and receivables. The category is presented in the treasury segment.

- *Securities* – this category is presented in the treasury segment, entails debt securities, securities with the right to equity and shares in investment funds, excluding debt securities classified as loans and receivables.
- *Other* – this category entails all other assets not presented above.

Total equity and liabilities are presented in five lines:

- *Amounts due to customers* – customers' deposits, except for interest liabilities.
- *Interbank deposits* – amounts due to the National Bank of Poland, except for the lombard loan and repos as well as current and term amounts due to banks.
- *Borrowed loans and advances* – the lombard loans and borrowed loans and advances.
- *Subordinated liabilities* – subordinated liabilities, except for interest, both included in and excluded from own funds.
- *Other liabilities and total equity.*

Group's net profit for 2011 by operating segments (breakdown according to management reporting)

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Net interest income, including:	**666 853**	**315 598**	**232 930**	**-20 491**	**1 194 890**
- lending activities	512 277	205 547	0	-20 574	697 250
- depositing activities	166 698	119 946	0	84	286 728
- the cost of financing cash kept in the Bank's branches	-12 122	-9 895	22 018	-1	0
Net commission income and other net income	**173 572**	**87 561**	**-1 071**	**61 748**	**321 810**
- commissions related to the keeping of accounts and transactions	83 264	51 987	0	584	135 835
- commissions related to cards	63 396	5 330	0	4 365	73 091
- commissions related to shares in investment funds societies	46 452	2 894	0	0	49 346
- commissions related to insurance products	-18 646	-228	0	213	-18 661
- commissions related to foreign transactions	35	20 578	0	383	20 996
- other	-929	7 000	-1 071	56 203	61 203
Net income from treasury transactions	**53 327**	**55 515**	**-15 394**	**-1 432**	**92 016**
- exchange transactions	53 247	49 669	13 136	-1 622	114 430
- derivatives and securities	80	5 846	-28 530	190	-22 414
Net gains from investment activities	**0**	**50**	**1 162**	**1 649**	**2 861**
Gross operating income	**893 752**	**458 724**	**217 627**	**41 474**	**1 611 577**
Net impairment losses on financial assets, other assets and provisions	**-147 583**	**-18 335**	**0**	**-34 465***	**-200 383**
Group's general and administrative expenses	**-708 857**	**-204 659**	**-49 445**	**-21 065**	**-984 026**
- the costs of the operation of business functions (direct costs)	-422 218	-134 941	-29 568	-307 539	-894 266
- allocated expenses	-219 195	-58 685	-15 274	293 154	0
- depreciation (direct costs)	-42 105	-4 249	-2 837	-40 569	-89 760
- depreciation (allocated costs)	-25 339	-6 784	-1 766	33 889	0
Net operating income	**37 312**	**235 730**	**168 182**	**-14 056***	**427 168**
Share in profit (loss) of associates					3 973
Income tax expense					-103 897
Net profit (loss)					**327 244**

** comprises PLN 35,000 thousand of the provision for a potential liability related to the resale of Żagiel S.A. by KBC Group described in Note 44 to these consolidated financial statements — it was a single event.*

Group's net profit for 2010 by operating segments (breakdown according to management reporting)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**695 032**	**282 202**	**202 397**	**-8 976**	**1 170 655**
- lending activities	574 145	187 582	0	-9 049	752 678
- depositing activities	130 571	102 331	0	73	232 975
- the cost of financing cash kept in the Bank's branches	-9 684	-7 711	17 395	0	0
Net commission income and other net income	**188 545**	**111 716**	**0**	**47 689**	**347 950**
- commissions related to the keeping of accounts and transactions	84 438	52 900	0	900	138 238
- commissions related to cards	82 319	4 645	0	-3 217	83 747
- commissions related to shares in investment funds societies	44 685	2 787	0	0	47 472
- commissions related to insurance products	-4 441	-172	0	0	-4 613
- commissions related to foreign transactions	91	15 624	0	454	16 169
- other	-18 547	35 932	0	49 552	66 937
Net income from treasury transactions	**47 017**	**47 678**	**7 432**	**-792**	**101 335**
- exchange transactions	46 934	45 720	18 642	74	111 370
- derivatives and securities	83	1 958	-11 210	-866	-10 035
Net gains from investment activities	**0**	**100**	**6 486**	**1 741**	**8 327**
Gross operating income	**930 594**	**441 696**	**216 315**	**39 662**	**1 628 267**
Net impairment losses on financial assets, other assets and provisions	**-386 205**	**-58 838**	**0**	**-23 638**	**-468 681**
Group's general and administrative expenses	**-687 242**	**-175 938**	**-40 764**	**-24 159**	**-928 103**
- the costs of the operation of business functions (direct costs)	-397 398	-115 720	-24 178	-289 853	-827 149
- allocated expenses	-212 433	-50 122	-12 588	275 143	0
- depreciation (direct costs)	-49 726	-3 564	-2 358	-45 306	-100 954
- depreciation (allocated costs)	-27 685	-6 532	-1 640	35 857	0
Net operating income	**-142 853**	**206 920**	**175 551**	**-8 135**	**231 483**
Share in profit (loss) of associates					3 224
Income tax expense					-48 771
Net profit (loss)					**185 936**

The allocation of assets by operating segments as at 31.12.2011

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Loans and advances to banks	0	0	1 187 219	0	1 187 219
Loans and advances to customers	20 934 417	8 032 717	0	0	28 967 134
Securities	0	0	8 839 889	0	8 839 889
Other	0	0	1 071 089	1 937 753	3 008 842
Total	**20 934 417**	**8 032 717**	**11 098 197**	**1 937 753**	**42 003 084**

The allocation of assets by operating segments as at 31.12.2010

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Loans and advances to banks	0	0	1 463 279	0	1 463 279
Loans and advances to customers	19 536 318	7 559 754	0	0	27 096 072
Securities	0	0	11 187 085	0	11 187 085
Other	0	0	463 159	3 164 651	3 627 810
Total	**19 536 318**	**7 559 754**	**13 113 523**	**3 164 651**	**43 374 246**

The allocation of liabilities and capitals by operating segments as at 31.12.2011

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Inter-bank deposits	0	0	5 243 696	0	5 243 696
Borrowed loans and advances	0	0	3 233 958	0	3 233 958
Amounts due to customers	17 247 467	10 741 711	0	0	27 989 178
Subordinated liabilities	0	0	1 035 985	0	1 035 985
Other liabilities and total equity	0	0	982 916	3 517 351	4 500 267
Total	**17 247 467**	**10 741 711**	**10 496 555**	**3 517 351**	**42 003 084**

The allocation of liabilities and capitals by operating segments as at 31.12.2010

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Inter-bank deposits	0	0	6 498 969	0	6 498 969
Borrowed loans and advances	0	0	5 649 530	0	5 649 530
Amounts due to customers	15 749 960	9 846 688	0	0	25 596 648
Subordinated liabilities	0	0	910 688	0	910 688
Other liabilities and total equity	0	0	1 131 078	3 587 333	4 718 411
Total	**15 749 960**	**9 846 688**	**14 190 265**	**3 587 333**	**43 374 246**

Below, we present the reconciliation of particular items with the consolidated income statement and the consolidated balance sheet published in this report.

in PLN '000'	**01.01.2011-31.12.2011**
Net interest income – management information	**1 194 890**
- commissions on loans and other commissions included in fee and commission income	49 583
+ operating expenses (interest on finance lease)	-681
+ operating income (the collection of statutory interest)	17 159
+ commissions related to foreign transactions	443
- structured deposit – interest adjustment	12 130
+ other	-2
Net interest income – financial statements	**1 150 096**
Net commission income and other net income – management information	**321 810**
+ commissions on loans and other commissions included in fee and commission income	49 583
- operating expenses (interest on finance lease)	-681
- operating income (the collection of statutory interest)	17 159
- commissions related to foreign transactions	443
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-22 538
+ reversal of provisions related to incentive programmes	17 061
- other	-2
Net commission income – and other income financial statements – presented as:	**394 073**
Net fee and commission income	314 920
Other operating income	133 188
Other operating expenses	-54 035
Net income from treasury transactions – management information	**92 016**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-22 538
+ structured deposit – interest adjustment	12 130
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**78 422**
Net trading income	80 136
Net result on derivatives used as hedging instruments and hedged items	-1 714
Net gains from investment activities – management information	**2 861**
Net gains from investment activities and dividend income – financial statements – presented as:	**2 861**
Net gains from investment activities	1 162
Dividend income	1 699
Gross operating income – management information	**1 611 577**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ reversal of provisions related to incentive programmes	17 061
Gross operating income – financial statements – presented as:	**1 625 452**
Total operating income	1 679 487
Other operating expenses	-54 035

Net impairment losses on financial assets, other assets and provisions – management information	**-200 383**
- net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ charges related to provisions for employee benefits	-1 587
Net impairment losses on financial assets, other assets and provisions – financial statements	**-198 784**

Group's general and administrative expenses – management information	**-984 026**
- charges related to provisions for employee benefits	-1 587
- reversal of provisions related to motivation plans	17 061
General and administrative expenses – financial statements	**-999 500**

in PLN '000'	**01.01.2010-31.12.2010**
Net interest income – management information	**1 170 655**
- commissions on loans and other commissions included in fee and commission income	45 934
+ operating expenses (interest on finance lease)	-1 440
+ operating income (the collection of statutory interest)	12 492
+ commissions related to foreign transactions	377
- structured deposit – interest adjustment	8 384
Net interest income – financial statements	**1 127 766**
Net commission income and other net income – management information	**347 950**
+ commissions on loans and other commissions included in fee and commission income	45 934
- operating expenses (interest on finance lease)	-1 440
- operating income (the collection of statutory interest)	12 492
- commissions related to foreign transactions	377
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
- net increase/decrease in provisions related to the sale of debt	4 581
Net commission income and other income – financial statements – presented as:	**373 022**
Net fee and commission income	329 873
Other operating income	100 930
Other operating expenses	-57 781
Net income from treasury transactions – management information	**101 335**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	4 852
+ structured deposit – interest adjustment	8 384
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**122 442**
Net trading income	121 555
Net result on derivatives used as hedging instruments and hedged items	887
Net gains from investment activities – management information	**8 327**
Net gains from investment activities and dividend income – financial statements – presented as:	**8 327**
Net gains from investment activities	6 486
Dividend income	1 841

Gross operating income– management information	**1 628 267**
+ net increase/decrease in provisions for potential losses related to active derivatives	7 871
- net increase/decrease in provisions related to the sale of debt	4 581
Gross operating income – financial statements – presented as:	**1 631 557**
Total operating income	1 689 338
Other operating expenses	-57 781
Net impairment losses on financial assets, other assets and provisions – management information	**-468 681**
- net increase/decrease in provisions for potential losses related to active derivatives	7 871
+ net increase/decrease in provisions related to the sale of debt	4 581
Net impairment losses on financial assets, other assets and provisions – financial statements	**-471 971**

in PLN '000'	**Management information**	**Interest**	**Financial statements (net value)**
31.12.2011			
Loans and advances to banks	1 187 219	793	1 188 012
Loans and advances to customers	28 967 134	118 620	29 085 754
31.12.2010			
Loans and advances to banks	1 463 279	710	1 463 989
Loans and advances to customers	27 096 072	98 448	27 194 520

in PLN '000'	**31.12.2011**
Securities – management information	**8 839 889**
Securities – financial statements – presented as:	**8 839 889**
Financial assets designated upon initial recognition as at fair value through profit or loss	100 684
Financial assets held for trading (excluding derivatives)	60 493
Investment securities	8 678 712

in PLN '000'	**31.12.2010**
Securities – management information	**11 187 085**
Securities – financial statements – presented as:	**11 187 085**
Financial assets designated upon initial recognition as at fair value through profit or loss	118 562
Financial assets held for trading (excluding derivatives)	1 601 283
Investment securities	9 467 240

in PLN '000'	Management information	Interest	Financial statements
31.12.2011			
Amounts due to customers	27 989 178	53 979	28 043 157
Subordinated liabilities	1 035 985	525	1 036 510
31.12.2010			
Amounts due to customers	25 596 648	64 110	25 660 758
Subordinated liabilities	910 688	412	911 100

in PLN '000'	**31.12.2011**
Inter-bank deposits – management information	**5 243 696**
Borrowed loans and advances – management information	**3 233 958**
+ interest	8 869
- other amounts due to the National Bank of Poland	32
Amounts due to banks – financial statements	**8 486 491**

in PLN '000'	**31.12.2010**
Inter-bank deposits – management information	**6 498 969**
Borrowed loans and advances – management information	**5 649 530**
+ interest	2 213
- other amounts due to the National Bank of Poland	6
Amounts due to banks – financial statements	**12 150 706**

6. Interest income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
On account of:		
Loans and advances to banks	111 648	81 415
Loans and advances to customers:	1 506 871	1 465 507
- financial sector	8 277	12 217
- non-financial sector	1 488 187	1 442 641
- budgetary sector	10 407	10 649
Leasing fees	36 989	30 969
Securities:	612 001	528 538
- at fair value through profit or loss	2 766	5 446
- held-for-trading	75 265	53 869
- available-for-sale	356 908	322 198
- held-to-maturity	177 062	147 025
Receivables arising from repurchase transactions	16 964	4 332
Interest on hedging instruments	102 400	93 811
Total	**2 386 873**	**2 204 572**

Interest income comprises, e.g. cash interest and interest calculated on an accrual basis on receivables for which evidence for impairment was identified. Interest was calculated with the effective interest rate applied in discounting expected cash flows for the purpose of estimating the impairment loss on loan receivables. The interest on the loans and advances with evidence for impairment as at 31.12.2011 amounted to PLN 40,975 thousand, and as at 31.12.2010 to PLN 26,261 thousand. Accrued interest was taken into consideration when estimating impairment losses on such receivables.

7. Interest expense

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
On account of:		
Amounts due to banks	113 915	89 262
Amounts due to customers	939 909	880 701
- financial sector	125 775	114 859
- non-financial sector	742 912	702 294
- budgetary sector	71 222	63 548
Liabilities arising from repurchase transactions	66 606	10 990
Other subordinated liabilities	39 914	34 584
Interest on hedging instruments	76 433	61 269
Total	**1 236 777**	**1 076 806**

Net interest income	**1 150 096**	**1 127 766**

8. Fee and commission income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Fees and commissions on loans	40 248	40 003
Fees and commissions on deposit-related transactions with customers	135 756	138 166
Fees and commissions due for payment cards processing and ATMs maintenance	118 346	138 057
Fees and commissions on foreign clearing operations	16 136	15 638
Fees and commissions on guarantee commitments	22 708	18 899
Commissions on the distribution and management of combined investment and insurance products	59 329	65 754
Commissions on other custodian services	3 514	3 316
Other fees and commissions	7 754	7 056
Total	**403 791**	**426 889**

9. Fee and commission expense

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Fees related to insurance for granter loans	20 733	21 379
Fees of credit reference agency	6 233	6 398
Fees and commissions due for payment cards processing and ATMs maintenance	48 871	54 718
Brokerages	1 834	1 363
Other fees and commissions	11 200	13 158
Total	**88 871**	**97 016**

Net fee and commission income	**314 920**	**329 873**

At the beginning of 2011, the Group changed the method of settling certain income and expenses related to the sales of loan products, including income from the sales of insurance related to cash loans and expenses resulting from the cooperation with local lending intermediaries. At present, the above income and expenses are settled using the effective interest rate method, while, in previous years, due to their immateriality, they were recognized once.

10. Dividend income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Equity instruments	1 699	1 841
Total	**1 699**	**1 841**

11. Net trading income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Debt securities	-10 325	1 375
- held for trading	-9 468	1 263
- at fair value through profit or loss	-857	112
Equity instruments	-21 512	6 002
Derivatives	77 761	-623 661
Foreign exchange	34 212	737 839
Total	**80 136**	**121 555**

12. Net result on derivatives used as hedging instruments and hedged items

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Result on cash flows hedge		
- on hedging derivatives*	-1 714	887
Total *	**-1 714**	**887**

** result on derivatives used as hedging instruments comprises a non-effective portion of gains or losses associated with the hedging instrument, as well as amounts of transactions settled prior to the balance sheet date*

13. Net gains from investment activities

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Available-for-sale financial assets:	**867**	**3 674**
- equity instruments	0	30
- debt instruments	867	3 644
Held-to-maturity assets:	**295**	**2 812**
- debt instruments	295	2 812
Total	**1 162**	**6 486**

14. Result for particular categories of financial assets and liabilities

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Designated upon initial recognition as at fair value through profit or loss	-19 603	11 560
Held for trading*	143 558	-568 529
Repurchase transactions	-49 642	-6 658
Hedging instruments	24 253	33 429
Available-for-sale	357 775	325 872
Held-to-maturity	177 357	149 837
Loans and advances to banks and to customers	1 679 355	1 603 885
Amounts due to banks and customers	-843 022	-746 588
Subordinated liabilities	-39 914	-34 584
Other	80 271	80 504
Total **	**1 510 388**	**848 728**

** also comprises the result on derivatives (excluding derivatives used as hedging instruments)*
*** the item comprises net interest income, net fee and commission income, net trading income net of result on foreign exchange, result on derivatives used as hedging instruments and hedged items, net gains from investment activity*

15. Other operating income

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Sale or liquidation of property, plant and equipment, non-current assets held-for-sale and assets to be disposed	12 621	6 624
Recovered bad debts, including reimbursed debt recovery costs	26 133	21 803
Indemnities, penalties and fines received	5 957	3 923
Side income	7 814	6 862
Reversal of impairment losses on receivables from other debtors	693	1 571
Lease income	34 927	36 670
Other income*	45 043	23 477
Total	**133 188**	**100 930**

** in 2011, the item comprised the reversal of unused provisions created in 2010 related to incentive programmes amounting to PLN 17,061 thousand*

16. General and administrative expenses

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Staff costs	**443 138**	**416 688**
- remunerations	317 341	287 224
- deductions from salaries and wages	47 640	45 052
- bonuses	68 076	75 392
- other operating expenses	10 081	9 020
General expenses	**466 602**	**410 461**
- costs of buildings lease	86 192	83 904
- IT and telecommunications fees	81 228	75 236
- costs of buildings maintenance and renovations	21 382	20 875
- energy costs	19 691	18 793
- advisory and specialist services costs	23 612	21 781
- postal fees	25 440	29 868
- transportation services	15 529	14 061
- property protection expenses	8 850	9 055
- taxes and fees (including VAT)	114 622	89 244
- promotion and advertising services	41 432	19 410
- purchase of other materials	3 472	3 519
- training expenses	5 611	3 249
- business trips	2 354	1 958
- other	17 187	19 508
Depreciation	**89 760**	**100 954**
- property, plant and equipment	66 765	74 323
- investment properties	7 718	9 690
- intangible assets	15 277	16 941
Total	**999 500**	**928 103**

Operating lease rental

Leasing contracts under which the lessor retains the whole risk and all rewards arising from the possession of the leased property, are accounted for as an operating lease. Fees under operating lease are recognized as expenses in the income statement on a straight-line basis over the period of leasing.

Contracts of operating lease under which the parent company acts as the lessee are mainly related to the lease of real estate and real estate used by the parent company in the normal course of business. All contracts are executed on market terms, without any exceptional or non-standard terms or conditions.

Net leasing payments paid by the Group and recognized in particular reporting periods as general expenses were as follows (net of VAT):

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Leasing payments	95 421	90 224

The majority of fees were the fees for the leasing of real estates.

The total amount of future gross minimum leasing fees that the Group is obliged to pay under irrevocable contracts of operating leasing, determined as at the balance sheet date, is as follows:

in PLN '000'	**31.12.2011**	**31.12.2010**
Future gross minimum lease payments (with VAT)		
- not later than 1 year	108 597	84 649
- later than 1 year and not later than 5 years	194 963	235 924
- over 5 years	14 764	11 032
Total	**318 324**	**331 605**

Under operating leasing contracts, the parent company operates two Head Office buildings, which, towards the end of 2004, were sold to companies not related to the Bank and are now leased from them. Sale transactions were executed on market terms. Contracts of lease were also executed on market terms. The contracts do not meet the criteria of financial leasing and, therefore, are classified as operating leasing contracts.

17. Other operating expenses

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Writing-off receivables	666	1 770
Debt recovery expenses	35 086	40 702
Other impairment – loans and advances to various debtors	758	306
Disposal or liquidation of property, plant and equipment and intangible assets	9 142	8 037
Indemnities, penalties and fines paid	986	654
Other expenses	7 397	6 312
Total	**54 035**	**57 781**

18. Net impairment losses on financial assets, other assets and provisions

Recognition of impairment on assets and provisions

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Recognition of impairment losses on assets		
Impairment losses on loans and advances	2 063 740	2 357 019
Impairment on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	6 581	8 953
Total impairment	**2 070 321**	**2 365 972**
Provision recognized		
Provisions for severance pays	1 287	0
Provisions for employee benefits	300	335
Provisions for liabilities	41 963	17 771
Provisions for off-balance sheet items	262 595	292 518
Total provisions	**306 145**	**310 624**
Total	**2 376 466**	**2 676 596**

Reversal of impairment for assets and provisions

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Reversal of impairment losses on assets		
Impairment losses on loans and advances	1 891 342	1 946 635
Impairment on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	1 078	418
Impairment on other assets	446	0
Total impairment	**1 892 866**	**1 947 053**
Reversal of provisions		
Provisions for employee benefits	0	6
Provisions for liabilities	9 913	3 524
Provisions for off-balance sheet items	274 903	254 042
Total provisions	**284 816**	**257 572**
Total	**2 177 682**	**2 204 625**

Net impairment losses on financial assets, other assets and provisions	**-198 784**	**-471 971**

19. Taxation

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Profit before tax	**431 141**	**234 707**
Share in profit (loss) of associates	**-3 973**	**-3 224**
Income tax expense at basic tax rate (19%)	**81 162**	**43 982**
Permanent differences:	**22 838**	**4 891**
- dividends received	-320	-558
- provisions and impairment losses	11 565	1 402
- thin capitalisation	11 115	4 728
- other permanent differences	478	-681
Recognized asset surplus related to differences from previous periods	**-103**	**-102**
Actual deductions from (crediting to) net profit	**103 897**	**48 771**
Effective tax rate	**24.10%**	**20.78%**

Income tax expense (credit) in the income statement	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Current income tax	19 414	194 792
Net increase/decrease in deferred income tax	84 483	-146 021
Deductions from net profit	**103 897**	**48 771**

Deferred tax on the valuation of available-for-sale securities, cash flow hedge instruments, charged to revaluation reserve	**31.12.2011**	**31.12.2010**
Debt instruments	9 606	9 117
Cash flow hedge instruments	6 835	4 821
Total	**16 441**	**13 938**

in PLN '000'	31.12.2011		31.12.2010		Impact upon the result/equity for 2011
Deferred tax asset/liability	**Asset**	**Liability**	**Asset**	**Liability**	
Cash and balances with Central Bank	0	-779	0	0	-779
Gross loans and advances to banks	0	-2 703	0	-3 624	921
Impairment losses on loans and advances to banks	0	0	418	0	-418
Receivables arising from repurchase transactions	0	0	0	-7	7
Financial assets designated upon initial recognition as at fair value through profit or loss	17 746	0	0	-6 456	24 202
Financial assets held for trading (excluding derivatives)	3 919	0	0	-428	4 347
Derivatives	0	-205 614	0	-86 114	-119 500
Gross loans and advances to customers	0	-8 038	0	-1 859	-6 179
Impairment losses on loans and advances to customers	136 848	0	196 764	0	-59 916
Investment securities:	3 137	-18 892	4 739	-18 026	-2 468
- available-for-sale	2 451	-18 892	4 088	-18 026	-2 503
- held-to-maturity	686	0	651	0	35
Property, plant and equipment	14 691	0	8 163	0	6 528
Intangible assets	0	-4 106	0	-4 475	369
Non-current assets held for sale	0	-1 717	0	0	-1 717
Other assets	6 011	0	5 915	0	96
Total assets	**182 352**	**-241 849**	**215 999**	**-120 989**	**-154 507**

in PLN '000'	31.12.2011		31.12.2010		Impact upon the result/equity for 2011
Deferred tax asset/liability – cont.	**Asset**	**Liability**	**Asset**	**Liability**	
Amounts due to banks	6 004	0	2 914	0	3 090
Liabilities arising from repurchase transactions	0	0	8	0	-8
Financial liabilities held for trading (excluding derivatives)	0	-58	0	-481	423
Derivatives	195 610	0	218 464	0	-22 854
Amounts due to customers	10 256	0	12 181	0	-1 925
Provisions	24 942	0	12 397	0	12 545
Other liabilities	23 328	0	9 025	0	14 303
Subordinated liabilities	100	0	0	0	100
Total liabilities	**260 240**	**-58**	**254 989**	**-481**	**5 674**
Asset on the current tax loss	**61 847**	**0**	**0**	**0**	**61 847**

Total asset/liability	**504 439**	**-241 907**	**470 988**	**-121 470**	**-86 986**
Asset/liability recognized with the income statement (in the period and in previous periods)	501 988	-223 015	466 900	-103 444	-84 483
Asset/liability recognized in revaluation reserve (in the period and in previous periods)	2 451	-18 892	4 088	-18 026	-2 503

Presented as	**31.12.2011**	**31.12.2010**
Deferred tax asset	263 257	350 387
Deferred tax liability	725	869

20. Net profit attributable to the shareholders of the Bank

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net profit of the parent company for 12 months	310 318	111 239
Net profit (loss) of subsidiaries for 12 months	1 534	5 440
Consolidation adjustments	15 392	69 257
Net profit attributable to the shareholders of the Bank	**327 244**	**185 936**

The difference in the net income generated by the Group as compared to the net income generated by the Bank results primarily from the amortization to the net interest income, at the consolidated level, of the commission income from the sales of loans by Żagiel S.A. generated by December 2009 (i.e. by the time of the sale of the company outside Kredyt Bank S.A. Group). As compared to 2010, the related Group's interest income in 2011 was lower by PLN 65,701 thousand.

21. Earnings per share (EPS)

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net profit	327 244	185 936
Weighted average number of ordinary shares	271 658 880	271 658 880
Net profit (loss) per share (in PLN)	**1.20**	**0.68**

Earnings per share were calculated as the quotient of profit per Bank's shareholders and weighted average number of shares. Diluted earnings per share are not calculated due to the absence of capital categories resulting in dilution.

The Bank's shareholders do not hold preference shares, where preference is in terms of voting and/or dividend.

22. Cash and balances with Central Bank

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Cash in hand	668 998	625 339
Current account in the Central Bank	70 663	1 318 297
Deposits in the Central Bank	45 007	0
Total	**784 668**	**1 943 636**

23. Gross loans and advances to banks

By types

in PLN '000'	31.12.2011	31.12.2010
Current accounts	7 601	19 704
Deposits in other banks	149 251	440 391
Loans and advances to banks	61 054	70 760
Purchased debt	10 988	15 762
Other receivables	60 300	20 881
Debt securities classified as loans and receivables	898 818	898 751
Total	**1 188 012**	**1 466 249**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	221 502	480 260
- 1-3 months	3 710	2 454
- 3-6 months	10 623	10 081
- 6 months to 1 year	10 194	15 986
- 1-3 years	683 878	34 098
- 3-5 years	5 647	668 620
- 5-10 years	252 458	252 490
- past due	0	2 260
Total	**1 188 012**	**1 466 249**

Classification due to impairment

in PLN '000'	31.12.2011	31.12.2010
Loans and advances with no evidence for impairment	1 188 012	1 463 989
Loans and advances with evidence for impairment	0	2 260
Total	**1 188 012**	**1 466 249**

24. Impairment losses on loans and advances to banks

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Period beginning	2 260	2 260
a) increase	176	1
b) decrease	176	1
- reversal of impairment	176	1
c) utilization	2 260	0
- written off in the period as bad debts	2 260	0
Period end	**0**	**2 260**

25. Receivables arising from repurchase transactions

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	0	87 218
Total	**0**	**87 218**

26. Financial assets designated upon initial recognition as at fair value through profit or loss

in PLN '000'	31.12.2011	31.12.2010
Treasury securities	**26 944**	**26 903**
- bonds	26 944	26 903
Other securities	**34 741**	**31 149**
- bonds	34 741	31 149
Shares in investment funds	**20 740**	**19 713**
Equity securities	**18 259**	**40 797**
Total	**100 684**	**118 562**

All investment securities classified upon initial recognition to the portfolio of financial assets at fair value through profit or loss, are measured at fair value on the basis of market quotations, except for SINUSD commercial bonds and equity investments.

The fair value of SINUSD bonds is determined by discounting cash flows from the bonds with USD-BOND curve having regard for the credit spread, as there are no quotations for these bonds on an active market. The bonds are with fixed coupon.

For equity investments, the Group developed a valuation model based, inter alia, on the data originating from the active market.

in PLN '000'	31.12.2011	31.12.2010
Listed	**45 203**	**67 700**
- shares	18 259	40 797
- bonds	26 944	26 903
Non-listed	**55 481**	**50 862**
- shares in investment funds	20 740	19 713
- bonds	34 741	31 149
Total	**100 684**	**118 562**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2011	31.12.2010
- 3-6 months	34 741	0
- 1-3 years	26 944	58 052
- with unspecified maturity dates	38 999	60 510
Total	**100 684**	**118 562**

27. Financial assets held for trading (excluding derivatives)

in PLN '000'	31.12.2011	31.12.2010
Treasury securities	**60 493**	**1 151 591**
- bonds	49 304	162 650
- bills	11 189	988 941
Central Bank securities	**0**	**449 692**
- bills	0	449 692
Total	**60 493**	**1 601 283**

All securities classified in the portfolio of financial assets held for trading are measured at fair value on the basis of market quotations, except for Treasury Eurobonds, and money bills of the National Bank of Poland.

The Treasury Eurobonds are valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR), having regard for the credit spread.

The money bills of the National Bank of Poland are valued with the application of PLN-SWAP curve, not having regard for the credit spread.

in PLN '000'	31.12.2011	31.12.2010
Listed	**60 493**	**1 151 591**
- bonds	49 304	162 650
- bills	11 189	988 941
Non-listed	**0**	**449 692**
- bills	0	449 692
Total	**60 493**	**1 601 283**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	12 434	450 510
- 1-3 months	11 439	250 480
- 3-6 months	1 442	345 012
- 6 months to 1 year	14 350	438 950
- 1-3 years	8 852	20 802
- 3-5 years	2 286	4 314
- 5-10 years	6 963	90 016
- 10-20 years	2 727	1 199
Total	**60 493**	**1 601 283**

28. Derivatives

By types

	31.12.2011		31.12.2010	
in PLN '000'	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	**783 209**	**825 085**	**387 869**	**925 995**
Options purchased	330	0	561	0
Options sold	0	330	0	549
IRS	757 953	795 129	373 157	920 077
FRA	24 926	29 626	14 151	5 369
Foreign exchange transactions	**287 880**	**157 156**	**75 290**	**199 194**
FX swap	239 052	118 854	52 667	76 872
CIRS	6 938	19 298	6 088	104 772
Forward	29 087	6 663	6 802	10 642
Options purchased	11 500	0	9 502	0
Options sold	0	11 110	0	6 604
Spot	1 303	1 231	231	304
Embedded instruments	**0**	**675**	**0**	**5 889**
Total	**1 071 089**	**982 916**	**463 159**	**1 131 078**

By maturity dates (as at the balance sheet date)

	31.12.2011		31.12.2010	
in PLN '000'	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate transactions (nominal value)	**76 462 551**	**94 255 522**	**60 721 420**	**59 590 531**
- up to 1 month	2 614 977	3 389 110	5 164 318	3 382 015
- 1-3 months	9 564 914	9 010 500	7 743 851	5 655 000
- 3-6 months	13 137 852	21 733 937	30 258 617	30 581 076
- 6 months to 1 year	22 084 837	29 126 011	10 311 015	11 508 630
- 1-3 years	25 562 138	25 836 646	6 182 969	6 980 986
- 3-5 years	3 304 841	4 664 198	790 000	1 211 084
- 5-10 years	192 992	495 120	270 650	271 740
Foreign exchange transactions (nominal value)	**14 200 231**	**14 064 252**	**6 977 284**	**7 123 654**
- up to 1 month	6 400 252	6 373 843	2 784 696	2 861 667
- 1-3 months	3 108 431	2 985 832	1 537 591	1 569 532
- 3-6 months	2 249 299	2 256 243	1 090 342	1 093 911
- 6 months to 1 year	2 317 601	2 330 146	1 399 741	1 434 245
- 1-3 years	124 648	118 188	148 954	149 098
- 3-5 years	0	0	15 960	15 201
Total nominal value *	**90 662 782**	**108 319 774**	**67 698 704**	**66 714 185**

** net of embedded derivatives; the item 'Liabilities related to the sale/purchase transactions' in Note 48 also comprises current currency exchange transactions and transactions on securities*

29. Financial assets subject to hedge accounting

As at 31.12.2011 and 31.12.2010, the Group applied loans-related cash flow hedge, the aim of which is to change floating interest rate cash flows generated by the loans portfolio to cash flows based on a fixed interest rate to match the structure of the interest rate risk for assets and liabilities based on a fixed interest rate. The hedge involves swap transactions in which the Group, on the whole, pays cash flows based on a variable WIBOR 3M and EURIBOR 3M interest rate matched to the interest rate of the loans portfolio and receives interest flows at a fixed interest rate with required maturity. The above structure makes it possible to change the floating interest rate into the fixed interest rate without the necessity for employing additional liquid cash for the purchase of new assets (e.g. fixed coupon bonds), at the same time ensuring a stable impact on the result by recognizing changes in fair value of swaps in the Bank's equity.

As at 31.12.2010, the Group applied cash flow hedge accounting for asset swaps. The transactions involved hedging cash flows from floating interest rate bonds, as a result of which the Group received fixed and paid floating interest flows.

As at 31.12.2011 and 31.12.2010, the Group did not apply hedge accounting to hedge fair value of financial assets.

The rules of recognizing and measuring the effectiveness of the hedges for transactions subject to hedge accounting are described in Note 3.6.6 of these financial statements.

Balance sheet as at 31.12.2011

Financial assets subject to cash flow hedge accounting

- <u>loans portfolio</u>

Hedged assets – mortgage loans of PLN 3,173,336 thousand.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in in the income statement*
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	09.07.2012	fixed 5.70%	WIB 3M	annually	every quarter	1 924	0
100 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	1 796	0
50 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	898	0
150 000	09.11.2012	fixed 5.75%	WIB 3M	annually	every quarter	1 132	0
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	1 004	25
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	4 300	15
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	4 334	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	6 650	0
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	5 874	0
70 000	05.03.2015	fixed 5.90%	WIB 3M	annually	every quarter	5 596	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	2 265	0
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	2 177	22
50 000	17.04.2012	fixed 5.92%	WIB 3M	annually	every quarter	1 706	28
30 000	08.05.2012	fixed 5.94%	WIB 3M	annually	every quarter	1 018	0
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	3 499	0
60 000	02.10.2013	fixed 5.54%	WIB 3M	annually	every quarter	867	0
60 000	23.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	-476	-328
75 000	08.10.2012	fixed 5.13%	WIB 3M	annually	every quarter	135	0
50 000	05.11.2012	fixed 5.31%	WIB 3M	annually	every quarter	163	0
50 000	05.11.2012	fixed 5.30%	WIB 3M	annually	every quarter	160	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	2 661	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	5 522	0
75 000	02.03.2016	fixed 5.61%	WIB 3M	annually	every quarter	5 659	87
75 000	04.04.2016	fixed 5.60%	WIB 3M	annually	every quarter	4 723	0
120 000	04.05.2016	fixed 5.60%	WIB 3M	annually	every quarter	7 508	0
100 000	13.05.2013	fixed 5.10%	WIB 3M	annually	every quarter	2 945	0
120 000	02.06.2016	fixed 5.43%	WIB 3M	annually	every quarter	6 544	0
25 000	03.06.2019	fixed 5.50%	WIB 3M	annually	every quarter	1 650	0
150 000	04.07.2016	fixed 5.24%	WIB 3M	annually	every quarter	5 068	0
25 000	05.08.2019	fixed 5.27%	WIB 3M	annually	every quarter	950	0
100 000	03.08.2016	fixed 5.16%	WIB 3M	annually	every quarter	3 003	0
88 336	12.08.2016	fixed 1.99%	EURIB 3M	annually	every quarter	2 523	145
50 000	02.09.2019	fixed 4.65%	WIB 3M	annually	every quarter	-171	-318
120 000	02.09.2016	fixed 4.53%	WIB 3M	annually	every quarter	216	-357
25 000	04.10.2019	fixed 4.91%	WIB 3M	annually	every quarter	47	0
120 000	04.10.2016	fixed 4.78%	WIB 3M	annually	every quarter	120	0
25 000	04.11.2019	fixed 4.83%	WIB 3M	annually	every quarter	-93	-91
120 000	03.11.2016	fixed 4.70%	WIB 3M	annually	every quarter	-339	-366
120 000	02.12.2016	fixed 4.91%	WIB 3M	annually	every quarter	756	0
25 000	02.12.2019	fixed 5.01%	WIB 3M	annually	every quarter	199	0
120 000	03.01.2017	fixed 4.68%	WIB 3M	annually	every quarter	-446	0
25 000	03.01.2020	fixed 4.80%	WIB 3M	annually	every quarter	-144	0
					Total	**93 923**	**-1 138**

** excluding interest presented in net interest income*

Balance sheet as at 31.12.2010

Financial assets subject to cash flow hedge accounting

- bonds

Hedged assets – available-for-sale bonds

Bond nominal value	Maturity date	Interest rate	Coupon rate payment
80 000	25.01.2018	variable 3.99% (31.12.2010)	every 6 months

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in in the income statement*
		Coupon received	Coupon paid	Coupon received	Coupon paid		
80 000	29.08.2011	fixed 5.66%	WIB 6M	annually	every 6 months	1 123	0
					Total	**1 123**	**0**

** excluding interest presented in net interest income*

- loans portfolio

Hedged assets – mortgage loans of PLN 1,935,000 thousand.

IRS's hedging cash flows

Nominal value	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in the income statement*
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	09.07.2012	fixed 5.70%	WIB 3M	annually	every quarter	3 417	0
100 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	3 124	0
50 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	1 562	0
120 000	12.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	2 913	0
20 000	12.09.2011	fixed 5.65%	WIB 3M	annually	every quarter	485	0
150 000	09.11.2012	fixed 5.75%	WIB 3M	annually	every quarter	3 046	0
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	696	82
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	5 312	142
100 000	07.02.2011	fixed 5.73%	WIB 3M	annually	every quarter	4 740	17
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	5 153	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	5 639	82
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	7 078	87
70 000	05.03.2015	fixed 5.90%	WIB 3M	annually	every quarter	4 776	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	2 814	85
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	2 700	110
50 000	17.04.2012	fixed 5.92%	WIB 3M	annually	every quarter	2 536	93
30 000	08.05.2012	fixed 5.94%	WIB 3M	annually	every quarter	1 511	18
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	4 295	155
60 000	02.10.2013	fixed 5.54%	WIB 3M	annually	every quarter	1 041	33
60 000	23.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	-1 274	-328
75 000	08.10.2012	fixed 5.13%	WIB 3M	annually	every quarter	734	0
75 000	14.10.2011	fixed 4.90%	WIB 3M	annually	every quarter	489	0
50 000	05.11.2012	fixed 5.31%	WIB 3M	annually	every quarter	601	0
50 000	05.11.2012	fixed 5.30%	WIB 3M	annually	every quarter	596	0
75 000	07.11.2011	fixed 4.95%	WIB 3M	annually	every quarter	472	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	2 465	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	5 022	0
					Total	**71 943**	**576**

** excluding interest presented in net interest income*

In the case of cash flow hedge, the amount recognized in equity in 2011 was PLN 35,976 thousand, and the amount derecognized from equity and recognized in the income statement (the ineffective part) amounted to -PLN 1,138 thousand. In 2010, the amount recognized in equity was PLN 25,378 thousand, and the amount derecognized from equity and recognized in the income statement (the ineffective part) amounted to PLN 576 thousand.

Summary of valuations of hedging derivatives

in PLN '000'	31.12.2011	31.12.2010
Total positive valuations (with interest)	95 592	74 340
Total negative valuations (with interest)	-1 669	-1 274
Total	**93 923**	**73 066**

30. Gross loans and advances to customers

By types

in PLN '000'	31.12.2011	31.12.2010
Loans and advances	29 394 567	28 323 722
Purchased debt	252 086	133 911
Realised guarantees	37 592	2 665
Other receivables, including:	689 105	580 690
- including leasing fees	632 267	533 130
Debt securities classified as loans and receivables	120 565	67 532
Total	**30 493 915**	**29 108 520**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	730 255	666 091
- 1-3 months	1 018 882	921 420
- 3-6 months	1 149 013	1 011 620
- 6 months to 1 year	3 281 092	2 870 410
- 1-3 years	4 143 980	4 060 504
- 3-5 years	2 495 955	2 487 863
- 5-10 years	4 251 841	3 926 722
- 10-20 years	6 846 200	6 152 841
- over 20 years	3 940 668	3 686 473
- past due	2 636 029	3 324 576
Total	**30 493 915**	**29 108 520**

Receivables by classes

in PLN '000'	**31.12.2011**	**31.12.2010**
Natural persons*	**23 108 088**	**22 171 091**
- overdraft facilities	1 004 576	860 214
- term loans **	810 165	794 181
- cash loans, installment loans and cards	2 833 496	3 831 329
- mortgage housing loans	17 984 863	16 183 199
- other mortgage loans***	421 838	455 886
- purchased debt	14 421	12 841
- realised guarantees	1 472	1 340
- other receivables	37 257	32 101
Corporate customers and SME	**7 185 668**	**6 749 800**
- overdraft facilities	2 019 966	1 624 480
- term loans **	4 207 920	4 407 040
- purchased debt	217 702	121 070
- realised guarantees	36 120	1 325
- other receivables, including leasing fees	651 848	548 589
- debt securities classified as loans and receivables	52 112	47 296
Budgetary sector	**200 159**	**187 629**
- overdraft facilities	4 787	2 735
- term loans **	106 956	164 658
- purchased debt	19 963	0
- debt securities classified as loans and receivables	68 453	20 236
Total	**30 493 915**	**29 108 520**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.*
***contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2011

in PLN '000'	Gross receivables	Impaired gross receivables	Impairment losses for receivables with evidence for impairment	Non-impaired gross receivables by days of delay in payment: no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90 days*	Non-impaired gross receivables	Impairment losses IBNR
Natural persons**	**23 108 088**	**1 529 253**	**856 605**	**20 017 811**	**1 330 766**	**179 625**	**50 298**	**335**	**21 578 835**	**98 055**
- overdraft facilities	1 004 576	159 967	121 158	703 533	127 000	9 272	4 483	321	844 609	10 333
- term loans***	810 165	114 635	77 842	651 705	38 208	5 324	287	6	695 530	1 308
- cash loans, installment loans and cards	2 833 496	350 984	298 835	2 278 922	155 649	31 151	16 787	3	2 482 512	41 950
- mortgage housing loans	17 984 863	835 694	317 036	16 020 562	973 904	127 507	27 191	5	17 149 169	44 051
- other mortgage loans****	421 838	55 104	30 834	322 943	35 870	6 371	1 550	0	366 734	387
- purchased debt	14 421	2 242	2 242	12 044	135	0	0	0	12 179	26
- realised guarantees	1 472	1 472	918	0	0	0	0	0	0	0
- other receivables	37 257	9 155	7 740	28 102	0	0	0	0	28 102	0
Corporate customers and SME	**7 185 668**	**983 200**	**442 953**	**6 017 515**	**176 787**	**6 369**	**1 554**	**243**	**6 202 468**	**10 475**
- overdraft facilities	2 019 966	158 514	88 256	1 772 913	86 372	988	936	243	1 861 452	7 693
- term loans***	4 207 920	694 027	301 838	3 421 839	90 162	1 892	0	0	3 513 893	1 791
- purchased debt	217 702	9 507	6 298	207 942	253	0	0	0	208 195	77
- realised guarantees	36 120	36 120	1 119	0	0	0	0	0	0	0
- other receivables, including leasing fees	651 848	85 032	45 442	562 709	0	3 489	618	0	566 816	914
- debt securities classified as loans and receivables	52 112	0	0	52 112	0	0	0	0	52 112	0
Budgetary sector	**200 159**	**1**	**1**	**199 751**	**407**	**0**	**0**	**0**	**200 158**	**72**
- overdraft facilities	4 787	0	0	4 380	407	0	0	0	4 787	45
- term loans***	106 956	0	0	106 956	0	0	0	0	106 956	25
- purchased debt	19 963	1	1	19 962	0	0	0	0	19 962	2
- debt securities classified as loans and receivables	68 453	0	0	68 453	0	0	0	0	68 453	0
Total	**30 493 915**	**2 512 454**	**1 299 559**	**26 235 077**	**1 507 960**	**185 994**	**51 852**	**578**	**27 981 461**	**108 602**

**in the case of a delay in payment of at least one installment, the total debt is presented as delayed*

*** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.*

****contains mainly investment loans and working capital loans*

***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2010

in PLN '000'	Gross receivables	Impaired gross receivables	Impairment losses for receivables with evidence for impairment	Non-impaired gross receivables by days of delay in payment					Non-impaired gross receivables	Impairment losses IBNR
				no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90 days*		
Natural persons**	**22 171 091**	**1 947 548**	**1 356 134**	**18 796 137**	**1 200 301**	**182 325**	**44 534**	**246**	**20 223 543**	**102 832**
- overdraft facilities	860 214	129 768	95 699	576 439	142 947	7 822	3 066	172	730 446	8 263
- term loans***	794 181	79 721	60 872	653 482	58 877	2 045	56	0	714 460	1 023
- cash loans, installment loans and cards	3 831 329	1 107 274	969 693	2 463 560	181 507	51 485	27 432	71	2 724 055	58 351
- mortgage housing loans	16 183 199	573 804	189 657	14 696 253	787 474	113 046	12 619	3	15 609 395	34 855
- other mortgage loans****	455 886	44 687	28 353	372 550	29 361	7 927	1 361	0	411 199	333
- purchased debt	12 841	1 890	1 890	10 816	135	0	0	0	10 951	7
- realised guarantees	1 340	1 340	917	0	0	0	0	0	0	0
- other receivables	32 101	9 064	9 053	23 037	0	0	0	0	23 037	0
Corporate customers and SME	**6 749 800**	**874 435**	**437 427**	**5 761 455**	**103 414**	**9 902**	**593**	**1**	**5 875 365**	**17 563**
- overdraft facilities	1 624 480	241 940	127 855	1 328 085	52 256	2 070	128	1	1 382 540	5 901
- term loans***	4 407 040	547 269	261 269	3 826 563	28 501	4 707	0	0	3 859 771	9 481
- purchased debt	121 070	7 243	6 042	91 170	22 657	0	0	0	113 827	51
- realised guarantees	1 325	1 325	1 122	0	0	0	0	0	0	0
- other receivables, including leasing fees	548 589	76 658	41 139	468 341	0	3 125	465	0	471 931	2 130
- debt securities classified as loans and receivables	47 296	0	0	47 296	0	0	0	0	47 296	0
Budgetary sector	**187 629**	**1**	**1**	**183 985**	**3 643**	**0**	**0**	**0**	**187 628**	**43**
- overdraft facilities	2 735	1	1	2 734	0	0	0	0	2 734	3
- term loans***	164 658	0	0	161 015	3 643	0	0	0	164 658	40
- purchased debt	0	0	0	0	0	0	0	0	0	0
- debt securities classified as loans and receivables	20 236	0	0	20 236	0	0	0	0	20 236	0
Total	**29 108 520**	**2 821 984**	**1 793 562**	**24 741 577**	**1 307 358**	**192 227**	**45 127**	**247**	**26 286 536**	**120 438**

*in the case of a delay in payment of at least one installment, the total debt is presented as delayed

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.

***contains mainly investment loans and working capital loans

**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages

The amount of non-amortized loan commissions settled with the effective interest rate method, which, according to the concept of the measurement of financial assets at amortized cost, decreases the value of gross receivables, amounted to PLN 80,502 thousand as at 31.12.2011, PLN 110,943 thousand as at 31.12.2010.

Receivables quality ratio

in PLN '000'	**31.12.2011**	**31.12.2010**
Loans and advances with no evidence for impairment, including interest	27 981 461	26 286 536
Loans and advances with evidence for impairment, including interest	2 512 454	2 821 984
including: loans and advances for which no impairment losses were established	37 103	17 263
Total gross loan and advances to customers	**30 493 915**	**29 108 520**
Impairment losses on loans and advances to customers	1 408 161	1 914 000
including: impairment losses on loans and advances with evidence for impairment	1 299 559	1 793 562
Total net loans and advances to customers	**29 085 754**	**27 194 520**
The share of loans and advances with evidence for impairment in total gross loans and advances	8.2%	9.7%
Coverage of loans and advances with evidence for impairment with impairment losses	51.7%	63.6%
Coverage of gross loans and advances to customers with corresponding impairment losses	4.6%	6.6%

The quality ratio for the portfolio of the Group's gross loans and advances understood as 'The share of loans and advances with evidence for impairment in total gross loans and advances' as at 31.12.2011 amounted to 8.2% and, as compared to the balance as at 31.12.2010, it deteriorated by 1.5 p.p.

As at 31.12.2011, the coverage of loans and advances with evidence for impairment with impairment losses was at the level of 51.7% and deteriorated by 11.9 p.p. as compared to the balance as at 31.12.2010.

The quality ratios for loans and advances presented in the table above, changed significantly, as compared to the end of 2010, due to the sale of the portfolio of retail debts between the Bank and BEST III Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty ('Best III NSFIZ'), represented by BEST Towarzystwo Funduszy Inwestycyjnych S.A., made under the agreement of 26.04.2011.

The agreement was related to a retail debts portfolio of Kredyt Bank S.A. ('Portfolio'), which comprised 423,849 receivables with the total nominal value as of 31.03.2011 equal to PLN 1,169.7 million. The net carrying amount of the Portfolio in the books of Kredyt Bank S.A. as at 31.03.2011, having regard for the reversal of impairment losses, amounted to PLN 137.2 million.

The final price for the Portfolio was decreased by the sum of all the inflows received by Kredyt Bank S.A. due to the partial or total repayment of the debts included in the Portfolio in the period from 01.04.2011 until the day preceding the day of the ownership transfer.

The positive impact of the transaction upon the net result of Kredyt Bank S.A. Capital Group for 2011 amounted to PLN 62,722 thousand. The impact of the above transaction upon particular categories of the consolidated income statement of the Group for 2011 is presented in the table below.

in PLN '000'	
Net interest income	-4 313
Net impairment losses on financial assets, other assets and provisions	84 964
Profit before tax	80 651
income tax expense	-17 929
Net profit	**62 722**

The sold debts and the corresponding impairment losses were derecognized from the Bank's balance sheet on the date of signing the agreement, as, on this day, pursuant to IAS 39, all the substantial risks and rewards related to these assets were transferred unto the buyer.

Receivables assessed individually

in PLN '000'	**31.12.2011**	**31.12.2010**
Gross receivables	975 268	771 234
Impairment losses	432 592	381 424
Net receivables	542 676	389 810

Accepted loan collateral

In the case of receivables assessed individually, the total fair value of collateral approved by the Group considered in estimated future cash flows is presented in the table below.

in PLN '000'	**31.12.2011**	**31.12.2010**
Value of accepted collateral for loans and advances assessed individually	336 494	238 280

Apart from standard loan collateral specified in loan agreements which are in line with the practices applied in the industry (mortgage, transfers of ownership to secure a loan, registered pledges, frozen cash on bank accounts, sureties, guarantees and transfers of receivables), the Group does not apply any other loan collateral, e.g. credit derivatives.

The Group assesses established legal securities of loan transactions by an analysis of the value of approved collateral on the basis of documents lodged by the borrower and internal databases including historic data about the recoverability of collateral.

From the point of view of the Bank's loans portfolio, mortgages that significantly reduce the credit risk are the most important collateral. The Bank constantly monitors the value of approved mortgage collateral, e.g. by analyzing LtV (*Loan-to-Value*) ratios. As at 31.12.2011, the fair value of approved mortgage collateral for housing purposes mortgages and other mortgage loans, which affects the assessment of the credit risk, amounted to PLN 15,149 million.

31. Impairment losses on loans and advances to customers

in PLN '000'	Impairment 31.12.2010	Recognized	Reversed	Written off	Other changes	Impairment 31.12.2011
Natural persons*	**1 458 966**	**1 594 980**	**-1 421 993**	**-25 334**	**-651 959**	**954 660**
- overdraft facilities	103 962	173 739	-142 674	-3 733	197	131 491
- term loans **	61 895	37 079	-20 609	-3 779	4 564	79 150
- cash loans, installment loans and cards	1 028 044	857 478	-867 804	-14 317	-662 616	340 785
- mortgage housing loans	224 512	500 688	-367 291	-2 158	5 336	361 087
- other mortgage loans***	28 686	24 468	-21 321	-678	66	31 221
- purchased debt	1 897	607	-236	0	0	2 268
- realised guarantees	917	116	-115	0	0	918
- other receivables	9 053	805	-1 943	-669	494	7 740
Corporate customers and SME	**454 990**	**468 297**	**-468 915**	**-27 909**	**26 965**	**453 428**
- overdraft facilities	133 756	129 606	-150 182	-16 753	-478	95 949
- term loans **	270 750	306 067	-266 620	-8 296	1 728	303 629
- purchased debt	6 093	5 764	-4 902	-980	400	6 375
- realised guarantees	1 122	201	-25 530	0	25 326	1 119
- other receivables, including leasing fees	43 269	26 659	-21 681	-1 880	-11	46 356
Budgetary sector	**44**	**287**	**-258**	**0**	**0**	**73**
- overdraft facilities	4	231	-190	0	0	45
- term loans **	40	48	-63	0	0	25
- purchased debt	0	8	-5	0	0	3
Total	**1 914 000**	**2 063 564**	**-1 891 166**	**-53 243**	**-624 994**	**1 408 161**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
***contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The amount in 'Other changes' column for cash loans, installment loans and cards refers mainly to the sale of debts described in Note 30.

in PLN '000'	**Impairment 31.12.2009**	**Recognized**	**Reversed**	**Written off**	**Other changes**	**Impairment 31.12.2010**
Natural persons*	**1 088 316**	**1 825 324**	**-1 433 186**	**-22 996**	**1 508**	**1 458 966**
- overdraft facilities	104 108	142 372	-127 741	-13 476	-1 301	103 962
- term loans **	67 275	16 118	-18 734	-2 580	-184	61 895
- cash loans, installment loans and cards	802 924	1 152 317	-920 674	-6 475	-48	1 028 044
- mortgage housing loans	85 431	485 353	-348 839	-447	3 014	224 512
- other mortgage loans***	23 365	21 142	-15 831	-18	28	28 686
- purchased debt	1 914	315	-331	0	-1	1 897
- realised guarantees	914	298	-295	0	0	917
- other receivables	2 385	7 409	-741	0	0	9 053
Corporate customers and SME	**487 448**	**531 360**	**-513 036**	**-50 858**	**76**	**454 990**
- overdraft facilities	101 442	209 648	-175 682	-3 315	1 663	133 756
- term loans **	329 541	270 493	-291 476	-36 445	-1 363	270 750
- purchased debt	3 503	28 982	-25 657	-716	-19	6 093
- realised guarantees	4 019	1 887	-4 534	0	-250	1 122
- other receivables, including leasing fees	48 943	20 350	-15 687	-10 382	45	43 269
Budgetary sector	**122**	**334**	**-412**	**0**	**0**	**44**
- overdraft facilities	1	246	-243	0	0	4
- term loans **	121	88	-169	0	0	40
Total	**1 575 886**	**2 357 018**	**-1 946 634**	**-73 854**	**1 584**	**1 914 000**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
***contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

IBNR

Impairment losses on incurred but not reported (IBNR) credit losses for homogenous balance sheet and off-balance sheet receivables portfolios as at 31.12.2011 amounted to PLN 111,609 thousand, including PLN 3,007 thousand related to off-balance sheet liabilities; and as at 31.12.2010, amounted to PLN 126,845 thousand, including PLN 6,407 thousand related to off-balance sheet liabilities.

32. Finance lease receivables and a change in charges for lease receivables

in PLN '000'	**31.12.2011**	**31.12.2010**
Gross investments in finance lease	829 367	584 028
Unrealised future financial income	197 100	50 898
Present value of minimum leasing fees (gross carrying amount)	632 267	533 130
Gross investments in finance lease for each period:	829 367	584 028
- up to 1 year	322 057	236 056
- later than 1 year and not later than 5 years	478 176	319 125
- over 5 years	29 134	28 847
Present value of minimum leasing fees for each period:	632 267	533 130
- up to 1 year	226 462	210 682
- later than 1 year and not later than 5 years	378 932	293 967
- over 5 years	26 873	28 481

Impairment losses on lease receivables

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Period beginning	38 242	40 367
a) increase	20 633	17 095
- impairment losses on lease receivables	20 371	16 959
- other changes	262	136
b) reversal	18 379	13 905
- reversal of impairment losses on lease receivables	18 105	13 815
- other changes	274	90
c) utilization	1 880	5 315
- leasing fees written off in the period as bad debts	1 880	5 315
Period end	**38 616**	**38 242**

33. Investment securities

in PLN '000'	31.12.2011	31.12.2010
Available-for-sale securities	**5 262 038**	**6 219 461**
Treasury securities	4 849 562	5 608 099
- bonds	4 849 562	5 608 099
Central Bank securities	99 953	299 765
- bills	99 953	299 765
Other securities	307 126	307 674
- bonds	307 126	307 674
Equity securities	5 397	3 923
Held-to-maturity securities	**3 416 674**	**3 247 779**
Treasury securities	3 416 674	3 247 779
- bonds	3 416 674	3 247 779
Total	**8 678 712**	**9 467 240**

All investment securities classified in the portfolio of available-for-sale financial assets are measured at fair value on the basis of market quotations, except for SINPLN commercial bonds, Treasury Eurobonds, money bills of the National Bank of Poland and non-listed equity investments.

The fair value of SINPLN bonds is determined by discounting cash flows from the bonds with PLN-BOND curve having regard for the credit spread. The bonds are with fixed coupon.

The Treasury Eurobonds are valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR), having regard for the credit spread.

The money bills of the National Bank of Poland are valued with the application of PLN-SWAP curve, not having regard for the credit spread.

in PLN '000'	31.12.2011	31.12.2010
Available-for-sale securities	**5 262 038**	**6 219 461**
Listed	**4 849 562**	**5 608 099**
- bonds	4 849 562	5 608 099
Non-listed	**412 476**	**611 362**
- shares	5 397	3 923
- bonds	307 126	307 674
- bills	99 953	299 765
Held-to-maturity securities	**3 416 674**	**3 247 779**
Listed	**3 416 674**	**3 247 779**
- bonds	3 416 674	3 247 779
Total	**8 678 712**	**9 467 240**

Maturities of available-for-sale investment securities

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	99 953	299 764
- 1-3 months	83 439	33 379
- 3-6 months	384 609	580 507
- 6 months to 1 year	168 489	192 150
- 1-3 years	1 609 647	1 623 773
- 3-5 years	1 713 662	2 297 947
- 5-10 years	1 196 842	1 188 018
- with unspecified maturity dates	5 397	3 923
Total	**5 262 038**	**6 219 461**

Maturities of held-to-maturity investment securities

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	109 657	0
- 1-3 months	0	20 796
- 3-6 months	0	425 050
- 6 months to 1 year	741 928	0
- 1-3 years	980 536	1 195 114
- 3-5 years	1 076 220	1 225 146
- 5-10 years	508 333	381 673
Total	**3 416 674**	**3 247 779**

34. Investments in associates valued using the equity method

As at 31.12.2011 and as at 31.12.2010, the Group held shares in one associate measured with the equity method., i.e. KBC Towarzystwo Funduszy Inwestycyjnych S.A., which is involved in the management of investment funds.

in PLN '000'	**31.12.2011**	**31.12.2010**
Carrying amount of shares	19 152	15 179
Entity's total assets	72 829	61 500
Entity's equity:	65 479	50 598
- share capital	25 258	25 258
- supplementary capital	25 229	14 822
- other equity:	14 992	10 518
- retained earnings (loss)	2 071	0
- net profit (loss)	12 921	10 518
Entity's liabilities	7 350	10 902
Entity's receivables	40 396	24 585
Total income	69 128	67 961
% of capital held	30%	30%
Share in the total number of votes at the General Meeting of Shareholders	30%	30%

35. Property, plant and equipment

in PLN '000'	**31.12.2011**	**31.12.2010**
Property, plant and equipment	229 690	269 893
- land	10 958	11 036
- buildings and premises	130 605	131 123
- plant and machinery	50 855	77 170
- motor vehicles	1 415	434
- other property, plant and equipment	35 857	50 130
Expenditure on property, plant and equipment	30 107	20 551
Total	**259 797**	**290 444**

Movement on property, plant and equipment

For the period of 12 months ended 31.12.2011

in PLN '000'	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Expenditure on property, plant and equipment	Total property, plant and equipment
a) gross property, plant and equipment as at 01.01.2011	12 126	218 846	414 612	1 568	178 768	20 551	846 471
b) increase	0	6 055	15 755	1 394	5 738	30 759	59 701
- purchase	0	500	2 234	1 394	4 070	16 091	24 289
- other increases*	0	5 555	13 521	0	1 668	14 668	35 412
c) decrease	78	4 236	28 829	905	11 516	20 998	66 562
- sale	28	446	1 823	905	134	0	3 336
- liquidation	0	879	21 836	0	3 869	0	26 584
- other decreases**	50	2 911	5 170	0	7 513	20 998	36 642
d) gross property, plant and equipment as at 31.12.2011	12 048	220 665	401 538	2 057	172 990	30 312	839 610
e) accumulated depreciation as at 01.01.2011	1 090	75 930	334 011	980	127 929	0	539 940
f) changes in depreciation	0	2 678	14 564	-340	8 663	0	25 565
- depreciation	0	4 237	42 869	289	19 370	0	66 765
- sale	0	-64	-1 708	-629	-24	0	-2 425
- liquidation	0	-545	-21 457	0	-3 532	0	-25 534
- other changes	0	-950	-5 140	0	-7 151	0	-13 241
g) accumulated depreciation as at 31.12.2011	1 090	78 608	348 575	640	136 592	0	565 505
h) impairment as at 01.01.2011	0	11 793	3 431	154	709	0	16 087
- increases	0	0	1	0	0	1 205	1 206
- decreases	0	341	1 324	152	168	1 000	2 985
i) impairment as at 31.12.2011	0	11 452	2 108	2	541	205	14 308
j) net property, plant and equipment as at 01.01.2011	11 036	131 123	77 170	434	50 130	20 551	290 444
Net property, plant and equipment as at 31.12.2011	**10 958**	**130 605**	**50 855**	**1 415**	**35 857**	**30 107**	**259 797**

**other increases (except for expenditure on property, plant and equipment) are related mainly to the acceptance for use of property, plant and equipment previously presented in 'Expenditure on property, plant and equipment 'line*

*** other decreases in 'Expenditure on property, plant and equipment' line are related mainly to the transfer of property, plant and equipment for use*

For the period of 12 months ended 31.12.2010

in PLN '000'	**Land**	**Buildings and premises**	**Plant and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Expenditure on property, plant and equipment**	**Total property, plant and equipment**
a) gross property, plant and equipment as at 01.01.2010	12 816	237 384	436 944	2 089	183 126	29 862	902 221
b) increase	0	3 876	37 107	64	6 757	33 276	81 080
- purchase	0	0	4 519	0	755	33 211	38 485
- other increases*	0	3 876	32 588	64	6 002	65	42 595
c) decrease	690	22 414	59 439	585	11 115	42 587	136 830
- sale	0	4 460	1 070	199	372	0	6 101
- liquidation	0	3 654	49 244	0	7 895	0	60 793
- other decreases**	690	14 300	9 125	386	2 848	42 587	69 936
d) gross property, plant and equipment as at 31.12.2010	12 126	218 846	414 612	1 568	178 768	20 551	846 471
e) accumulated depreciation as at 01.01.2010	1 092	78 121	345 084	1 201	115 017	0	540 515
f) changes in depreciation	-2	-2 191	-11 073	-221	12 912	0	-575
- depreciation	0	4 841	46 887	285	22 310	0	74 323
- sale	0	-1 297	-657	-120	-301	0	-2 375
- liquidation	0	-270	-48 222	0	-6 363	0	-54 855
- other changes	-2	-5 465	-9 081	-386	-2 734	0	-17 668
g) accumulated depreciation as at 31.12.2010	1 090	75 930	334 011	980	127 929	0	539 940
h) impairment as at 01.01.2010	0	4 483	2 655	154	880	0	8 172
- increases	0	7 564	1 457	0	79	0	9 100
- decreases	0	254	681	0	250	0	1 185
i) impairment as at 31.12.2010	0	11 793	3 431	154	709	0	16 087
j) net property, plant and equipment as at 01.01.2010	11 724	154 780	89 205	734	67 229	29 862	353 534
Net property, plant and equipment as at 31.12.2010	**11 036**	**131 123**	**77 170**	**434**	**50 130**	**20 551**	**290 444**

**other increases (except for expenditure on property, plant and equipment) are related mainly to the acceptance for use of property, plant and equipment previously presented in 'Expenditure on property, plant and equipment' line*
*** other decreases in 'Expenditure on property, plant and equipment' line are related mainly to the transfer of property, plant and equipment for use*

36. Intangible assets

in PLN '000'	31.12.2011	31.12.2010
Internally developed computer software	0	11
Acquired computer	25 182	39 169
Other intangible assets, including capital expenditure	34 529	11 021
Total	**59 711**	**50 201**

Movement on intangible assets

For the period of 12 months ended 31.12.2011

in PLN '000'	Internally developed computer software	Acquired computer	Other intangible assets, including capital expenditure	Total intangible assets
a) gross intangible assets as at 01.01.2011	42	298 726	13 874	312 642
b) increase	0	3 104	34 772	37 876
- purchase	0	1 454	30 614	32 068
- other increases*	0	1 650	4 158	5 808
c) decrease	42	1 258	5 812	7 112
- sale	42	0	0	42
- liquidation	0	600	122	722
- other decreases**	0	658	5 690	6 348
d) gross intangible assets as at 31.12.2011	0	300 572	42 834	343 406
e) accumulated amortization as at 01.01.2011	31	255 403	341	255 775
f) amortization in the period	-31	14 779	-73	14 675
- amortization	1	15 253	23	15 277
- sale	-32	0	0	-32
- liquidation	0	-449	-121	-570
- other changes	0	-25	25	0
g) accumulated amortization as at 31.12.2011	0	270 182	268	270 450
h) impairment as at 01.01.2011	0	4 154	2 512	6 666
- increases	0	1 356	5 525	6 881
- decreases	0	302	0	302
i) impairment as at 31.12.2011	0	5 208	8 037	13 245
j) net intangible assets as at 01.01.2011	11	39 169	11 021	50 201
Net intangible assets as at 31.12.2011	**0**	**25 182**	**34 529**	**59 711**

**other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*
***other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*

For the period of 12 months ended 31.12.2010

in PLN '000'	**Internally developed computer software**	**Acquired computer**	**Other intangible assets, including capital expenditure**	**Total intangible assets**
a) gross intangible assets as at 01.01.2010	42	302 734	20 886	323 662
b) increase	0	12 442	14 749	27 191
- purchase	0	1 074	12 089	13 163
- other increases*	0	11 368	2 660	14 028
c) decrease	0	16 450	21 761	38 211
- sale	0	2	3	5
- liquidation	0	14 696	5 716	20 412
- other decreases**	0	1 752	16 042	17 794
d) gross intangible assets as at 31.12.2010	42	298 726	13 874	312 642
e) accumulated amortization as at 01.01.2010	0	253 854	6 563	260 417
f) amortization in the period	31	1 549	-6 222	-4 642
- amortization	8	16 899	34	16 941
- sale	0	0	-2	-2
- liquidation	0	-14 265	-5 714	-19 979
- other changes	23	-1 085	-540	-1 602
g) accumulated amortization as at 31.12.2010	31	255 403	341	255 775
h) impairment as at 01.01.2010	0	4 374	7 623	11 997
- increases	0	302	0	302
- decreases	0	522	5 111	5 633
i) impairment as at 31.12.2010	0	4 154	2 512	6 666
j) net intangible assets as at 01.01.2010	42	44 506	6 700	51 248
Net intangible assets as at 31.12.2010	**11**	**39 169**	**11 021**	**50 201**

**other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*
***other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure, and the termination of leasing contracts*

37. Investment properties

The table below presents changes in investment properties in 2011 and in 2010:

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Gross value as at the beginning of the period	**320 933**	**306 514**
Increases	2 228	18 562
Decreases	23 198	4 143
Gross value as at the end of the period	**299 963**	**320 933**
Depreciation as at the beginning of the period	**91 513**	**79 392**
Changes in depreciation	**-2 476**	**12 121**
Depreciation	7 718	9 690
Other increases	0	2 650
Decreases	10 194	219
Depreciation as at the end of the period	**89 037**	**91 513**
Impairment as at the beginning of the period	**3 752**	**4 882**
Increases	0	0
Decreases	1 891	1 130
Impairment as at the end of the period	**1 861**	**3 752**
Net value as at the beginning of the period	**225 668**	**222 240**
Carrying amount as at the end of the period	**209 065**	**225 668**

In 2011, income from rent related to the investment properties amounted to PLN 33,177 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 13,402 thousand.

In 2010, income from rent related to the investment properties amounted to PLN 32,320 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 12,778 thousand.

The investment properties comprise mainly buildings, which are depreciated on a straight-line basis (annual depreciation rate is 2.5%). Other plant and machinery, which form an integral part of investment properties are depreciated at the rates ranging from 7% to 30%.

38. Non-current assets held for sale

in PLN '000'	**31.12.2011**	**31.12.2010**
Fixed assets held for sale	**12 128**	**7 070**
Gross fixed assets	13 573	8 200
Impairment losses	1 445	1 130
Investments in associates held for sale	**0**	**0**
Gross investments in associates	0	3 707
Impairment losses	0	3 707
Total	**12 128**	**7 070**

Non-current assets classified as held for sale are available for immediate sale. They are actively marketed for sale on market terms, without any exceptional or non-standard conditions, at a sales price reasonable in relation to their present fair value. The Group expects that the sale will be recognized as sale made within one year from the date of the reclassification of such assets to the category of non-current assets held for sale.

39. Other assets

in PLN '000'	**31.12.2011**	**31.12.2010**
Various debtors*	74 908	75 485
- gross various debtors	80 617	81 730
- impairment losses	-5 709	-6 245
Prepaid expenses	18 684	20 196
Other	100	9
Total	**93 692**	**95 690**

** contains: amounts due from the sale of financial assets and property, plant and equipment, returnable security deposits paid by the Bank under operating lease agreements for real properties used by the Bank, settlements under payment cards, amounts due to the State Treasury*

40. Amounts due to Central Bank

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Other liabilities	32	6
Total	**32**	**6**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	32	6
Total	**32**	**6**

41. Amounts due to banks

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Current accounts	83 795	3 573 391
Term deposits	5 160 973	2 922 345
Borrowed loans and advances	3 234 826	5 650 993
Other liabilities	6 897	3 977
Total	**8 486 491**	**12 150 706**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	2 905 234	6 009 725
- 1-3 months	2 214	489 787
- 3-6 months	330	0
- 6 months to 1 year	4 074 878	2 826 848
- 1-3 years	1 503 835	2 824 346
Total	**8 486 491**	**12 150 706**

42. Liabilities arising from repurchase transactions

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	0	228 693
Total	**0**	**228 693**

43. Amounts due to customers

By types

in PLN '000'	**31.12.2011**	**31.12.2010**
Current accounts, including:	16 685 427	17 715 210
- savings account	8 721 838	9 850 124
Term deposits	10 301 309	7 622 618
Borrowed loans and advances	879 406	197 122
Other liabilities	177 015	125 808
Total	**28 043 157**	**25 660 758**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2011**	**31.12.2010**
- up to 1 month	20 211 224	19 716 891
- 1-3 months	2 371 344	1 978 374
- 3-6 months	3 301 389	2 169 911
- 6 months to 1 year	1 075 710	1 044 007
- 1-3 years	268 631	535 003
- 3-5 years	47 190	17 585
- 5-10 years	767 668	198 242
- 10-20 years	1	745
Total	**28 043 157**	**25 660 758**

Liabilities by classes

in PLN '000'	**31.12.2011**	**31.12.2010**
Natural persons*	**17 876 440**	**16 004 138**
- current accounts (including savings account)	11 677 122	12 536 406
- term deposits	6 026 092	3 346 027
- other liabilities	173 226	121 705
Corporate customers and SME	**8 707 947**	**7 668 821**
- current accounts	3 952 357	3 819 591
- term deposits	3 874 166	3 648 005
- loans and advances**	879 406	197 122
- other liabilities	2 018	4 103
Budgetary sector	**1 458 770**	**1 987 799**
- current accounts	1 055 948	1 359 213
- term deposits	401 051	628 586
- other liabilities	1 771	0
Total	**28 043 157**	**25 660 758**

** contains amounts due to private persons, individual entrepreneurs, individual farmers, non-commercial institutions providing services to households.*
*** comprises loans from the European Investment Bank, which, according to the segmentation of the National Bank of Poland, is presented in the corporate customers segment.*

44. Provisions

in PLN '000'	**31.12.2011**	**31.12.2010**
Employee benefits provision	1 737	1 585
Provision for off-balance sheet items	40 809	49 877
Provision for litigations	35 021	40 699
Other	38 835	650
Total	**116 402**	**92 811**

On 29.12.2011, the Bank's Management Board decided to create a provision in the amount of PLN 35 million for the potential liability related to the resale of Żagiel S.A. by KBC Group, for the price lower than the price obtained by Kredyt Bank S.A.

According to the agreement concluded on 16.12.2009 between Kredyt Bank S.A. and KBC Bank NV, the sale price for 100% of the shares of Żagiel S.A. amounted to PLN 350 million. The said agreement provided that the risk of Kredyt Bank S.A. would be limited to 10% of the sale price, i.e. PLN 35 million, if KBC sold the shares of Żagiel to an outside entity for the price lower than PLN 350 million. The decision to create the said provision reflects the current assessment of the probability of satisfying the condition described above.

The litigations with the highest value claims are described in Note 68.

'Employee benefits provisions' are composed of provisions for retirement benefits.

Net increase/decrease in provisions

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Period beginning	**92 811**	**53 917**
- employee benefits provision	1 585	1 408
- provision for off-balance sheet items	49 877	11 429
- restructuring provision/severance pays	0	2 279
- provision for litigations	40 699	36 877
- other	650	1 924
a) recognition	306 145	310 624
- employee benefits provision	300	335
- provision for off-balance sheet items	262 595	292 518
- restructuring provision/severance pays	1 287	0
- provision for litigations	6 963	17 771
- other	35 000	0
b) utilization	-4 163	-13 118
- employee benefits provision	-148	-196
- restructuring provision/severance pays	-1 287	-2 279
- provision for litigations	-2 728	-10 643
c) reversal	-284 816	-257 572
- employee benefits provision	0	-6
- provision for off-balance sheet items	-274 903	-254 042
- provision for litigations	-9 913	-3 524
d) other changes	6 425	-1 040
- employee benefits provision	0	44
- provision for off-balance sheet items	3 240	-28
- provision for litigations	0	218
- other	3 185	-1 274
Period end (by items)	**116 402**	**92 811**
- employee benefits provision	1 737	1 585
- provision for off-balance sheet items	40 809	49 877
- restructuring provision/severance pays	0	0
- provision for litigations	35 021	40 699
- other	38 835	650
Period end	**116 402**	**92 811**

45. Other liabilities

in PLN '000'	31.12.2011	31.12.2010
Amounts due to the State Treasury	21 369	19 403
Various creditors	88 045	52 008
Expenses and income settled over time	143 403	128 583
- income collected in advance	21 610	19 335
- expenses to be paid	47 760	42 376
- provision for bonuses*	60 518	57 031
- provision for unused annual leaves	13 515	9 841
Inter-bank clearings	18 227	14 810
Total	**271 044**	**214 804**

** comprises, e.g. provisions for interim and annual bonuses and provisions for bonuses related to the projects being implemented in the Bank*

46. Subordinated liabilities

in PLN '000'	31.12.2011	31.12.2010
Amount of subordinated liabilities	1 036 510	911 100
Total	**1 036 510**	**911 100**

Balance sheet as at 31.12.2011

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabilities
	by currency	in '000			
KBC Bank NV O/Dublin	100 000	CHF	3M LIBOR+1.6p.p.	15.06.2018	362 934
KBC Bank NV O/Dublin	165 000	CHF	3M LIBOR+4.5p.p.	28.06.2019	598 620
KBC Bank NV O/Dublin	75 000	PLN	1M WIBOR+3.0p.p.	30.01.2019	74 956
Total					**1 036 510**

Balance sheet as at 31.12.2010

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabilities
	by currency	in '000			
KBC Bank NV O/Dublin	100 000	CHF	3M LIBOR+1.6p.p.	15.06.2018	315 616
KBC Bank NV O/Dublin	165 000	CHF	3M LIBOR+4.5p.p.	28.06.2019	520 541
KBC Bank NV O/Dublin	75 000	PLN	1M WIBOR+3.0p.p.	30.01.2019	74 943
Total					**911 100**

47. Equity

Share capital

As at 31.12.2011, the parent company's share capital totalled PLN 1,358,294,400 and was divided into 271,658,880 shares of nominal value of PLN 5.00 each. The parent company's shares are registered shares and bearer shares, but not preference shares. Each share entitles its holder to one vote at the parent company's General Meeting of Shareholders (KBC Bank NV is entitled to exercise no more than 75% of votes). The parent company's shares are admitted to public trading on the main market of the Warsaw Stock Exchange. The share capital did not change in 2011.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2011.

Registered shares

The parent company's Shareholders hold 65,864 registered shares, which account for 0.02% of the share capital. Registered shares as at 31.12.2011, which have not changed as compared to the balance as at 31.12.2010, are presented below:

Series	Number of shares
A	2 942
C	1 425
F	5 792
P	29 042
S1	26 663
Total	**65 864**

Series A, C and F shares were admitted to stock exchange trading on condition that they are converted into bearer shares, and series P and S1 shares may be admitted to stock exchange trading when respective authorizations are obtained.

Bearer shares

The parent company's shareholders hold 271,593,016 bearer shares, which account for 99.98% of the share capital. Originally, the number of bearer shares amounted to 264,204,350. In addition, as a result of the conversion of registered shares into bearer shares, there are 7,388,666 bearer shares. Bearer shares as at 31.12.2011, which have not changed as compared to the balance as at 31.12.2010, are presented below:

Bearer shares (original)		Converted registered shares into bearer shares	
Series	Number of shares	Series	Number of shares
B	2 500 000	A	2 497 058
D	100 000	C	98 575
E	1 580 425	F	308 923
G	480 000	P	3 660 640
H	3 777 350	S1	823 470
I	5 600 000		
J	4 400 000		
K	2 278 814		
L	2 000 000		
M	10 000 000		
N	847 000		
O	25 000 000		
R	32 583 993		
T	49 301 056		
U	63 387 072		
W	60 368 640		
Total	**264 204 350**	**Total**	**7 388 666**
Total bearer shares			**271 593 016**

The table below presents the list of major shareholders of Kredyt Bank S.A. as at 31.12.2011.

Shareholder	Line of business	Number of shares and votes at GMS	Share in votes and in share capital (in %)
KBC Bank NV* – party of KBC Group*	Banking	217 327 103	80.00
Pioneer Fundusz Inwestycyjny Otwarty**	Investment fund	20 040 203	7.38

** by the Resolution of the Commission for Banking Supervision No. 81/KNB/01 of 17 September 2001, KBC Bank NV is entitled to exercise no more than 75% of votes at the General Meeting of Shareholders of Kredyt Bank S.A.*
*** according to the information of 15.04.2010 received from Pioneer Pekao Investment Management S.A. See also Note 60 of these consolidated financial statements*

According to the information received from KBC Bank NV and KBC Group NV on 08.02.2011 and 15.02.2011:

- KBC Securities NV – subsidiary of KBC Bank NV – sold all the shares of Kredyt Bank S.A. held by it.

  Prior to the sale, KBC Securities NV held 11,751,771 shares, which accounted for 4.33% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Securities NV does not hold any shares of Kredyt Bank S.A.

- KBC Insurance NV – an entity from KBC Group NV – sold all the shares of Kredyt Bank S.A. held by it.

  Prior to the sale, KBC Insurance NV held 7,860,918 shares, which accounted for 2.89% in the capital and votes at the General Meeting of Shareholders of Kredyt Bank S.A. Following the sale, KBC Insurance NV does not hold any shares of Kredyt Bank S.A.

KBC Bank NV still holds 217,327,103 shares accounting for 80% of votes.

On 26.01.2012, the Bank received a notice from Pioneer Pekao Investment Management S.A. ('PPIM') about the decline in its total commitment to 4.29% of the total votes at the General Meeting of Shareholders concerning the financial instruments included in the portfolios managed by PPIM. Pursuant to the said notice, the commitment of Pioneer Fundusz Inwestycyjny Otwarty decreased to 4.16% of the total votes at the General Meeting of Shareholders.

Further information about the issue is available in the current report dated 26.01.2012.

Supplementary capital

in PLN '000'	**31.12.2011**	**31.12.2010**
From the distribution of retained profit	900 065	889 340
Total supplementary capital	**900 065**	**889 340**

The Bank's net profit for 2010 amounting to PLN 111,239,095.19 was allocated to:

- the payment of dividend of PLN 100,513,785.60;
- the remaining amount, i.e. PLN 10,725,309.59 to supplementary capital.

Revaluation reserve

in PLN '000'	**31.12.2011**	**31.12.2010**
Valuation of available-for-sale financial assets	50 557	47 981
Valuation of derivatives designated for cash flow hedge	35 976	25 378
Deferred tax on items recognized in revaluation reserve	-16 441	-13 938
Total revaluation reserve	**70 092**	**59 421**

Reserves

in PLN '000'	**31.12.2011**	**31.12.2010**
General banking risk reserve created from profit	400 942	400 942
Total reserves	**400 942**	**400 942**

General banking risk reserve is created from profit after tax according to the Banking Law.

48. Off-balance sheet items

in *PLN '000'*	**31.12.2011**	**31.12.2010**
Liabilities granted and received		
Liabilities granted:	**6 548 048**	**6 038 697**
- financial	4 346 382	3 958 357
- guarantees	2 201 666	2 080 340
Liabilities received:	**882 927**	**2 085 702**
- financial	41 421	1 007 341
- guarantees	841 506	1 078 361
Liabilities related to the sale/purchase transactions	**199 278 505**	**134 779 591**
Collateral received	**9 119 201**	**7 950 015**

Granted off-balance sheet liabilities by types

in PLN '000'	31.12.2011	31.12.2010
Financial	**4 346 382**	**3 958 357**
- undrawn credit lines	2 816 410	2 738 911
- undrawn overdraft facilities	840 054	636 999
- limits on credit cards	456 169	446 973
- opened import letters of credit	181 712	135 474
- term deposits to be released	52 037	0
Guarantees	**2 201 666**	**2 080 340**
- guarantees granted	2 196 335	2 079 880
- export letters of credit	5 331	460
Total	**6 548 048**	**6 038 697**

Financial off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	386 213	348 777
- 1-3 months	417 509	313 351
- 3-6 months	463 408	291 334
- 6 months to 1 year	1 708 678	1 470 460
- 1-3 years	528 545	437 070
- 3-5 years	70 949	214 972
- over 5 years	771 080	882 393
Total	**4 346 382**	**3 958 357**

Guarantees off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2011	31.12.2010
- up to 1 month	47 588	35 594
- 1-3 months	77 042	86 333
- 3-6 months	187 230	52 915
- 6 months to 1 year	254 312	232 753
- 1-3 years	926 162	463 754
- 3-5 years	253 574	644 706
- over 5 years	455 758	564 285
Total	**2 201 666**	**2 080 340**

Major items in 'contingent liabilities' related to the guarantees issued for customers are guarantees of good contracts performance and loan repayment guarantees. The Bank offers its customers guarantees as a standard loan product offer mainly for corporate customers. Commission income from guarantees granted are charged to fee and commission income in the income statement on a straight-line basis over the lifetime of the guarantee.

The Group treats guarantees granted and unconditional financing liabilities as an exposure with credit risk for the purpose of credit risk management. The assessment of risk under issued guarantees is an element of the credit risk assessment process resulting from other credit products held by particular customers, i.e. all credit facilities, including guarantees, granted to particular borrowers are at the same time analysed for the occurrence of the impairment indicators and required level of allowance for impairment.

As at 31.12.2011, the estimated provision for the guarantees granted and unconditional financing liabilities amounted to PLN 40,809 thousand; and as at 31.12.2010 it amounted to 49,877 thousand. This amount is presented in Note 44 as 'Provision for off-balance sheet items'.

49. Capital adequacy ratio

in PLN '000'	**31.12.2011**	**31.12.2010**
Capital requirement:	**2 402 104**	**2 278 833**
- credit risk	2 127 064	2 016 969
- market risk	31 068	32 749
- operational risk	243 972	229 115
Own funds and short-term capital	**3 755 107**	**3 562 209**
Basic capitals:	**2 601 176**	**2 549 062**
- share capital	1 358 294	1 358 294
- supplementary capital	900 065	889 340
- revaluation reserve included in basic equity	-7 683	-15 806
- other reserves	400 942	400 942
- retained earnings (loss)	8 988	-65 709
- net profit included in the calculation of capital adequacy ratio	221 917	73 312
- dividends predicted*	-212 167	-33 728
- intangible assets	-59 711	-50 201
- shares in financial entities (50%)	-9 300	-7 382
- other	-169	0
Supplementary funds:	**1 076 559**	**960 047**
- revaluation reserve included in supplementary equity	48 034	53 995
- subordinated liabilities included in equity	1 037 825	913 434
- shares in financial entities (50%)	-9 300	-7 382
Short-term capital	**77 373**	**53 100**
Capital adequacy ratio (%)	**12.51**	**12.51**
Ratio, including basic funds%	**8.66**	**8.95**

** the information about the payment of the dividend is available in Note 59.*

As at 31.12.2011 and 31.12.2010, capital adequacy ratio was calculated as required by the regulations of the Polish Financial Supervision Authority.

Below, we present the information concerning the compliance with capital requirements:

1) Amounts accounting for 8% of risk weighted exposures separately for each class of exposure defined in § 20 clause 1 of Annex No. 4 to the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

The amount of the capital requirement for credit risk*, including counterparty credit risk as at 31.12.2011

in PLN '000'	**Carrying amount**	**Granted liabilities and the nominal value of derivatives****	**Risk weighted value**	**Capital requirement**
Total:	**42 003 084**	**190 459 015**	**26 588 301**	**2 127 064**
- central governments and central banks	9 847 171	150	0	0
- regional governments and local authorities	152 685	6 149	30 914	2 473
- administrative bodies and non-commercial undertakings	101 589	31 521	93 026	7 442
- multilateral development banks	52 108	0	0	0
- international organisations	0	0	0	0
- institutions – banks	2 075 622	182 328 200	1 041 302	83 304
- corporates	3 353 394	5 955 649	4 934 361	394 749
- retail exposures	13 079 190	1 412 294	10 018 343	801 467
- exposures secured by real estate property	11 588 955	724 804	9 475 802	758 065
- past due exposures	330 410	248	346 516	27 721
- exposures belonging to regulatory high-risk categories	21 854	0	32 783	2 623
- covered bonds	0	0	0	0
- securitisation positions	0	0	0	0
- exposures to banks and corporates with a short-term credit rating	0	0	0	0
- in collective investment undertakings	0	0	0	0
- other exposures	1 400 106	0	615 254	49 220

** estimated on the basis of the Standardized Approach*
*** the net amount of off-balance-sheet liabilities and the nominal value of derivatives included in the Capital Adequacy Account*

The amount of the capital requirement for credit risk*, including counterparty credit risk as at 31.12.2010

in PLN '000'	**Carrying amount**	**Granted liabilities and the nominal value of derivatives****	**Risk weighted value**	**Capital requirement**
Total:	**43 374 246**	**132 883 807**	**25 212 111**	**2 016 969**
- central governments and central banks	13 411 547	4 000 250	0	0
- regional governments and local authorities	145 778	9 640	30 677	2 454
- administrative bodies and non-commercial undertakings	122 599	27 479	105 630	8 450
- multilateral development banks	47 281	0	0	0
- international organisations	0	0	0	0
- institutions – banks	1 983 337	121 422 361	888 061	71 045
- corporates	3 162 011	5 603 965	4 704 881	376 390
- retail exposures	12 413 982	1 035 087	9 667 483	773 399
- exposures secured by real estate property	10 292 431	784 517	8 687 122	694 970
- past due exposures	398 246	508	408 819	32 706
- exposures belonging to regulatory high-risk categories	57 188	0	85 809	6 865
- covered bonds	0	0	0	0
- securitisation positions	0	0	0	0
- exposures to banks and corporates with a short-term credit rating	0	0	0	0
- in collective investment undertakings	0	0	0	0
- other exposures	1 339 846	0	633 629	50 690

** estimated on the basis of the Standardized Approach*
*** the net amount of off-balance-sheet liabilities and the nominal value of derivatives included in the Capital Adequacy Account*

2) The amounts of minimum capital requirements referred to in § 6 clause 1 items 2-5 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

in PLN '000'	**31.12.2011**	**31.12.2010**
The amount of the capital requirement for credit risk	**31 068**	**32 749**
- currency risk	0	0
- commodity price risk	0	0
- equity securities price risk	0	0
- price risk of debt instruments	11	23
- general interest rate risk	31 057	32 726

3) The amounts of minimum capital requirements referred to in § 6 clause 1 item 6 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

in PLN '000'	Year	2011
Result*	2008	1 685 448
Result*	2009	1 647 225
Result*	2010	1 685 663
Capital Charge	2008	242 268
Capital Charge	2009	238 672
Capital Charge	2010	250 977
Operational risk requirement**		**243 972**

** calculated according to Annex No. 14 to Resolution No. 76/2010 of the Polish Financial Supervision Authority, as amended*
*** estimated on the basis of the Standardized Approach*

in PLN '000'	Year	2010
Result*	2007	1 442 179
Result*	2008	1 685 448
Result*	2009	1 647 521
Capital Charge	2007	207 300
Capital Charge	2008	242 268
Capital Charge	2009	237 776
Operational risk requirement**		**229 115**

** calculated according to Annex No. 14 to Resolution No. 76/2010 of the Polish Financial Supervision Authority, as amended*
*** estimated on the basis of the Standardized Approach*

As at 31.12.2011 and 31.12.2010, the exposure concentration limit, the large exposure limit and the capital concentration threshold were not exceeded in Kredyt Bank S.A.

The risk management process is strictly related to the capital management process. According to the industry standards, the amount of the internal capital is defined from the economic point of view. In consequence, the internal capital of Kredyt Bank S.A. is estimated by applying the internal capital model of KBC Group, having regard for all material types of risk.

50. Consolidated cash flow statement – additional information

a) Cash and cash equivalents

in PLN '000'	31.12.2011	31.12.2010
Cash and balances with Central Bank	784 668	1 943 636
Due from other banks (up to 3 months)	156 839	457 807
Cash and cash equivalents	**941 507**	**2 401 443**

b) Operating activities – unrealised gains (losses) on currency translation differences *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Currency translation differences for investment securities	-37 395	1 380
Currency translation differences from financial assets held for trading	-922	-64 194
Currency translation differences from the assets designated upon initial recognition as at fair value through profit or loss	-4 533	-1 138
Currency translation differences on subordinated liabilities	125 293	104 664
Total	**82 443**	**40 712**

c) Operating activities – net increase/decrease in impairment *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net increase/decrease in impairment losses on loans and advances to banks	-2 260	0
Net increase/decrease in impairment losses on loans and advances to customers	-505 839	338 114
Net increase/decrease in impairment of property, plant and equipment, intangible assets and investment properties	2 909	1 454
Total	**-505 190**	**339 568**

d) Operating activities – interest *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Interest on investment securities	-350 838	-297 496
Interest on borrowed loans	123 130	79 746
Interest on leasing	-1 527	38
Interest on subordinated liabilities	39 914	34 584
Total	**-189 321**	**-183 128**

e) Operating activities – gains (losses) from the sales of investments *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Profit/loss on the sales of equity investments	0	-30
Profit/loss on the sales of available-for-sale investment securities	-867	-3 644
Profit/loss on the sales of held-to-maturity investment securities	-295	-2 812
Profit/loss on sales of property, plant and equipment and intangible assets	-3 474	1 398
Total	**-4 636**	**-5 088**

f) Loans and advances to banks *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net balance sheet change	275 977	-377 485
Change in Nostro accounts – cash	-12 103	12 548
Change in term deposits up to 3 months – cash	-288 865	429 571
Debt securities classified as loans and receivables	0	-898 751
Impairment	2 260	0
Total	**-22 731**	**-834 117**

g) Financial assets held for trading *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in Financial assets held for trading	1 540 790	-421 334
Currency translation differences in operating activities	5 455	65 332
Total	**1 546 245**	**-356 002**

h) Operating activities – net increase/decrease in other assets *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in other assets	1 998	11 208
Net increase/decrease in property, plant and equipment held for sale	-5 058	-7 070
Other net increase/decrease in investment properties	11 318	-12 630
Debt securities classified as loans and receivables	0	965 146
Net increase/decrease in held-to-maturity investments	319	0
Other net increase/decrease in property, plant and equipment and intangible assets	-6 795	16 810
Balance sheet change in hedging derivatives (presented in assets)	-21 252	-18 599
Other changes	9 272	14 389
Total	**-10 198**	**969 254**

i) Amounts due to banks *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in amounts due to banks	-3 664 215	1 069 016
Proceeds from loans and advances	-47 073	-129 069
Repayment of borrowed loans/advances	2 827 397	1 825 104
Interest on borrowed loans in operating activities	-114 062	-76 419
Paid interest on borrowed loans – presentation in financing activities	63 620	61 161
Total	**-934 333**	**2 749 793**

j) Amounts due to customers *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in amounts due to customers	2 382 399	3 191 604
Proceeds from loans and advances	-688 007	-196 695
Repayment of borrowed loans/advances	6 075	0
Interest on borrowed loans in operating activities	-9 068	-3 327
Paid interest on borrowed loans – presentation in financing activities	8 928	3 023
Total	**1 700 327**	**2 994 605**

k) Operating activities – net increase/decrease in other liabilities *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in other liabilities	56 240	33 807
Payment of leasing payables from financing activities	-4 374	25
Balance sheet change in hedging derivatives (presented in assets)	395	-1 892
Other changes	-153	-407
Total	**52 108**	**31 533**

l) Paid income tax *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Net increase/decrease in current tax receivables/liabilities	-271 885	122 915
Accrual of current tax	-19 414	-194 792
Other changes	9	-13
Total cash flows due to income tax, presented as:	**-291 290**	**-71 890**
Net increase/decrease in current tax receivable	-116 870	0
Paid income tax	-174 420	-71 890

m) Net increase/decrease in investment securities *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Balance sheet change in investment securities	788 528	-1 643 881
Net increase/decrease in interest receivables in operating activities	350 838	297 496
Net increase/decrease in available-for-sale financial assets in operating activities	4 913	55 977
Net increase/decrease in held-to-maturity investments in operating activities	-24	3 949
Balance sheet change in equity investments classified as available-for-sale	0	-1 370
Currency translation differences in operating activities	37 395	-1 380
Total balance sheet change, presented as:	**1 181 650**	**-1 289 209**
Acquisition in investment activity	-91 344 482	-56 709 569
Disposal in investment activity	92 283 935	55 205 555
Interest received in investment activity	242 197	214 805

n) Financing activities – other financial expenses *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Interest repayment on loans received	-72 548	-64 184
Interest repayment on subordinated liabilities	-39 797	-33 964
Payment of leasing payables	5 901	-63
Total	**-106 444**	**-98 211**

o) Subordinated liabilities *in PLN '000'*	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Repayment of interest on subordinated liabilities – presentation in financing activities	39 797	33 964
Accrued interest on subordinated liabilities – presentation in operating activities	-39 914	-34 584
Currency translation differences on subordinated liabilities – presentation in operating activities	-125 293	-104 664
Balance sheet change in subordinated liabilities	125 410	105 284
Proceeds from a subordinated loan	**0**	**0**

51. Division of financial instruments measured at fair value depending on the method of fair value measurement

Below, we present the division of financial assets and liabilities measured at fair value depending on the method of fair value measurement according to IFRS 7. The method of classifying financial instruments at particular levels is presented in Note 4.1.

Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total 31.12.2011**
Financial assets held for trading				
Debt securities	58 860	1 633	0	60 493
Derivatives, different from derivatives used as hedging instruments	0	975 497	0	975 497
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	26 944	34 741	0	61 685
Equity securities	0	18 259	0	18 259
Shares in investment funds	0	20 740	0	20 740
Available-for-sale financial assets*				
Debt securities	4 551 660	704 981	0	5 256 641
Hedging instruments				
Derivatives	0	95 592	0	95 592
Total	**4 637 464**	**1 851 443**	**0**	**6 488 907**

**except for equity securities measured at cost*

Liabilities measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total 31.12.2011**
Held-for-trading financial liabilities				
Derivatives, different from derivatives used as hedging instruments	0	981 247	0	981 247
Hedging instruments				
Derivatives	0	1 669	0	1 669
Total	**0**	**982 916**	**0**	**982 916**

Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Total 31.12.2010**
Financial assets held for trading				
Debt securities	1 144 179	457 104	0	1 601 283
Derivatives, different from derivatives used as hedging instruments	0	388 819	0	388 819
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	26 903	31 149	0	58 052
Equity securities	0	40 797	0	40 797
Shares in investment funds	0	19 713	0	19 713
Available-for-sale financial assets*				
Debt securities	5 295 703	919 835	0	6 215 538
Hedging instruments				
Derivatives	0	74 340	0	74 340
Total	**6 466 785**	**1 931 757**	**0**	**8 398 542**

** except for equity securities measured at cost*

Liabilities measured at fair value	Level 1	Level 2	Level 3	Total 31.12.2010
Held-for-trading financial liabilities				
Derivatives, different from derivatives used as hedging instruments	0	1 123 915	5 889	1 129 804
Hedging instruments				
Derivatives	0	1 274	0	1 274
Total	**0**	**1 125 189**	**5 889**	**1 131 078**

Change in financial assets at fair value – level 3

Assets measured at fair value	31.12.2011	31.12.2010
Opening balance – at the beginning of the period	0	2 463
Derivatives	0	-2 463
Closing balance – at the end of period	**0**	**0**

52. Fair value of financial assets and liabilities not recognized at fair value in the balance sheet

52.1. Fair value

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

The main categories of financial assets and liabilities not measured in the Group's balance sheet at fair value are assets or liabilities measured at amortized cost or historical cost:

- loans and advances granted as well as other own receivables not held for trading;
- held-to-maturity investments;
- available-for-sale financial assets recognized at cost, including equity investments;
- financial liabilities not held for trading.

The table below shows the carrying amount and estimated fair value of the Group's financial assets and liabilities not recognized in the Group's balance sheet at fair value.

Balance sheet as at 31.12.2011

in PLN '000'	**Carrying amount**	**Fair value**
Assets		
Cash and balances with Central Bank	**784 668**	**784 668**
Net loans and advances to banks*	**1 188 012**	**1 175 040**
Net loans and advances to customers:	**29 085 754**	**27 575 960**
Natural persons**	**22 153 428**	**20 720 525**
- overdraft facilities	873 085	872 186
- term loans***	731 015	727 760
- cash loans, installment loans and cards	2 492 711	2 503 626
- mortgage housing loans	17 623 776	16 179 792
- other mortgage loans****	390 617	394 991
- purchased debt	12 153	12 032
- realised guarantees	554	483
- other receivables	29 517	29 655
Corporate customers and SME	**6 732 240**	**6 655 879**
- overdraft facilities	1 924 017	1 921 219
- term loans***	3 904 291	3 843 530
- purchased debt	211 327	209 919
- realised guarantees	35 001	25 631
- other receivables, including leasing fees	605 492	604 808
- debt securities classified as loans and receivables	52 112	50 772
Budgetary sector	**200 086**	**199 556**
- overdraft facilities	4 742	4 742
- term loans***	106 931	106 488
- purchased debt	19 960	19 873
- debt securities classified as loans and receivables	68 453	68 453
Held-to-maturity investment securities	**3 416 674**	**3 389 867**

** contains debt securities classified as loans and receivables*
*** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.*
*****contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The significantly lower fair value as compared to the carrying amount of mortgages is an effect of changes in margins related to such types of loans.

in PLN '000'	**Carrying amount**	**Fair value**
Liabilities		
Amounts due to banks and Central Bank	8 486 523	8 472 424
Amounts due to customers	28 043 157	28 040 276
Other financial liabilities recognized in the balance sheet at amortized cost *	1 036 510	1 036 510

** subordinated liabilities*

Balance sheet as at 31.12.2010

in PLN '000'	**Carrying amount**	**Fair value**
Assets		
Cash and balances with Central Bank	**1 943 636**	**1 943 636**
Net loans and advances to banks*	**1 463 989**	**1 457 038**
Net loans and advances to customers:	**27 194 520**	**25 155 397**
Natural persons**	**20 712 125**	**18 713 044**
- overdraft facilities	756 252	744 510
- term loans***	732 286	720 317
- cash loans, installment loans and cards	2 803 285	2 682 368
- mortgage housing loans	15 958 687	14 115 382
- other mortgage loans****	427 200	416 102
- purchased debt	10 944	10 860
- realised guarantees	423	352
- other receivables	23 048	23 153
Corporate customers and SME	**6 294 810**	**6 257 551**
- overdraft facilities	1 490 724	1 483 616
- term loans***	4 136 290	4 110 815
- purchased debt	114 977	112 677
- realised guarantees	203	241
- other receivables, including leasing fees	505 320	505 402
- debt securities classified as loans and receivables	47 296	44 800
Budgetary sector	**187 585**	**184 802**
- overdraft facilities	2 731	2 731
- term loans***	164 618	161 835
- debt securities classified as loans and receivables	20 236	20 236
Held-to-maturity investment securities	**3 247 779**	**3 238 283**

** contains debt securities classified as loans and receivables*
*** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households.*
****contains mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The significantly lower fair value as compared to the carrying amount of mortgages is an effect of changes in margins related to such types of loans.

in PLN '000'	**Carrying amount**	**Fair value**
Liabilities		
Amounts due to banks and Central Bank	12 150 712	12 086 019
Amounts due to customers	25 660 758	25 675 688
Other financial liabilities recognized in the balance sheet at amortized cost *	911 100	911 100

** subordinated liabilities*

52.2. Loans and advances to banks and to customers

As stated in the sections concerning the accounting principles adopted by the Group and the material accounting estimates, granted loans and advances and other own receivables not held for trading are measured at amortized cost with the effective interest rate method, having regard for impairment measured on the basis of future expected cash flows (including those generated upon the sales of loan collateral) discounted with the original effective interest rate.

Poland does not have an active market on which loans and receivables may be traded, therefore, it is not possible to reliably determine the market price of these assets. Estimates performed on the basis of the models of measurement relying on discounted expected cash flows of the principal and interest are the best reflection of the fair value. The discount rate is the market rate as at the balance sheet date plus credit margin offered on the market for particular loan facilities and specific customer groups/segments.

The calculation of the fair value is based on estimated market interest rates. Estimating the market rate for housing purposes mortgages in CHF was necessary in particular, due to the extinction of the market of such mortgages in Poland. The Bank estimated the market interest rate on the basis of, among others, the public market information and the cost of the potential financing in CHF.

52.3. Held-to-maturity investments

As stated in the section on the accounting principles adopted by the Group, held-to-maturity investments are measured at amortized cost with the effective interest rate methodology. The market prices of securities applied in the measurement of fair value, for both categories of assets, do not take into consideration any potential adjustments resulting from the limited liquidity of the market or transaction costs.

52.4. Financial liabilities not held for trading

As stated in Note 41 and Note 43, the deposits made in current accounts and term deposits with balance sheet maturities of less than three months, for which it was estimated that their carrying amount is equal to their fair value, constitute the bulk of the deposits made by banks and of customer deposits. The term loans and deposits received from KBC Group were discounted at the market rate from the inter-bank market for the respective currency and maturity.

53. Assets pledged as collateral

As at 31.12.2011, the following assets in the form of debt securities were collateral for the Group's own liabilities:

- Commercial bonds of the nominal value of PLN 135,000 thousand and of the carrying amount of PLN 135,773 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 1,110,000 thousand and of the carrying amount of PLN 1,153,225 thousand as security for the loan extended by the European Investment Bank.

As at 31.12.2010, the following assets in the form of debt securities were collateral for the Group's own liabilities:

- Commercial bonds of the nominal value of PLN 130,000 thousand and of the carrying amount of PLN 130,600 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 240,000 thousand and of the carrying amount of PLN 235,899 thousand as security for the loan extended by the European Investment Bank;
- Treasury bonds of the nominal value of PLN 190,000 thousand and of the carrying amount of PLN 198,767 thousand, as well as Treasury bills with the nominal value of PLN 200,000 thousand and the carrying amount of PLN 209,032 thousand pledged in relation to IRS transactions hedging cash flow with the Ministry of Finance.

54. Related party transactions

In 2011, no significant non-standard transactions had place with related parties whose nature and terms were not related to current operations. All transactions were executed on market terms, without any exceptional or non-standard terms or conditions.

Transaction volumes as well as related income and expenses are presented below.

Balance sheet as at 31.12.2011

Assets	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2011
Loans and advances to banks	0	75 221	2 462	77 683
Derivatives	0	201 285	10 671	211 956
Loans and advances to customers	0	0	0	0
Other assets	1 716	58	13 798	15 572
Total assets	**1 716**	**276 564**	**26 931**	**305 211**

** including WARTA Group*

Liabilities	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2011
Amounts due to banks	0	8 211 846	210 427	8 422 273
Derivatives	0	133 392	8 697	142 089
Amounts due to customers	40 385	2 385	839 267	882 037
Subordinated liabilities	0	1 036 510	0	1 036 510
Other liabilities	0	3 338	12 503	15 841
Total liabilities	**40 385**	**9 387 471**	**1 070 894**	**10 498 750**

** including WARTA Group*

Off-balance sheet items	**Associates**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**Total as at 31.12.2011**
Granted financing liabilities	0	0	240 150	240 150
Guarantees granted	0	51 491	40 717	92 208
Received financing liabilities	0	583 450	0	583 450
Guarantees received	0	133 676	33 005	166 681
Derivatives	0	31 288 332	2 758 553	34 046 885
Collateral received	0	0	1 400	1 400
Total off-balance sheet items	**0**	**32 056 949**	**3 073 825**	**35 130 774**

** including WARTA Group*

Income	**Associates**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**01.01.2011-31.12.2011**
Interest income	0	22 320	1 458	23 778
Fee and commission income	20 281	251	58 606	79 138
Net trading income	33	17 436	18 886	36 355
Other operating income	25	7	7 364	7 396
Total income	**20 339**	**40 014**	**86 314**	**146 667**

** including WARTA Group*

Expenses	**Associates**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**01.01.2011-31.12.2011**
Interest expense	1 388	115 572	63 526	180 486
Commission expense**	0	1 515	29 568	31 083
General and administrative expenses, as well as other operating expenses	0	2 718	33 656	36 374
Total expenses	**1 388**	**119 805**	**126 750**	**247 943**

** including WARTA Group*
*** from the third quarter of 2011, this item has been presented on a contractual basis, and in previous periods, it was presented according to the policy of the major shareholder*

Balance sheet as at 31.12.2010

Assets	**Associates**	**Parent company KBC Bank NV**	**KBC Group (without KBC Bank NV)***	**Total as at 31.12.2010**
Loans and advances to banks	0	88 777	17 538	106 315
Derivatives	0	91 481	9 810	101 291
Loans and advances to customers	20 204	0	83 203	103 407
Other assets	1 915	87	10 142	12 144
Total assets	**22 119**	**180 345**	**120 693**	**323 157**

** including WARTA Group*

Liabilities	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Amounts due to banks	0	8 464 639	2 902 893	11 367 532
Derivatives	0	193 330	28 534	221 864
Amounts due to customers	24 591	954	1 420 876	1 446 421
Subordinated liabilities	0	911 100	0	911 100
Other liabilities	0	1 088	11 585	12 673
Total liabilities	**24 591**	**9 571 111**	**4 363 888**	**13 959 590**

** including WARTA Group*

Off-balance sheet items	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2010
Granted financing liabilities	0	0	240 150	240 150
Guarantees granted	0	50 257	17 343	67 600
Received financing liabilities	0	977 267	0	977 267
Guarantees received	0	875 070	116 196	991 266
Derivatives	0	12 094 379	2 559 963	14 654 342
Total off-balance sheet items	**0**	**13 996 973**	**2 933 652**	**16 930 625**

** including WARTA Group*

Income	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2010-31.12.2010
Interest income	0	17 076	496	17 572
Fee and commission income	16 144	274	51 297	67 715
Other operating income	14	62	10 267	10 343
Total income	**16 158**	**17 412**	**62 060**	**95 630**

** including WARTA Group*

Expenses	Associates	Parent company - KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2010-31.12.2010
Interest expense	515	78 403	27 418	106 336
Commission expense**	0	446	25 876	26 322
Net trading income	-138	200 816	53 884	254 562
General and administrative expenses, as well as other operating expenses	0	3 660	29 080	32 740
Total expenses	**377**	**283 325**	**136 258**	**419 960**

** including WARTA Group*
*** from the third quarter of 2011, this item has been presented on a contractual basis, and in previous periods, it was presented according to the policy of the major shareholder*

55. Disposal of subordinated companies

No subordinated companies were sold in 2011.

On 17.01.2012, Kredyt Trade Sp. z o.o., the Bank's subsidiary, signed an agreement concerning the sale of its 30% stake in KBC TFI S.A. The details of the transaction are described in Note 60.

On 1.04.2010, the Bank sold:
- to KBC TFI S.A., 970 shares in Net Fund Administration Sp. z o.o. (former Net Banking Sp. z o.o.);
- to PTE WARTA S.A., 1,868 shares in Net Fund Administration Sp. z o.o. (former Net Banking Sp. z o.o.).

Hence, the Bank sold all its shares held in Net Fund Administration Sp. z o.o.

In addition, the Bank's subsidiary, Kredyt Trade Sp. z o.o., sold, on 1.04.2010, to PTE WARTA S.A., one share held by it in Net Fund Administration Sp. z o.o.

56. Changes in the Management Board and in the Supervisory Board of Kredyt Bank S.A. in 2011

On 25.05.2011, Mr. Gert Rammeloo, due to his decision to return to Belgium, resigned from his position of the Vice President of the Bank's Management Board.

The Supervisory Board of Kredyt Bank S.A., at its meeting held on 25.05.2011, appointed the Bank's Management Board for a new term of office. As a result, Mr. Krzysztof Kokot ceased to perform his function of a Vice President of the Bank's Management Board, and Mr. Jerzy Śledziewski (on 25.05.2011) and Mr. Mariusz Kaczmarek (on 01.07.2011) were appointed Vice Presidents of the Bank's Management Board.

As at 31.12.2011, the Management Board of Kredyt Bank S.A. was composed of:

Mr. Maciej Bardan	- President of the Management Board, CEO
Mr. Umberto Arts	- Vice President of the Management Board, Vice CEO
Mr. Mariusz Kaczmarek	- Vice President of the Management Board, Vice CEO
Mr. Zbigniew Kudaś	- Vice President of the Management Board, Vice CEO
Mr. Piotr Sztrauch	- Vice President of the Management Board, Vice CEO
Mr. Jerzy Śledziewski	- Vice President of the Management Board, Vice CEO

On 25.05.2011, Mr. Dirk Mampaey resigned from his membership in the Supervisory Board due to other professional obligations.

In addition, the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. appointed, as of 25.05.2011, Mr. Guy Libot as a Member of the Bank's Supervisory Board.

As at 31.12.2011, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board
Mr. Adam Noga	- Vice Chairman of the Supervisory Board
Mr. Ronny Delchambre	- Member of the Supervisory Board
Mr. Guy Libot	- Member of the Supervisory Board
Mr. Stefan Kawalec	- Member of the Supervisory Board
Mr. Jarosław Parkot	- Member of the Supervisory Board
Mr. Marko Voljc	- Member of the Supervisory Board

57. Remuneration of the Members of the Supervisory Board and the Management Board of Kredyt Bank S.A. as well as of the Group's companies.

The figures presented in the tables below refer to paid remunerations, awards, bonuses, other benefits and severance pays for performing functions in the Bank's Management Board.

Bank's Management Board	Term on the Board	01.01.2011 – 31.12.2011				
		Basic remuneration	Bonus*	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2011-31.12.2011	1 345	317	31	0	1 693
Umberto Arts	01.01.2011-31.12.2011	1 304	0	366	0	1 670
Zbigniew Kudaś	01.01.2011-31.12.2011	1 209	232	47	0	1 488
Piotr Sztrauch	01.01.2011-31.12.2011	827	60	29	0	916
Jerzy Śledziewski	25.05.2011-31.12.2011	582	0	25	0	607
Mariusz Kaczmarek	01.07.2011-31.12.2011	464	0	8	0	472
Gert Rammeloo	01.01.2011-25.05.2011	655	0	254	0	909
Krzysztof Kokot	01.01.2011-25.05.2011	411	260	34	1 546	2 251
Total		**6 797**	**869**	**794**	**1 546**	**10 006**

**partial payment of the bonuses for 2010.*

Bank's Management Board	Term on the Board	01.01.2010-31.12.2010				
		Basic remuneration	Bonus	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2010-31.12.2010	1 220	0	691	0	1 911
Lidia Jabłonowska - Luba	01.01.2010-14.03.2010	286	0	631	0	917
Gert Rammeloo	01.01.2010-31.12.2010	946	0	447	0	1 393
Krzysztof Kokot	01.01.2010-31.12.2010	1 027	0	76	0	1 103
Umberto Arts	01.01.2010-31.12.2010	1 587	0	498	0	2 085
Zbigniew Kudaś	26.04.2010-31.12.2010	828	0	35	0	863
Piotr Sztrauch	15.09.2010-31.12.2010	231	0	21	0	252
Total		**6 125**	**0**	**2 399**	**0**	**8 524**

Remunerations, awards, bonuses and other benefits for members of the managing authorities in the Group's companies.

Management Boards of Group's Companies	Gross remuneration in the period 01.01.2011-31.12.2011	Gross remuneration in the period 01.01.2010-31.12.2010
Reliz Sp. z o.o.	376	225
Kredyt Lease S.A.	1 385	1 108
Kredyt Trade Sp. z o.o.	569	473
BFI Sp. z o.o.	20	26
Net Fund Administration Sp. z o.o. (01.01.2010-31.03.2010)	-	60
Lizar Sp. z o.o.	0	0
Total	**2 350**	**1 892**

Remunerations, awards, bonuses and other benefits paid to Members of the Bank's Supervisory Board.

Bank's Supervisory Board	Term on the Board	01.01.2011-31.12.2011		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2011-31.12.2011	369	14	383
Ronny Delchambre	01.01.2011-31.12.2011	0	0	0
Stefan Kawalec	01.01.2011-31.12.2011	277	9	286
Adam Noga	01.01.2011-31.12.2011	323	14	337
Jarosław Parkot	01.01.2011-31.12.2011	0	0	0
Marko Voljč	01.01.2011-31.12.2011	0	0	0
Dirk Mampaey	01.01.2011-25.05.2011	0	0	0
Guy Libot	25.05.2011-31.12.2011	0	0	0
Total		**969**	**37**	**1 006**

Bank's Supervisory Board	Term on the Board	01.01.2010-31.12.2010		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2010-31.12.2010	350	14	364
Adam Noga	01.01.2010-31.12.2010	306	14	320
Ronny Delchambre	01.01.2010-31.12.2010	0	0	0
Dirk Mampaey	01.01.2010-31.12.2010	0	0	0
Francois Gillet	01.01.2010-23.02.2010	44	0	44
Marek Michałowski	01.01.2010-23.03.2010	66	0	66
John Hollows	01.01.2010-26.05.2010	0	0	0
Feliks Kulikowski	01.01.2010-26.05.2010	109	14	123
Krzysztof Trębaczkiewicz	01.01.2010-26.05.2010	109	14	123
Jarosław Parkot	26.05.2010-31.12.2010	0	0	0
Stefan Kawalec	26.05.2010-31.12.2010	158	0	158
Marko Voljč	26.05.2010-31.12.2010	0	0	0
Total		**1 142**	**56**	**1 198**

Total remuneration for each category of benefits paid to the Members of the Bank's Management Board and of the Bank's Supervisory Board.

Benefit	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Short-term employee benefits	9 466	9 706
Benefits paid after employment termination	0	16
Severance pays	1 546	0
Total	**11 012**	**9 722**

In 2011 and 2010, the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

All disclosures concerning the Members of the Management Board and the Members of the Supervisory Board are presented in this Note and no other material remuneration-related benefits for the Members of the Management Board and the Members of the Supervisory Board were paid.

58. Value of loans and advances granted to Members of the Management Board and of the Supervisory Board of Kredyt Bank S.A. and its subsidiaries

Transactions concluded with the Bank's Management Staff are executed within the standard product offer.

As at 31.12.2011, the receivables related to loans and cash loans extended by the Bank amounted to PLN 269,995 thousand for the Bank's employees. As at 31.12.2011, there were no receivables from the Members of the Bank's Management Board and of the Bank's Supervisory Board.

As at 31.12.2010, the receivables related to loans and cash loans extended by the Bank amounted to PLN 262,500 thousand for the Bank's employees. As at 31.12.2010, there were no receivables from the Members of the Bank's Management Board and of the Bank's Supervisory Board.

The employees' debt also comprised past due debts, which, as at 31.12.2011, amounted to PLN 625 thousand as compared to PLN 66 thousand as at 31.12.2010.

The Members of the Management Board and the Members of the Supervisory Board did not receive any loans and advances in subsidiaries.

All disclosures concerning the Members of the Management Board and the Members of the Supervisory Board are presented in this Note and there is no other material information concerning loans and advances granted to the Members of the Management Boards and the Members of the Supervisory Boards in the Bank and in subsidiaries.

59. Dividends paid and declared

The recommendations concerning the potential payment and amount of dividend for 2011 or the decision not to pay dividend will be submitted to the Supervisory Board by the Bank's Management Board prior to the convening of the General Meeting of Shareholders which will approve the Bank's financial statements for 2011. Following their examination, the Supervisory Board will submit its opinion to the General Meeting of Shareholders. The Management Board's recommendation concerning the distribution of the Bank's result for 2011 will take into account both the Bank's current financial and market situation and its development plans for the future.

Pursuant to the Resolution of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. concerning the distribution of profit for 2010 adopted on 25.05.2011, the dividend for the financial year 2010 was paid in the gross amount of PLN 0.37 per share. The total amount of the dividend was PLN 100,513,785.60, and the entitlement to the dividend was vested in 271,658,880 shares of the Bank of A to W series inclusive. The right to dividend was established on 14.06.2011. The dividend was paid on 30.06.2011.

60. Events after the reporting period

On 17.01.2012, Kredyt Trade Sp. z o.o., the Bank's subsidiary, signed an agreement on the sale of its 30% stake in KBC TFI S.A. to KBC Asset Management NV. The sale price for 30% of the shares of KBC TFI S.A. held by Kredyt Trade Sp. z o.o. amounts to PLN 37.5 million. The completion of this transaction is subject to no objection from the Polish Financial Supervision Authority.

The positive impact of this transaction, estimated as at 31.12.2012, upon the net financial result of Kredyt Bank S.A. Capital Group will amount to ca. PLN 12.8 million. The result on the sale of the shares of KBC TFI S.A. will be recognized in the Group's consolidated financial statements as soon as the sale is completed.

Further information about the said transaction is available in the current report dated 17.01.2012.

On 26.01.2012, the Bank received a notice from Pioneer Pekao Investment Management S.A. ('PPIM') about the decline in its total commitment to 4.29% of the total votes at the General Meeting of Shareholders concerning the financial instruments included in the portfolios managed by PPIM. Pursuant to the said notice, the commitment of Pioneer Fundusz Inwestycyjny Otwarty decreased to 4.16% of the total votes at the General Meeting of Shareholders.

Further information about the issue is available in the current report dated 26.01.2012.

On 03.02.2012, Fitch Ratings downgraded the Bank's Long-term Issuer Default rating (IDR) to 'BBB' from 'A-'. Fitch also maintained the said rating on Rating Watch Evolving (RWE).

Further information about the issue is available in the current report dated 03.02.2012.

Apart from the above issues, no significant events which should be disclosed in the financial statements had place from the balance sheet date to the publication date of these financial statements.

61. Employment structure

FTEs	**31.12.2011**	**31.12.2010**
Bank	4 875	4 747
- Head Office	2 297	2 113
- branches and affiliates	2 578	2 634
Companies	88	87
Total	**4 963**	**4 834**

62. Employee benefits

62.1. Employee Stock Ownership Plan

In 2011 and 2010, no employee stock ownership plan was implemented in the Group.

62.2. Retirement benefits and other benefits after retirement

The Group's companies pay retirement severance pays to employees who become retired in the amount set out in the Labour Code. As at the balance sheet date, a provision is established on the basis of an actuary's estimate.

in PLN '000'	**01.01.2011-31.12.2011**	**01.01.2010-31.12.2010**
Period beginning	1 585	1 408
Provision recognized	300	335
Paid benefits	-148	-196
Provision reversed	0	-6
Other changes	0	44
Period end	**1 737**	**1 585**

62.3. Benefits related to the dissolution of employment

in PLN '000'	01.01.2011-31.12.2011	01.01.2010-31.12.2010
Period beginning	0	2 279
Recognized	1 287	0
Reversed	0	0
Utilization	-1 287	-2 279
Period end	**0**	**0**

63. Social assets and the Company Social Benefit Fund

The companies of the Group which meet the requirements of the CSBF Act, establish the CSBF and create periodical charges for this purpose. The Funds have no property, plant and equipment. The objective of the Funds is to subsidize the Company's employee-related operations, loans borrowed to employees and other employee-related expenses.

The Group's companies set off the Funds' assets against their liabilities to them, as these assets are not separate assets under IAS/IFRS.

The table below presents the analysis of the Funds' assets, liabilities and CSBF expenses.

in PLN '000'	31.12.2011	31.12.2010
Employee cash loans	8 371	9 925
Cash on CSBF's bank accounts	7 440	4 742
Fund-related payables	15 811	14 667
Charges to the Fund in the period	6 017	3 889

64. Seasonality or cyclical nature of operations

The operations of the Group's companies are not of seasonal nature.

65. Non-typical factors and events

In 2011 and 2010, no untypical events occurred in the Group (not related to operating activities) that would affect the structure of balance sheet items and the financial result to a large extent, and which were not presented in these consolidated financial statements.

66. Custodian services

An offer of the Bank's custodian services entails maintaining securities accounts for domestic and foreign, both institutional and individual, customers. For the special group of customers, i.e. investment funds, the Bank also plays a role of a custodian bank and an issue sponsor.

The Bank holds an authorization of the Polish Securities and Exchange Commission to maintain securities accounts; it is also a direct participant of the National Depository for Securities (KDPW) as a Custodian Bank and a participant of the Securities Register (RPW) managed by the National Bank of Poland (NBP). On this basis, the Bank maintains accounts for securities admitted to organized trading, deposited in KDPW or RPW. The Financial Transactions Clearing Office in the Bank's Head Office is the Bank's unit responsible for maintaining securities accounts and the provision of the services of the issue sponsor.

In 2011, income related to the maintenance of securities accounts and registers as well as the services of an issue sponsor and of the custodian bank amounted to PLN 6,454 thousand as compared to PLN 5,661 thousand in 2010 and is accounted for in the comission income.

67. Discontinued operations

The Group did not carry out operations which were discontinued in 2011 or in 2010.

68. Information on proceedings before a court, an authority competent for arbitration proceedings or a public administration authority

In 2011, the companies of the Group were not a party to any proceedings before a court, an authority competent for arbitration proceedings or a public administration authority, where the amount(s) claimed would amount to at least 10% of the Bank's (issuer's) equity.

Below are presented those proceedings, in which the amounts claimed are the highest and in which a company of the Group is the defendant.

- Two court proceedings regarding a credit granted to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec ('LFO'). The Bank is the leader of the syndicate of five banks, which, under the agreement of 04.03.1997, granted a syndicated loan to LFO. The loan was secured by, among others, a registered pledge on the company's property, plant and equipment and the surety of the State Treasury up to 60% of the drawn amount of the loan and accrued interest. As the investment project for which the loan was extended had not been completed and the dates of the payment of commitments had not been met, the Bank, representing the syndicate, terminated the agreement under its terms and conditions and called LFO to pay claims.

- The State Treasury requested for determination whether the syndicated loan agreement concluded between LFO and the syndicate of five banks had expired on 28.02.1998 as a result of the occurrence of a contractual condition, and, as a result, the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement had expired as well. The State Treasury is represented by the General Public Prosecutor's Office of the State Treasury. Experts' opinions and auxiliary opinions were prepared and additional witnesses were questioned. In the first quarter of 2007, the State Treasury changed the lawsuit and claimed PLN 8,207 thousand including interest. In the fourth quarter of 2008, the court requested the Bank to submit documents concerning the debt collection process carried out against the State Treasury on the basis of a banking executory title with the enforceability clause. The Bank delivered the required documents to the court. In September 2010, the court ordered the Bank to hand over the documents confirming the launch of the loan (the launches dates and amounts) to an accounting expert. In June 2011, the court obliged the parties to submit pleadings containing all the statements and evidence material for the proceedings. No date of the hearing was set by the publication date of these financial statements.
- Claims of LFO for damages due to the termination of the loan agreement amounting to PLN 119,477 thousand. At present, after being heard by courts of all instances, the case was referred to

the circuit court in Warsaw, which, as a result of LFO bankruptcy, stayed legal proceedings. Upon the request of LFO, the court called upon the trustee in bankruptcy of LFO to participate in the case. In the meantime, the parties submitted pleadings. On 27.10.2011, the court decided to terminate the bankruptcy proceedings.

- On 17.01.2001, the President of the Office for Competition and Customer Protection, upon the request of the Polish Organization of Commerce and Distribution (POHiD), initiated proceedings concerning competition-restricting practices on the payment cards market by VISA and MasterCard as well as 20 banks, including Kredyt Bank S.A.

  On 29.12.2006, the President of the Office for Competition and Customer Protection issued the decision in which:

- they imposed a fine on Kredyt Bank of PLN 12,158.4 thousand;
- HSBC Bank Polska S.A. was fined with PLN 193.0 thousand and the proceedings against this company were discontinued (under a binding agreement between HSBC and Kredyt Bank S.A., the fine for HSBC should be paid by Kredyt Bank S.A. as well).

  The decision was to be enforced immediately as regards the order to discontinue the practice of joint determination of the intercharge fee rate. On 17.01.2006 and 19.01.2007, appeals against Decision No. DAR 15/2006 of the President of the Office for Competition and Customer Protection were made on behalf of HSBC Bank Polska and Kredyt Bank. In this decision, the President of the Office for Competition and Customer Protection resolved that joint determination by the Banks, Visa and MasterCard of the interchange fee restricted competition. On 18.01.2007, the President of the Office for Competition and Customer Protection issued a decision in which they obliged the banks to jointly and severally pay PLN 157.6 thousand to the Polish Organization of Commerce and Distribution (POHiD) as reimbursement of the proceedings costs. Kredyt Bank S.A. complained against this decision on 31.01.2007 and deemed it unjustified. The case was referred to the Economic Court in Warsaw which split the case into separate proceedings against each of the banks involved in the case. On 25.08.2008, the court decided to withhold the execution of the decision issued in the case of interchange fees. On 12.11.2008, the circuit court in Warsaw, the Competition and Customer Protection Court, issued a judgment amending the contested decision, in which the court stated that the Banks had not applied monopolistic practices in this respect. On 3.02.2009, the Bank received the appeal against the judgment made by the President of the Office for Competition and Customer Protection. At the hearing held on 22.04.2010, the court issued a judgment by which it overruled the judgment of the circuit court and referred the case to the circuit court to be re-examined. The hearing was held on 09.02.2012, but no solutions were reached.

- In relation to a loan transaction to finance the construction of ‘Altus’ building in Katowice, the Bank and Reliz Sp. z o.o. (the building owner) are involved in certain disputes of legal nature. The Bank owns 100% shares of Reliz. The said disputes are related to claims of Mostostal Zabrze Holding S.A., the guarantor of the loan to finance the building, against the Bank and the building owner. The present dispute concerns fraudulent conveyance charge by Mostostal Zabrze Holding S.A. against Reliz Sp. z o.o. regarding the failure to recognize the agreement on the transfer of ownership title to ‘Altus’ building by Business Center 2000 Sp. z o.o. (‘BC 2000’) to Reliz Sp. z o.o. as effective.

  On 31.07.2009, the circuit court announced the judgment in the fraudulent conveyance proceedings, which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning ‘Altus’ building concluded between the building owner and Reliz Sp. z o.o. Reliz Sp. z o.o. filed the request to prepare and deliver the judgment with the justification, submitting means of appeal. On 12.03.2010, the court of appeal overruled the judgment of the circuit court of 31.07.2009 and referred the case to the circuit court to be re-examined. On 16.06.2010, as a result of the re-examination of the case, the circuit court in Katowice issued a judgment which ascertained the ineffectiveness, towards MZH, of the sale agreement concerning the real estate with ‘Altus’ building in relation to MZH’s claims up to the amount of PLN 45,980,560. Following the delivery of the judgment with the justification, an appeal to the judgment was made on 16.06.2010. The appeal hearing took place on 13.04.2011, during which the court closed the hearing and announced its judgment dismissing the full appeal of Reliz Sp. z o.o. The judgment of 13.04.2011 means upholding the judgment of the circuit court in Katowice of 16.06.2010, which recognized the agreement concerning the sale of ‘Altus’ building concluded between Business Center 2000 Sp. z o.o. and Reliz Sp. z o.o. as ineffective. On 01.07.2011, the agent for litigation from Reliz Sp. z o.o. filed the last resort appeal against the said decision.

According to the Bank’s knowledge as of the date of this information, MZH holds valid judgments against BC 2000 for the total amount, including interest, of PLN 35,797,629. On 05.05.2011, the court enforcement officer at the district court for Katowice-Wschód in Katowice initiated, upon the request of MZH, the enforcement process against BC 2000 based on the judgments in the case under the fraudulent conveyance charge. The enforcement process refers to the right of perpetual usufruct of a real estate, and ‘Altus’ building. Both the Bank and Reliz Sp. z o.o. took respective adverse claim measures, which resulted in the legal discontinuation of the enforcement proceedings regarding a part of the real estate. As regards further charges, the initiated adverse claim proceedings have not been validly terminated.

- The plaintiff claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 20 million and PLN 10 million as the satisfaction of the claim. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company and the plaintiff in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff’s opinion, Prosper Bank violated the agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment issued by the district court on 11.01.1999 resulted in the loss of his property and his detriment amounting to PLN 30 million. Kredyt Bank S.A. submitted a reply to the lawsuit on its own and HSBC’s behalf. On 28.09.2010, the circuit court in Warsaw issued a judgment on the dismissal of the plaintiff’s lawsuit against Kredyt Bank S.A. and HSBC Bank Polska S.A. The plaintiff made an appeal to this decision. On 06.07.2011, the court dismissed the plaintiff’s appeal, issuing the decision upholding the judgment of the court of first instance. The case was validly terminated; however, the plaintiff is entitled to make the last resort appeal. By the publication date of these financial statements, the Bank has not received the plaintiff’s last resort appeal.
- The plaintiff (a company engaged in leasing activities) claims damages from Kredyt Bank S.A. and HSBC Bank Polska S.A. of PLN 89 million. In the justification of the lawsuit, the plaintiff claims that Prosper Bank S.A. (now HSBC Bank Polska S.A.), acting under the cooperation agreement concluded with a leasing company, wrote a bill of exchange which secured the agreement, and further lodged a lawsuit against this company in the proceedings by writ of payment for this bill of exchange and obtained the order for payment. In the plaintiff’s opinion, Prosper Bank violated the bill agreement, wrote the bill of exchange incorrectly and lodged a completely unjustified lawsuit. The plaintiff claims that the order for payment of 11.01.1999 issued by the District Court resulted in the collapse of the company’s financial situation; as a result, the plaintiff recorded damage to his assets of PLN 73.7 million increased with interest. On 9.04.2010, the court dismissed the plaintiff’s lawsuit. On 15.07.2010, the Bank received the plaintiff’s appeal to which the Bank replied. Having examined the appeal, the court issued the judgment dismissing the plaintiff’s claim, hence upholding the decision of the court of first instance. On 28.07.2011, the Bank received the plaintiff’s last resort appeal to which the Bank’s attorneys responded on 10.08.2011.
- On 23.12.2010, a plaintiff filed a lawsuit against Kredyt Bank S.A. questioning the validity of the settlements of option transactions made between July 2008 and August 2009. The plaintiff claims and accuses the Bank of, inter alia, unauthorized financial advisory and persuading him to make the transactions, the failure to exercise due diligence, the contradiction between the option transaction structure and the hedging function of such transactions. On 30.12.2010, the circuit court in Gliwice issued an order for the Bank, delivered to the Bank on 13.01.2011, to pay the claimed amount to the plaintiff. The Bank’s representatives prepared and filed an objection to the payment order. The filing of the objection will result in the re-examination of the case, within the normal procedure of fact-finding proceedings. On 22.09.2011, the court announced its decision in

favor of the Bank and dismissed the entire lawsuit. On 08.11.2011, the Bank received the plaintiff's appeal. On 22.11.2011, the Bank's attorneys responded to the appeal. The appeal hearing was held on 29.12.2011. The appeal court dismissed the plaintiff's appeal and, as a result, upheld the judgment of the court of first instance. The plaintiff is entitled to make the last resort appeal.

- The plaintiff – a meat processing company – filed a lawsuit against Kredyt Bank S.A. questioning the validity of concluded option transactions amounting to PLN 9,468,362, particularly the put options concluded by the Bank. The plaintiff claims and accuses the Bank of, inter alia, misleading the customer, abusing its stronger contractual position, and violating the norms of social coexistence. The Bank's attorneys responded to the lawsuit. One hearing was held in August 2011, but no solution was reached. The next hearing is scheduled on 15.05.2012.

The Management Boards of the Group's companies are of the opinion that any risks related to the proceedings before courts or public administration authorities are properly secured by the provisions established by the Bank.

69. Risk management at Kredyt Bank S.A. Capital Group

The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, play the most important role in the risk management process.

The Bank's Supervisory Board, through the Audit, Risk and Compliance Committee, is informed about the most vital decisions and gives opinions about the actions of the Management Board in this respect.

On 08.02.2011, the Bank's Management Board appointed the Risk and Capital Committee which replaced the following existing committees: the Assets and Liabilities Management Committee, the Operational Risk Committee and the Credit Risk Committee. The new Committee will become a forum for the integrated review of all types of risk and capital management. It supports the Bank's Management Board in the area of risk management, control and monitoring. The works of the Risk and Capital Committee are directed by the member of the Bank's Management Board responsible for risk and capital management.

All types of risk in the Bank are measured and monitored by the departments in the Risk and Capital Management Function, which is supervised by the Member of the Management Board accountable for the risk and capital management, i.e.:

- Capital Management Department;
- Corporate and SME Loans Risk Department;
- Retail Loans Risk Department;
- Operational Risk Department;
- Market Risk Department.

These units monitor and report all risk-related aspects, at the same time being fully independent of the Bank's business units.

In the process of the identification, measurement and risk management, the Bank applies techniques relevant to a given type of risk.

The overriding objectives of risk management policy concerning mainly the observance of internal and external limits and optimising and mitigating risk in the process of ongoing monitoring are being systematically implemented. The risk management process is strictly related to the capital management process. The main objective of capital management in the Bank is to optimise it and, at the same time, to meet external capital requirements. To achieve this goal, in 2008, the Bank implemented ICAAP (Internal Capital Adequacy Assessment Process).

70. Credit risk

Credit risk in Kredyt Bank S.A. is defined as the potential shortfall relative to the value expected for a financial instrument consequent on non-payment or non-performance by a borrower, guarantor or counter-guarantor, counterparty (in relation to treasury transactions) or an issuer (of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country.

Credit risk management process in the Bank entails the following phases:

- risk identification;
- risk measurement (e.g. maximum approach, risk weighted assets, Exposure At Default – EAD, Expected Loss – EL, Unexpected Loss – UL);
- risk monitoring, particularly as regards the compliance of the risk profile with the determined risk appetite and established limits (e.g. exposures concentrations related to loans used to finance commercial properties, related to residential properties, industrial properties, professional properties and commercial properties);
- reporting;
- an analysis and formulation of recommendations;
- a decision-making process.

The main participants in the credit risk management process, within the organisation of the risk management system, are as follows:

- Supervisory Board;
- Audit, Risk and Compliance Committee;
- Bank's Management Board;
- Risk and Capital Committee;
- Retail Loans Risk Department;
- Corporate and SME Loans Risk Department;
- Business lines managers;
- Audit and Inspection Department.

Credit risk is managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective.

The process of risk management for individual transactions entails risk assessment for such a transaction and, depending on its level, application of an appropriate decision-making process. The Corporate and SME Loans Risk Department and the Retail Loans Risk Department play the key role in the process of risk management for individual transactions.

The portfolio risk management is the main responsibility of the Corporate and SME Loans Risk Department, Retail Loans Risk Department, as well as of the Risk and Capital Committee. The main tasks of the Risk and Capital Committee are as follows:

- supporting the Management Board in:
    - developing and reviewing the risk and capital management system, including the structures, processes, empowerments and policies;
    - informing about the risk management system;
    - monitoring the implementation status of the risk management system;
    - establishing tolerance to risk – risk appetite;
    - establishing the structure of internal risk limits consistent with the risk appetite;

- monitoring the implementation status of measures taken in response to observed risk;

- taking measures in response to observed risk, including cyclical reviews of the structure, processes, empowerments and policies in the area of risk and capital management, internal risk limits and corrective measures (e.g. changes in the risk parameters for the Bank's products) related to the risk and capital management below the materiality threshold;
- monitoring the risk and capital profile (including the use of limits, stress-testing, the use of the regulatory capital and of the economic capital) on the basis of the overall risk report;
- deciding on the issues of the rating and modeling system;
- reporting risk management issues to the Bank's Management Board; also informing the Bank's Management Board about decisions aimed at making the defined risk and yield ratios reach pre-determined levels;
- taking decisions concerning credit risk related to the powers granted by the Management Board.

The Group's gross exposure towards 10 major corporate customers

31.12.2011		31.12.2010	
Company	**Share (%) in the portfolio**	**Company**	**Share (%) in the portfolio**
Customer 1	3.2	Customer 1	3.8
Customer 2	2.1	Customer 2	3.4
Customer 3	2.0	Customer 3	2.7
Customer 4	1.8	Customer 4	2.0
Customer 5	1.6	Customer 5	2.0
Customer 6	1.5	Customer 6	1.8
Customer 7	1.4	Customer 7	1.8
Customer 8	1.4	Customer 8	1.5
Customer 9	1.3	Customer 9	1.5
Customer 10	1.2	Customer 10	1.4
Total	**17.5**	**Total**	**21.9**

The Group's exposure in geographical segments (excluding banks)

Province	Gross loans structure (%) 31.12.2011	Gross loans structure (%) 31.12.2010
Mazowieckie	20.1	21.0
Dolnośląskie	10.7	10.6
Wielkopolskie	9.4	8.9
Lubelskie	9.1	11.8
Pomorskie	8.7	8.6
Małopolskie	7.6	7.3
Śląskie	6.7	6.4
Łódzkie	5.3	4.3
Zachodniopomorskie	5.2	5.2
Kujawsko-pomorskie	3.3	3.1
Podlaskie	3.3	3.2
Podkarpackie	2.7	2.7
Warmińsko-mazurskie	2.6	2.4
Lubuskie	2.3	2.0
Świętokrzyskie	1.8	1.2
Opolskie	1.1	1.2
Non-resident	0.1	0.1
Total	**100.0**	**100.0**

The Bank's exposure in industrial segments (excluding natural persons)

Industry	Exposure % 31.12.2011	Exposure % 31.12.2010
Trade	24.3	21.2
Commercial real estate	13.6	17.5
Building industry	12.6	8.1
Natural resources, metals, chemicals	9.8	13.8
Agriculture and foodstuff production	7.8	7.8
Services	7.1	6.8
Automotive industry, shipyards, aviation	7.0	7.2
Local government units and financial institutions	5.7	6.6
Timber and papermaking	5.3	4.3
Electrical engineering	3.3	3.2
Transport	2.0	2.3
Gas, energy and water suppliers	0.9	0.5
Media, telecommunications, IT	0.6	0.7
Total	**100.0**	**100.0**

As at 31.12.2011 and 31.12.2010, the concentration limits regarding a customer/a group of related customers were not exceeded.

The table below presents the quality of the portfolio of non-past due loans and advances with no evidence for impairment. The table is based on the system of internal ratings applied by the Bank. The coverage of the Bank's balance sheet loans and advances to customers other than banks with internal ratings as at 31.12.2011 was at the level of 93.97%. As at 31.12.2010, the coverage was at the level of 93.57%.

Rating	**31.12.2011**	**31.12.2010**
PD 1 (the best rating)	11.5%	18.1%
PD 2	27.8%	18.7%
PD 3	6.5%	18.1%
PD 4	21.6%	10.2%
PD 5	9.0%	14.3%
PD 6	10.8%	8.8%
PD 7	7.9%	7.1%
PD 8	3.3%	2.9%
PD 9 (the worst rating)	1.6%	1.8%
Total	**100.0%**	**100.0%**

The Bank monitors established legal collateral of loan transactions by evaluation of the value of approved collateral on the basis of documents lodged by the borrower (including valuations of appraisers) and internal databases including historic data about the recoverability of collateral.

The Group's maximum exposure to credit risk

Balance sheet instruments	31.12.2011	31.12.2010
Debt securities	**8 795 493**	**11 122 652**
- available-for-sale	5 256 641	6 215 538
- held-to-maturity	3 416 674	3 247 779
- financial assets at fair value through profit or loss (excluding derivatives)	122 178	1 659 335
Derivatives	**1 071 089**	**463 159**
Net loans and advances to banks	**1 188 012**	**1 463 989**
Net loans and advances to customers:	**29 085 754**	**27 194 520**
Natural persons*:	22 153 428	20 712 125
- overdraft facilities	873 085	756 252
- term loans **	731 015	732 286
- cash loans, installment loans and cards	2 492 711	2 803 285
- mortgage housing loans	17 623 776	15 958 687
- other mortgage loans***	390 617	427 200
- purchased debt	12 153	10 944
- realised guarantees	554	423
- other receivables	29 517	23 048
Corporate customers and SME:	6 732 240	6 294 810
- overdraft facilities	1 924 017	1 490 724
- term loans **	3 904 291	4 136 290
- purchased debt	211 327	114 977
- realised guarantees	35 001	203
- other receivables, including leasing fees	605 492	505 320
- debt securities classified as loans and receivables	52 112	47 296
Budgetary sector:	200 086	187 585
- overdraft facilities	4 742	2 731
- term loans **	106 931	164 618
- purchased debt	19 960	0
- debt securities classified as loans and receivables	68 453	20 236
Various debtors (receivables recognized in other assets)	**74 908**	**75 485**
Total	**40 215 256**	**40 319 805**

Granted off-balance sheet liabilities	31.12.2011	31.12.2010
Financial	4 346 382	3 958 357
Guarantees	2 201 666	2 080 340
Total liabilities granted	**6 548 048**	**6 038 697**
Total assets and off-balance sheet items	**46 763 304**	**46 358 502**

** contains amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
***contains mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Having regard for the existing macroeconomic situation, which is characterized by a high level of uncertainty as regards the future evolution and a relatively low rate of its improvement, the Bank focused on the monitoring of credit risk with the use of cyclical and provisional reports and analyses in order to response fast to disadvantageous trends in the quality of the loans portfolio. The Group established early warning signs within portfolio limits, the principles for their monitoring and procedure in the case they are exceeded. On the basis of the findings of the analyses, the Bank introduced changes in the credit policy aimed at improving the quality of the loans portfolio.

The main areas of changes in terms of credit policy include:

a) for the portfolio of retail customers:

- complete implementation of 'T Recommendation';
- changing the methodology of calculating maintenance costs implemented at the customer level (uniform for all products);
- expanding the principles of the lending policy in the case of individual customers who borrow mortgages in a foreign currency (EUR) to 100% LtV;
- establishing the cooperation with the provider of insurance (TU Europa) in the area of insuring borrowers' low own funds in a loan for mortgage loans;
- addressing the product offer mainly at existing customers with good behavioural assessments;
- expanding the stress-testing methodology and its use in the process of establishing concentration limits;

b) for the portfolio of corporate and SME customers:

- the reorganization of the lending process and defining new liability scopes for particular participants in this process, including:
    - determining the business liability for the total lending process;
    - appointing professional decision-makers in the independent risk function focused on the process of making credit decisions and liable for the management of the credit risk of the assigned loans subportfolio;
    - centralizing the lending process for SME customers in specialized units.

Currency derivatives (net of embedded derivatives)

	31.12.2011		31.12.2010	
in PLN '000'	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Total balance sheet exposure, excluding banks	51 267	16 637	24 967	23 339
Net position aggregated at customer level, excluding banks	40 598	5 968	17 669	16 041

As at 31.12.11, the Bank hedged concluded currency contracts by frozen cash on bank accounts in the total amount of PLN 5 million. The valuation of derivatives also entails credit risk. In 2011, write-downs for active derivatives of PLN 3 million (presented in net trading income) were created, and write-downs for mature derivatives of PLN 10 million (presented in impairment losses) were reversed, in the Bank's income statement.

As at 31.12.2010, the Bank hedged concluded currency contracts by frozen cash on bank accounts in the total amount of PLN 9 million. The valuation of derivatives also entails credit risk. In 2010, the write–downs for active and mature derivatives of PLN 26 million, including PLN 8 million related to active transactions (presented in net trading income), and PLN 18 million related to mature transactions (presented in impairment losses), were reversed in the Bank's income statement.

71. Operational risk

The Group defines the operational risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents.

To calculate the capital requirement for operational risk in pillar I, the Group applies the Standardized Approach.

As a result, the Bank, inter alia,:

- has specified roles and responsibilities of employees within the operational risk management system;
- keeps a record of operational events and losses resulting from the operational risk;
- has the operational risk management system which is regularly reviewed by independent auditors.

Pursuant to the requirements concerning the application of the Standardized Approach, the Bank strengthened the operational risk assessment system. Risk self-assessment (RSA) is carried out systematically in particular business areas, action plans to reduce the risk are implemented and the level of risks is measured with the applications of key risk indicators (KRI).

Once a year, the Bank identifies key operational risks (Risk Scan).

Business units play a significant role in the implementation of operational risk management tools and techniques, as the direct responsibility for the operational risk management is on the managers of particular business lines.

The infrastructure of management and methodology are coherent within the Bank and its subsidiaries. Identification and operational risk rating tools are identical. The whole process is supervised by the Risk and Capital Committee and the Bank's Management Board.

72. Market risk and ALM

Market risk is defined as a degree of the hazard to the Bank's financial standing resulting from adverse changes in market parameters (interest rates, exchange rates and prices of shares) and their market volatility.

The Bank does not trade on the stock market (investments in shares are long-term investments or investments in strategic subsidiaries). The Bank does not trade on commodity markets. In the Bank, among all types of market risks, we deal with interest rate risk and currency risk, including basis risk and currency risk.

The Bank's activity is divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk is monitored in each book separately.

72.1. Trading Book

The Trading Book is a separated part of the Bank's portfolio, where the Bank intends to generate income resulting from short-term changes in prices, interest rates, exchange rates or other market parameters. The main activity of the Trading Book is associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.

Value at Risk (VaR) is the basic metric of risk in the trading portfolio. *Value at Risk*, VaR). Value at Risk means such a value that the probability of the Bank's loss exceeding this value amounts to 1% (with assumed 99% level of significance). Value at Risk (VaR) in the Bank is calculated by historical method in the time horizon of 10 days, taking into account market figures for the previous 500 days. VaR limit for the Trading Book overlaps Global VaR, which includes both the currency risk and the interest rate risk. In the process of market risk management, the Bank takes account of the limitations resulting from the Value at Risk methodology, including:

- The fact that the level of risk reflected by VaR is the resultant of historical changes in price parameters and in the position on a given day. In order to more fully present the level of the risk to which the Bank was exposed in 2011, the tables below present both VaR on the last day of the year, and the average, minimum and maximum levels in the whole 2011.

- VaR does not provide information about the distribution of potential losses when the losses exceed VaR. Although, according to expectations, the losses will not exceed the calculated VaR at the pre-determined materiality level (99%), in the remaining cases the losses may be much higher than the calculated VaR. To control the above-mentioned limitations, the Bank verifies the correctness of the adopted methodology by carrying out annual backtesting of the results from the VaR model.
- In the VaR model applied by the Bank, on the basis of historical price changes, it is assumed that the prices in the future will be subject to the same distribution as the prices in the examined period in the past.

All presented calculations of risk metrics for the Trading Book relate to the Bank's positions.

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

Limit	31.12.2011	Data for 2011		
		Average	Minimum	Maximum
VaR 3 000.0	1 580.54	1 497.31	298.82	2 894.13

VaR (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

Limit	31.12.2010	Data for 2010		
		Average	Minimum	Maximum
VaR 3 000.0	706.11	1 778.10	644.97	3 202.60

72.1.1. Interest rate risk

Interest rate risk reflects a degree of a hazard to the Bank's financial standing arising from adverse changes in market interest rates.

The level of interest rate risk and basis risk is monitored and limited (by establishment of limits) against BPV (basis point value – price sensitivity to parallel shifts in interest rates on the yield curve).

All above-mentioned limits concern the total Trading Book. The Trading Book Unit in the Cash Processing Department managing the Trading Book is divided into two sections (with the primary term of instruments/transactions made on the interbank market as the basic division criterion): Short Term Desk and Long Term Desk. The activities of the Trading Book in the area of interest rate risk are limited by an internal limit on VaR for the interest rate position and stop-loss limits (the maximum acceptable value of the loss). Interest rate risk VaR is calculated using the same parameters as Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon.

Global VaR limit was not exceeded in 2011. At the same time, in the first quarter of the year, the internal VaR limit for the interest rate was exceeded occasionally, which resulted from the maintenance of substantial positions in PLN.

Value at Risk for interest rate positions

in '000' EUR	Limit	31.12.2011	Data for 2011		
			Average	Minimum	Maximum
Trading	2 600.0	1 590.03	1 487.39	295.19	2 883.27

Value at Risk for interest rate positions and particular sections

in '000' EUR	**Limit**	**31.12.2010**	**Data for 2010**		
			Average	Minimum	Maximum
Trading*	2 600.0	708.19	1 659.73	597.28	3 220.61
Short term Desk**	1 300.0	-	1 691.67	1 060.52	2 767.96
Long Term Desk**	1 300.0	-	671.56	224.92	1 317.28

** the limit has been valid since 24 March 2010 (the data presented in the table refer to the period 24.03.2010 – 31.12.2010)*
*** the limit abolished on 24 March 2010 (the data presented in the table refer to the period 1.01.2010 – 23.03.2010)*

The interest rate risk analysis is supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.

Interest rate options

The Bank also offers interest rate options. The Bank does not maintain an options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of interest rate option transactions does not exist.

72.1.2. Currency risk

Position in currencies

Exchange rate risk is a degree of the risk for the Bank's financial standing resulting from adverse changes in exchange rates on the market. This risk covers income on currency exchange operations and measurement of open position in currencies resulting from the difference between the value of assets and liabilities in a given currency. The Bank's position in currencies is managed for the Trading Book and the Banking Book jointly. The Bank's position in currencies is managed in the Trading Book.

The daily analysis of the sensitivity of the total Trading Book position to currency risk is performed through the calculation of currency risk VaR (with the same parameters as Global VaR, i.e. the significance range of 99%, 10-day time horizon and 500-day observation horizon). Currency risk VaR values are as follows:

VaR for the Trading Book – currency risk

in '000' EUR	**31.12.2011**	**Data for 2011**		
		Average	Minimum	Maximum
Trading	38.00	104.36	12.50	798.16

VaR for the Trading Book – currency risk

in '000' EUR	**31.12.2010**	**Data for 2010**		
		Average	Minimum	Maximum
Trading	19.11	114.27	15.24	1 117.65

In the event of the currency risk, the 'value at risk' method is supplemented daily by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in exchange rates.

Currency options

The Bank also offers currency options. The Bank does not maintain an options portfolio for its own account, i.e. it does not pursue speculative activities. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of currency option transactions does not exist.

Below, we present the breakdown of balance sheet and off-balance sheet items by main currencies.

Consolidated balance sheet as at 31.12.2011:

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	7 730	69 332	14 522	24 875	663 477	4 732	784 668
Gross loans and advances to banks	24 770	161 419	8 931	54 166	930 390	8 336	1 188 012
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	34 741	65 943	0	100 684
Financial assets held for trading (excluding derivatives)	0	1 633	0	708	58 152	0	60 493
Derivatives	2 174	64 496	3 797	6 808	993 110	704	1 071 089
Gross loans and advances to customers	11 214 297	3 309 847	10 062	223 251	15 735 803	655	30 493 915
Impairment losses on loans and advances to customers	-62 211	-74 776	-1	-9 688	-1 261 460	-25	-1 408 161
Investment securities:	0	343 739	0	0	8 334 973	0	8 678 712
- available-for-sale	0	297 956	0	0	4 964 082	0	5 262 038
- held-to-maturity	0	45 783	0	0	3 370 891	0	3 416 674
Investments in associates valued using the equity method	0	0	0	0	19 152	0	19 152
Property, plant and equipment	0	0	0	0	259 797	0	259 797
Intangible assets	0	0	0	0	59 711	0	59 711
Deferred tax assets	0	0	0	0	263 257	0	263 257
Current tax receivable	0	0	0	0	116 870	0	116 870
Investment properties	0	0	0	0	209 065	0	209 065
Non-current assets held for sale	0	0	0	0	12 128	0	12 128
Other assets	2	11 820	57	67	81 663	83	93 692
Total assets	**11 186 762**	**3 887 510**	**37 368**	**334 928**	**26 542 031**	**14 485**	**42 003 084**

Consolidated balance sheet as at 31.12.2011 (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Liabilities							
Amounts due to Central Bank	0	0	0	0	32	0	32
Amounts due to banks	6 795 371	1 124 012	967	1 241	562 890	2 010	8 486 491
Derivatives	105	44 479	75	9 101	929 150	6	982 916
Amounts due to customers	697 695	2 614 170	80 937	772 228	23 871 239	6 888	28 043 157
Current tax liability	0	0	0	0	182	0	182
Provisions	0	27 662	0	223	88 517	0	116 402
Deferred tax liabilities	0	0	0	0	725	0	725
Other liabilities	61	9 648	100	822	260 390	23	271 044
Subordinated liabilities	961 554	0	0	0	74 956	0	1 036 510
Total liabilities	**8 454 786**	**3 819 971**	**82 079**	**783 615**	**25 788 081**	**8 927**	**38 937 459**

Off-balance-sheet items as at 31.12.2011

in *PLN '000'*	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Off-balance sheet items							
Liabilities granted:	**981**	**1 539 028**	**27 339**	**251 001**	**4 701 714**	**27 985**	**6 548 048**
- financial	981	591 978	527	237 293	3 511 359	4 244	4 346 382
- guarantees	0	947 050	26 812	13 708	1 190 355	23 741	2 201 666
Liabilities received:	**0**	**259 542**	**0**	**0**	**623 385**	**0**	**882 927**
- financial	0	9 417	0	0	32 004	0	41 421
- guarantees	0	250 125	0	0	591 381	0	841 506
Liabilities related to the sale/purchase transactions	**4 132 643**	**24 370 804**	**78 826**	**4 384 407**	**166 273 066**	**38 759**	**199 278 505**
Collateral received	**2 790 612**	**865 712**	**0**	**40 504**	**5 422 329**	**44**	**9 119 201**

Consolidated balance sheet as at 31.12.2010:

in *PLN '000'*	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	3 079	45 405	6 187	19 227	1 862 169	7 569	1 943 636
Gross loans and advances to banks	24 320	387 007	2 951	37 230	994 625	20 116	1 466 249
Impairment losses on loans and advances to banks	0	0	0	0	-2 260	0	-2 260
Receivables arising from repurchase transactions	0	0	0	0	87 218	0	87 218
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	31 149	87 413	0	118 562
Financial assets held for trading (excluding derivatives)	0	7 030	0	1 581	1 592 672	0	1 601 283
Derivatives	2 319	38 000	138	4 612	418 035	55	463 159
Gross loans and advances to customers	10 294 388	2 295 813	19 122	328 414	16 170 117	666	29 108 520
Impairment losses on loans and advances to customers	-36 206	-49 894	-4	-9 152	-1 818 721	-23	-1 914 000
Investment securities:	0	353 883	0	0	9 113 357	0	9 467 240
- available-for-sale	0	312 444	0	0	5 907 017	0	6 219 461
- held-to-maturity	0	41 439	0	0	3 206 340	0	3 247 779
Investments in associates valued using the equity method	0	0	0	0	15 179	0	15 179
Property, plant and equipment	0	0	0	0	290 444	0	290 444
Intangible assets	0	0	0	0	50 201	0	50 201
Deferred tax assets	0	0	0	0	350 387	0	350 387
Investment properties	0	0	0	0	225 668	0	225 668
Non-current assets held for sale	0	0	0	0	7 070	0	7 070
Other assets	271	7 615	20	116	87 632	36	95 690
Total assets	**10 288 171**	**3 084 859**	**28 414**	**413 177**	**29 531 206**	**28 419**	**43 374 246**

Consolidated balance sheet as at 31.12.2010 (cont.)

in *PLN '000'*	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Liabilities							
Amounts due to Central Bank	0	0	0	0	6	0	6
Amounts due to banks	8 024 194	1 478 413	4 104	2 225 862	397 759	20 374	12 150 706
Liabilities arising from repurchase transactions	0	0	0	0	228 693	0	228 693
Derivatives	169	47 663	1 030	5 567	1 076 642	7	1 131 078
Amounts due to customers	9 143	1 885 733	83 942	688 276	22 985 939	7 725	25 660 758
Current tax liability	0	0	0	0	155 197	0	155 197
Provisions	54	25 365	0	1 013	66 379	0	92 811
Deferred tax liability	0	0	0	0	869	0	869
Other liabilities	80	7 055	86	648	206 909	26	214 804
Subordinated liabilities	836 156	0	0	0	74 944	0	911 100
Total liabilities	**8 869 796**	**3 444 229**	**89 162**	**2 921 366**	**25 193 337**	**28 132**	**40 546 022**

Off-balance-sheet items as at 31.12.2010

in *PLN '000'*	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Off-balance sheet items							
Liabilities granted:	**28 754**	**1 566 937**	**23 744**	**196 431**	**4 193 579**	**29 252**	**6 038 697**
- financial	28 754	666 003	368	168 823	3 094 409	0	3 958 357
- guarantees	0	900 934	23 376	27 608	1 099 170	29 252	2 080 340
Liabilities received:	**973 848**	**312 423**	**0**	**0**	**794 039**	**5 392**	**2 085 702**
- financial	973 848	0	0	0	28 101	5 392	1 007 341
- guarantees	0	312 423	0	0	765 938	0	1 078 361
Liabilities related to the sale/purchase transactions	**6 150 912**	**6 926 354**	**118 980**	**4 955 853**	**116 597 183**	**30 309**	**134 779 591**
Collateral received	**2 452 739**	**557 463**	**0**	**35 118**	**4 904 651**	**44**	**7 950 015**

72.1.3. Capital market risk

The Bank does not operate on the stock market within the Trading Book. At the same time, in 2011, the Bank offered structured products to customers, in which the payment depended on the preservation of WIG 20 index. As in the case of currency options and interest rate options, the Bank does not have an open option position on the basis of the capital market instruments. Options on the inter-bank market are the options hedging the position resulting from transactions with customers. Therefore, the market risk in the above-mentioned portfolio of currency option transactions does not exist.

72.1.4. Commodity price risk

The Bank is not active on the commodity market within the Trading Book.

72.1.5. Capital requirements

The capital requirements for the Trading Book as of 31.12.2010 and 31.12.2009 are as follows:

Capital requirements for the Trading Book

in PLN '000'	**31.12.2011**	**31.12.2010**
Equity securities price risk	0	0
Specific risk of debt instruments	11	23
General interest rate risk	31 057	32 726
Settlement risk and counterparty risk	46 940	20 351
Currency risk (total for the Trading Book and the Banking Book)	0	0
Total capital requirement in the Trading Book	**78 008**	**53 100**

72.2. Banking Book

The Banking Book covers operations not covered by the trading portfolio, i.e. commercial activities of branches, credit intermediaries and the portfolios of securities hedging the liquidity and constant interest income.

72.2.1. Interest rate risk

The Bank actively manages the interest rate risk in the main currencies of the balance sheet, including PLN, EUR, USD and CHF.

An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics are calculated on that basis:

- sensitivity of the measurement of assets and liabilities (BPV);
- duration;
- accumulated gap ratios.

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book is based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes in interest rates. In the case of financial instruments without defined maturity dates (according to stability analyses for each type of product), the Bank implemented the model of periodic deposits rollover, which replicates the behaviour of particular products. This approach allows for effective management of risk associated with this type of instruments and for the generation of constant income from investments of these assets.

Stress-testing and VaR calculations are additional interest rate risk monitoring tools in the Banking Book.

Interest rate risk analysis

The interest rate risk analysis was conducted upon the following assumptions:

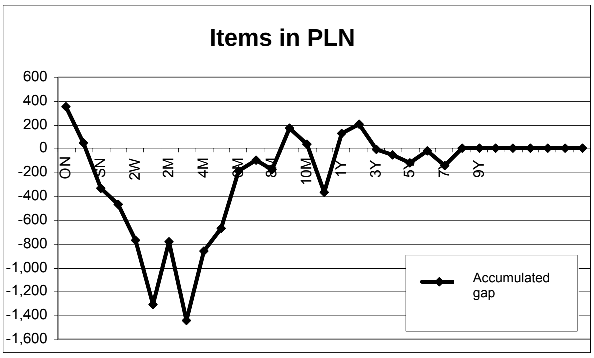
- a stable part of current accounts in PLN and EUR is cyclically invested for the period of:
  1. 8 years for PLN;
  2. 5 years for EUR;
- a stable portion of savings accounts in PLN is invested cyclically (every month) for the period of 5 years;
- unstable parts of current accounts in PLN and EUR, and current accounts in other currencies are classified in the shortest time horizon;
- a unstable part of savings accounts in PLN is invested in terms from 1 to 3 months (cyclically every month) and O/N; savings accounts in other currencies are classified in the shortest time horizon;
- free capital approved for the whole year is still invested cyclically for the period of 10 years (with 1/120th of the free capital invested monthly), an excess or shortage compared to an actual amount of free capital is classified in the shortest time horizon, and the passive portion of the free capital portfolio is deemed as insensitive to changes in interest rates;
- loans are recognized in net terms;
- fixed interest rate loans are accounted for according to the payment schedule, and the floating interest rate loans are presented in the closest revaluation period;
- a gap report, apart from for nominal flows, also presents known future interest flows;
- each flow is divided proportionally into two parts which are classified in adjoining nodes of the curve;
- a cumulative gap is calculated from the longest to the shortest term periods.

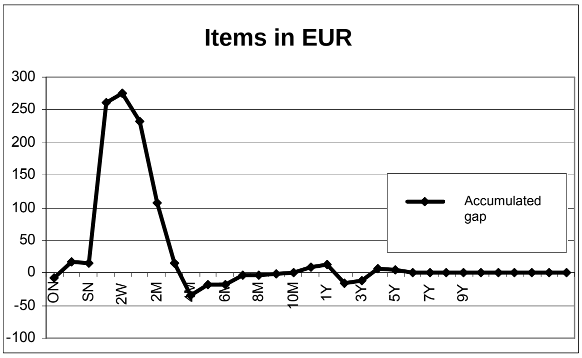
The interest rate gaps diagrams for the position resulting from the operation of branches (including derivatives used as hedging instruments) based on an internal system of transfer rates in particular currencies: PLN, EUR, USD and CHF, are presented below.

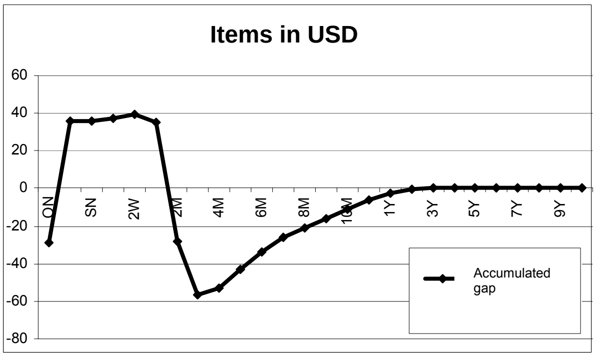
The diagrams present the mismatch between the repricing periods for assets and liabilities in time ranges: from O/N time range (overnight) to 10Y time range (10 years). The accumulated gap presents the total mismatch for a given time horizon; the gaps are accumulated beginning from the most remote date. The most noticeable mismatch both in particular time ranges and accumulated ranges appear in time ranges up to 3 months. It is related to the structure of the Bank’s balance sheet, namely customers’ floating interest rate loans portfolio with repricing periods of 1 month and 3 months and financing, i.e. customers’ deposits and long-term floating interest rate loans are the main position affecting the interest rate gap.

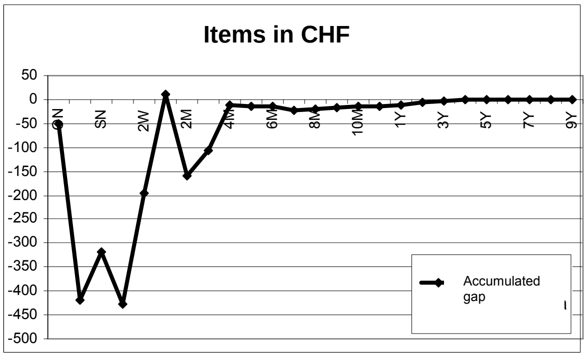
The Bank actively mitigates the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

Data for the Bank as at 31.12.2011 (in original currencies)

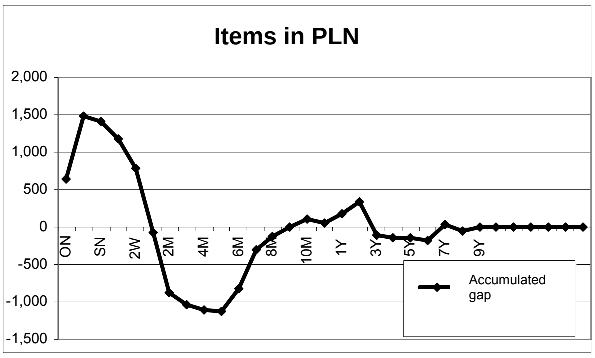


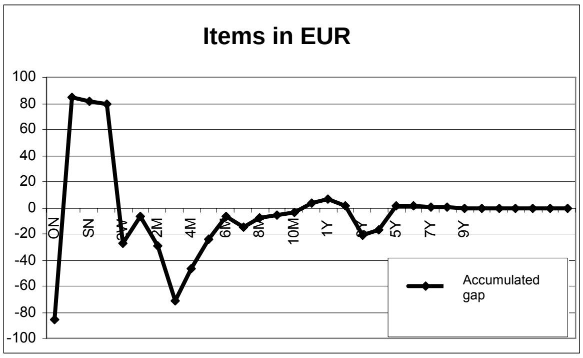


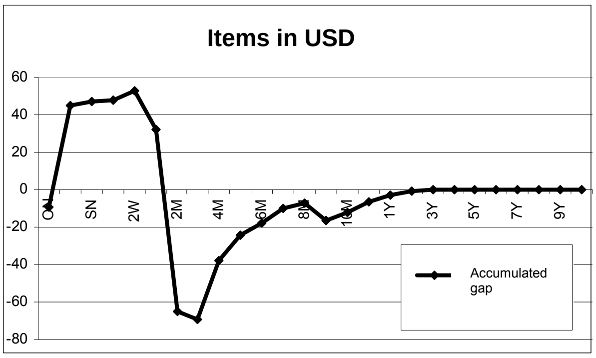


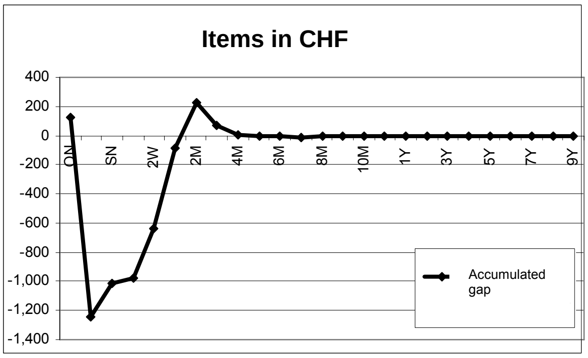


Data for the Bank as at 31.12.2010 (in original currencies)









The Bank analyzes BPV of the Bank, with the simultaneous upward shift of interest rates by 10 b.p. in breakdown into particular currencies.

The total BPV for the Banking Book is presented below. It is calculated as the aggregate BPV for particular currencies and portfolios. According to the methodology of calculating BPV for limits, the liabilities side of the Free Capital portfolio, as insensitive to changes in interest rates, is not included in calculations.

in '000' EUR	**31.12.2011**	**31.12.2010**
BPV (calculation to limit)	-1 957	-2 134

72.2.2. Hedge accounting

Fair value hedging accounting

In 2011 and 2010, the Bank did not apply hedge accounting for fair value hedge.

Hedge accounting of cash flows

In 2011, the Bank ceased to apply hedge accounting of cash flows for asset swaps, which consists in hedging cash flows resulting from floating interest rate bonds. In 2010, the Bank applied hedge accounting of cash flows for asset swaps (the hedge involves the conclusion of an IRS in which the Bank receives fixed and pays floating interest flows).

In 2011, as in 2010, the Bank continued to apply hedge accounting for the part of the mortgage loans portfolio based on 3-month WIBOR rate, which involves the conclusion of an IRS in which the Bank receives fixed and pays floating interest rates. Interest rate risk resulting from a change in the 3-month interest rate is the hedged risk in this case.

72.2.3. Currency risk

As mentioned above, the position in currencies is managed in the Trading Book. The positions related to the Bank's customers' transactions arising during the day are transferred, via internal transactions, to the Trading Book.

It should be noted here that the currency risk at Kredyt Bank is perceived not only as the risk occurring for an open position in currencies, but also as the risk of a change in the value of certain products as a result of changes in exchange rates. In particular, this risk occurs in the case of loans extended in foreign currencies. In order to mitigate credit risk, increasing in the case of the growth in the exchange rate of the loan currency (this also refers to loans granted in PLN, with its value indexed to the foreign currency exchange rate), the loans agreements for institutional customers contain clauses on the establishment of additional collateral or permit to translate the loan, when the customer does not generate income in the loan currency. Additionally, in order to hedge the exchange rate risk the customer is exposed to, derivatives (forwards, options) are offered to him.

In order to mitigate the currency risk on granting housing purposes mortgages in a foreign currency to individual customers, the Bank, analyzing the creditworthiness:

- determined the value of the highest monthly interest and principal repayment installment for the applied loan with the assumption that the principal of the applied loan is 20% higher;
- calculated the maximum level of LtV (Loan To Value) ratio on a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio);
- additionally, the applicant was informed about the foreign exchange risk.

In May 2010, the Bank eliminated from its offer mortgages denominated in CHF, focusing on the development of the offer in PLN and EUR. In January 2012, the mortgages denominated in EUR were also withdrawn from the offer.

72.3. Liquidity risk

The liquidity risk is strictly associated with activities of any bank. It results, among other things, from the mismatch of assets and liabilities in terms of maturity dates what is a natural effect of varied customers' requirements as regards deposits and loans. Maintenance of financial liquidity, understood as the ability to timely meet financial liabilities, is the crucial element of the policy on assets and liabilities management applied by the Bank. The current liquidity is maintained through correcting the surplus or shortage of liquid cash by operations conducted on the interbank money market. The Bank's safety calls for the maintenance of liquid reserves as well as the term and quality structure of the whole balance sheet. Decisions related to liquidity risk management are made by the Risk and Capital Committee. The Market Risk Department measures and monitors strategic (long-term) liquidity.

The Bank hedges the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account volume of statutory provisions;
- possession of a proper volume of portfolios of liquid securities (governmental bonds);
- performance of transactions on derivatives;
- maintenance of a diversified portfolio of deposits as regards terms and customers;
- diversification of the sources of long-term financing;
- access to the interbank market and open market transactions;
- access to the lombard loan.

An analysis of the Bank's liquidity is performed mainly on the basis of the liquidity gap report and the assessment of the deposit base stability by, among others, monitoring the mismatch of the maturity dates of assets and liabilities, what makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date. In addition, the Bank regularly carries out stress tests for the liquidity and monitors the level of liquidity buffers in stress conditions.

According to the methodology of the Financial Services Authority adopted by the Bank, the stable part of current accounts and savings accounts is recognized in the shortest term range. In the range up to 6 months, the Bank presents highly probable cash flows (the principal and interest). In ranges above 6 months, the Bank presents only cash flows related to principals. The adoption of the said methodology results in a more restrictive picture of the Bank's liquidity than in the situation when the gap analysis shows all interest flows expected in the future.

In the tables below, the current accounts and savings accounts are presented in 'on demand' term range, term deposits are presented at maturity, what results in the negative gap in the ranges up to 1Y, particularly in the range up to 1M. In reality, the deposit base is characterized with a high level of stability, which is analyzed by the Bank on an ongoing basis. On this basis, the Bank prepares the liquidity gap, having regard for 'made real' (i.e. expected by the Bank) maturity dates for particular categories of customer deposits.

Liquidity gap report

Data for the Bank (in millions of PLN) as at 31.12.2011

Assets	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Cash in hand	669	0	0	0	0	0	0	0	669
NOSTRO	89	0	0	0	0	0	0	0	89
Loans granted	853	1 344	1 693	2 178	3 141	2 403	2 494	15 092	29 198
Other loans and receivables granted	194	0	0	0	0	0	0	0	194
Liquid bonds, money and Treasury bills	105	96	163	175	943	1 321	1 634	1 454	5 891
Non-liquid bonds/held-to-maturity	110	2	410	770	478	500	1 045	566	3 881
Liquid bonds in the Trading Book	60	0	0	0	0	0	0	0	60
Reverse repos/BSB	0	0	0	0	0	0	0	0	0
Equity investments	0	0	0	0	0	0	0	86	86
Other	0	52	0	0	2	0	0	0	54
Derivatives – cash flows to be received									
FX derivatives	4 146	3 303	1 726	1 107	83	0	0	0	10 365
IR derivatives	155	1 042	659	0	0	0	0	0	1 856
CIRS – cash flows to be received	0	8	184	1 038	16	11	10	0	1 267
Total	**6 381**	**5 847**	**4 835**	**5 268**	**4 663**	**4 235**	**5 183**	**17 198**	**53 610**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y	Total
Current accounts	3 896	4	4	0	0	0	0	0	3 904
Deposits/savings accounts	14 200	2 155	3 693	552	140	1	1	3	20 745
Deposits of the budgetary sector	1 267	166	26	1	12	0	0	0	1 472
Inter-bank deposits	1 276	2 321	203	193	0	0	0	0	3 993
Perpetual bonds and cash loans	46	30	30	3 977	1 257	34	47	1 799	7 220
LORO	74	1	1	0	0	0	0	0	76
Repos/SBB	0	0	0	0	0	0	0	0	0
Free capital*	0	0	0	0	0	0	0	2 388	2 388
Other	0	84	0	102	31	0	0	0	217
Derivatives – cash flows to be paid									
FX derivatives	4 122	3 177	1 731	1 101	80	0	0	0	10 211
IR derivatives	116	1 074	605	0	0	0	0	0	1 795
CIRS – cash flows to be paid	0	4	183	1 056	13	11	8	0	1 275
Total	**24 997**	**9 016**	**6 476**	**6 982**	**1 533**	**46**	**56**	**4 190**	**53 296**

** equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.*

	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y
Assets	6 381	5 847	4 835	5 268	4 663	4 235	5 183	17 198
Liabilities	24 997	9 016	6 476	6 982	1 533	46	56	4 190
Liquidity gap	**-18 616**	**-3 169**	**-1 641**	**-1 714**	**3 130**	**4 189**	**5 127**	**13 008**

Data for the Bank (in millions of PLN) as at 31.12.2010

Assets	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Cash in hand	625	0	0	0	0	0	0	0	625
NOSTRO	1 346	0	0	0	0	0	0	0	1 346
Loans granted	966	1 114	1 585	2 054	2 950	2 143	2 656	13 937	27 405
Other loans and receivables granted	96	0	0	0	0	0	0	0	96
Liquid bonds, money and Treasury bills	304	52	677	190	441	922	2 672	1 383	6 641
Non-liquid bonds/held-to-maturity	0	22	493	0	1 209	378	1 189	387	3 678
Liquid bonds in the Trading Book	1 694	0	0	0	0	0	0	0	1 694
Reverse repos/BSB	87	0	0	0	0	0	0	0	87
Equity investments	0	0	0	0	0	107	0	0	107
Other	0	44	0	0	2	0	0	0	46
Derivatives – cash flows to be received									
FX derivatives	2 547	2 176	2 538	1 111	138	0	0	0	8 510
IR derivatives	117	546	462	0	0	0	0	0	1 125
CIRS – cash flows to be received	402	3	13	454	0	20	24	0	916
Total	**8 184**	**3 957**	**5 768**	**3 809**	**4 740**	**3 570**	**6 541**	**15 707**	**52 276**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y	Total
Current accounts	4 005	5	6	0	0	0	0	0	4 016
Deposits/savings accounts	14 109	1 792	1 972	743	429	4	1	1	19 051
Deposits of the budgetary sector	1 571	101	53	10	20	0	0	0	1 755
Inter-bank deposits	6 012	651	518	17	4	0	0	0	7 202
Perpetual bonds and cash loans	5	19	25	2 827	2 445	81	14	1 110	6 526
LORO	25	0	0	0	0	0	0	0	25
Repos/SBB	229	0	0	0	0	0	0	0	229
Free capital*	0	0	0	0	0	0	0	2 341	2 341
Other	0	78	0	834	28	0	0	0	940
Derivatives – cash flows to be paid									
FX derivatives	2 548	2 241	2 548	1 125	140	0	0	0	8 602
IR derivatives	147	349	1 097	0	0	0	0	0	1 593
CIRS – cash flows to be paid	475	2	10	483	0	17	22	0	**1 009**
Total	**29 126**	**5 238**	**6 229**	**6 039**	**3 066**	**102**	**37**	**3 452**	**53 289**

** equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.*

	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y
Assets	8 184	3 957	5 768	3 809	4 740	3 570	6 541	15 707
Liabilities	29 126	5 238	6 229	6 039	3 066	102	37	3 452
Liquidity gap	**-20 942**	**-1 281**	**-461**	**-2 230**	**1 674**	**3 468**	**6 504**	**12 255**

The liquidity gap presented above was prepared on the basis of contractual maturities for particular balance sheet items. Liabilities without a defined maturity (current accounts and savings accounts) are recognized in the shortest term range, although the actual/made real maturity for such instruments occurs in further tenors.

At the end of 2011, as compared to the end of 2010, the following changes in the structure of the Bank's financial liabilities can be noticed:

- an increase in the balance of customers' deposits (by PLN 1,299 million);
- the amount of accepted inter-bank deposits decreased by PLN 3,209 million;
- an increase in the balance of loans on the wholesale market by PLN 694 million;
- a decrease in the balance of repos by PLN 229 million.

The Bank's financial liquidity is also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 10 years.

- the ratio of the coverage of the 5- and 30-day liquidity gap with liquid assets – Short Term Liquidity Surplus (STLS) – short-term liquidity ratio (to 5 and 30 working days respectively);
- the liquidity buffer in the liquidity stress-test (within a 30-day horizon);
- Liquidity Mismatch Ratio (LMR) – medium-term liquidity ratio (up to 3, 6 months);
- Coverage Ratio (CR) – liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3, 5 and 10 years).

The Bank's liquidity is also monitored through a set of regulatory liquidity ratios pursuant to the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority.

72.3.1. Regulatory liquidity ratios

Within the liquidity management process, the Bank has been required to maintain the ratios listed in the Resolution of the Polish Financial Supervision Authority No. 386/2008 above the established minimum limit.

Data as at 31.12.2011

	Assets	*in PLN '000'*
A1	Basic liquidity reserve	8 984 754
A2	Supplementary liquidity reserve	4 234 595
A3	Other transactions on the wholesale financial market	14 965 149
A4	Limited liquidity assets	28 939 510
A5	Non-liquid assets	583 830
	Liabilities and equity	*in PLN '000'*
B1	Own funds less total capital requirements related to market risk, and to settlement risk and counterparty risk	3 566 284
B2	Stable external financing	30 223 000
B3	Other liabilities on the wholesale financial market	13 811 705
B4	Other liabilities	412 582
B5	Unstable external financing	9 658 566

	Liquidity ratios	Minimum value	Risk weighted
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	3 560 782.42
M2	Short-term liquidity ratio: ((A1+A2)/B5)	1.00	1.37
M3	Own funds to non-liquid assets: (B1/A5)	1.00	6.11
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets: ((B1+B2)/(A5+A4))	1.00	1.14

Data as at 31.12.2010

	Assets	*in PLN '000'*
A1	Basic liquidity reserve	11 826 102
A2	Supplementary liquidity reserve	3 027 888
A3	Other transactions on the wholesale financial market	10 347 994
A4	Limited liquidity assets	27 201 586
A5	Non-liquid assets	673 934
	Liabilities and equity	*in PLN '000'*
B1	Own funds less total capital requirements related to market risk, and to settlement risk and counterparty risk	3 453 781
B2	Stable external financing	28 803 751
B3	Other liabilities on the wholesale financial market	9 867 395
B4	Other liabilities	297 089
B5	Unstable external financing	12 531 790

	Liquidity ratios	Minimum value	Risk weighted
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	2 322 200.49
M2	Short-term liquidity ratio: ((A1+A2)/B5)	1.00	1.19
M3	Own funds to non-liquid assets: (B1/A5)	1.00	5.12
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets: ((B1+B2)/(A5+A4))	1.00	1.16

72.3.2. Financing sources – amounts due to banks and subordinated liabilities

in PLN '000'	**31.12.2011**	**31.12.2010**
Loans and advances from KBC Group, including:	3 234 826	5 650 993
- in foreign currencies	2 954 826	5 340 993
Term deposits, including:	5 160 973	2 922 345
- from KBC Group	5 117 701	2 909 169
Current accounts, including:	83 795	3 573 391
- from KBC Group	69 746	2 809 093
Other liabilities	6 897	3 977
Total amounts due to banks	**8 486 491**	**12 150 706**
Subordinated liabilities (from KBC Group)	1 036 510	911 100
Total	**9 523 001**	**13 061 806**

The Group finances the lending activities not only with deposits, but also with the financing made available by KBC Group, the Bank's major shareholder. The loans in foreign currencies granted by Kredyt Bank S.A. Capital Group are, to a large extent, financed with loans in foreign currencies received from KBC Group, deposits in foreign currencies made by entities from KBC Group and customer deposits in foreign currencies.

At the same time, the diversification of the deposit base results in the fact that the Group is not clearly dependent on any specific market segment, customer group or a specific deposit type.

The structure of customers' deposits was presented in Note 43.

Signatures of all Management Board Members

date	22.02.2012	Maciej Bardan	President of the Management Board	....
date	22.02.2012	Piotr Sztrauch	Vice President of the Management Board	....
date	22.02.2012	Umberto Arts	Vice President of the Management Board	....
date	22.02.2012	Jerzy Śledziewski	Vice President of the Management Board	....
date	22.02.2012	Zbigniew Kudaś	Vice President of the Management Board	....
date	22.02.2012	Mariusz Kaczmarek	Vice President of the Management Board	....

Signature of a person responsible for keeping the accounting books

date	22.02.2012	Grzegorz Kędzior	Director of Accounting and External Reporting Department	....

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Bank Zachodni WBK S.A.

1. We have audited the attached standalone financial statements for the year ended 31 December 2012 of Kredyt Bank S.A., from 4 January 2013 merged with Bank Zachodni WBK S.A. (merged entities hereafter 'the Bank'), located in Warsaw at 2/8 Kasprzaka St., containing the income statement for the period from 1 January 2012 to 31 December 2012, the statement of comprehensive income for the period from 1 January 2012 to 31 December 2012, balance sheet as at 31 December 2012, the statement of changes in equity for the period from 1 January 2012 to 31 December 2012, the statement of cash flow for the period from 1 January 2012 to 31 December 2021 and the summary of significant accounting policies and other explanatory notes ('the attached standalone financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Kredyt Bank S.A. and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit, except as discussed in paragraph 4 below, of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors in Poland,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached standalone financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached standalone financial statements treated as a whole.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

4. As described in the note 4 of additional information to the attached standalone financial statements Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached standalone financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012.

   Additionally, the amount of PLN 258 million out of the above increase in impairment allowances which relates to losses incurred but not recorded ('IBNR') and collective impairment was presented in line "Provisions" in the liabilities which is not compliant with the adopted accounting standards.

5. In our opinion, except for the potential effects of the matters described in paragraph 4 in relation to the reasonableness of the additional impairment allowances and relating deferred tax asset as well as the improper presentation of part of the additional impairment allowances in line "Provisions", in the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of Kredyt Bank S.A. operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position[3] as at 31 December 2012;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Statutes.

6. Without further qualifying our opinion, we draw attention to the fact that as described in note 2.2 to the attached standalone financial statements, on 4 January 2013 the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. took place and the operations of Kredyt Bank S.A. will be continued within the merged Bank. The Bank's Management Board prepared the attached financial statements on a going concern basis as operations of Kredyt Bank S.A. will be continued in the merged Bank.

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

7. We have read the Directors' Report on the operations of Kredyt Bank S.A. for the year ended 31 December 2012 ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 para 2 of the Accounting Act.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Registration No 130

Key Certified Auditor	Partner
Jolanta Alvarado Rodriguez Certified auditor No 11299	Dominik Januszewski Certified auditor No 9707

Warsaw, 7 March 2013

Kredyt Bank

Consolidated Financial Statements of Kredyt Bank S.A. Capital Group for the Year Ended 31.12.2012

On 04.01.2013 Kredyt Bank S.A. was merged with Bank Zachodni WBK S.A.

CONTENTS

I. Consolidated Income Statement

in PLN '000'	Note	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011 comparable data
Interest income	7	2 299 386	2 386 873
Interest expense	8	-1 539 720	-1 236 777
Net interest income		**759 666**	**1 150 096**
Fee and commission income	9	419 906	403 791
Fee and commission expense	10	-78 511	-88 871
Net fee and commission income		**341 395**	**314 920**
Dividend income	11	1 791	1 699
Net trading income	12	305 340	80 136
Net result on derivatives used as hedging instruments and hedged items	13	-4 115	-1 714
Net gains from investment activities	14	77 471	1 162
Other operating income	16	93 590	133 188
Total operating income		**1 575 138**	**1 679 487**
General and administrative expenses	17	-959 400	-990 363
Other operating expenses	18	-38 439	-63 172
Total operating expenses		**-997 839**	**-1 053 535**
Net impairment losses on financial assets, other assets and provisions	19	-736 395	-198 784
Net operating income		**-159 096**	**427 168**
Share in profit (loss) of associates		1 019	3 973
Profit (loss) before tax		**-158 077**	**431 141**
Income tax expense (credit)	20	1 624	-103 897
Net profit (loss)		**-156 453**	**327 244**
including:			
Attributable to the Shareholders of the Bank	**21**	**-156 453**	**327 244**
Attributable to non-controlling interests		0	0
Weighted average number of ordinary shares		271 658 880	271 658 880
Earnings (losses) per ordinary share (in PLN)	**22**	**-0.58**	**1.20**

The Bank does not calculate diluted earnings per share due to the absence of capital categories resulting in dilution.

II. Consolidated Statement of Comprehensive Income

in PLN '000'	**01.01.2012 - 31.12.2012**	**01.01.2011 - 31.12.2011**
Net profit (loss) for the period	**-156 453**	**327 244**
Other comprehensive income		
Valuation of financial assets available-for-sale	155 106	2 087
- including deferred tax	-36 382	-489
Effects of valuation of derivatives designated for cash flow hedge	-12 900	8 584
- including deferred tax	3 026	-2 014
Other comprehensive income (loss) recognized directly in equity	**142 206**	**10 671**
Total comprehensive income (loss)	**-14 247**	**337 915**
including:		
Attributable to the Shareholders of the Bank	**-14 247**	**337 915**
Attributable to non-controlling interests	0	0

Consolidated Statement of Comprehensive Income should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

III. Consolidated Balance Sheet

in PLN '000'	Note	31.12.2012	31.12.2011
Assets			
Cash and balances with Central Bank	23	963 375	784 668
Gross loans and advances to banks	24	1 179 730	1 188 012
Impairment losses on loans and advances to banks	25	0	0
Receivables arising from repurchase transactions	26	117 700	0
Financial assets designated upon initial recognition as at fair value through profit or loss	27	60 413	100 684
Financial assets held for trading (excluding derivatives)	28	325 080	60 493
Derivatives, including:	29	1 155 201	1 071 089
- derivatives used as hedging instruments	30	118 610	95 592
Gross loans and advances to customers	31	29 834 384	30 493 915
Impairment losses on loans and advances to customers	31, 32	-1 605 068	-1 408 161
Investment securities:	34	7 976 365	8 678 712
- available-for-sale		5 427 775	5 262 038
- held-to-maturity		2 548 590	3 416 674
Investments in associates valued using the equity method	35	0	19 152
Property, plant and equipment	36	223 338	259 797
Intangible assets	37	94 816	59 711
Deferred tax assets	20	329 578	263 257
Current tax receivable		0	116 870
Investment properties	38	16 137	209 065
Non-current assets held for sale	39	5 709	12 128
Other assets	40	84 477	93 692
Total assets		**40 761 235**	**42 003 084**

Consolidated Balance Sheet (cont.)

in PLN '000'	Note	31.12.2012	31.12.2011
Liabilities			
Amounts due to Central Bank	41	0	32
Amounts due to banks	42	4 283 078	8 486 491
Liabilities arising from repurchase transactions	43	94 937	0
Financial liabilities held for trading (excluding derivatives)		115 424	0
Derivatives, including:	29	1 227 462	982 916
- derivatives used as hedging instruments	30	62 366	1 669
Amounts due to customers	44	30 392 630	28 043 157
Current tax liability		7 238	182
Provisions	45	358 764	116 402
Deferred tax liability	20	1 380	725
Other liabilities	46	257 411	271 044
Subordinated liabilities	47	971 533	1 036 510
Total liabilities		**37 709 857**	**38 937 459**

in PLN '000'	Note	31.12.2012	31.12.2011
Equity			
Share capital	48	1 358 294	1 358 294
Supplementary capital	48	1 130 174	900 065
Revaluation reserve	48	212 298	70 092
Other reserves	48	481 151	400 942
Retained earnings (loss)		25 914	8 988
Current net profit (loss) attributable to the Shareholders of the Bank	21	-156 453	327 244
Equity attributable to the Shareholders of the Bank		**3 051 378**	**3 065 625**
Attributable to non-controlling interests		0	0
Total equity		**3 051 378**	**3 065 625**
Total equity and liabilities		**40 761 235**	**42 003 084**
Capital adequacy ratio (%)	**50**	**12.66**	**12.50**

Consolidated Balance Sheet should be analyzed jointly with Notes, which form an integral part of these consolidated financial statements

IV. Statement of Changes in Consolidated Equity

Changes in the period 01.01.2012-31.12.2012

in PLN '000'	Note	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Equity attributable to the Share-holders of the Bank	Equity attributable to non-controlling interests	Total equity
Equity at opening balance – as of 01.01.2012		**1 358 294**	**900 065**	**70 092**	**400 942**	**336 232**	**0**	**3 065 625**	**0**	**3 065 625**
Valuation of financial assets available-for-sale	48			191 488				191 488		191 488
Effects of valuation of derivatives designated for cash flow hedge	48			-15 926				-15 926		-15 926
Deferred tax on items recognized in other comprehensive income	48			-33 356				-33 356		-33 356
Other comprehensive income (loss) recognized directly in equity				**142 206**				**142 206**		**142 206**
Net profit (loss) for the period							-156 453	-156 453		-156 453
Total comprehensive income (loss)				**142 206**			**-156 453**	**-14 247**		**-14 247**
Profit distribution	48		230 109		80 209	-310 318		0		0
Equity at the end of period – as of 31.12.2012		**1 358 294**	**1 130 174**	**212 298**	**481 151**	**25 914**	**-156 453**	**3 051 378**	**0**	**3 051 378**

Changes in the period 01.01.2011-31.12.2011

in PLN '000'	Note	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings (losses)	Net profit (loss) for the period	Equity attributable to the Share-holders of the Bank	Equity attributable to non-controlling interests	Total equity
Equity at opening balance – as of 01.01.2011		**1 358 294**	**889 340**	**59 421**	**400 942**	**120 227**	**0**	**2 828 224**	**0**	**2 828 224**
Valuation of financial assets available-for-sale	48			2 576				2 576		2 576
Effects of valuation of derivatives designated for cash flow hedge	48			10 598				10 598		10 598
Deferred tax on items recognized in other comprehensive income	48			-2 503				-2 503		-2 503
Other comprehensive income (loss) recognized directly in equity				**10 671**				**10 671**		**10 671**
Net profit (loss) for the period							327 244	327 244		327 244
Total comprehensive income (loss)				**10 671**			**327 244**	**337 915**		**337 915**
Profit distribution	48		10 725			-10 725		0		0
Dividend payment						-100 514		-100 514		-100 514
Equity at the end of period – as of 31.12.2011		**1 358 294**	**900 065**	**70 092**	**400 942**	**8 988**	**327 244**	**3 065 625**	**0**	**3 065 625**

V. Consolidated Cash Flow Statement

in PLN '000'	Note	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Cash flow from operating activities			
Net profit (loss)		**-156 453**	**327 244**
Adjustments to net profit (loss) and net cash from operating activities, and net increase/decrease in assets and liabilities		**682 842**	**-609 201**
Current and deferred tax recognized in financial result	20	-1 624	103 897
Non-realized profit (loss) from currency translation differences	51b	-26 882	82 443
Depreciation	17	70 833	89 760
Share in profit (loss) of associates		-1 019	-3 973
Net increase/decrease in impairment	51c	196 045	-505 190
Dividends	11	-1 791	-1 699
Interest	51d	-301 821	-189 321
Net increase/decrease in provisions		242 362	23 591
Profit (loss) on disposal of investments	51e	-83 995	-4 636
Net increase/decrease in assets (excluding cash)		**456 882**	**-470 531**
Net increase/decrease in gross loans and advances to banks	51f	45 233	-22 731
Net increase/decrease in receivables arising from repurchase transactions		-117 700	87 218
Net increase/decrease in financial assets designated upon initial recognition as at fair value through profit or loss		40 271	17 878
Net increase/decrease in financial assets held for trading (excluding derivatives)	51h	-279 280	1 546 245
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		-61 094	-586 678
Net increase/decrease in gross loans and advances to customers	51g	823 032	-1 385 395
Net increase/decrease in current tax receivables/liabilities other than paid/received income tax	51m	0	-116 870
Net increase/decrease in other assets	51i	6 420	-10 198
Net increase/decrease in liabilities		**133 852**	**266 458**
Net increase/decrease in amounts due to Central Bank		-32	26
Net increase/decrease in amounts due to banks	51j	-2 317 482	-934 333
Net increase/decrease in liabilities arising from repurchase transactions		94 937	-228 693
Net increase/decrease in derivatives (except for derivatives used as hedging instruments)		183 849	-148 557
Net increase/decrease in financial liabilities held for trading (excluding derivatives)		115 424	0
Net increase/decrease in amounts due to customers	51k	1 953 574	1 700 327
Net increase/decrease in other liabilities	51l	78 327	52 108
Paid/received income tax	51m	25 255	-174 420
Net cash flow from operating activities		**526 389**	**-281 957**

in PLN '000'	Note	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Cash flow from investing activities			
Inflows		**88 454 628**	**92 530 230**
Disposal of property, plant and equipment, intangible assets and investment properties		4 024	2 399
Disposal of interests in equity investments		37 536	0
Disposal of investment securities	51n	88 055 300	92 283 935
Dividends	11	1 791	1 699
Interest received	51n	355 977	242 197
Outflows		**-87 110 461**	**-91 402 859**
Acquisition of property, plant and equipment, intangible assets and investment properties		-90 380	-58 377
Acquisition of investment securities	51n	-87 020 081	-91 344 482
Net cash flow from investing activities		**1 344 167**	**1 127 371**
Cash flow from financing activities			
Inflows		**1 312 661**	**735 080**
Proceeds from loans and advances		1 312 661	735 080
Outflows		**-2 967 559**	**-3 040 430**
Dividend payment	60	0	-100 514
Repayment of loans and advances		-2 826 919	-2 833 472
Other financial outflows	51o	-140 640	-106 444
Net cash flow from financing activities		**-1 654 898**	**-2 305 350**

Net increase/decrease in cash		**215 658**	**-1 459 936**
Cash at the beginning of the period		**941 507**	**2 401 443**
Cash at the end of the period, including:**	**51a**	**1 157 165**	**941 507**
Restricted cash*		1 154 616	1 059 021

** an amount from the declaration on the amount of the Bank's statutory provision, i.e. the minimum average balance of cash in the current account in the National Bank of Poland*
*** details presented in Note 51*

VI. Additional information to the consolidated financial statements

1. General information on Kredyt Bank S.A.

Kredyt Bank Spółka Akcyjna (‘Kredyt Bank S.A.’, ‘Bank’, ‘parent company’) with its registered office in Warsaw (Poland), ul. Kasprzaka 2/8, was established in 1990 and entered in the register of entrepreneurs maintained by the District Court for the Capital City of Warsaw under No. KRS 0000019597.

On the date of making the entry to the National Court Register concerning the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. (‘BZ WBK S.A.’), i.e. 04.01.2013, Kredyt Bank S.A. ceased to be an autonomous business entity and was deleted from the National Court Register.

Kredyt Bank S.A. was a universal bank which provided banking services addressed and tailored to the needs of all customer groups. A wide range of the Bank’s services was addressed to individual customers, business entities and local authorities. The Bank provided convenient access to its services via an extended network of banking outlets and ATMs as well as an Internet banking system.

Consolidated financial statements of Kredyt Bank S.A. Capital Group (‘Capital Group’, ‘Group’) for the year ended on 31.12.2012 comprise the financial statements of the Bank and its subsidiaries.

Below, there are subsidiaries, which, as at 31.12.2012, were consolidated with the full method.

Parent company	Seat		
Kredyt Bank S.A.	Warsaw		
Subsidiary	**Seat**	**Share (%) in votes at GMS as at 31.12.2012**	**Share (%) in votes at GMS as at 31.12.2011**
1. Kredyt Lease S.A.	Warsaw	100.00	100.00
2. Kredyt Trade Sp. z o.o. w likwidacji	Warsaw	100.00	100.00

Due to the declaration on 14.08.2012 by Reliz Sp. z o.o. of bankruptcy by liquidation of its assets and the take-over of the company’s management by the trustee in bankruptcy, pursuant to the definition stated in IAS 27, the Bank lost control of Reliz Sp. z o.o. As a result, as at 31.12.2012, the company was not consolidated.

As at 31.12.2011, Reliz Sp. z o.o. was consolidated with the full method.

On 21.06.2012, Kredyt Trade Sp. z o.o. signed the final agreement on the sale of its 30% stake in KBC TFI S.A. to KBC Asset Management NV and completed the transaction.

In the Group’s consolidated financial statements for 2011, KBC Towarzystwo Funduszy Inwestycyjnych S.A. was consolidated as an associate measured with the equity method.

As at 31.12.2012, the Group also held 100% of shares in BFI Serwis Sp. z o.o. and Lizar Sp. z o.o., which were not consolidated as the range of their operating activities as well as their financial figures were not material.

KBC Banking and Insurance Capital Group

As at 31.12.2012, Kredyt Bank S.A. was a subsidiary of KBC Banking and Insurance Capital Group (‘KBC Group’) established in 1998 as a result of a merger of ABB Insurance Group, Almanij-Kreditbank Group and CERA Bank Group. As at 31.12.2012, KBC Group held 80.0% of shares of Kredyt Bank S.A. KBC Group has been operating in the present structure since 2005, i.e. the merger of KBC Bank and

Insurance Holding Company with Almanij. The shares of KBC Group NV are listed on the Euronext Stock Exchange in Brussels.

KBC Group focuses on bancassurance-type operations for individual customers, provides services to businesses, is involved in assets management and other types of market activities. It is one of the three largest banking and insurance companies on its home market in Belgium.

In Poland, KBC Group is a sole shareholder of KBC TFI S.A. and PTE Warta S.A.

On 27.02.2012, KBC Bank NV and Banco Santander S.A. signed an investment agreement in which the parties expressed their intention to merge Kredyt Bank S.A. and Bank Zachodni WBK S.A.. On the same day, Kredyt Bank S.A., BZ WBK S.A., KBC Bank NV and Banco Santander S.A. signed an agreement on starting work to merge Kredyt Bank S.A. and BZ WBK S.A.

On 04.12.2012, the Komisja Nadzoru Finansowego (Polish Financial Supervision Authority, 'KNF') issued a decision pursuant to Article 124 clause 1 of the Banking Law granting consent to the Bank's merger with Bank Zachodni WBK S.A.

On 04.01.2013, an entry was made in the National Court Register concerning the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

Further information concerning the said issue is presented in Note 61.

2. Basis of preparation of consolidated financial statements

2.1. Declaration of compliance with the IFRS

Pursuant to Article 55 clause 5 of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, No. 152, item 1223, as amended) ('the Act'), starting from 01.01.2005, the consolidated financial statements of the Group have been prepared in compliance with the International Accounting Standards ('IAS') and the International Financial Reporting Standards ('IFRS') that were approved by the European Union ('EU').

Pursuant to Article 45 clause 1c of the Act and under the decision of the General Meeting of Shareholders of Kredyt Bank S.A. of 25.04.2005, from 01.01.2005, also the standalone financial statements of the Bank have been prepared in accordance with the IAS/IFRS.

Consolidated financial statements of the Group for the year ended on 31.12.2012 have been prepared in accordance with the IAS and the IFRS in force as at 31.12.2012 approved by the EU. Matters not governed by the above-mentioned standards are regulated by the Act and executive regulations thereto.

The IFRS include standards and interpretations approved by the International Accounting Standards Board ('IASB') and the International Financial Reporting Interpretations Committee ('IFRIC').

2.2. Other information about the financial statements

The consolidated financial statements have been prepared based on the assumption that the Group would remain a going concern in the foreseeable future of at least 12 months from the balance sheet date. Due to the merger of Kredyt Bank S.A. and BZ WBK S.A., the Group's operations will be continued as part of the business of BZ WBK S.A. Group. As at the approval date of the consolidated financial statements, the existence of circumstances which could threaten the continuation of the business of the Group is not confirmed.

On 20.12.2012, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (the 'Warsaw Stock Exchange', 'WSE') adopted Resolution No. 1326/2012 concerning the suspension of the trade in the shares of Kredyt Bank S.A. on the Main Market of the WSE due to the upcoming date of its merger with Bank Zachodni WBK S.A.

As at 31.12.2012, the liquidation procedure concerning a subsidiary Kredyt Trade Sp. z o.o. did not have any significant impact upon the continuation of the Group's business within the present scope.

Furthermore, as at 31.12.2012, the Bank was in the process of the merger with Bank Zachodni WBK S.A., and on 04.01.2013, an entry was made in the National Court Register concerning the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

In the second half of 2012 Polish Financial Supervision Authority carried out the comprehensive inspection based on the data as at 30.06.2012. Issues identified during the inspection did not have material impact on the net result reported in the Interim Consolidated Financial Statement for the First Half of 2012 ended on 30.06.2012. These consolidated financial statements of Kredyt Bank S.A. Capital Group were approved for publication by the Management Board of Bank Zachodni WBK S.A. on 07.03.2013.

These consolidated financial statements were audited by Ernst & Young Audit sp. z o.o., the key certified auditor acting on behalf of the authorized entity. The audit was performed in accordance with the Polish law and the national auditing standards issued by the National Council of Statutory Auditors

The Polish zloty was the functional currency of the Group's companies. These consolidated financial statements have been presented in the Polish zloty ('PLN'), and all values, if not stated otherwise, are presented in thousands.

Consolidated Financial Statements have been prepared on the basis of historical costs except for the financial assets and liabilities at fair value through profit or loss, receivables from customers and financial assets measured at amortized cost taking into account impairment losses, deposits measured at amortized cost, financial instruments available for sale and measured at fair value through revaluation reserve and non-current assets classified as held for sale measured at the lower of its carrying amount as at the date of its classification to this category or at fair value less costs to sell.

Accounting principles adopted to prepare financial statements were applied in a continuous manner in all presented periods.

3. Description of major accounting policies applied for the purpose of preparing consolidated financial statements

3.1. New or amended IAS and IFRS and new IFRIC interpretations

Below, we present new or amended IAS's and IFRS's and new IFRIC interpretations that the Group applied in this period. Their application has not materially affected the consolidated financial statements:

- Amendments to IFRS 7 *Financial Instruments: Disclosures: Transfer of Financial Assets* – applicable to annual periods beginning on 1 July 2011 or later;

The following standards and interpretations have been issued by the IASB or the IFRIC, however are not in force yet:

- Phase 1 of IFRS 9 *Financial Instruments* – applicable to annual periods beginning on 1 January 2015 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments to IAS 19 *Employee benefits* – applicable to annual periods beginning on 1 January 2013 or later;
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* – applicable to annual periods beginning on 1 July 2012 or later;
- Amendments to IFRS 1 *First-time Adoption of the International Financial Reporting Standards − Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* − applicable starting from annual periods beginning on 1 January 2013 or later;
- Amendments to IAS 12 *Income Taxes* - *Deferred Tax: Recovery of Underlying Assets* – applicable starting from annual periods beginning on 1 January 2013 or later;

- IFRS 10 *Consolidated Financial Statements* – applicable starting from annual periods beginning on 1 January 2014 or later;
- IFRS 11 *Joint Arrangements* – applicable starting from annual periods beginning on 1 January 2014 or later;
- IFRS 12 *Disclosure of Interests in Other Entities* − applicable starting from annual periods beginning on 1 January 2014 or later;
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- IFRS 13 *Fair Value Measurement* – applicable to annual periods beginning on 1 January 2013 or later;
- IAS 27 *Separate Financial Statements* – applicable starting from annual periods beginning on 1 January 2014 or later;
- IAS 28 *Investments in Associates and Joint Ventures* − applicable starting from annual periods beginning on 1 January 2014 or later;
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* − applicable to annual periods beginning on 1 January 2013 or later;
- Amendments to IFRS 7 *Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on 1 January 2013 or later;
- Amendments to IAS 32 *Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities* – applicable to annual periods beginning on 1 January 2014 or later;
- Amendments to IFRS 1 *First-time Adoption of the International Financial Reporting Standards: Government Loans* – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments resulting from the IFRS review (published in May 2012) – applicable to annual periods beginning on 1 January 2013 or later; by the date of the approval of these consolidated financial statements, not approved by the EU;
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (published in October 2012) – applicable to annual periods beginning on 1 January 2014; by the date of the approval of these consolidated financial statements, not approved by the EU.

The Group does not predict that the introduction of the above standards and interpretations will materially affect the Group's accounting principles (policy), except for the changes which will result from the implementation of IFRS 9. With reference to the planned amendments to the published part of IFRS 9 (related to the so-called Phase 1) and the drafts of IFRS 9 (concerning the so-called Phase 2 and Phase 3), the Bank withheld the works on the estimation of the impact of IFRS 9 upon the consolidated financial statements.

3.2. Consolidation of financial statements

Consolidated financial statements include the financial statements of Kredyt Bank S.A. and the financial statements of subsidiaries for the period of 12 months ended on 31.12.2012. Financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent company.

A part of the Group's companies keep their accounting books according to the accounting policy (principles) set out in the Act and executive regulations thereto ('Polish Accounting Standards'). Consolidated financial statements include respective adjustments made to make financial figures of these companies more consistent with the principles applied in the parent company. Balances and transactions between intragroup companies, unrealized profits or losses resulting from intragroup transactions have been eliminated.

3.2.1. Subsidiaries

Subsidiaries are all entities, in relation to which the Bank may, directly or indirectly, exert control and govern their financial and operating policies in order to gain benefits from their businesses.

3.3. Associates

Associates are entities not controlled by the Group in terms of their financial or operational policies, but the Group exerts a significant influence upon them, which is often accompanied by 20%-50% stake in the total number of votes within their decision-making bodies. Investments in shares in associates are initially recognized in the balance sheet at cost and further on, they are measured with the equity method.

3.4. Transactions in foreign currencies

Transactions in foreign currencies are translated into PLN at the exchange rate as at the transaction date. Monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at the average exchange rate of the National Bank of Poland as of the balance sheet date. Gains/losses from the translation of the resulting currency translation differences are recognized in the income statement.

Non-monetary assets and liabilities expressed in foreign currencies, recognized at historical cost, are translated into PLN at an exchange rate as at the transaction date, and items carried at fair value are translated at the average exchange rate of the National Bank of Poland (NBP) as of the measurement date. Currency translation differences on non-monetary items measured at fair value through profit or loss are recognized in net trading income.

Below, we present NBP’s average rates of exchange applied by the Group to translate balance sheet items at the ends of particular periods.

	31.12.2012	31.12.2011
EUR	4.0882	4.4168
USD	3.0996	3.4174
CHF	3.3868	3.6333

3.5. Recognition of financial assets and liabilities in the balance sheet

The Group recognizes financial assets and liabilities in the balance sheet only when it is a party to a transaction.

Sale/purchase transactions related to financial assets valued at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognized in the balance sheet always on the date of the transaction settlement. Loans and receivables are recognized at the time of the payment of cash to the borrower.

3.6. Derecognition of financial assets from the balance sheet

The Group derecognizes financial assets from the balance sheet when and only when contractual rights to cash flows from such assets expire or when the Group transfers a financial asset pursuant to paragraphs 18 and 19 of IAS 39, and the transfer meets the requirements for the derecognition from the balance sheet provided for in paragraph 20 of IAS 39. Particularly, the Group writes off loan receivables from the balance sheet to impairment losses when such receivables are uncollectible receivables, particularly when:

- the costs of further debt recovery will exceed the expected proceeds from debt recovery;

- the ineffectiveness of the Group’s debt recovery process is confirmed with a respective document issued by a respective enforcement body;
- the debtor’s assets that can be subjected to enforcement, and the debtor’s whereabouts cannot be established;
- claims are lapsed.

Following the decision on derecognition of an asset, the Group fails to undertake any further debt recovery action, and any possible proceeds from a given asset are only of incidental nature.

3.7. Classification and measurement of financial assets and liabilities

3.7.1. Financial assets and liabilities at fair value through profit or loss

This category includes:

- assets or liabilities held for trading, i.e. those acquired or contracted with the intention to sell or repurchase them in the nearest future. This category comprises portfolios of the financial assets and liabilities portfolios managed jointly in order to generate profits in a short time horizon. This category also includes derivatives;
- financial assets or liabilities designated by the Group's entities upon initial recognition as measured at fair value through profit or loss as the items are managed on the basis of the valuation at fair value, pursuant to the recorded risk management principles or investment strategy of the Group.

Interest and acquired discount or premium on debt securities is settled over time in net interest income based on the effective interest rate method. Securities are carried at fair value, and its change is recognized in the profit/loss on financial operations.

Net gains from assets disposal are calculated with the FIFO method.

Derivatives are recognized at fair value, without deductions of transaction expenses that can be incurred at the disposal. The valuation of derivatives also entails credit risk; the respective charges are recognized in the income statement.

Derivatives with positive valuation as at the date of measurement are recognized in the balance sheet as assets, and derivatives with negative valuation from measurement – in liabilities.

3.7.2. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments, or fixed maturity that the Group’s entities intend and are able to hold to maturity or by the date very close to maturity, different from:

a) designated by an entity upon initial recognition as at fair value through profit or loss;
b) designated by an entity as available-for-sale; and
c) meeting the definition of loans and receivables.

Held-to-maturity investments are measured at amortized cost using the effective interest rate method, taking account of impairment losses. Accrued interest and settled discount or premium is recognized in net interest income.

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

b) financial assets that the company upon initial recognition designates as available-for-sale, or
c) financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

Loans and receivables are measured in the balance sheet at amortized cost based on the effective interest rate method, taking account of impairment losses.

Accrued interest with net commission (commissions received less commissions paid) are settled over time using the effective interest rate method and are recognized in interest income. Impairment losses are recognized in the income statement in correspondence with accounts of provisions which adjust assets value.

In the case of the customers for whom the possibilities of servicing loans within the time limits specified in agreements deteriorated, and whose conditions of the debt service are renegotiated, as a principle, the Bank, having regard for the new conditions, re-estimates the discounted cash flows. If the present value of estimated future cash flows discounted using the effective interest rate method is not significantly lower than before the renegotiation, a given loan will remain in the portfolio of exposures with no evidence for impairment. Otherwise, a loan is classified in the portfolio of loans with evidence for impairment.

3.7.4. Financial assets available for sale

Financial assets available for sale are non-derivative financial assets designated as available for sale or not classified as financial assets valued at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value on the balance sheet. Changes in fair value are recognized in revaluation reserve until the financial asset is derecognized or impairment is recognized; then accumulated gains/losses included in equity are recognized in the income statement. In the case of debt securities, interest income and discount or premium is settled over time in net interest income using the effective interest rate method.

Dividends from available-for-sale equity instruments are recognized in the income statement at the time when the right to obtain them arises.

Net gains from assets disposal are calculated with the FIFO method.

If fair value of equity instruments cannot be determined, then assets are recognized at cost less impairment loss.

A significant or prolonged decrease in the fair value of an investment in the equity instrument in the portfolio of available-for-sale financial assets below cost constitutes objective evidence for impairment. Impairment losses are recognized in the income statement in correspondence with accounts of provisions which adjust assets value and in case of equity instruments are not subject to reversal.

3.7.5. Financial liabilities other than measured at fair value through profit or loss

This category includes amounts due to banks and customers, loans borrowed by the Group, own debt securities issued, liabilities arising from repurchase transactions and subordinated liabilities, following the deduction of transaction expenses.

Financial liabilities other than measured at fair value through profit or loss are recognized in the balance sheet at amortized cost with the application of the effective interest rate method.

3.7.6. Hedge accounting

Hedge accounting recognizes the effects of compensating for changes in fair value of the hedging instrument and the hedged item, which exert an impact on the income statement. According to adopted hedge accounting principles, the Group designates certain derivatives to hedge fair value and future cash flows of specific assets, on condition that the criteria provided for in IAS 39 are met. Hedge accounting is applied in the Group to hedge certain items, when all the following criteria are met:

- upon the inception of hedge, the Group officially determines and documents hedging relations as well as the purpose of risk management and the strategy of hedge. The documentation identifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the method of the Group's assessment of hedging instrument effectiveness in offsetting the risk of changes in fair value of the hedged item or cash flows related to the hedged risk;
- the hedging is expected to be highly effective in achieving offsetting changes in fair value (or cash flows) attributable to the hedged risk, according to the initially documented risk management strategy related to a specific hedging relationship;
- in the case of the cash flow hedge, the planned hedged transaction must be highly probable and must be subject to the threat of changes in the cash flow which, as a result, may affect the income statement;
- the hedge effectiveness may be assessed reliably, i.e. fair value or cash flows attributable to the hedged item resulting from the hedged risk and the fair value of the hedging instrument may be measured reliably;
- the hedge is assessed on an ongoing basis and is found highly effective in all reporting periods in which the hedge was established.

Fair value hedge, which meets hedge accounting conditions, is recognized by the Group as follows:

- gains or losses resulting from the revaluation of fair value of a hedging derivative are recognized in the income statement;
- gains or losses related to the hedged item, resulting from the hedged risk, adjust the carrying amount of the hedged item and are recognized in the income statement.

Future cash flows hedge, which meets hedge accounting conditions, is recognized by the Group as follows:

- a portion of gains or losses associated with the hedging instrument, which constitutes an effective hedge, is recognized directly in equity;
- a non-effective portion of gains or losses associated with the hedging instrument is recognized in the income statement.

Interest income and expenses on derivatives used as hedging instruments is recognized in the income statement in interest income/expense lines respectively.

3.7.7. Embedded derivatives

An embedded derivative is a component of a combined (hybrid) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to the stand-alone derivative.

An embedded derivative is separated from the host contract and accounted for as a derivative only if:

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

When an embedded derivative is separated, the host contract is accounted for in accordance with accounting principles appropriate for such a contract.

3.8. Finance lease receivables

Lease contracts under which the Group generally transfers all the risks and rewards related to the possessed assets are recognized by the Group as finance lease contracts. Receivables due under finance lease contracts are presented by the Group in the balance sheet in the amount equal to net leasing investment, as loans and advances to customers.

Interest income under finance lease contracts is settled with the effective interest rate method in order to reflect the constant, in a given period, rate of return on net leasing investment.

3.9. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet, when the Group has a legally enforceable right to offset the recognized amounts and intends to settle it on a net basis, or realize the asset and settle the liability simultaneously.

3.10. Sale and repurchase agreements

Securities sold under repurchase agreements ('repos' and 'sell buy back') are not excluded from the balance sheet. Payments due to the counterparty are recognized as financial liabilities as 'Liabilities arising from repurchase transactions'. Securities purchased under repurchase agreements ('reverse repos' and 'buy sell back') are reported in 'Receivables arising from repurchase transactions'. The difference between the sale and repurchase prices is treated as interest and accrued over the life of the agreements using the effective interest method.

3.11. Property, plant and equipment

Property, plant and equipment are the fixed assets that are complete, prepared for direct use, with a foreseeable useful life of over one year, held by the Group and used by it. They are recognized in the balance sheet at cost less depreciation and impairment losses.

Property, plant and equipment also include construction in progress and property, plant and equipment put into use under a contract of operating lease as well as property, plant and equipment obtained for use under a contract of finance lease.

Property, plant and equipment not used by the Group, but classified as held for sale, are recognized in the balance sheet at the lower of: carrying amount as at the classification in this category and fair value less selling costs and classified as 'Non-current assets held for sale'.

Fixed assets at the time of their acquisition are divided into components which are items of material significance (components) and which can be assigned a separate period of useful life.

3.11.1. Capital expenditure incurred in a future period

The Group recognizes, in the carrying amount of property, plant and equipment, expenses of the increase in value or of the replacement of parts of property, plant and equipment at the time of their incurrence, when it is probable that the Group will generate greater future economic benefits associated with this asset and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

3.11.2. Depreciation

Items of property, plant and equipment are depreciated with the straight-line method in line with the depreciation schedule. The period of economic useful life is taken into consideration while determining the depreciation period and the annual depreciation rate. Land is not depreciated. Items of property, plant and equipment that are used together, but which have various useful lives, are depreciated separately.

Estimated periods of expected economic useful life of property, plant and equipment:

Buildings	40 years
Leasehold improvements	for the term of the contract or 10 years
Motor vehicles	6 years
Plant and machinery	3 – 10 years
Other property, plant and equipment	5 years

The assets' residual values and useful lives are reviewed on, at least, an annual basis. Moreover, the Group carries out an annual analysis of the evidence indicating impairment for particular classes of property, plant and equipment.

3.12. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are assets, which comply with the following criteria:

- they can be separated from a business unit and sold, transferred, licensed or given for gratuitous use to third parties, both individually and jointly with related agreements, assets or liabilities; or
- they arise from contracts or other titles, irrespective of whether they can be transferred or separated from a business unit.

Intangible assets, held by the Group and used by it, are recognized in the balance sheet at cost less accumulated amortization and impairment losses.

The Group's costs incurred to internally generated intangible assets for own use from which, according to expectations, the entity will generate future economic benefits and which meet other recognition criteria specified in IAS 38, are also recognized as intangible assets in the balance sheet. Direct costs of the production of intangible assets activated in this way are amortized in the estimated useful life not exceeding 5 years.

The Group's companies recognize, in the carrying amount of intangible assets, expenses of the increase in value or replacement of the parts of such assets at the time of their incurrence, when it is probable that such companies will generate greater future economic benefits associated with this asset and the cost of improvement or replacement may be measured reliably. All other expenses are charged to the income statement during the financial period in which they are incurred.

3.12.1. Computer software

Acquired computer software licenses are recognized as intangible assets at costs incurred to acquire and bring to use the specific software.

The Group's expenditures on maintenance and technical service of computer software are recognized as expense as incurred.

3.12.2. Other intangible assets

Other intangible assets are recognized by the Group in the balance sheet at cost less accumulated amortization and any impairment losses.

3.12.3. Amortization

Intangible assets are amortized with the straight-line method according to the amortization schedule. The economic useful life is taken into consideration while determining the amortization period and the annual amortization rate. Estimated periods of the expected useful life for intangible assets are generally equal to 5 years, but may be adjusted when the Group estimates that a given asset will be used for a different period of time.

Amortization rates resulting from the tax regulations in force are applied for the purpose of tax settlements.

The Group does not have any intangible assets with an indefinite useful life.

3.13. Investment properties

Under IAS 40, the Group recognizes investment properties at cost.

3.14. The methods of the measurement of impairment of assets other than financial assets

Carrying amounts of particular assets are periodically tested for impairment. If the Group identifies evidence for impairment, further it determines whether the present book value of a given asset is higher than the value that can be obtained from its further use or sale, i.e. the recoverable amount of a given asset is established. If the recoverable amount is lower than the present carrying amount of a given asset, impairment loss is accounted for in the income statement.

3.14.1. Measurement of recoverable amount

A recoverable amount of an asset is determined as the higher of the following: a price that can be obtained from the sale less costs of sale and value in use of a given asset. Value in use is determined as

estimated future cash flows generated by a given asset discounted with the market rate and increased with the margin for the risk specific for a given class of assets.

Cash-generating units (CGU), i.e. groups of financial assets and liabilities directly attributable to goodwill and generating cash inflows independent of other groups, are separated for the purpose of goodwill impairment tests. If negative trends in the generated flows are identified, the impairment of the whole group of assets and liabilities is measured and recognized in attributed goodwill.

The analysis of circumstances and any possible impairment tests for property, plant and equipment and intangible assets are performed at least once a year. The impairment test for goodwill is performed annually, regardless of whether the evidence for impairment was present or not.

3.14.2. Reversal of impairment

In the case of assets held by the Group's companies, except for equity instruments classified as available for sale, impairment losses may be reversed if evidence for impairment ceases to exist or the parameters taken into account in estimates of recoverable amount are changed.

Impairment loss may be reversed only up to the carrying amount of an asset, which, having regard for accumulated depreciation, would have been determined if the impairment charge had not been made.

3.15. Trade and other receivables

Trade and other receivables are reported in the amount due less impairment.

In the case when the impact of time value of money (TVM) is material, the value of receivables is determined by discounting forecasted future cash flows to present value, applying a discount rate corresponding to present market valuations of time value of money. In the case the discounting method was applied, the increase in receivables due to the elapse of time is recognized as other operating income.

3.16. Assets taken over for debts

Assets taken over for debts are measured at their fair value, including the cost of sale. If fair value of assets taken over is lower than the nominal value of receivables, an impairment charge is recognized. If the selling price of the assets is higher than debt, the difference constitutes a liability towards the borrower.

3.17. Non-current assets held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Pursuant to IFRS 5, assets held for sale are measured at the lower of: present carrying amount or fair value less costs to sell. Non-current assets, when they are classified as held for sale, are not depreciated.

3.18. Deferred tax asset and liability

Deferred tax asset is recognized for all deductible temporary differences as well as for carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is subject to a respective decrease by the amount, which corresponds to the lower degree of the probability of generating taxable income or partial or total utilization of a deferred tax asset.

Deferred tax liability is recognized for all taxable temporary differences. Deferred tax asset and deferred tax liability are measured at tax rates that are expected to apply to the period when an asset is realized or a liability settled, based on tax rates (and tax laws) in force as at the balance sheet date or certain to be in force in the future as at the balance sheet date. Deferred tax liability is not discounted.

Deferred tax related to items recognized directly in equity is also charged or credited directly in equity at the present tax rate.

The Group's companies offset deferred tax asset against deferred tax liability.

3.19. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include short-term balances used to settle short-term monetary liabilities, with less than three months maturity from the date of acquisition, including cash and balances with Central Bank and other qualifying short-term receivables, including term deposits on the interbank market.

3.20. Provisions

The Group recognizes provisions in the balance sheet when:

- an entity has a present obligation (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The provision is recognized at the amount of the estimated outflow of cash. The amount of the provision is determined as the value of the discounted future cash flow for the period after which the provision will be utilized.

3.20.1. Restructuring provision

Pursuant to IAS 37, the Group recognizes a restructuring provision in the balance sheet for evidenced costs of restructuring. The provision is made on the basis of a detailed, official and published restructuring plan. The provision does not include future operating expense.

3.20.2. Employee benefits

The Group does not offer a specific pension scheme for its employees, thus has no commitments to its employees in this respect. The Group's entities, as employers, fulfilling the obligations indicated in the law, are obliged to withhold and pay social security and health insurance contributions for its employees and contributions to the Labor Fund and the Guaranteed Employee Benefits Fund. These payments are a part of short-term employee benefits, including remuneration, bonuses. Short-term benefits are recognized in general expenses under general principles.

A provision for retirement severance pays, which is determined annually by actuarial calculations is the only component of long-term employee benefits.

3.21. Equity

Equity comprises capitals and own funds established pursuant to the specific legal regulations, i.e. applicable laws.

3.21.1. Share capital

Registered share capital is recognized at nominal value according to the Bank's Memorandum and Articles of Association and the entry in the Court Register.

3.21.2. Supplementary capital

Supplementary capital is established pursuant to the Bank's Memorandum and Articles of Association from profit allowances and from issue premiums generated from the issue of shares, and is allocated to cover balance sheet losses that may result in relation to the Bank's operations, and from profit allowances obtained after the purchase date in the Group's companies.

3.21.3. Revaluation reserve

Revaluation reserve is established as a result of the valuation of financial assets classified as 'available-for-sale' and of an effective portion of the valuation of financial instruments designated for cash flow hedge.

3.21.4. Other reserves

Other reserves comprise the general banking risk reserve established pursuant to the Banking Law of 29.08.1997 (Journal of Laws of 2002, No. 72, item 665, as amended, 'Banking Law') from profit after tax and are designated for unidentified risks of the Bank's operations.

Equity also comprises net profit/loss for the period and retained profit or loss from previous periods. In the case of subsidiaries, the Group's equity also comprises net profit/loss of such companies generated from the date of their acquisition by the parent company.

3.22. Granted off-balance sheet liabilities

Within its operations, the Group enters into transactions, which, at the time of their conclusion, are not recognized in the balance sheet as assets or liabilities, but result in contingent liabilities. A contingent liability is:

- a possible obligation that arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not totally controlled by the Group's entities;
- a present obligation resulting from past events, but not recognized in the balance sheet, as it is not probable that the outflow of cash or other assets in order to settle the obligation is necessary, or the obligation amount cannot be measured with sufficient reliability.

Granted credit lines and guarantees are the most significant items of granted off-balance sheet liabilities.

Customers' undrawn credit lines granted by the Group and liabilities under guarantees issued by the Group to customers are recognized in off-balance sheet liabilities in the amount resulting from contracts.

Provisions for estimated risk, related to the granted off-balance sheet liabilities, are reported in 'Provisions' in the Group's balance sheet. Credit risk arising from off-balance sheet liabilities is assessed on the basis of IAS 37 and IAS 39.

3.23. Company Social Benefit Fund

Company Social Benefit Fund ('CSBF') is created on the basis of write-downs made by the Bank and the Group's companies and charged to operating expenses as required by the CSBF Act of 04.03.1994 (Journal of Laws of 1994, No. 43, item 163, as amended; 'CSBF Act'). The objective of the Fund is to finance social benefits for employees. The Fund's liabilities are accumulated write-downs made by the Bank and the Group's companies for CSBF less non-returnable expenditure from CSBF. The Group has no social assets; all CSBF liabilities are expressed in cash deposited in a separate banking account.

For the purpose of the presentation in these financial statements, the Group set off assets and liabilities of CSBF, as they do not constitute the Group's assets nor liabilities.

3.24. Net interest income

Interest income and expense generated by financial assets and liabilities are recognized in the income statement at amortized cost using the effective interest rate method.

The following financial assets and liabilities are measured by the Group at amortized cost, by using the effective interest rate method:

- loans and receivables;
- held-to-maturity investments;
- financial liabilities other than measured at fair value through profit or loss;
- repurchase transactions.

In addition, in the case of debt securities carried at fair value through profit or loss and available-for-sale assets, the coupon rates and acquired discounts or premiums are charged to the income statement also at amortized cost.

The effective interest rate is the rate that discounts the expected flow of future net cash payments to present net carrying amount during the period until maturity or by the time of the next market evaluation of a particular financial asset and liability, and its determination entails any due or cash payments as well as cash flows paid or received by the Group under the agreement on a given instrument, excluding future possible credit losses.

The method of settling coupon rates, commissions/fees and certain external costs connected with the financial instruments (with the effective interest rate method or the straight-line method) depends on the nature of a given instrument. In the case of financial instruments with fixed cash flows schedules, the method of the effective interest rate is applied. In the case of instruments with undefined cash flows schedules, it is impossible to calculate the effective interest rate and commissions/fees are settled on the straight-line basis over time.

The method of recognizing particular types of commissions/fees in the income statement depends on the economic nature of a commission/fee.

The items included in the commissions/fees settled over time include, e.g. fees for a positive appraisal of a loan application, commissions for granting a credit, commissions for releasing a credit, fees for establishing additional collateral, fees paid to loans extension intermediaries. The above commissions and fees constitute an integral part of the return generated by a specific financial instrument. This category also includes fees and costs of changes in contractual terms, what modifies the value of the initial effective interest rate. Any significant amendment to the conditions of a given financial instrument in economic terms is connected with the expiry of the financial instrument of the previous type and creation of a new instrument with different characteristics. The fees that are collected in this category include, among others, fees for preparing an annex changing a future cash flows schedule, fees for restructuring loan agreements, fees for postponement of payment dates, etc. The above-mentioned types of fees are deferred and settled over time in the income statement applying the effective interest rate method or on a straight-line basis, depending on the type of a product.

In the case of assets for which evidence for impairment was identified, interest income is charged on the basis of '*net investment'* defined as the difference between the gross exposure value (having regard for unsettled commissions) and impairment loss, and presented in net interest income.

3.25. Net fee and commission income

As stated above, fees and commissions (including insurance commissions), directly attributable to particular transactions, are deferred and amortized over time using the effective interest rate method. The Group recognizes them in net interest income.

However, fees and commissions not amortized using the effective interest rate, but settled over time with the straight-line method or recognized one-off, are reported in 'net fee and commission income'. Income settled over time with the straight-line method includes commissions on revolving loans, overdraft facilities, credit cards, guarantee lines, as well as letters of credit lines. All fees for the activities in which the Bank provides services related to transfers, payments, the distribution of insurance products and shares of investment funds as well as other incidental fees, are recognized once.

3.26. Net trading income

Net trading income comprises gains or losses on the disposal or a change in the fair value of financial assets and liabilities measured at fair value through profit or loss. This item also includes result on foreign exchange and interest on swaps as well as valuation write-downs of active derivatives due to credit risk.

3.27. Dividend income

In the case of equity investments recognized in the balance sheet at historical cost, dividend income is recognized in the income statement at the time when the right to dividend is established. In the case of equity investments recognized in the balance sheet with the equity method, dividend income is already included in the measurement with the accrual concept, initially recognized in the measurement with the equity method.

3.28. Other operating income and expenses

Other operating income and expenses include items not related directly to the Group's operations. These are in particular income and expenses on sales and liquidation of property, plant and equipment, received and paid indemnities, lease income, and income and expenses on other services.

Other operating income and expenses also include impairment losses on loans and advances to various debtors.

3.29. Taxation

The deductions from profit before tax entail current income tax payable and deductions/credits associated with the change in deferred income tax.

Current tax for the period is calculated by the Group's companies on the basis of their profit before tax as per books adjusted with income and expense, which, under the present income tax act, are excluded from the tax base. Furthermore, the book profit before tax in the current year is adjusted to take account of the cash realization of income and expenses in the current reporting period, which are recognized in profit before tax in previous years. Deferred income tax recognized as an element of income tax charge/credit on book profit before tax is calculated as the net effect of the change in deferred tax assets and liabilities.

Details on the method of calculating deferred tax are presented in Note 3.18.

3.30. Comparable data

Accounting principles adopted to prepare these financial statements are applied in a continuous manner in all presented periods, except for the presentation changes described in Note 5.

4. Accounting estimates

The preparation of financial statements in line with the IFRS requires a professional judgment of the Bank's Management Board and Management Boards of the Group's companies on the adopted accounting principles and accounting estimates applied with respect to balance sheet items and income statement items. Estimates are made basing on historical data and a number of assumptions based on the facts available as at the balance sheet date, resulting from internal and external conditions. The actual results of future business operations may differ from the present accounting estimates as at the balance sheet date. Therefore, accounting estimates are verified on a regular basis. Changes in estimates are recognized in the financial statements in the period they were introduced. If such changes are also related to future periods, the assumptions being the basis for the estimates for future periods are also adjusted.

The most important accounting estimates prepared for the purpose of these consolidated financial statements refer to:

- identification and measurement of impairment losses for financial assets measured at cost or at amortized cost;
- measurement of financial assets and liabilities at fair value, including derivatives for which no active market exists;
- a value of deferred tax assets;
- provisions.

In the second quarter of 2012, the Bank implemented new models estimating the level of impairment losses for exposures assessed collectively. The said changes aimed at the better reflection of the level and specific nature of the risk for particular customer segments.

- Corporate Segment and SMEs (maintaining comprehensive bookkeeping)

  The implemented models estimating the level of impairment losses, unlike the product-oriented approach applied so far, assume the customer-oriented approach. It results in the assignment of the most conservative risk parameters to a customer's total exposure: days of default and PD rating.

PD model: The customers from the non-impaired portfolio are divided into baskets comprising both the information about their PD rating and days of default. Expected probabilities of the impairment in the Loss Identification Period (LIP) are determined on that basis. In the previous methodology, the baskets comprised only information about days of default. The PD model is implemented separately for the Corporate Segment and for SMEs (maintaining comprehensive bookkeeping).

LGD model: The model allows for the calculation of expected future recoveries from the exposures in the impaired portfolio on the basis of historical cash flows. Accumulated recoveries in breakdown into months after the occurrence of impairment are determined. Unlike in the PD model, the recovery ratios are calculated collectively for the customers from the Corporate Segment and SMEs (maintaining comprehensive bookkeeping).

- Retail Segment (except for the exposures granted via the sales network of Żagiel).

  PD model: Implemented models are based on the architecture of the rating system, which is applied to assess the credit risk upon the extension of loans and to assess the parameters complying with the foundation internal-ratings based (FIRB) approach. The application of scoring models, which are the basis for the rating system, allows for more precise quantification of the risk than in the segmentation based on past due days applied so far, and directly links the amount of the impairment loss to the most important criterion (rating) on the basis of which the Bank makes the decision concerning the extension of a loan.

  LGD model: The model allows for the calculation of expected future recoveries from the exposures in the impaired portfolio on the basis of historical cash flows. Accumulated recoveries in breakdown into months after the occurrence of impairment are determined.

- Retail Segment (exposures granted via Żagiel).

  PD/LGD model: The models assessing the impairment loss for customers assessed collectively are based on the properties of the so-called Markov chains. The portfolio is divided into three categories of homogenous states: accounts without default, accounts in default prior to the termination of the agreement and accounts terminated (the division based on the months after the termination of the agreement).

  The application of the segmentation described above allows for more precise quantification of the risk than in the segmentation applied so far based only on past due days, and links the amount of the impairment loss with the life cycle of a loan product. In addition, due to the specific structure of the model, PD/LGD parameters can be determined simultaneously.

In order to verify the pertinence of obtained parameters, the said models are tested on a monthly or quarterly basis through related back-test procedures.

The estimated positive impact of the said change in the methodology upon the Group's profit before tax as at the date of its implementation amounted to PLN 64,355 thousand and was presented in 'Net impairment losses on financial assets, other assets and provisions'. Determining the impact of this change on the results of 2012 and 2011, with technical and financial reasons, is impracticable.

The Management Board of Bank Zachodni WBK S.A., after the merger with Kredyt Bank S.A., reviewed the judgment related to the impairment of individually significant credit exposures with evidence of impairment as of 31.12.2012. Effective from the review, the level of impairment and provisions for off-balance sheet items were calculated based on new scenarios for loan recovery (weighted with the probability of their realisation) and significantly higher discount factors for collaterals. Also new circumstances were taken into account that emerged after the balance sheet date and affected the previous estimations. As a result, the total adjustment to the level of impairment, provisions for off-balance sheet items and accrued interest for individually significant exposures amounted to PLN 319 million (of which PLN 28.6 million related to interests and adjusted Interest income line).

Key evidence that influenced the review of the valuation, for the four most significant credit exposures include:

Debtor 1 and 2 from construction sector: total adjustment to the impairment in the amount of PLN 116 million

- Significant decrease in value of assets taken as collateral resulting from deterioration of the situation in road construction sector, as a consequence of the increase supply of the raw materials. Over the recent period of time in Poland new investments have been made to expand existing and built completely new stone mines for extraction of stone aggregate, therefore total production capacity seem to be excessive in comparison to maximum demand, that has been observed in Poland in the period 2009 to 2011. Meanwhile, since the beginning of 2012 the demand has dropped dramatically;
- A decrease of forecasted financial surplus to be generated for the purpose of debt servicing for the debtors;
- Additional legal disputes have emerged in the conducted insolvency proceedings for debtors, that will limit the available financial resources that may be used for debt repayment to the Bank;
- For the purpose of the estimation of the impairment allowance two scenarios have been accepted: restructuring and liquidation;
- Under liquidation scenario the value of collaterals compared to the external valuation has been adjusted by the ratio of 0.3, that according to the Group is reflecting the situation at the market for such assets and internal valuation of those assets;
- Under restructuring scenario discounted cash flows from operating activity over the period of 10 years for the repayment schedule for principal and interest have been accepted.

Debtor 3 from property sector: total adjustment to the impairment and accrued interest in the total amount of PLN 45 million

- A decrease of value of assets accepted as collaterals reflecting a new updated valuation and also accounting for the evidence of a decrease of the current market rates for rental of commercial property, comparing to those contracted in the existing agreements with tenants, also reflecting the rights recently acquired by tenants to early terminate the rental contracts, as the result of the company being put under liquidation insolvency status;
- Termination of the rental contract by one major tenant;
- Increased probability assessment for the legal dispute to emerge with other creditors of that customer, that might limit the ability of the Bank to utilise collaterals or significant deferral in the timing of the execution of the allocation plan for the bankruptcy assets;
- For the purpose of the estimation of the impairment allowance only bankruptcy scenario has been accepted with the two sub scenarios: (a) forced sale of assets at the level of 0.67 of external valuation over the period of 2 years and partial requirement to repay other creditors from the bankruptcy assets, (b) sale of assets at the price of 0.85 of external valuation.

Debtor 4 from metallurgy sector: total adjustment to the impairment in the amount of PLN 30 million

- On the basis of 2012 results the following facts were identified: lack of meeting the financial forecast and breach of covenants for minimum financial ratios included in the loan agreement;
- Lack of payment of commission for the Bank in the month of December 2012 and simultaneously a notification on the lack of financial capacity to service interest and principal of the debt;
- Increase of leverage ratio compared to financial surplus significantly above the acceptable level at the market and the industry average;

- Loss generated as a result of decreased market share and lower steel prices resulting from re-exporting of products without VAT;
- For the purpose of the calculation of the impairment allowance 3 scenarios have been accepted: (a) liquidation, (b) restructuring - balanced, (c) restructuring - optimistic;
- The adjusting ratio for the value of collaterals has been decreased from 0.7 to 0.3 considering lack of liquidity for the specialist equipment requiring high capital expenditures and large storage space;
- Under restructuring scenarios there is an assumption about partial conversion of debt into shares and partial redemption of the debt covered by restructuring scenario that resulted in the lower net present value of the expected operating cash flows.

Moreover, the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed an analysis of the impairment allowance for the retail and SME credit exposures calculated on the portfolio basis that were included in the balance sheet of Kredyt Bank S.A. for both non-impaired portfolio and portfolio of receivables with evidence for impairment. As a result of the performed analysis changes have been introduced to the existing approach for calculation of parameters, in particular for length of the period considered for historical data used for LGD determination, and also for selected IBNR portfolios introducing adjustments to the values of PD and LIP.

Resulting from the above changes the impairment allowance for portfolio calculated loans has been increased by the amount of PLN 258 million that can be broken down as follows:

Type of exposure (in PLN million)	Impairment losses IBNR	Impairment losses for receivables with evidence for impairment	Total
Mortgage housing loans and other mortgage loans	34.3	142.9	177.2
Cash loans	7.3	26.4	33.7
Credit cards	3.7	4.1	7.8
Overdraft facilities	3.5	3.9	7.4
Other loans	9.3	22.5	31.8
Total	**58.1**	**199.8**	**257.9**

Group has disclosed the impairment allowance for portfolio calculated loans as presented in the table above as a liability in the line item Provisions in correspondence with the line item Net impairment losses on financial assets, other assets and provisions in the consolidated profit and loss statement.

Furthermore, the level of provision for litigations has been increased by the amount of PLN 22.5 million.

Apart from the described above issues the Group did not introduce any other material changes in the applied methods of performing accounting estimates as compared to the principles and methods described in the Group’s published consolidated financial statements as of 31.12.2011.

4.1. Valuation of financial assets and liabilities at fair value

Fair value is an amount for which an asset may be sold or exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

The transaction price is the best indicator of fair value at the initial recognition of a financial instrument.

Fair value of financial assets and liabilities is determined on the basis of quotations on active markets, including prices of the latest transactions.

In the case of financial assets and liabilities recognized in the balance sheet at fair value (except for equity instruments from the portfolio of available-for-sale assets), for which no active market is identified and there is no possibility of determining the fair value using market prices, they are measured on the basis of generally adopted measurement models based on variables that can be observed in the market environment.

The fair value of such financial assets and liabilities is determined on the basis of the net present value, i.e. the sum of all cash flows discounted using the yield curve applicable to a given currency and adjusted with the issuer's credit risk.

Certain variables, e.g. future interest rates, volatility parameters, correlations, must be assessed professionally. The models and variables are verified on a regular basis. The change in adopted models or variables in these models might affect accounting estimates related to measurement.

Financial instruments measured at fair value are classified according to a three-level hierarchy of fair value:

- Level 1 comprises financial instruments quoted in an active market, whose measurement at fair value is determined on the basis of present and readily available market prices.
- Financial instruments presented at Level 2 are not quoted in an active market, but the inputs used to measure the fair value are based on observable market inputs.
- Level 3 comprises financial instruments that are not quoted in an active market, and their measurement at fair value is not based on observable market inputs.

4.2. Impairment of financial assets valued at cost or at amortized cost

At each balance sheet date (at least once per quarter), the Group analyzes whether there is an objective indication that a financial asset and/or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence for impairment as a result of one or more events that occurred after initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows generated by the financial asset or the group of financial assets, assuming that reliable estimation is possible. Expected future losses are not taken into account in estimates of impairment.

If the Group identifies an evidence for impairment, the amount of the impairment loss is determined as the difference between the carrying amount of a loan and its economic value measured as the present value of estimated future cash flows discounted using the initial effective interest rate of contracts. Impairment loss is recognized in the income statement in correspondence with provision account which adjusts assets' value.

Loan receivables constitute the most significant class of financial assets recognized in the Group's balance sheet at amortized cost and subject to impairment.

4.2.1. Evidence for impairment

The analysis of the evidence indicating the risk of impairment is performed for individual loans as well as portfolios (groups) of loans.

A list of objective evidence includes:

a) significant financial problems of an issuer or a debtor;

b) a breach of contract, e.g. failure to pay or delaying payment of interest or the principal amount;

c) granting a facility by the lender to the borrower, for economic or legal reasons related to the borrower's financial problems, where such a facility would not have been granted otherwise;

d) high probability of the borrower's bankruptcy or their another financial reorganization;

e) in the case of cash loans, exceeding specific factors used in the credit risk assessment process of all customers.

If there is no evidence that the impairment occurred, the previously recognized impairment losses are reversed through income statement.

4.2.2. Measurement of individual impairment

Individual impairment is measured for loan receivables over a specific exposure level, for which certain individual evidence indicating impairment was identified. The process of estimating future, expected cash flows is carried out in a specially dedicated IT tool.

Expected future cash flows from collateral are estimated on the basis of debt recovery value which is calculated with the application of periodically verified adjusting indicators determined for each type of collateral on the basis of historical data collected by the Group concerning the duration of the debt collection process, recovered amounts from collateral and their value determined in the valuation.

4.2.3. Measurement of collective impairment

A collective analysis is conducted in the following cases:

- In the event where, regardless of the exposure value, no objective evidence for loan impairment occurred, such exposure is included in the credit portfolio of similar nature and the collective analysis of the impairment is conducted.
- In the event of objective evidence for the impairment of an asset which is not individually significant (below the defined exposure level).

Homogenous loans portfolios are created basing upon similar characteristics of credit risks that are specific for the defined groups of customers and products. The collective impairment is measured basing on historical parameters of losses generated by similar assets portfolios. Historical trends for losses are cleared of one-off events and are updated against a current risk profile of homogenous groups of assets. Hence, the portfolios systematic risk is identified. The following issues, apart from corrected historical trends, have a material impact on the level of the collective impairment:

- fluctuations in the receivables portfolios;
- the Group’s operating effectiveness in credit risk management processes, particularly taking into account the restructuring and debt collecting activities;
- a macroeconomic situation.

4.3. Impairment of financial assets available-for-sale

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

If the Group identifies objective evidence for the impairment of an asset classified as available for sale, the cumulative negative measurement of this asset, previously accounted for in the revaluation reserve, is written off and recognized directly in the income statement, despite the fact that this asset is not excluded from the balance sheet.

In the case of an equity instrument classified as available for sale for which fair value cannot be determined reliably, i.e. measured at historical cost having regard for impairment, impairment losses are not reversed. In the case of a debt instrument measured at fair value at the time when the circumstances indicating impairment are no longer identified, the amount of the reversed impairment loss is recognized in the income statement.

4.4. The values of deferred tax assets

The probability of realizing net deferred tax asset is determined on the basis of financial plans and tax forecasts prepared by the Bank's Management Board, updated on an ongoing basis as at the end of each quarter.

The companies of the Group recognize a deferred tax liability for all temporary differences whereas the deferred tax asset is recognized up to the amount justified by financial plans approved by the Management Boards of these companies concerning the probable realization of the asset.

5. Comparable data

The comparable data for previous periods included in these financial statements take account of the following presentation changes as regards the data presented in the consolidated financial statements prepared as at 31.12.2011.

In 2012 the Group changed the presentation of expenses incurred by the Group within particular expense categories from net terms to gross terms (including VAT). The intention was more transparent presentation of expenses. Therefore the values of the items presented in the consolidated income statement for 2011 have changed.

	Published data	**Changes**	**Comparable data**
in PLN '000'	**01.01.2011-31.12.2011**		**01.01.2011-31.12.2011**
General and administrative expenses	-999 500	9 137	-990 363
Other operating expenses	-54 035	- 9 137	-63 172

Below, we present notes showing the changes in the presentation of particular items of 'General and administrative expenses' and 'Other operating expenses' for 2011 (in additional notes, unlike in the income statement, the expenses are stated with '+').

General and administrative expenses	Published data	Changes	Comparable data
in PLN '000'	01.01.2011-31.12.2011		01.01.2011-31.12.2011
Staff costs	**443 138**	**1 291**	**444 429**
- remunerations	317 341	1 282	318 623
- deductions from remunerations	47 640	0	47 640
- bonuses	68 076	0	68 076
- other staff costs	10 081	9	10 090
General expenses	**466 602**	**-10 428**	**456 174**
- costs of buildings lease	86 192	17 376	103 568
- IT and telecommunications fees	81 228	17 118	98 346
- costs of buildings maintenance and renovations	21 382	3 801	25 183
- energy costs	19 691	3 220	22 911
- advisory and specialist services costs	23 612	4 557	28 169
- postal fees	25 440	952	26 392
- transportation services	15 529	3 313	18 842
- property protection expenses	8 850	1 292	10 142
- taxes and fees	114 622	-74 725	39 897
- promotion and advertising services	41 432	8 159	49 591
- purchase of other materials	3 472	801	4 273
- training expenses	5 611	1 161	6 772
- business trips	2 354	468	2 822
- other	17 187	2 079	19 266
Depreciation	**89 760**	**0**	**89 760**
- property, plant and equipment	66 765	0	66 765
- investment properties	7 718	0	7 718
- intangible assets	15 277	0	15 277
Total	**999 500**	**-9 137**	**990 363**

Other operating expenses	Published data	Changes	Comparable data
in PLN '000'	01.01.2011-31.12.2011		01.01.2011-31.12.2011
Written-off receivables	666	0	666
Debt recovery expenses	35 086	7 410	42 496
Other impairment – loans and advances to various debtors	758	0	758
Disposal or liquidation of property, plant and equipment and intangible assets	9 142	297	9 439
Indemnities, penalties and fines paid	986	237	1 223
Other expenses	7 397	1 193	8 590
Total	**54 035**	**9 137**	**63 172**

6. Segment reporting

The criterion for separating a segment entails the method of carrying business and the type and scope of information used by the management in a given entity. An operating segment is a type of activities reviewed regularly by the authorities responsible for making operating decisions, including decisions concerning the method of allocating resources within the reviewed segment. The figures originate from internal reports used by the Bank's management to review the results of the activities of a given segment. The presentation of particular items follows the approach applied in management reporting. At the same time, one should notice that the management segmentation differs from the financial reporting segmentation applied in the remaining parts of the financial statements.

The Group's operating activities were divided into three basic segments: retail, corporate, treasury.

The Group's operations were not diversified in geographical terms. Operations were focused on the Polish market; the main customer base was composed of national natural and legal persons and foreign customers operating on the Polish market.

Retail Segment

Retail Segment, in management terms, incorporates products targeted at individual customers, private banking, as well as micro and small enterprises (SME), whose annual sales revenue does not exceed PLN 1 million.

The offer entailed a wide choice of deposit, credit and insurance (bancassurance) products offered in cooperation with TUnŻ WARTA S.A. and TUiR WARTA S.A., and investment products offered by KBC TFI S.A. This offer was addressed to customers through traditional channels of distribution via the Bank's nationwide network of branches and affiliates, KB24 online service as well as creditonline service, and intermediaries operating in the market.

Corporate Segment

Corporate Segment, in management terms, entails transactions with medium-sized companies (SME with annual sales revenue exceeding PLN 1 million, but not exceeding PLN 25 million), large companies (with total sales revenue exceeding PLN 25 million) as well as state budgetary units at central and local levels.

Beside the traditional products, such as loans, deposits, settlement services, derivatives, the customers from this segment were offered specialist services. They were tailored to customers' individual needs, e.g. organizing syndicates supporting investment projects, financing real estate transactions, financing foreign trade and bulk payments. The Bank's offer in this segment was expanded by the products of Kredyt Lease S.A., which offered a complete range of services for companies in respect of leasing of property, plant and equipment.

Treasury Segment

Treasury Segment, in management terms, comprises the result of the transactions performed by the Bank on its own account as an active participant in the money market (Treasury and NBP bills), bonds market (Treasury and commercial bonds), currency market and interbank market. The result of the segment also includes net income on derivative instruments transactions: forward, FX swap, IRS, CIRS, FRA, as well as interest rate, currency, discounted and commodity options, except for write-downs for credit risk. Besides the trading activities carried by the Bank on its own account, the segment was responsible for the activities aiming to hedge the Banking Book position.

Other

Income and expenses not assigned to above segments have been presented as 'Other' segment. In addition, this category comprises the results of the operations of Kredyt Trade Sp. z o.o. w likwidacji and Reliz Sp. z o.o. (until the deconsolidation date).

Respective consolidation eliminations were made for the presentation of the results of particular segments.

Additional clarifications

The results presented in all segments include the costs of the financing of lending activities and interest income on the sales of deposit resources in internal transactions and they result from the application of an internal price (transfer rate) determined on the basis of reference rates (money market rates) for particular deposit and credit products.

The reconciliation of particular balance sheet items and income statement items for reporting segments with the items of the consolidated balance sheet and the items of the consolidated income statement must encompass the adjustments presented further in this Note.

Net interest income includes mainly net interest income from deposit and lending activities and the total net income from loan commissions treated, in management terms, as an element of interest margin. The Bank's Management Board, when making operating decisions, bases them mainly on the interest margin. In addition, particular segments entail the costs of financing the cash maintained in the Bank's branches.

Net commission income and other net income comprises:

- commissions for keeping accounts and transactions;
- commissions related to credit, debit and other cards;
- commissions related to the distribution of the shares of the societies of investment funds and other services provided to societies of investment funds;
- commissions related to insurance products;
- commissions related to foreign transactions, i.e. export and import payment orders, transfers and guarantees, letters of credit, bill guarantees and cash collections;
- other net income entailing net income from other commissions and net income from other operating income and expenses.

Net income from treasury transactions in the Retail Segment and in the Corporate Segment is the net income from exchange operations and net income from financial transactions which are a margin on such products as repurchase transactions, bonds, IRS and FX options.

Net income from treasury transactions is composed of the following items of the consolidated financial statements:

- net trading income (except for, e.g. net increase/decrease in the provisions for potential losses related to open/active derivatives and the valuation of embedded instruments related to the enterprises function) and
- net result on derivatives used as hedging instruments and hedged items.

Net gains from investment activities – the presented item is the sum of the following items from the financial statements: 'Net gains from investment activities' and 'Dividend income'.

In management reporting, the item *'Net impairment losses on financial assets, other assets and provisions'* includes an additional provision for potential losses related to open/active derivatives (presented in these consolidated financial statements in net trading income).

Group's general and administrative expenses – since the beginning of 2012, the Group has been allocating general and administrative expenses in line with the Activity-based Costing (ABC) system; the comparable data have been restated according to it as well.

The assets of the segment were divided into four basic categories:

- *Loans and advances to banks* – include net loans and advances to banks, excluding interest receivables, as well as debt securities issued by other banks and classified as loans and receivables. The category is presented in the treasury segment.
- *Loans and advances to customers* – include net loans and advances to customers (including leasing fees), excluding interest receivables, as well as debt securities classified as loans and receivables.

- *Securities* – this category is presented in the treasury segment, entails debt securities, securities with the right to equity and shares in investment funds, excluding debt securities classified as loans and receivables.
- *Other* – this category entails all other assets not presented above.

Total equity and liabilities are presented in five lines:

- *Amounts due to customers* – customers' deposits, except for interest liabilities.
- *Interbank deposits* – amounts due to the National Bank of Poland, except for the lombard loan and repos as well as current and term amounts due to banks.
- *Borrowed loans and advances* – the lombard loans and borrowed loans and advances.
- *Subordinated liabilities* – subordinated liabilities, except for interest, both included in and excluded from own funds.
- *Other liabilities and total equity.*

Group's net result for 2012 by operating segments (breakdown according to management reporting)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**588 426**	**268 383**	**-46 906**	**-5 617**	**804 286**
- lending activities	446 658	162 742	0	-6 648	602 752
- depositing activities	153 345	113 423	0	1 057	267 825
- the cost of financing cash kept in the Bank's branches	-11 577	-7 782	19 385	-26	0
Net commission income and other net income	**197 744**	**100 195**	**0**	**44 003**	**341 942**
- commissions for keeping accounts and transactions	78 428	51 392	0	858	130 678
- commissions related to cards	64 183	5 189	0	2 881	72 253
- commissions related to shares in investment funds societies	54 623	2 861	0	74	57 558
- commissions related to insurance products	-1 591	3	0	193	-1 395
- commissions related to foreign transactions	48	22 239	0	411	22 698
- other	2 053	18 511	0	39 586	60 150
Net income from treasury transactions	**53 611**	**67 248**	**185 553**	**114**	**306 526**
- exchange transactions	53 534	61 151	173 208	-2 620	285 273
- derivatives and securities	77	6 097	12 345	2 734	21 253
Net gains from investment activities	**0**	**100**	**55 819**	**23 343**	**79 262**
Gross operating income	**839 781**	**435 926**	**194 466**	**61 843**	**1 532 016**
Net impairment losses on financial assets, other assets and provisions	**-365 920**	**-359 541**	**0**	**-10 540**	**-736 001**
Group's general and administrative expenses	**-629 053**	**-291 695**	**-19 934**	**-14 429**	**-955 111**
- the costs of the operation of business functions (direct costs)	-345 705	-116 531	-16 559	-9 632	-488 427
- allocated expenses	-237 142	-156 917	-1 792	0	-395 851
- depreciation (direct costs)	-28 322	-4 018	-1 469	-4 797	-38 606
- depreciation (allocated costs)	-17 884	-14 229	-114	0	-32 227
Net operating income	**-155 192**	**-215 310**	**174 532**	**36 874**	**-159 096**
Share in profit (loss) of associates					1 019
Income tax expense (credit)					1 624
Net profit (loss)					**-156 453**

Group's net profit for 2011 by operating segments (breakdown according to management reporting)

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Net interest income, including:	**666 853**	**315 598**	**232 930**	**-20 491**	**1 194 890**
- lending activities	512 277	205 547	0	-20 574	697 250
- depositing activities	166 698	119 946	0	84	286 728
- the cost of financing cash kept in the Bank's branches	-12 122	-9 895	22 018	-1	0
Net commission income and other net income	**173 572**	**87 561**	**-1 071**	**52 611**	**312 673**
- commissions for keeping accounts and transactions	83 264	51 987	0	584	135 835
- commissions related to cards	63 396	5 330	0	4 365	73 091
- commissions related to shares in investment funds societies	46 452	2 894	0	0	49 346
- commissions related to insurance products	-18 646	-228	0	213	-18 661
- commissions related to foreign transactions	35	20 578	0	383	20 996
- other	-929	7 000	-1 071	47 066	52 066
Net income from treasury transactions	**53 327**	**55 515**	**-15 394**	**-1 432**	**92 016**
- exchange transactions	53 247	49 669	13 136	-1 622	114 430
- derivatives and securities	80	5 846	-28 530	190	-22 414
Net gains from investment activities	**0**	**50**	**1 162**	**1 649**	**2 861**
Gross operating income	**893 752**	**458 724**	**217 627**	**32 337**	**1 602 440**
Net impairment losses on financial assets, other assets and provisions	**-147 583**	**-18 335**	**0**	**-34 465***	**-200 383**
Group's general and administrative expenses	**-665 352**	**-271 809**	**-16 663**	**-21 065**	**-974 889**
- the costs of the operation of business functions (direct costs)	-328 111	-117 543	-15 196	-14 384	-475 234
- allocated expenses	-267 836	-140 932	-1 127	0	-409 895
- depreciation (direct costs)	-67 064	-3 534	-109	-6 681	-77 388
- depreciation (allocated costs)	-2 341	-9 800	-231	0	-12 372
Net operating income	**80 817**	**168 580**	**200 964**	**-23 193**	**427 168**
Share in profit (loss) of associates					3 973
Income tax expense					-103 897
Net profit (loss)					**327 244**

** comprises PLN 35,000 thousand of the provision for a potential liability related to the resale of Żagiel S.A. by KBC Group − it was a single event*

The allocation of assets by operating segments as at 31.12.2012

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Loans and advances to banks	0	0	1 178 511	0	1 178 511
Loans and advances to customers	20 129 816	7 993 158	0	0	28 122 974
Securities	0	0	8 361 859	0	8 361 859
Other	0	0	1 155 201	1 942 690	3 097 891
Total	**20 129 816**	**7 993 158**	**10 695 571**	**1 942 690**	**40 761 235**

The allocation of assets by operating segments as at 31.12.2011

in PLN '000'	**Retail Segment**	**Corporate Segment**	**Treasury Segment**	**Other**	**Total**
Loans and advances to banks	0	0	1 187 219	0	1 187 219
Loans and advances to customers	20 934 417	8 032 717	0	0	28 967 134
Securities	0	0	8 839 889	0	8 839 889
Other	0	0	1 071 089	1 937 753	3 008 842
Total	**20 934 417**	**8 032 717**	**11 098 197**	**1 937 753**	**42 003 084**

The allocation of liabilities and equity by operating segments as at 31.12.2012

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Inter-bank deposits			2 946 915		2 946 915
Borrowed loans and advances			1 332 166		1 332 166
Amounts due to customers	18 463 192	11 816 957			30 280 149
Subordinated liabilities			971 010		971 010
Other liabilities and total equity	269 751	73 914	1 227 461	3 659 869	5 230 995
Total	**18 732 943**	**11 890 871**	**6 477 552**	**3 659 869**	**40 761 235**

The allocation of liabilities and equity by operating segments as at 31.12.2011

in PLN '000'	Retail Segment	Corporate Segment	Treasury Segment	Other	Total
Inter-bank deposits			5 243 696		5 243 696
Borrowed loans and advances			3 233 958		3 233 958
Amounts due to customers	17 247 467	10 741 711			27 989 178
Subordinated liabilities			1 035 985		1 035 985
Other liabilities and total equity		40 809	982 916	3 476 542	4 500 267
Total	**17 247 467**	**10 782 520**	**10 496 555**	**3 476 542**	**42 003 084**

Below, we present the reconciliation of particular items with the consolidated income statement and the consolidated balance sheet published in this report.

in PLN '000'	**01.01.2012-31.12.2012**
Net interest income – management information	**804 286**
- commissions on loans	52 828
+ operating expenses (interest on finance lease)	-244
+ operating income (the collection of statutory interest)	8 117
+ commissions related to foreign transactions	336
- structured deposit – interest adjustment	1 191
+ net income from commissions on cards	1 109
+ other	81
Net interest income – financial statements	**759 666**
Net commission income and other net income – management information	**341 942**
+ commissions on loans	52 828
- operating expenses (interest on finance lease)	-244
- operating income (the collection of statutory interest)	8 117
- commissions related to foreign transactions	336
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-7 132
- net income from commissions on cards	1 109
+ reversal of provisions related to incentive programmes	3 963
- other	1
Net commission income and other net income – financial statements – presented as:	**396 546**
Net fee and commission income	341 395
Other operating income	93 590
Other operating expenses	-38 439
Net income from treasury transactions – management information	**306 526**
+ net increase/decrease in provisions for potential losses related to active derivatives	640
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-7 132
+ structured deposit – interest adjustment	1 191
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**301 225**
Net trading income	305 340
Net result on derivatives used as hedging instruments and hedged items	-4 115
Net gains from investment activities – management information	**79 262**
Net gains from investment activities and dividend income – financial statements – presented as:	**79 262**
Net gains from investment activities	77 471
Dividend income	1 791
Gross operating income – management information	**1 532 016**
+ net increase/decrease in provisions for potential losses related to active derivatives	640
+ reversal of provisions related to incentive programmes	3 963
+ other	80
Gross operating income – financial statements – presented as:	**1 536 699**
Total operating income	1 575 138
Other operating expenses	-38 439

Net impairment losses on financial assets, other assets and provisions – management information	**-736 001**
- net increase/decrease in provisions for potential losses related to active derivatives	640
+ charges related to provisions for restructuring/severance pays	326
- other	80
Net impairment losses on financial assets, other assets and provisions – financial statements	**-736 395**

Group's general and administrative expenses – management information	**-955 111**
- reversal of provisions related to incentive programmes	3 963
- charges related to provisions for restructuring/severance pays	326
General and administrative expenses – financial statements	**-959 400**

in PLN '000'	**01.01.2011-31.12.2011**
Net interest income – management information	**1 194 890**
- commissions on loans and other commissions included in net fee and commission income	49 583
+ operating expenses (interest on finance lease)	-681
+ operating income (the collection of statutory interest)	17 159
+ commissions related to foreign transactions	443
- structured deposit – interest adjustment	12 130
+ other	-2
Net interest income – financial statements	**1 150 096**
Net commission income and other net income – management information	**312 673**
+ commissions on loans and other commissions included in net fee and commission income	49 583
- operating expenses (interest on finance lease)	-681
- operating income (the collection of statutory interest)	17 159
- commissions related to foreign transactions	443
- the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-22 538
+ reversal of provisions related to incentive programmes	17 061
- other	-2
Net commission income and other net income – financial statements – presented as:	**384 936**
Net fee and commission income	314 920
Other operating income	133 188
Other operating expenses	-63 172
Net income from treasury transactions – management information	**92 016**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ the valuation of shares and of an embedded instrument related to the operations of the enterprises function	-22 538
+ structured deposit – interest adjustment	12 130
Net trading income and net result on derivatives used as hedging instruments – financial statements – presented as:	**78 422**
Net trading income	80 136
Net result on derivatives used as hedging instruments and hedged items	-1 714

Net gains from investment activities – management information	**2 861**
Net gains from investment activities and dividend income – financial statements – presented as:	**2 861**
Net gains from investment activities	1 162
Dividend income	1 699
Gross operating income – management information	**1 602 440**
+ net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ reversal of provisions related to incentive programmes	17 061
Gross operating income – financial statements – presented as:	**1 616 315**
Total operating income	1 679 487
Other operating expenses	-63 172

Net impairment losses on financial assets, other assets and provisions – management information	**-200 383**
- net increase/decrease in provisions for potential losses related to active derivatives	-3 186
+ charges related to provisions for employee benefits	-1 587
Net impairment losses on financial assets, other assets and provisions – financial statements	**-198 784**
Group's general and administrative expenses – management information	**-974 889**
- charges related to provisions for employee benefits	-1 587
- reversal of provisions related to incentive programmes	17 061
General and administrative expenses – financial statements	**-990 363**

in PLN '000'	**Management information**	**Interest**	**Financial statements (net value)**
31.12.2012			
Loans and advances to banks	1 178 511	1 219	1 179 730
Loans and advances to customers	28 122 974	106 342	28 229 316
31.12.2011			
Loans and advances to banks	1 187 219	793	1 188 012
Loans and advances to customers	28 967 134	118 620	29 085 754

in PLN '000'	**31.12.2012**
Securities – management information	**8 361 858**
Securities – financial statements – presented as:	**8 361 858**
Financial assets designated upon initial recognition as at fair value through profit or loss	60 413
Financial assets held for trading (excluding derivatives)	325 080
Investment securities	7 976 365

in PLN '000'	**31.12.2011**
Securities – management information	**8 839 889**
Securities – financial statements – presented as:	**8 839 889**
Financial assets designated upon initial recognition as at fair value through profit or loss	100 684
Financial assets held for trading (excluding derivatives)	60 493
Investment securities	8 678 712

in PLN '000'	**Management information**	**Interest**	**Financial statements**
31.12.2012			
Amounts due to customers	30 280 149	112 481	30 392 630
Subordinated liabilities	971 010	523	971 533
31.12.2011			
Amounts due to customers	27 989 178	53 979	28 043 157
Subordinated liabilities	1 035 985	525	1 036 510

in PLN '000'	**31.12.2012**
Inter-bank deposits – management information	**2 946 915**
Borrowed loans and advances – management information	**1 332 166**
+ interest	3 997
Amounts due to banks – financial statements	**4 283 078**

in PLN '000'	**31.12.2011**
Inter-bank deposits – management information	**5 243 696**
Borrowed loans and advances – management information	**3 233 958**
+ interest	8 869
- other amounts due to the National Bank of Poland	32
Amounts due to banks – financial statements	**8 486 491**

7. Interest income

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
On account of:		
Loans and advances to banks	115 446	111 648
Loans and advances to customers:	1 475 978	1 506 871
- financial sector	4 474	8 277
- non-financial sector	1 458 074	1 488 187
- budgetary sector	13 430	10 407
Leasing fees	43 043	36 989
Securities:	518 661	612 001
- measured upon initial recognition as at fair value through profit or loss	1 971	2 766
- held-for-trading	14 634	75 265
- available-for-sale	336 528	356 908
- held-to-maturity	165 528	177 062
Receivables arising from repurchase transactions	18 026	16 964
Interest on hedging instruments	128 232	102 400
Total	**2 299 386**	**2 386 873**

Interest income comprises, e.g. cash interest and interest calculated on an accrual basis on receivables for which evidence for impairment was identified. Interest calculated on an accrual basis was calculated with the effective interest rate applied in discounting expected cash flows for the purpose of estimating the impairment loss on loan receivables. The interest on the loans and advances with evidence for impairment as at 31.12.2012 amounted to PLN 48,366 thousand, and as at 31.12.2011 to PLN 40,975 thousand. Accrued interest was taken into consideration when estimating impairment losses on such receivables.

8. Interest expense

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
On account of:		
Amounts due to banks	106 001	113 915
Amounts due to customers:	1 197 497	939 909
- financial sector	127 678	125 775
- non-financial sector	986 857	742 912
- budgetary sector	82 962	71 222
Liabilities arising from repurchase transactions	78 867	66 606
Subordinated liabilities	42 206	39 914
Interest on hedging instruments	115 149	76 433
Total	**1 539 720**	**1 236 777**
Net interest income	**759 666**	**1 150 096**

9. Fee and commission income

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Fees and commissions related to lending activities	46 627	40 248
Fees and commissions on deposit-related transactions with a customer	130 657	135 756
Fees and commissions due for payment cards processing and ATMs maintenance	117 237	118 346
Commissions on foreign clearing operations	18 454	16 136
Commissions on guarantee commitments	25 475	22 708
Commissions on the distribution and management of combined investment and insurance products	69 071	59 329
Commissions on other custodian services	2 205	3 514
Other fees and commissions	10 180	7 754
Total	**419 906**	**403 791**

10. Fee and commission expense

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Fees related to insurance for granted loans	12 929	20 733
Fees of credit reference agency	7 167	6 233
Fees and commissions due for payment cards processing and ATMs maintenance	44 773	48 871
Brokerages	981	1 834
Other fees and commissions	12 661	11 200
Total	**78 511**	**88 871**

Net fee and commission income	**341 395**	**314 920**

11. Dividend income

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Equity instruments	1 791	1 699
Total	**1 791**	**1 699**

12. Net trading income

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Debt securities	403	-10 325
- held for trading	460	-9 468
- measured upon initial recognition as at fair value through profit or loss	-57	-857
Equity instruments	-5 839	-21 512
Derivatives	452 363	77 761
Foreign exchange	-141 587	34 212
Total	**305 340**	**80 136**

The increase of the net trading income in 2012 as compared to 2011 results primarily from the change in the Bank's financing structure, i.e. the greater financing of currency assets through FX swaps — their valuation is presented in net trading income.

13. Net result on derivatives used as hedging instruments and hedged items

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Result on cash flows hedge		
- on hedging derivatives*	-4 115	-1 714
Total *	**-4 115**	**-1 714**

** result on derivatives used as hedging instruments comprises a non-effective portion of gains or losses associated with the hedging instrument, as well as amounts of transactions settled prior to the balance sheet date*

14. Net gains from investment activities

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Available-for-sale assets:	**60 243**	**867**
- equity instruments	4 517	0
- debt instruments	55 726	867
Held-to-maturity assets:	**93**	**295**
- debt instruments	93	295
Associaties	**17 135**	**0**
Total	**77 471**	**1 162**

15. Result for particular categories of financial assets and liabilities

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Designated upon initial recognition as at fair value through profit or loss	-3 925	-19 603
Held for trading*	467 457	143 558
Repurchase transactions	-60 841	-49 642
Hedging instruments	8 968	24 253
Available-for-sale	413 906	357 775
Held-to-maturity	165 621	177 357
Loans and advances to banks and to customers	1 668 671	1 679 355
Amounts due to banks and customers	-1 089 596	-843 022
Subordinated liabilities	-42 206	-39 914
Other	**93 289**	**80 271**
Total**	**1 621 344**	**1 510 388**

** also comprises the result on derivatives (excluding derivatives used as hedging instruments)*
*** the item comprises net interest income, net fee and commission income, net trading income net of result on foreign exchange, result on derivatives used as hedging instruments and hedged items, net gains from investment activity*

16. Other operating income

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Sale or liquidation of property, plant and equipment, non-current assets held-for-sale and assets to be disposed	11 639	12 621
Recovered bad debts, including reimbursed debt recovery costs	19 733	26 133
Indemnities, penalties and fines received	5 027	5 957
Side income	5 165	7 814
Reversal of impairment losses on receivables from other debtors	833	693
Lease income	23 801	34 927
Other income*	27 392	45 043
Total	**93 590**	**133 188**

** the item comprises result of deconsolidation in 2012 of Reliz Sp. z o.o. in the amount of PLN 1,887 thousand and the reversal of unused provisions established in previous years related to incentive programmes amounting to PLN 3,963 thousand in 2012 and PLN 17,061 thousand in 2011*

17. General and administrative expenses

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011** comparable data
Staff costs	**452 726**	**444 429**
- remunerations	328 360	318 623
- deductions from remunerations	53 466	47 640
- bonuses	60 857	68 076
- other staff costs	10 043	10 090
General expenses	**435 841**	**456 174**
- costs of buildings lease	110 908	103 568
- IT and telecommunications fees	79 102	98 346
- costs of buildings maintenance and renovations	23 504	25 183
- energy costs	21 685	22 911
- advisory and specialist services costs	32 848	28 169
- postal fees	22 417	26 392
- transportation services	19 793	18 842
- property protection expenses	14 514	10 142
- taxes and fees	41 754	39 897
- promotion and advertising services	28 583	49 591
- purchase of other materials	5 771	4 273
- training expenses	6 558	6 772
- business trips	2 258	2 822
- other	26 146	19 266
Depreciation	**70 833**	**89 760**
- property, plant and equipment	48 056	66 765
- investment properties	4 974	7 718
- intangible assets	17 803	15 277
Total	**959 400**	**990 363**

Operating lease rental

Leasing contracts under which the lessor retains the whole risk and all rewards arising from the possession of the leased property, are accounted for as an operating lease. Fees under operating lease are recognized as expenses in the income statement on a straight-line basis over the period of leasing.

Contracts of operating lease under which the parent company acted as the lessee were mainly related to the lease of real estate and movables used by the parent company in the normal course of business. All contracts were executed on market terms, without any exceptional or non-standard terms or conditions.

Net leasing payments paid by the Group and recognized in particular reporting periods as general expenses were as follows:

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Leasing payments	123 584	117 368

The majority of fees were the fees for the leasing of real estates.

The total amount of future minimum gross leasing fees that the Group is obliged to pay under irrevocable contracts of operating leasing, determined as at the balance sheet date, is as follows:

in PLN '000'	**31.12.2012**	**31.12.2011**
Future minimum gross lease payments (with VAT)		
- not later than 1 year	106 375	108 597
- later than 1 year and not later than 5 years	191 499	194 963
- over 5 years	25 312	14 764
Total	**323 186**	**318 324**

Under operating leasing contracts, the parent company operates two Head Office buildings, which, towards the end of 2004, were sold to companies not related to the Bank and are now leased from them. The sale transactions were executed on market terms. Contracts of lease are also executed on market terms. The contracts do not meet the criteria of financial leasing and, therefore, are classified as operating leasing contracts.

18. Other operating expenses

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011** comparable data
Written-off receivables	368	666
Debt recovery expenses	23 581	42 496
Other impairment – loans and advances to various debtors	265	758
Disposal or liquidation of property, plant and equipment and intangible assets	7 191	9 439
Indemnities, penalties and fines paid	623	1 223
Other expenses	6 411	8 590
Total	**38 439**	**63 172**

19. Net impairment losses on financial assets, other assets and provisions

Recognition of impairment losses on assets and provisions

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Recognition of impairment losses on assets		
Impairment losses on loans and advances	2 512 165	2 063 740
Impairment losses on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	5 424	6 581
Total impairment losses	**2 517 589**	**2 070 321**
Provision recognized		
Provisions for severance pays	0	1 287
Provisions for employee benefits	0	300
Provision for credit risk	257 858	0
Provisions for liabilities	31 420	41 963
Provisions for off-balance sheet items	401 691	262 595
Total provisions	**690 969**	**306 145**
Total	**3 208 558**	**2 376 466**

Reversal of impairment losses on assets and provisions

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Reversal of impairment losses on assets		
Impairment losses on loans and advances	2 089 901	1 891 342
Impairment losses on non-current assets held for sale, property, plant and equipment, intangible assets and investment properties	721	1 078
Impairment losses on other assets	**0**	**446**
Total impairment losses	**2 090 622**	**1 892 866**
Reversal of provisions		
Provisions for employee benefits	364	0
Provisions for liabilities	4 055	9 913
Provisions for off-balance sheet items	377 122	274 903
Total provisions	**381 541**	**284 816**
Total	**2 472 163**	**2 177 682**

Net impairment losses on financial assets, other assets and provisions	**-736 395**	**-198 784**

20. Taxation

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Profit (loss) before tax	**-158 077**	**431 141**
Share in profit (loss) of associates	**-1 019**	**-3 973**
Income tax expense (credit) at basic tax rate (19%)	**-30 228**	**81 162**
Permanent differences:	**28 604**	**22 735**
- dividends received	-334	-320
- provisions and impairment losses	12 176	11 565
- thin capitalization	13 013	11 115
- other permanent differences	3 749	375
Actual deductions from (crediting to) net profit	**-1 624**	**103 897**
Effective tax rate	**1.0%**	**24.1%**

Income tax expense (credit) in the income statement	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Current income tax	98 671	19 414
Net increase/decrease in deferred income tax	-100 295	84 483
Deductions from (crediting to) net profit	**-1 624**	**103 897**

Deferred tax on the valuation of available-for-sale securities, cash flow hedge instruments, charged to revaluation reserve	31.12.2012	31.12.2011
Debt instruments	45 988	9 606
Cash flow hedge instruments	3 809	6 835
Total	**49 797**	**16 441**

in PLN '000'	31.12.2012		31.12.2011		Impact upon the result/equity for 2012
Deferred tax asset/liability	**Asset**	**Liability**	**Asset**	**Liability**	
Cash and balances with Central Bank	0	0	0	-779	779
Gross loans and advances to banks	0	-2 114	0	-2 703	589
Receivables arising from repurchase transactions	0	-10	0	0	-10
Financial assets designated upon initial recognition as at fair value through profit or loss	29 730	0	17 746	0	11 984
Financial assets held for trading (excluding derivatives)	4 509	0	3 919	0	590
Derivatives	0	-223 241	0	-213 059	-10 182
Gross loans and advances to customers	0	-1 711	0	-8 038	6 327
Impairment losses on loans and advances to customers	180 216	0	145 101	0	35 115
Investment securities:	693	-46 304	2 489	-11 408	-36 692
- available-for-sale	317	-46 304	1 803	-11 408	-36 382
- held-to-maturity	376	0	686	0	-310
Property, plant and equipment	12 826	0	14 691	0	-1 865
Intangible assets	0	-1 931	0	-4 106	2 175
Non-current assets held for sale	0	0	0	-1 717	1 717
Other assets	4 207	0	6 011	0	-1 804
Total assets	**232 181**	**-275 311**	**189 957**	**-241 810**	**8 723**

in PLN '000'	31.12.2012		31.12.2011		Impact upon the result/equity for 2012
Deferred tax asset/liability – cont.	**Asset**	**Liability**	**Asset**	**Liability**	
Amounts due to banks	1 142	0	6 004	0	-4 862
Liabilities arising from repurchase transactions	10	0	0	0	10
Financial liabilities held for trading (excluding derivatives)	0	0	0	-58	58
Derivatives	239 790	0	196 219	0	43 571
Amounts due to customers	21 371	0	10 256	0	11 115
Provisions	62 244	0	16 689	0	45 555
Other liabilities	15 454	0	23 328	0	-7 874
Subordinated liabilities	99	0	100	0	-1
Total liabilities	**340 110**	**0**	**252 596**	**-58**	**87 572**
Asset on tax loss	**31 218**	**0**	**61 847**	**0**	**-30 629**
Total asset/liability	**603 509**	**-275 311**	**504 400**	**-241 868**	**65 666**
Asset/liability recognized with the income statement (in the period and in previous periods)	588 278	-210 283	501 988	-223 015	99 022
Asset/liability recognized in revaluation reserve (in the period and in previous periods)	15 231	-65 028	2 412	-18 853	-33 356

Impact of net increase/decrease in asset/liability upon the result	99 022
Deconsolidation of Reliz	1 273
Deduction of deferred tax from the result	100 295

Presented as	**31.12.2012**	**31.12.2011**
Deferred tax asset	329 578	263 257
Deferred tax liability	1 380	725

21. Net profit attributable to the Shareholders of the Bank

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Net profit (loss) of the parent company for 12 months	-184 031	310 318
Net profit (loss) of subsidiaries for 12 months*	28 690	1 534
Consolidation adjustments	-1 112	15 392
Net profit (loss) attributable to the Shareholders of the Bank	**-156 453**	**327 244**

** including the subsidiary Reliz Sp. z o.o. until the time of losing control over it*

22. Earnings per share (EPS)

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Net profit (loss)	-156 453	327 244
Weighted average number of ordinary shares	271 658 880	271 658 880
Net profit (loss) per share (in PLN)	**-0.58**	**1.20**

Earnings per share were calculated as the quotient of profit per Bank's shareholders and weighted average number of shares. Diluted earnings per share are not calculated due to the absence of capital categories resulting in dilution.

The Bank's shareholders did not hold preference shares, where preference is in terms of voting and/or dividend.

23. Cash and balances with Central Bank

By types

in PLN '000'	**31.12.2012**	**31.12.2011**
Cash in hand	599 378	668 998
Current account in the Central Bank	363 997	70 663
Deposits in the Central Bank	**0**	**45 007**
Total	**963 375**	**784 668**

24. Gross loans and advances to banks

By types

in PLN '000'	**31.12.2012**	**31.12.2011**
Current accounts	24 160	7 601
Term deposits in other banks	169 819	149 251
Loans and advances to banks	35 832	61 054
Purchased debt	2 565	10 988
Other receivables	48 307	60 300
Debt securities classified as loans and receivables	899 047	**898 818**
Total	**1 179 730**	**1 188 012**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	245 351	221 502
- 1-3 months	1 881	3 710
- 3-6 months	5 024	10 623
- 6 months to 1 year	11 644	10 194
- 1-3 years	663 356	683 878
- 3-5 years	0	5 647
- 5-10 years	252 474	252 458
Total	**1 179 730**	**1 188 012**

Classification due to impairment

in PLN '000'	**31.12.2012**	**31.12.2011**
Loans and advances with no evidence for impairment	1 179 730	1 188 012
Loans and advances with evidence for impairment	0	0
Total	**1 179 730**	**1 188 012**

25. Impairment losses on loans and advances to banks

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Period beginning	0	2 260
a) increase	0	176
b) decrease	0	176
- reversal of impairment losses	0	176
c) utilization	0	2 260
- written off in the period as bad debts	0	2 260
Period end	**0**	**0**

26. Receivables arising from repurchase transactions

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	117 700	0
Total	**117 700**	**0**

27. Financial assets designated upon initial recognition as at fair value through profit or loss

in PLN '000'	**31.12.2012**	**31.12.2011**
Treasury securities	27 253	26 944
- bonds	27 253	26 944
Other securities	0	34 741
- bonds	0	34 741
Shares in investment funds	22 033	20 740
Equity securities	11 127	18 259
Total	**60 413**	**100 684**

All investment securities classified upon initial recognition to the portfolio of financial assets at fair value through profit or loss were measured at fair value on the basis of market quotations, except for SINUSD commercial bonds and equity investments.

For equity investments, the Group developed a valuation model based, inter alia, on the data originating from the active market.

in PLN '000'	**31.12.2012**	**31.12.2011**
Listed	**38 380**	**45 203**
- shares	11 127	18 259
- bonds	27 253	26 944
Non-listed	**22 033**	**55 481**
- shares in investment funds	22 033	20 740
- bonds	0	34 741
Total	**60 413**	**100 684**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2012**	**31.12.2011**
- 3-6 months	0	34 741
- 6 months to 1 year	27 253	0
- 1-3 years	0	26 944
- with unspecified maturity dates	33 160	38 999
Total	**60 413**	**100 684**

28. Financial assets held for trading (excluding derivatives)

in PLN '000'	**31.12.2012**	**31.12.2011**
Treasury securities (listed)	**325 080**	**60 493**
- bonds	323 947	49 304
- bills	1 133	11 189
Total	**325 080**	**60 493**

All securities classified as financial assets held for trading were measured at fair value on the basis of market quotations, except for Treasury Eurobonds.

Treasury Eurobonds were valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR), having regard for the credit spread.

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	112	12 434
- 1-3 months	2 174	11 439
- 3-6 months	1 616	1 442
- 6 months to 1 year	930	14 350
- 1-3 years	149 281	8 852
- 3-5 years	23 146	2 286
- 5-10 years	113 628	6 963
- 10-20 years	34 193	2 727
Total	**325 080**	**60 493**

29. Derivatives

By types

	31.12.2012		31.12.2011	
in PLN '000'	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	**1 042 544**	**1 087 298**	**783 209**	**825 085**
Options purchased	113	0	330	0
Options sold	0	113	0	330
IRS	985 038	1 052 459	757 953	795 129
FRA	57 393	34 726	24 926	29 626
Foreign exchange transactions	**110 556**	**137 864**	**287 880**	**157 156**
FX swap	81 557	56 103	239 052	118 854
CIRS	14 116	63 720	6 938	19 298
Forward	4 783	9 450	29 087	6 663
Options purchased	9 506	0	11 500	0
Options sold	0	7 910	0	11 110
Spot	594	681	1 303	1 231
Transactions concerning precious metals and commodities	**1 302**	**601**	**0**	**0**
Embedded instruments	**799**	**1 699**	**0**	**675**
Total	**1 155 201**	**1 227 462**	**1 071 089**	**982 916**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012 Assets	31.12.2012 Liabilities	31.12.2011 Assets	31.12.2011 Liabilities
Interest rate transactions (nominal value)	**61 455 925**	**69 087 322**	**76 462 551**	**94 255 522**
- up to 1 month	2 968 400	2 501 416	2 614 977	3 389 110
- 1-3 months	11 670 807	12 386 180	9 564 914	9 010 500
- 3-6 months	17 853 372	24 789 445	13 137 852	21 733 937
- 6 months to 1 year	21 627 863	21 898 248	22 084 837	29 126 011
- 1-3 years	4 744 000	4 175 018	25 562 138	25 836 646
- 3-5 years	2 539 305	3 028 710	3 304 841	4 664 198
- 5-10 years	52 178	308 305	192 992	495 120
Foreign exchange transactions (nominal value)	**16 424 222**	**16 378 803**	**14 200 231**	**14 064 252**
- up to 1 month	6 448 916	6 427 622	6 400 252	6 373 843
- 1-3 months	2 838 806	2 833 198	3 108 431	2 985 832
- 3-6 months	1 256 924	1 240 126	2 249 299	2 256 243
- 6 months to 1 year	309 964	309 668	2 317 601	2 330 146
- 1-3 years	109 403	119 222	124 648	118 188
- 3-5 years	2 059 309	2 048 067	0	0
- 5-10 years	**3 400 900**	**3 400 900**	**0**	**0**
Transactions concerning precious metals and commodities	**13 933**	**13 218**	**0**	**0**
- up to 1 month	2 232	2 080	**0**	**0**
- 1-3 months	6 048	5 807	**0**	**0**
- 3-6 months	3 392	3 186	**0**	**0**
- 6 months to 1 year	2 261	2 145	**0**	**0**
Total nominal value*	**77 894 080**	**85 479 343**	**90 662 782**	**108 319 774**

** figures as at 31.12.2011 do not take account of the data concerning embedded instruments; the item 'Liabilities related to the sale/purchase transactions' in Note 49 comprises in addition current currency exchange transactions and transactions on securities*

30. Financial assets subject to hedge accounting

As at 31.12.2012 and 31.12.2011, the Group applied loans-related cash flow hedge using IRS's, the aim of which was to change floating interest rate cash flows generated by the loans portfolio to cash flows based on a fixed interest rate to match the structure of the interest rate risk for assets and liabilities based on a fixed interest rate. The hedge involved swap transactions in which the Group, on the whole, paid cash flows based on a variable WIBOR 3M and EURIBOR 3M interest rate matched to the interest rate of the loans portfolio, and received interest flows at a fixed interest rate with required maturity. The above structure made it possible to change the floating interest rate into the fixed interest rate without the necessity for employing additional liquid cash for the purchase of new assets (e.g. fixed coupon bonds), at the same time ensuring a stable impact on the result by recognizing changes in fair value of swaps in the Bank's equity.

As at 31.12.2012, the Group applied cash flow hedge related to loans and deposits using CIRS's, the aim of which was to hedge the interest rate risk and the currency risk. The hedge involved swap transactions in which the Group paid cash flows in CHF and interest based on LIBOR 3M rate, and received cash flows in PLN and interest based on WIBOR 3M rate.

As at 31.12.2012 and 31.12.2011, the Group did not apply hedge accounting to hedge fair value of financial assets.

The rules of recognizing and measuring the effectiveness of the hedges for transactions subject to hedge accounting are described in Note 3.7.6 of these financial statements.

As at 31.12.2012

Financial assets subject to cash flow hedge accounting

- loans portfolio

Hedged assets – mortgage loans of PLN 1,696,764 thousand.

IRS's hedging cash flows

		Interest rate		Coupon rate payment			
Principal amount	**Maturity date**	**Coupon received**	**Coupon paid**	**Coupon received**	**Coupon paid**	**Balance sheet valuation with interest**	**Valuation in the income statement ***
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	1 497	32
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	3 524	8
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	3 765	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	8 280	0
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	4 840	0
70 000	05.03.2015	fixed 5.90%	WIB 3M	annually	every quarter	6 972	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	1 809	0
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	1 794	16
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	2 886	0
60 000	02.10.2013	fixed 5.54%	WIB 3M	annually	every quarter	931	0
60 000	23.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	477	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	3 055	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	6 405	0
75 000	02.03.2016	fixed 5.61%	WIB 3M	annually	every quarter	8 450	87
120 000	04.05.2016	fixed 5.60%	WIB 3M	annually	every quarter	12 301	0
100 000	13.05.2013	fixed 5.10%	WIB 3M	annually	every quarter	2 924	0
120 000	02.06.2016	fixed 5.43%	WIB 3M	annually	every quarter	11 603	0
25 000	03.06.2019	fixed 5.50%	WIB 3M	annually	every quarter	3 758	0
25 000	05.08.2019	fixed 5.27%	WIB 3M	annually	every quarter	3 143	0
81 764	12.08.2016	fixed 1.99%	EURIB 3M	annually	every quarter	5 222	278
50 000	02.09.2019	fixed 4.65%	WIB 3M	annually	every quarter	4 370	0
25 000	04.10.2019	fixed 4.91%	WIB 3M	annually	every quarter	2 311	0
25 000	04.11.2019	fixed 4.83%	WIB 3M	annually	every quarter	2 205	0
25 000	02.12.2019	fixed 5.01%	WIB 3M	annually	every quarter	2 502	0
25 000	03.01.2020	fixed 4.80%	WIB 3M	annually	every quarter	3 098	0
50 000	03.04.2020	fixed 4.87%	WIB 3M	annually	every quarter	5 937	0
60 000	04.06.2013	fixed 5.10%	WIB 3M	annually	every quarter	1 809	0
					Total	**115 868**	**421**

** excluding interest presented in net interest income*

Hedged assets – loans of CHF 1 billion

CIRS's hedging cash flows

Principal amount	Maturity date	Interest rate: Coupon received	Interest rate: Coupon paid	Coupon rate payment: Coupon received	Coupon rate payment: Coupon paid	Balance sheet valuation with interest	Valuation in the income statement*
84 670	22.11.2013		CHF LIBOR 3M		every quarter	1 427	-1
85 825	22.11.2013	WIB 3M		every quarter			
338 680	07.06.2016		CHF LIBOR 3M		every quarter	400	94
341 500	07.06.2016	WIB 3M		every quarter			
508 020	03.06.2016		CHF LIBOR 3M		every quarter	915	123
512 250	03.06.2016	WIB 3M		every quarter			
564 467	14.01.2013**					-19 161	619
569 167	14.01.2013**						
564 467	14.07.2022		CHF LIBOR 3M		every quarter		
569 167	14.07.2022	WIB 3M		every quarter			
564 467	21.01.2013**					-18 134	837
569 167	21.01.2013**						
564 467	21.01.2022		CHF LIBOR 3M		every quarter		
569 167	21.01.2022	WIB 3M		every quarter			
564 467	04.02.2013**					-19 955	13
569 167	04.02.2013**						
564 467	06.02.2023		CHF LIBOR 3M		every quarter		
569 167	06.02.2023	WIB 3M		every quarter			
338 680	28.02.2013**					-3 789	160
341 500	28.02.2013**						
338 680	28.02.2017		CHF LIBOR 3M		every quarter		
341 500	28.02.2017	WIB 3M		every quarter			
508 020	27.12.2016		CHF LIBOR 3M		every quarter	-1 327	-26
512 250	27.12.2016	WIB 3M		every quarter			
					Total	**-59 624**	**1 819**

** excluding interest presented in net interest income*

*** the date of the first flow of the principal amount falling after 31.12.2012*

As at 31.12.2011

Financial assets subject to cash flow hedge accounting

- loans portfolio

Hedged assets – mortgage loans of PLN 3,173,336 thousand.

IRS's hedging cash flows

Principal amount	Maturity date	Interest rate		Coupon rate payment		Balance sheet valuation with interest	Valuation in the income statement*
		Coupon received	Coupon paid	Coupon received	Coupon paid		
100 000	09.07.2012	fixed 5.70%	WIB 3M	annually	every quarter	1 924	0
100 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	1 796	0
50 000	13.08.2012	fixed 5.62%	WIB 3M	annually	every quarter	898	0
150 000	09.11.2012	fixed 5.75%	WIB 3M	annually	every quarter	1 132	0
30 000	17.12.2014	fixed 5.90%	WIB 3M	annually	every quarter	1 004	25
75 000	10.01.2013	fixed 5.94%	WIB 3M	annually	every quarter	4 300	15
85 000	08.02.2013	fixed 5.63%	WIB 3M	annually	every quarter	4 334	0
85 000	20.02.2015	fixed 5.85%	WIB 3M	annually	every quarter	6 650	0
100 000	04.03.2013	fixed 6.01%	WIB 3M	annually	every quarter	5 874	0
70 000	05.03.2015	fixed 5.90%	WIB 3M	annually	every quarter	5 596	0
50 000	15.04.2013	fixed 5.92%	WIB 3M	annually	every quarter	2 265	0
50 000	17.04.2013	fixed 5.85%	WIB 3M	annually	every quarter	2 177	22
50 000	17.04.2012	fixed 5.92%	WIB 3M	annually	every quarter	1 706	28
30 000	08.05.2012	fixed 5.94%	WIB 3M	annually	every quarter	1 018	0
75 000	16.05.2013	fixed 6.01%	WIB 3M	annually	every quarter	3 499	0
60 000	02.10.2013	fixed 5.54%	WIB 3M	annually	every quarter	867	0
60 000	23.12.2013	fixed 4.30%	WIB 3M	annually	every quarter	-476	-328
75 000	08.10.2012	fixed 5.13%	WIB 3M	annually	every quarter	135	0
50 000	05.11.2012	fixed 5.31%	WIB 3M	annually	every quarter	163	0
50 000	05.11.2012	fixed 5.30%	WIB 3M	annually	every quarter	160	0
50 000	10.02.2014	fixed 5.35%	WIB 3M	annually	every quarter	2 661	0
100 000	10.03.2014	fixed 5.41%	WIB 3M	annually	every quarter	5 522	0
75 000	02.03.2016	fixed 5.61%	WIB 3M	annually	every quarter	5 659	87
75 000	04.04.2016	fixed 5.60%	WIB 3M	annually	every quarter	4 723	0
120 000	04.05.2016	fixed 5.60%	WIB 3M	annually	every quarter	7 508	0
100 000	13.05.2013	fixed 5.10%	WIB 3M	annually	every quarter	2 945	0
120 000	02.06.2016	fixed 5.43%	WIB 3M	annually	every quarter	6 544	0
25 000	03.06.2019	fixed 5.50%	WIB 3M	annually	every quarter	1 650	0
150 000	04.07.2016	fixed 5.24%	WIB 3M	annually	every quarter	5 068	0
25 000	05.08.2019	fixed 5.27%	WIB 3M	annually	every quarter	950	0
100 000	03.08.2016	fixed 5.16%	WIB 3M	annually	every quarter	3 003	0
88 336	12.08.2016	fixed 1.99%	EURIB 3M	annually	every quarter	2 523	145
50 000	02.09.2019	fixed 4.65%	WIB 3M	annually	every quarter	-171	-318
120 000	02.09.2016	fixed 4.53%	WIB 3M	annually	every quarter	216	-357
25 000	04.10.2019	fixed 4.91%	WIB 3M	annually	every quarter	47	0
120 000	04.10.2016	fixed 4.78%	WIB 3M	annually	every quarter	120	0
25 000	04.11.2019	fixed 4.83%	WIB 3M	annually	every quarter	-93	-91
120 000	03.11.2016	fixed 4.70%	WIB 3M	annually	every quarter	-339	-366
120 000	02.12.2016	fixed 4.91%	WIB 3M	annually	every quarter	756	0
25 000	02.12.2019	fixed 5.01%	WIB 3M	annually	every quarter	199	0
120 000	03.01.2017	fixed 4.68%	WIB 3M	annually	every quarter	-446	0
25 000	03.01.2020	fixed 4.80%	WIB 3M	annually	every quarter	-144	0
					Total	**93 923**	**-1 138**

** excluding interest presented in net interest income*

In the case of cash flow hedge, the amount recognized in equity as at 31.12.2012 was PLN 20,050 thousand (disregarding the tax effect). The amount derecognized from equity related to income and costs associated with the valuation of IRS's (CFH) and CIRS's (CFH) and recognized in the income statement (the ineffective part) amounted to PLN 2,240 thousand. The amount derecognized from equity related to currency translation differences from CIRS's (CFH) and recognized in the income statement in the result on foreign exchange amounted to PLN 12,435 thousand.

As at 31.12.2011, the amount recognized in equity was PLN 35,976 thousand (disregarding the tax effect), and the amount derecognized from equity and recognized in the income statement (the ineffective part) amounted to -PLN 1,138 thousand.

Summary of valuations of hedging derivatives

in PLN '000'	**31.12.2012**	**31.12.2011**
Total positive valuations (with interest)	118 610	95 592
Total negative valuations (with interest)	-62 366	-1 669
Total	**56 244**	**93 923**

31. Gross loans and advances to customers

By types

in PLN '000'	**31.12.2012**	**31.12.2011**
Loans and advances	28 660 808	29 394 567
Purchased debt	190 222	252 086
Realized guarantees	93 093	37 592
Other receivables, including:	750 119	689 105
- leasing fees	688 151	632 267
Debt securities classified as loans and receivables	140 142	120 565
Total	**29 834 384**	**30 493 915**

By maturity dates (as at the balance sheet date)

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	813 479	809 201
- 1-3 months	1 428 381	1 230 501
- 3-6 months	1 811 736	1 427 405
- 6 months to 1 year	3 511 565	3 572 271
- 1-3 years	3 858 533	4 639 881
- 3-5 years	2 414 194	2 515 758
- 5-10 years	4 123 651	4 248 688
- 10-20 years	6 642 900	6 845 128
- over 20 years	3 420 454	3 939 155
- past due*	1 809 491	1 265 927
Total	**29 834 384**	**30 493 915**

** comprises only the value of installments with delayed payment*

Receivables by classes

in PLN '000'	31.12.2012	31.12.2011
Natural persons*	**22 077 726**	**23 108 088**
- overdraft facilities	927 069	1 004 576
- term loans**	593 817	810 165
- cash loans, installment loans and cards	2 685 823	2 833 496
- mortgage housing loans	17 418 621	17 984 863
- other mortgage loans***	392 036	421 838
- purchased debt	17 503	14 421
- realized guarantees	1 182	1 472
- other receivables	41 675	37 257
Corporate customers and SME	**7 559 219**	**7 185 668**
- overdraft facilities	2 350 003	2 019 966
- term loans**	4 188 490	4 207 920
- purchased debt	172 719	217 702
- realized guarantees	91 911	36 120
- other receivables, including leasing fees	708 444	651 848
- debt securities classified as loans and receivables	47 652	52 112
Budgetary sector	**197 439**	**200 159**
- overdraft facilities	7 313	4 787
- term loans**	97 636	106 956
- purchased debt	0	19 963
- debt securities classified as loans and receivables	92 490	68 453
Total	**29 834 384**	**30 493 915**

** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
*** comprises mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Table 'Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2012' presented on the next page does not include created, according to the description in Note 4, provisions (in the amount of PLN 257.9 million) for credit risk concerning exposures assessed collectively.

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2012

in PLN '000'	Gross receivables	Impaired gross receivables	Impairment losses for receivables with evidence for impairment	Non-impaired gross receivables by days of delay in payment						Impairment losses IBNR
				no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90 days*	Total non-impaired gross receivables	
Natural persons**	**22 077 726**	**1 435 125**	**796 972**	**19 118 938**	**1 283 335**	**178 395**	**61 933**	**0**	**20 642 601**	**114 185**
- overdraft facilities	927 069	139 163	88 682	638 074	135 631	9 526	4 675	0	787 906	9 583
- term loans***	593 817	59 936	33 890	470 270	61 062	2 123	426	0	533 881	1 879
- cash loans, installment loans and cards	2 685 823	350 282	272 011	2 171 812	128 496	22 874	12 359	0	2 335 541	17 497
- mortgage housing loans	17 418 621	821 388	359 120	15 492 282	923 747	138 655	42 549	0	16 597 233	82 181
- other mortgage loans****	392 036	55 459	34 600	295 274	34 162	5 217	1 924	0	336 577	2 884
- purchased debt	17 503	2 055	2 055	15 211	237	0	0	0	15 448	161
- realized guarantees	1 182	1 182	1 002	0	0	0	0	0	0	0
- other receivables	41 675	5 660	5 612	36 015	0	0	0	0	36 015	0
Corporate customers and SME	**7 559 219**	**1 569 966**	**669 508**	**5 757 736**	**211 440**	**16 438**	**3 639**	**0**	**5 989 253**	**23 979**
- overdraft facilities	2 350 003	261 386	147 359	2 006 196	75 835	5 499	1 087	0	2 088 617	9 679
- term loans***	4 188 490	1 124 261	406 540	2 923 592	135 380	4 397	860	0	3 064 229	12 297
- purchased debt	172 719	9 796	7 033	162 698	225	0	0	0	162 923	570
- realized guarantees	91 911	91 911	73 994	0	0	0	0	0	0	0
- other receivables, including leasing fees	708 444	82 612	34 582	617 598	0	6 542	1 692	0	625 832	1 433
- debt securities classified as loans and receivables	47 652	0	0	47 652	0	0	0	0	47 652	0
Budgetary sector	**197 439**	**0**	**0**	**191 880**	**5 559**	**0**	**0**	**0**	**197 439**	**424**
- overdraft facilities	7 313	0	0	7 113	200	0	0	0	7 313	98
- term loans***	97 636	0	0	92 277	5 359	0	0	0	97 636	326
- purchased debt	0	0	0	0	0	0	0	0	0	0
- debt securities classified as loans and receivables	92 490	0	0	92 490	0	0	0	0	92 490	0
Total	**29 834 384**	**3 005 091**	**1 466 480**	**25 068 554**	**1 500 334**	**194 833**	**65 572**	**0**	**26 829 293**	**138 588**

** in the case of a delay in payment of at least one installment, the total debt is presented as delayed*
*** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
**** comprises mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Receivables in breakdown by classes and by impaired and non-impaired receivables as at 31.12.2011

in PLN '000'	Gross receivables	Impaired gross receivables	Impairment losses for receivables with evidence for impairment	Non-impaired gross receivables by days of delay in payment						Impairment losses IBNR
				no delay	up to 30 days*	31 - 60 days*	61 - 90 days*	over 90 days*	Total non-impaired gross receivables	
Natural persons**	**23 108 088**	**1 529 253**	**856 605**	**20 017 811**	**1 330 766**	**179 625**	**50 298**	**335**	**21 578 835**	**98 055**
- overdraft facilities	1 004 576	159 967	121 158	703 533	127 000	9 272	4 483	321	844 609	10 333
- term loans***	810 165	114 635	77 842	651 705	38 208	5 324	287	6	695 530	1 308
- cash loans, installment loans and cards	2 833 496	350 984	298 835	2 278 922	155 649	31 151	16 787	3	2 482 512	41 950
- mortgage housing loans	17 984 863	835 694	317 036	16 020 562	973 904	127 507	27 191	5	17 149 169	44 051
- other mortgage loans****	421 838	55 104	30 834	322 943	35 870	6 371	1 550	0	366 734	387
- purchased debt	14 421	2 242	2 242	12 044	135	0	0	0	12 179	26
- realized guarantees	1 472	1 472	918	0	0	0	0	0	0	0
- other receivables	37 257	9 155	7 740	28 102	0	0	0	0	28 102	0
Corporate customers and SME	**7 185 668**	**983 200**	**442 953**	**6 017 515**	**176 787**	**6 369**	**1 554**	**243**	**6 202 468**	**10 475**
- overdraft facilities	2 019 966	158 514	88 256	1 772 913	86 372	988	936	243	1 861 452	7 693
- term loans***	4 207 920	694 027	301 838	3 421 839	90 162	1 892	0	0	3 513 893	1 791
- purchased debt	217 702	9 507	6 298	207 942	253	0	0	0	208 195	77
- realized guarantees	36 120	36 120	1 119	0	0	0	0	0	0	0
- other receivables, including leasing fees	651 848	85 032	45 442	562 709	0	3 489	618	0	566 816	914
- debt securities classified as loans and receivables	52 112	0	0	52 112	0	0	0	0	52 112	0
Budgetary sector	**200 159**	**1**	**1**	**199 751**	**407**	**0**	**0**	**0**	**200 158**	**72**
- overdraft facilities	4 787	0	0	4 380	407	0	0	0	4 787	45
- term loans***	106 956	0	0	106 956	0	0	0	0	106 956	25
- purchased debt	19 963	1	1	19 962	0	0	0	0	19 962	2
- debt securities classified as loans and receivables	68 453	0	0	68 453	0	0	0	0	68 453	0
Total	**30 493 915**	**2 512 454**	**1 299 559**	**26 235 077**	**1 507 960**	**185 994**	**51 852**	**578**	**27 981 461**	**108 602**

** in the case of a delay in payment of at least one installment, the total debt is presented as delayed*
*** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
**** comprises mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The amount of non-amortized loan commissions settled with the effective interest rate method, which, according to the concept of the measurement of financial assets at amortized cost, decreases the value of gross receivables, amounted to PLN 62,891 thousand as at 31.12.2012, and PLN 80,502 thousand as at 31.12.2011. The amounts have been recognized in total gross loans and advances.

Receivables assessed individually

in PLN '000'	**31.12.2012**	**31.12.2011**
Gross receivables	1 394 192	975 268
Impairment losses	606 570	432 592
Net receivables	787 622	542 676

Accepted loan collateral

In the case of receivables assessed individually, the total fair value of collateral approved by the Group considered in estimated future cash flows is presented in the table below.

in PLN '000'	**31.12.2012**	**31.12.2011**
Value of accepted collateral for loans and advances assessed individually	838 684	336 494

Apart from standard loan collateral specified in loan agreements which are in line with the practices applied in the industry (mortgage, transfers of ownership to secure a loan, registered pledges, frozen cash on bank accounts, sureties, guarantees and transfers of receivables), the Group did not apply any other loan collateral, e.g. credit derivatives.

The Group assessed established legal securities of loan transactions by an analysis of the value of approved collateral on the basis of documents lodged by the borrower and internal databases including historic data about the recoverability of collateral.

From the point of view of the Bank's loans portfolio, mortgages that significantly reduce the credit risk were the most important collateral. The Bank constantly monitored the value of approved mortgage collateral, e.g. by analyzing LtV (Loan-to-Value) ratios. As at 31.12.2012, the fair value of approved mortgage collateral for housing purposes mortgages and other mortgage loans, which affects the assessment of the credit risk, amounted to PLN 15,763 million, and as at 31.12.2011 it amounted to PLN 15,149 million.

32. Impairment losses on loans and advances to customers

in PLN '000'	**Impairment 31.12.2011**	**Recognized**	**Reversed**	**Written off**	**Other changes**	**Impairment 31.12.2012**
Natural persons*	**954 660**	**1 222 739**	**-1 119 524**	**-23 893**	**-122 825**	**911 157**
- overdraft facilities	131 491	184 972	-167 530	-4 265	-46 403	98 265
- term loans**	79 150	31 569	-25 752	-525	-48 673	35 769
- cash loans, installment loans and cards	340 785	392 098	-416 460	-13 919	-12 996	289 508
- mortgage housing loans	361 087	579 468	-483 080	-3 533	-12 641	441 301
- other mortgage loans***	31 221	30 767	-23 276	-643	-585	37 484
- purchased debt	2 268	808	-686	0	-174	2 216
- realized guarantees	918	2 180	-1 089	0	-1 007	1 002
- other receivables	7 740	877	-1 651	-1 008	-346	5 612
Corporate customers and SME	**453 428**	**1 287 262**	**-968 541**	**-24 034**	**-54 628**	**693 487**
- overdraft facilities	95 949	268 507	-201 262	-301	-5 855	157 038
- term loans**	303 629	799 993	-634 772	-4 917	-45 096	418 837
- purchased debt	6 375	20 278	-15 849	0	-3 201	7 603
- realized guarantees	1 119	165 519	-92 126	0	-518	73 994
- other receivables, including leasing fees	46 356	32 965	-24 532	-18 816	42	36 015
Budgetary sector	**73**	**2 164**	**-1 836**	**0**	**23**	**424**
- overdraft facilities	45	1 453	-1 419	0	19	98
- term loans**	25	711	-414	0	4	326
- purchased debt	3	0	-3	0	0	0
Total****	**1 408 161**	**2 512 165**	**-2 089 901**	**-47 927**	**-177 430**	**1 605 068**

** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
*** comprises mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*
***** the table does not include created, according to the description in Note 4, provisions (in the amount of PLN 257.9 million) for credit risk concerning exposures assessed collectively.*

in PLN '000'	**Impairment 31.12.2010**	**Recognized**	**Reversed**	**Written off**	**Other changes**	**Impairment 31.12.2011**
Natural persons*	**1 458 966**	**1 594 980**	**-1 421 993**	**-25 334**	**-651 959**	**954 660**
- overdraft facilities	103 962	173 739	-142 674	-3 733	197	131 491
- term loans**	61 895	37 079	-20 609	-3 779	4 564	79 150
- cash loans, installment loans and cards	1 028 044	857 478	-867 804	-14 317	-662 616	340 785
- mortgage housing loans	224 512	500 688	-367 291	-2 158	5 336	361 087
- other mortgage loans***	28 686	24 468	-21 321	-678	66	31 221
- purchased debt	1 897	607	-236	0	0	2 268
- realized guarantees	917	116	-115	0	0	918
- other receivables	9 053	805	-1 943	-669	494	7 740
Corporate customers and SME	**454 990**	**468 297**	**-468 915**	**-27 909**	**26 965**	**453 428**
- overdraft facilities	133 756	129 606	-150 182	-16 753	-478	95 949
- term loans**	270 750	306 067	-266 620	-8 296	1 728	303 629
- purchased debt	6 093	5 764	-4 902	-980	400	6 375
- realized guarantees	1 122	201	-25 530	0	25 326	1 119
- other receivables, including leasing fees	43 269	26 659	-21 681	-1 880	-11	46 356
Budgetary sector	**44**	**287**	**-258**	**0**	**0**	**73**
- overdraft facilities	4	231	-190	0	0	45
- term loans**	40	48	-63	0	0	25
- purchased debt	0	8	-5	0	0	3
Total	**1 914 000**	**2 063 564**	**-1 891 166**	**-53 243**	**-624 994**	**1 408 161**

** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
*** comprises mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

The amount in 'Other changes' column for cash loans, installment loans and cards refers among other to the sales of debts.

IBNR

Impairment losses on incurred but not reported (IBNR) credit losses – excluding IBNR impairment losses described in Note 4 - for homogenous balance sheet and off-balance sheet receivables portfolios as at 31.12.2012 amounted to PLN 156,827 thousand, including PLN 18,239 thousand related to off-balance sheet liabilities; and as at 31.12.2011, amounted to PLN 111,609 thousand, including PLN 3,007 thousand related to off-balance sheet liabilities.

33. Finance lease receivables and a change in charges for lease receivables

in PLN '000'	**31.12.2012**	**31.12.2011**
Gross investments in finance lease	756 024	703 925
Unrealized future financial income	67 873	71 658
Present value of minimum leasing fees (gross carrying amount)	688 151	632 267
Gross investments in finance lease for each period:	756 024	703 924
- up to 1 year	338 772	259 970
- later than 1 year and not later than 5 years	407 331	415 338
- over 5 years	9 921	28 616
Present value of minimum leasing fees for each period:	688 151	632 267
- up to 1 year	306 059	226 462
- later than 1 year and not later than 5 years	372 998	378 932
- over 5 years	9 094	26 873

Impairment losses on lease receivables

in PLN '000'	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Period beginning	38 616	38 242
a) increase	24 097	20 633
- impairment losses on lease receivables	24 097	20 371
- other changes	0	262
b) reversal	20 544	18 379
- reversal of impairment losses on lease receivables	20 586	18 105
- other changes	-42	274
c) utilization	18 816	1 880
- leasing fees written off in the period as bad debts	18 816	1 880
Period end	**23 353**	**38 616**

34. Investment securities

in PLN '000'	**31.12.2012**	**31.12.2011**
Available-for-sale financial assets	**5 427 775**	**5 262 038**
Treasury securities	5 424 349	4 849 562
- bonds	5 424 349	4 849 562
Central Bank securities	0	99 953
- bills	0	99 953
Other securities	0	307 126
- bonds	0	307 126
Equity securities	3 426	5 397
Held-to-maturity financial assets	**2 548 590**	**3 416 674**
Treasury securities	2 548 590	3 416 674
- bonds	2 548 590	3 416 674
Total	**7 976 365**	**8 678 712**

All investment securities classified in the portfolio of available-for-sale financial assets were measured at fair value on the basis of market quotations, except for SINPLN commercial bonds, Treasury Eurobonds, money bills of the National Bank of Poland and non-listed equity investments.

The fair value of SINPLN bonds was determined by discounting cash flows from the bonds with PLN-BOND curve having regard for the credit spread. The bonds were with fixed coupon.

Treasury Eurobonds were valued by discounting cash flows from the bonds with EUR-BOND curve (for securities in EUR), having regard for the credit spread.

The money bills of the National Bank of Poland were valued with the application of PLN-SWAP curve, disregarding the credit spread.

in PLN '000'	**31.12.2012**	**31.12.2011**
Available-for-sale financial assets	**5 427 775**	**5 262 038**
Listed	**5 424 387**	**4 849 600**
- shares	38	38
- bonds	5 424 349	4 849 562
Non-listed	**3 388**	**412 438**
- shares	3 388	5 359
- bonds	0	307 126
- bills	0	99 953
Held-to-maturity financial assets	**2 548 590**	**3 416 674**
Listed	**2 548 590**	**3 416 674**
- bonds	2 548 590	3 416 674
Total	**7 976 365**	**8 678 712**

Maturities of available-for-sale financial assets

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	0	99 953
- 1-3 months	145 164	83 439
- 3-6 months	697 968	384 609
- 6 months to 1 year	533 704	168 489
- 1-3 years	2 047 933	1 609 647
- 3-5 years	700 677	1 713 662
- 5-10 years	1 298 903	1 196 842
- with unspecified maturity dates	3 426	5 397
Total	**5 427 775**	**5 262 038**

Maturities of held-to-maturity financial assets

in PLN '000'	**31.12.2012**	**31.12.2011**
- up to 1 month	32 191	109 657
- 1-3 months	0	0
- 3-6 months	124 756	0
- 6 months to 1 year	257 272	741 928
- 1-3 years	1 215 642	980 536
- 3-5 years	627 757	1 076 220
- 5-10 years	290 972	508 333
Total	**2 548 590**	**3 416 674**

35. Investments in associates valued using the equity method

As at 31.12.2012, the Group did not have investments in associates.

As at 31.12.2011, the Group held shares in one associate measured with the equity method., i.e. KBC Towarzystwo Funduszy Inwestycyjnych S.A., which is involved in the management of investment funds.

in PLN '000'	**31.12.2011**
Carrying amount of shares	19 152
Entity's total assets	72 829
Entity's equity:	65 479
- share capital	25 258
- supplementary capital	25 229
- other equity:	14 992
- retained earnings (loss)	2 071
- net profit (loss)	12 921
Entity's liabilities	7 350
Entity's receivables	40 396
Total income	69 128
% of capital held	30%
Share in the total number of votes at the General Meeting of Shareholders	30%

36. Property, plant and equipment

in PLN '000'	**31.12.2012**	**31.12.2011**
Property, plant and equipment:	214 221	229 690
- land	10 809	10 958
- buildings and premises	119 659	130 605
- plant and machinery	51 942	50 855
- motor vehicles	1 095	1 415
- other property, plant and equipment	30 716	35 857
Construction in progress (expenditure)	9 117	30 107
Total	**223 338**	**259 797**

Movement on property, plant and equipment

For the period of 12 months ended 31.12.2012

in PLN '000'	Land	Buildings and premises	Plant and machinery	Motor vehicles	Other property, plant and equipment	Construction in progress (expenditure)	Total property, plant and equipment
a) gross property, plant and equipment as at 01.01.2012	12 048	220 665	401 538	2 057	172 990	30 312	839 610
b) increase	0	265	30 642	94	9 980	12 490	53 471
- purchase	0	65	18 894	0	8 611	12 282	39 852
- other increases*	0	200	11 748	94	1 369	208	13 619
c) decrease	155	5 068	36 805	616	12 117	33 685	88 446
- sale	132	2 621	496	606	5	0	3 860
- liquidation	0	0	29 228	10	11 163	0	40 401
- other decreases**	23	2 447	7 081	0	949	33 685	44 185
d) gross property, plant and equipment as at 31.12.2012	11 893	215 862	395 375	1 535	170 853	9 117	804 635
e) accumulated depreciation as at 01.01.2012	1 090	78 608	348 575	640	136 592	0	565 505
f) changes in depreciation	-6	2 240	-5 264	-200	3 270	0	40
- depreciation	0	4 205	29 165	284	14 402	0	48 056
- sale	-6	-1 114	-494	-543	-5	0	-2 162
- liquidation	0	0	-28 552	-7	-10 530	0	-39 089
- other changes	0	-851	-5 383	66	-597	0	-6 765
g) accumulated depreciation as at 31.12.2012	1 084	80 848	343 311	440	139 862	0	565 545
h) impairment as at 01.01.2012	0	11 452	2 108	2	541	205	14 308
- increases	0	3 914	0	0	6	0	3 920
- decreases	0	11	1 986	2	272	205	2 476
i) impairment as at 31.12.2012	0	15 355	122	0	275	0	15 752
j) net property, plant and equipment as at 01.01.2012	10 958	130 605	50 855	1 415	35 857	30 107	259 797
Net property, plant and equipment as at 31.12.2012	**10 809**	**119 659**	**51 942**	**1 095**	**30 716**	**9 117**	**223 338**

** other increases (except for expenditure on property, plant and equipment) are related mainly to the acceptance for use of property, plant and equipment previously presented in 'Expenditure on property, plant and equipment' line*
*** other decreases in 'Expenditure on property, plant and equipment' line are related mainly to the transfer of property, plant and equipment for use*

For the period of 12 months ended 31.12.2011

in PLN '000'	**Land**	**Buildings and premises**	**Plant and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Construction in progress (expenditure)**	**Total property, plant and equipment**
a) gross property, plant and equipment as at 01.01.2011	12 126	218 846	414 612	1 568	178 768	20 551	846 471
b) increase	0	6 055	15 755	1 394	5 738	30 759	59 701
- purchase	0	500	2 234	1 394	4 070	16 091	24 289
- other increases*	0	5 555	13 521	0	1 668	14 668	35 412
c) decrease	78	4 236	28 829	905	11 516	20 998	66 562
- sale	28	446	1 823	905	134	0	3 336
- liquidation	0	879	21 836	0	3 869	0	26 584
- other decreases**	50	2 911	5 170	0	7 513	20 998	36 642
d) gross property, plant and equipment as at 31.12.2011	12 048	220 665	401 538	2 057	172 990	30 312	839 610
e) accumulated depreciation as at 01.01.2011	1 090	75 930	334 011	980	127 929	0	539 940
f) changes in depreciation	0	2 678	14 564	-340	8 663	0	25 565
- depreciation	0	4 237	42 869	289	19 370	0	66 765
- sale	0	-64	-1 708	-629	-24	0	-2 425
- liquidation	0	-545	-21 457	0	-3 532	0	-25 534
- other changes	0	-950	-5 140	0	-7 151	0	-13 241
g) accumulated depreciation as at 31.12.2011	1 090	78 608	348 575	640	136 592	0	565 505
h) impairment as at 01.01.2011	0	11 793	3 431	154	709	0	16 087
- increases	0	0	1	0	0	1 205	1 206
- decreases	0	341	1 324	152	168	1 000	2 985
i) impairment as at 31.12.2011	0	11 452	2 108	2	541	205	14 308
j) net property, plant and equipment as at 01.01.2011	11 036	131 123	77 170	434	50 130	20 551	290 444
Net property, plant and equipment as at 31.12.2011	**10 958**	**130 605**	**50 855**	**1 415**	**35 857**	**30 107**	**259 797**

** other increases (except for expenditure on property, plant and equipment) are related mainly to the acceptance for use of property, plant and equipment previously presented in 'Expenditure on property, plant and equipment' line*
*** other decreases in 'Expenditure on property, plant and equipment' line are related mainly to the transfer of property, plant and equipment for use*

37. Intangible assets

in PLN '000'	**31.12.2012**	**31.12.2011**
Internally developed computer software	0	0
Acquired computer software	68 353	25 182
Other intangible assets, including capital expenditure	26 463	34 529
Total	**94 816**	**59 711**

Movement on intangible assets

For the period of 12 months ended 31.12.2012

in PLN '000'	**Internally developed computer software**	**Acquired computer software**	**Other intangible assets, including capital expenditure**	**Total intangible assets**
a) gross intangible assets as at 01.01.2012	0	300 572	42 834	343 406
b) increase	0	73 155	7 278	80 433
- purchase	0	50 473	55	50 528
- other increases*	0	22 682	7 223	29 905
c) decrease	0	18 180	23 495	41 675
- sale	0	0	0	0
- liquidation	0	12 173	88	12 261
- adjustments due to the smaller number of consolidated companies	0	294	33	327
- other decreases**	0	5 713	23 374	29 087
d) gross intangible assets as at 31.12.2012	0	355 547	26 617	382 164
e) accumulated amortization as at 01.01.2012	0	270 182	268	270 450
f) amortization in the period	0	5 365	-114	5 251
- amortization	0	17 796	7	17 803
- sale	0	0	0	0
- liquidation	0	-12 137	-88	-12 225
- adjustments due to the smaller number of consolidated companies	0	-294	-33	-327
- other changes	0	0	0	0
g) accumulated amortization as at 31.12.2012	0	275 547	154	275 701
h) impairment as at 01.01.2012	0	5 208	8 037	13 245
- increases	0	6 697	0	6 697
- decreases	0	258	8 037	8 295
i) impairment as at 31.12.2012	0	11 647	0	11 647
j) net intangible assets as at 01.01.2012	0	25 182	34 529	59 711
Net intangible assets as at 31.12.2012	**0**	**68 353**	**26 463**	**94 816**

** other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*
*** other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*

For the period of 12 months ended 31.12.2011

in PLN '000'	**Internally developed computer software**	**Acquired computer software**	**Other intangible assets, including capital expenditure**	**Total intangible assets**
a) gross intangible assets as at 01.01.2011	42	298 726	13 874	312 642
b) increase	0	3 104	34 772	37 876
- purchase	0	1 454	30 614	32 068
- other increases*	0	1 650	4 158	5 808
c) decrease	42	1 258	5 812	7 112
- sale	42	0	0	42
- liquidation	0	600	122	722
- other decreases**	0	658	5 690	6 348
d) gross intangible assets as at 31.12.2011	0	300 572	42 834	343 406
e) accumulated amortization as at 01.01.2011	31	255 403	341	255 775
f) amortization in the period	-31	14 779	-73	14 675
- amortization	1	15 253	23	15 277
- sale	-32	0	0	-32
- liquidation	0	-449	-121	-570
- other changes	0	-25	25	0
g) accumulated amortization as at 31.12.2011	0	270 182	268	270 450
h) impairment as at 01.01.2011	0	4 154	2 512	6 666
- increases	0	1 356	5 525	6 881
- decreases	0	302	0	302
i) impairment as at 31.12.2011	0	5 208	8 037	13 245
j) net intangible assets as at 01.01.2011	11	39 169	11 021	50 201
Net intangible assets as at 31.12.2011	**0**	**25 182**	**34 529**	**59 711**

** other increases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*
*** other decreases are related mainly to the taking over for use of intangible assets previously presented as capital expenditure*

38. Investment properties

The table below presents changes in investment properties in 2012 and in 2011:

in PLN '000'	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Gross value as at the beginning of the period	**299 963**	**320 933**
Increases	80	2 228
Decreases*	280 512	23 198
Gross value as at the end of the period	**19 531**	**299 963**
Depreciation as at the beginning of the period	**89 037**	**91 513**
Changes in depreciation	**-86 796**	**-2 476**
Depreciation	4 974	7 718
Decreases*	91 770	10 194
Depreciation as at the end of the period	**2 241**	**89 037**
Impairment as at the beginning of the period	**1 861**	**3 752**
Increases	32	0
Decreases	740	1 891
Impairment as at the end of the period	**1 153**	**1 861**
Net value as at the beginning of the period	**209 065**	**225 668**
Carrying amount as at the end of the period	**16 137**	**209 065**

** changes in 2012 related mainly to the deconsolidation of Reliz described in Note 1*

In 2012, income from rent related to the investment properties amounted to PLN 21,571 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 9,044 thousand. The decrease in income and expenses as compared to 2011 is related to the deconsolidation of Reliz described in Note 1.

In 2011, income from rent related to the investment properties amounted to PLN 33,177 thousand. The direct operating expenses related to the investment properties and incurred in the period amounted to PLN 13,402 thousand.

The investment properties comprised mainly buildings, which were depreciated on a straight-line basis (the annual depreciation rate was 2.5%). Other plant and machinery, which formed an integral part of investment properties were depreciated at the rates ranging from 7% to 30%.

39. Non-current assets held for sale

in PLN '000'	31.12.2012	31.12.2011
Fixed assets held for sale	**5 709**	**12 128**
Gross fixed assets	5 709	13 573
Impairment losses	0	1 445
Total	**5 709**	**12 128**

Non-current assets classified as held for sale are available for immediate sale. They are actively marketed for sale on market terms, without any exceptional or non-standard conditions, at a selling price reasonable in relation to their present fair value. The Group expects that the sale will be recognized as sale made within one year from the date of the reclassification of such assets to the category of non-current assets held for sale.

40. Other assets

in PLN '000'	31.12.2012	31.12.2011
Various debtors*	57 081	74 908
- gross various debtors	59 080	80 617
- impairment losses	-1 999	-5 709
Prepaid expenses	27 394	18 684
Other	2	100
Total	**84 477**	**93 692**

** comprises: amounts due from the sales of financial assets and property, plant and equipment, returnable security deposits paid by the Bank under operating lease agreements for real properties used by the Bank, settlements under payment cards, amounts due to the State Treasury*

41. Amounts due to Central Bank

By types

in PLN '000'	31.12.2012	31.12.2011
Other liabilities	0	32
Total	**0**	**32**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	0	32
Total	**0**	**32**

42. Amounts due to banks

By types

in PLN '000'	31.12.2012	31.12.2011
Current accounts	73 967	83 795
Term deposits	2 872 054	5 160 973
Borrowed loans and advances	1 332 759	3 234 826
Other liabilities	4 298	6 897
Total	**4 283 078**	**8 486 491**

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	1 326 622	2 905 234
- 1-3 months	723 718	2 214
- 3-6 months	304 867	330
- 6 months to 1 year	1 575 619	4 074 878
- 1-3 years	352 252	1 503 835
Total	**4 283 078**	**8 486 491**

43. Liabilities arising from repurchase transactions

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	94 937	0
Total	**94 937**	**0**

44. Amounts due to customers

By types

in PLN '000'	31.12.2012	31.12.2011
Current accounts, including:	16 203 085	16 685 427
- savings account	7 932 128	8 721 838
Term deposits	12 843 792	10 301 309
Borrowed loans and advances*	1 215 508	879 406
Other liabilities	130 245	177 015
Total	**30 392 630**	**28 043 157**

** comprises loans from the European Investment Bank, which, according to the segmentation of the National Bank of Poland, is presented in the corporate customers segment*

By maturity dates (as at the balance sheet date)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	20 269 409	20 211 224
- 1-3 months	3 200 595	2 371 344
- 3-6 months	3 785 166	3 301 389
- 6 months to 1 year	1 732 865	1 075 710
- 1-3 years	281 726	268 631
- 3-5 years	263 255	47 190
- 5-10 years	859 613	767 668
- 10-20 years	1	1
Total	**30 392 630**	**28 043 157**

Liabilities by classes

in PLN '000'	**31.12.2012**	**31.12.2011**
Natural persons*	**18 989 741**	**17 876 440**
- current accounts (including savings account)	10 854 564	11 677 122
- term deposits	8 029 144	6 026 092
- other liabilities	106 033	173 226
Corporate customers and SME	**9 818 809**	**8 707 947**
- current accounts	4 364 429	3 952 357
- term deposits	4 232 691	3 874 166
- borrowed loans and advances**	1 215 508	879 406
- other liabilities	6 181	2 018
Budgetary sector	**1 584 080**	**1 458 770**
- current accounts	984 092	1 055 948
- term deposits	581 957	401 051
- other liabilities	18 031	1 771
Total	**30 392 630**	**28 043 157**

** comprises amounts due to private persons, individual entrepreneurs, individual farmers, non-commercial institutions providing services to households*
*** comprises loans from the European Investment Bank, which, according to the segmentation of the National Bank of Poland, is presented in the corporate customers segment*

45. Provisions

in PLN '000'	**31.12.2012**	**31.12.2011**
Employee benefits provision	1 232	1 737
Provision for off-balance sheet items	63 298	40 809
Provision for litigations	28 961	35 021
Provision for credit risk*	257 858	0
Other	7 415	38 835
Total	**358 764**	**116 402**

** provision for credit risk is described in Note 4*

On 29.12.2011, the Bank's Management Board decided to create a provision in the amount of PLN 35 million for the potential liability related to the resale of Żagiel S.A. by KBC Group, for the price lower than the price obtained by Kredyt Bank S.A.

According to the agreement concluded on 16.12.2009 between Kredyt Bank S.A. and KBC Bank NV, the sale price for 100% of the shares of Żagiel S.A. amounted to PLN 350 million. The said agreement provided that the risk of Kredyt Bank S.A. would be limited to 10% of the sale price, i.e. PLN 35 million, if KBC sold the shares of Żagiel to an outside entity for the price lower than PLN 350 million. Due to the execution by KBC Bank NV of the sale of 100% of the shares of Żagiel S.A. to Santander Consumer Finanse S.A. for the price of PLN 10 million, on 31.07.2012, the Bank received a call to pay PLN 35 million to KBC Bank NV. Due to the establishment in December 2011 of a provision for the said obligation, its satisfaction did not affect the income statement of the Group in 2012.

The litigations with the highest value claims are described in Note 69.

'Employee benefits provisions' are composed of provisions for retirement benefits.

Net increase/decrease in provisions

in PLN '000'	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Period beginning	**116 402**	**92 811**
- employee benefits provision	1 737	1 585
- provision for off-balance sheet items	40 809	49 877
- restructuring provision/severance pays	0	0
- provision for litigations	35 021	40 699
- provision for credit risk	0	0
- other	38 835	650
a) recognition	690 969	306 145
- employee benefits provision	0	300
- provision for off-balance sheet items	401 691	262 595
- restructuring provision/severance pays	0	1 287
- provision for litigations	27 370	6 963
- provision for credit risk	257 858	0
- other	4 050	35 000
b) utilization	-36 724	-4 163
- employee benefits provision	-141	-148
- restructuring provision/severance pays	0	-1 287
- provision for litigations	-129	-2 728
- provision for credit risk	0	0
- other	-36 454	0
c) reversal	-381 541	-284 816
- employee benefits provision	-364	0
- provision for off-balance sheet items	-377 122	-274 903
- provision for litigations	-2 776	-9 913
- provision for credit risk	0	0
- other	-1 279	0
d) other changes	-30 342	6 425
- provision for off-balance sheet items	-2 080	3 240
- provision for litigations	-30 525	0
- provision for credit risk	0	0
- other	2 263	3 185
Period end (by items)	**358 764**	**116 402**
- employee benefits provision	1 232	1 737
- provision for off-balance sheet items	63 298	40 809
- restructuring provision/severance pays	0	0
- provision for litigations	28 961	35 021
- provision for credit risk	257 858	0
- other	7 415	38 835
Period end	**358 764**	**116 402**

46. Other liabilities

in PLN '000'	31.12.2012	31.12.2011
Amounts due to the State Treasury	25 682	21 369
Various creditors	105 513	88 045
Expenses and income settled over time	110 926	143 403
- income collected in advance	7 308	21 610
- expenses to be paid	38 960	47 760
- provision for bonuses*	48 162	60 518
- provision for unused annual leaves	16 496	13 515
Inter-bank clearings	15 290	18 227
Total	**257 411**	**271 044**

** comprises, e.g. provisions for interim and annual bonuses and provisions for bonuses related to the projects being implemented in the Bank*

47. Subordinated liabilities

in PLN '000'	31.12.2012	31.12.2011
Amount of subordinated liabilities	971 533	1 036 510
Total	**971 533**	**1 036 510**

As at 31.12.2012

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabilities
	by currency	in '000'			
KBC Bank NV Dublin Branch	100 000	CHF	3M LIBOR+1.6p.p.	15.06.2018	338 394
KBC Bank NV Dublin Branch	165 000	CHF	3M LIBOR+4.5p.p.	28.06.2019	558 194
KBC Bank NV Dublin Branch	75 000	PLN	1M WIBOR+3.0p.p.	30.01.2019	74 945
Total					**971 533**

As at 31.12.2011

Entity	Loan value		Interest rate	Maturity date	Amount of subordinated liabilities
	by currency	in '000'			
KBC Bank NV Dublin Branch	100 000	CHF	3M LIBOR+1.6p.p.	15.06.2018	362 934
KBC Bank NV Dublin Branch	165 000	CHF	3M LIBOR+4.5p.p.	28.06.2019	598 620
KBC Bank NV Dublin Branch	75 000	PLN	1M WIBOR+3.0p.p.	30.01.2019	74 956
Total					**1 036 510**

48. Equity

Share capital

As at 31.12.2012, the parent company's share capital totaled PLN 1,358,294,400 and was divided into 271,658,880 shares of nominal value of PLN 5.00 each. The parent company's shares were registered shares and bearer shares, but not preference shares. Each share entitled its holder to one vote at the parent company's General Meeting of Shareholders. The parent company's shares were admitted to public trading on the main market of the Warsaw Stock Exchange. As described in Note 2.2, on 02.01.2013, the trade in the Bank's shares was suspended until the date of their exclusion from the stock exchange trading. The share capital did not change in 2012 and 2011.

Pursuant to the Resolution of the Management Board of the Warsaw Stock Exchange (WSE) of 24.08.2012 and the Resolutions of the Management Board of the National Depository for Securities of 31.08.2012, 425 ordinary bearer shares created as a result of the conversion of 425 F series registered shares of Kredyt Bank S.A. marked with code PLKRDTB00029 were assimilated with 271,593,016 ordinary bearer shares marked with code PLKRDTB00011. The shares subject to the assimilation were marked with code PLKRDTB00011.

The said shares were introduced by the Warsaw Stock Exchange, in an ordinary manner, to the stock exchange trading on the primary market on 31.08.2012.

On 31.08.2012:

1) 9,734 shares were marked with code PLKRDTB00029;
2) 271,593,441 shares were marked with code PLKRDTB00011.

The analysis of registered shares and bearer shares presented below was prepared as at 31.12.2012.

<u>Registered shares</u>

The parent company's shareholders held 65,439 registered shares, which accounted for 0.02% of the share capital. Below, we present the registered shares as at 31.12.2012.

Series	Number of shares
A, C, F	9 734
P	29 042
S1	26 663
Total	**65 439**

A, C and F series shares were admitted to stock exchange trading after meeting requirement of converting them into bearer shares, and P and S1 series shares were admitted to stock exchange trading after obtaining respective authorizations.

<u>Bearer shares</u>

The parent company's shareholders held 271,593,441 bearer shares, which accounted for 99.98% of the share capital. Originally, the number of bearer shares amounted to 264,204,350. In addition, as a result of the conversion of registered shares into bearer shares, as at 31.12.2012, there were 7,389,091 bearer shares. Below, we present the bearer shares as at 31.12.2012.

Bearer shares (original)		Converted registered shares into bearer shares	
Series	**Number of shares**	**Series**	**Number of shares**
B	2 500 000	A, C, F	2 904 981
D	100 000	P	3 660 640
E	1 580 425	S1	823 470
G	480 000		
H	3 777 350		
I	5 600 000		
J	4 400 000		
K	2 278 814		
L	2 000 000		
M	10 000 000		
N	847 000		
O	25 000 000		
R	32 583 993		
T	49 301 056		
U	63 387 072		
W	60 368 640		
Total	**264 204 350**	**Total**	**7 389 091**
Total bearer shares			**271 593 441**

The table below presents the list of major shareholders of Kredyt Bank S.A. as at 31.12.2012.

Shareholder	Line of business	Number of shares and votes at GMS	Share in votes and in share capital (in %)
KBC Bank NV – party of KBC Group	Banking	217 327 103	80.00

On 26.01.2012, the Bank received a notice from Pioneer Pekao Investment Management S.A. ('PPIM') about the decline in its total commitment to 4.29% of the total votes at the General Meeting of Shareholders concerning the financial instruments included in the portfolios managed by PPIM. Pursuant to the said notice, the commitment of Pioneer Fundusz Inwestycyjny Otwarty decreased to 4.16% of the total votes at the General Meeting of Shareholders.

Further information about the said issue is available in the current report dated 26.01.2012.

On the date of making the entry to the National Court Register concerning the merger of Kredyt Bank S.A. and Bank Zachodni WBK S.A. i.e. 04.01.2013, the Bank ceased to be an autonomous business entity and was deleted from the National Court Register.

Further information concerning the said issue is presented in Note 1 and Note 61.

Supplementary capital

in PLN '000'	**31.12.2012**	**31.12.2011**
From the distribution of retained profit	1 130 174	900 065
Total supplementary capital	**1 130 174**	**900 065**

Revaluation reserve

in PLN '000'	**31.12.2012**	**31.12.2011**
Valuation of available-for-sale financial assets	242 045	50 557
Valuation of derivatives designated for cash flow hedge	20 050	35 976
Deferred tax	-49 797	-16 441
Total revaluation reserve	**212 298**	**70 092**

Other reserves

in PLN '000'	**31.12.2012**	**31.12.2011**
General banking risk reserve created from profit	481 151	400 942
Total other reserves	**481 151**	**400 942**

General banking risk reserve was created from profit after tax according to the Banking Law.

The Bank's net profit for 2011 amounting to PLN 310,318,322.72 was allocated to:

- a charge for the general banking risk reserve amounting to PLN 80,209,000.00 presented in other reserves;
- the remaining amount, i.e. PLN 230,109,322.72 to the Bank's supplementary capital.

49. Off-balance sheet items

in PLN '000'	**31.12.2012**	**31.12.2011**
Liabilities granted and received		
Liabilities granted:	**5 460 268**	**6 548 048**
- financial	3 763 557	4 346 382
- guarantees	1 696 711	2 201 666
Liabilities received:	**1 147 842**	**882 927**
- financial	327 020	41 421
- guarantees	820 822	841 506
Liabilities related to the sale/purchase transactions	**164 752 569**	**199 278 505**
Collateral received	**10 505 920**	**9 119 201**

Granted off-balance sheet liabilities by types

in PLN '000'	**31.12.2012**	**31.12.2011**
Financial	**3 763 557**	**4 346 382**
- undrawn credit lines	1 051 553	2 816 410
- undrawn overdraft facilities	1 820 635	840 054
- limits on credit cards	574 645	456 169
- opened import letters of credit	143 385	181 712
- term deposits to be released	173 339	52 037
Guarantees	**1 696 711**	**2 201 666**
- guarantees granted	1 691 885	2 196 335
- export letters of credit	4 826	5 331
Total	**5 460 268**	**6 548 048**

Financial off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	730 786	386 213
- 1-3 months	536 945	417 509
- 3-6 months	543 065	463 408
- 6 months to 1 year	1 100 126	1 708 678
- 1-3 years	455 928	528 545
- 3-5 years	39 085	70 949
- over 5 years	357 622	771 080
Total	**3 763 557**	**4 346 382**

Guarantees off-balance sheet liabilities (by maturity dates)

in PLN '000'	31.12.2012	31.12.2011
- up to 1 month	159 861	47 588
- 1-3 months	144 079	77 042
- 3-6 months	104 638	187 230
- 6 months to 1 year	234 004	254 312
- 1-3 years	512 578	926 162
- 3-5 years	277 141	253 574
- over 5 years	264 410	455 758
Total	**1 696 711**	**2 201 666**

Major items in 'contingent liabilities' related to the guarantees issued for customers were guarantees of good contracts performance and loan repayment guarantees. The Bank offered its customers guarantees as a standard loan product offer mainly for corporate customers. Commission income from guarantees granted were charged to fee and commission income in the income statement on a straight-line basis over the lifetime of the guarantee.

The Group treated guarantees granted and unconditional financing liabilities as an exposure with credit risk for the purpose of credit risk management. The assessment of risk under issued guarantees was an element of the credit risk assessment process resulting from other credit products held by particular customers, i.e. all credit facilities, including guarantees, granted to particular borrowers were at the same time analyzed for the occurrence of the impairment indicators and the required level of allowance for impairment.

As at 31.12.2012, the estimated provision for the guarantees granted and unconditional financing liabilities amounted to PLN 63 298 thousand; and as at 31.12.2011 it amounted to 40,809 thousand. This amount is presented in Note 45 as 'Provision for off-balance sheet items'.

50. Capital adequacy ratio

in PLN '000'	**31.12.2012**	**31.12.2011**
Capital requirement:	**2 471 906**	**2 403 108**
- credit risk	2 209 115	2 128 068
- market risk	30 568	31 068
- operational risk	232 223	243 972
Own funds and short-term capital	**3 910 284**	**3 755 108**
Primary funds:	**2 742 764**	**2 601 176**
- share capital	1 358 294	1 358 294
- supplementary capital	1 130 174	900 065
- revaluation reserve included in basic equity	-1 399	-7 683
- other reserves	481 151	400 942
- retained earnings (loss)	25 914	8 988
- net profit (loss) included in the calculation of capital adequacy ratio	- 156 453	221 917
- dividends predicted	0	-212 167
- intangible assets	-94 816	-59 711
- shares in financial entities (50%)	0	-9 300
- other	-101	-169
Supplementary funds:	**1 167 520**	**1 076 559**
- revaluation reserve included in supplementary equity	195 018	48 034
- subordinated liabilities included in equity	972 502	1 037 825
- shares in financial entities (50%)	0	-9 300
Short-term capital	0	**77 373**
Capital adequacy ratio (%)	**12.66**	**12.50**
Ratio calculated based on the Primary funds (%)	**8.88**	**8.66**

As at 31.12.2012 and 31.12.2011, the capital adequacy ratio was calculated as required by the regulations of the Polish Financial Supervision Authority.

Below, we present the information concerning the compliance with capital requirements:

1) Amounts accounting for 8% of risk weighted exposures separately for each class of exposure defined in § 20 clause 1 of Annex No. 4 to the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

The amount of the capital requirement for credit risk*, including counterparty credit risk as at 31.12.2012

in PLN '000'	**Carrying amount**	**Granted liabilities and the principal amount of derivatives****	**Risk weighted value**	**Capital requirement**
Total:	**40 761 235**	**150 088 932**	**27 613 935**	**2 209 115**
- central governments and central banks	9 898 025	150	0	0
- regional governments and local authorities	145 626	6 754	29 565	2 365
- administrative bodies and non-commercial undertakings	101 433	39 126	97 860	7 829
- multilateral development banks	47 644	0	0	0
- international organizations	0	0	0	0
- institutions – banks	1 941 282	143 820 151	1 123 680	89 894
- corporates	3 537 129	4 263 938	5 075 780	406 062
- retail exposures	6 532 834	1 423 979	5 660 252	452 820
- exposures secured by real estate property	16 625 453	534 313	14 329 250	1 146 340
- past due exposures	825 580	521	934 944	74 796
- exposures belonging to regulatory high-risk categories	846	0	1 269	102
- covered bonds	0	0	0	0
- securitization positions	0	0	0	0
- exposures to banks and corporates with a short-term credit rating	0	0	0	0
- in collective investment undertakings	0	0	0	0
- other exposures	1 105 383	0	361 335	28 907

** estimated on the basis of the Standardized Approach, not taking into account created, according to the description in Note 4, provisions (in the amount of PLN 257.9 million) for credit risk concerning exposures assessed collectively*
*** the net amount of off-balance-sheet liabilities and the principal amount of derivatives included in the Capital Adequacy Account*

The amount of the capital requirement for credit risk*, including counterparty credit risk as at 31.12.2011

in PLN '000'	**Carrying amount**	**Granted liabilities and the principal amount of derivatives****	**Risk weighted value**	**Capital requirement**
Total:	**42 003 084**	**190 459 015**	**26 600 853**	**2 128 068**
- central governments and central banks	9 847 171	150	0	0
- regional governments and local authorities	152 685	6 149	30 914	2 473
- administrative bodies and non-commercial undertakings	101 589	31 521	93 026	7 442
- multilateral development banks	52 108	0	0	0
- international organizations	0	0	0	0
- institutions – banks	2 075 622	182 328 200	1 041 302	83 304
- corporates	3 353 394	5 955 649	4 934 361	394 749
- retail exposures	13 079 190	1 412 294	10 018 343	801 467
- exposures secured by real estate property	11 588 955	724 804	9 475 802	758 065
- past due exposures	330 410	248	359 068	28 725
- exposures belonging to regulatory high-risk categories	21 854	0	32 783	2 623
- covered bonds	0	0	0	0
- securitization positions	0	0	0	0
- exposures to banks and corporates with a short-term credit rating	0	0	0	0
- in collective investment undertakings	0	0	0	0
- other exposures	1 400 106	0	615 254	49 220

** estimated on the basis of the Standardized Approach*
*** the net amount of off-balance-sheet liabilities and the principal amount of derivatives included in the Capital Adequacy Account*

2) The amounts of minimum capital requirements referred to in § 6 clause 1 items 2-5 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

in PLN '000'	**31.12.2012**	**31.12.2011**
The amount of the capital requirement for credit risk	**30 568**	**31 068**
- currency risk	0	0
- commodity price risk	0	0
- equity securities price risk	0	0
- price risk of debt instruments	20	11
- general interest rate risk	30 548	31 057

3) The amounts of minimum capital requirements referred to in § 6 clause 1 item 6 of the Resolution of the Polish Financial Supervision Authority No. 76/2010 of 10 March 2010, as amended, concerning the scope and detailed rules of determining capital requirements for particular types of risks.

in PLN '000'	Year	2012
Result*	2009	1 647 225
Result*	2010	1 685 664
Result*	2011	1 682 934
Capital Charge	2009	224 377
Capital Charge	2010	236 425
Capital Charge	2011	235 868
Operational risk requirement**		**232 223**

** calculated according to Annex No. 14 to Resolution No. 76/2010 of the Polish Financial Supervision Authority, as amended*
*** estimated on the basis of the Standardized Approach*

in PLN '000'	Year	2011
Result*	2008	1 685 448
Result*	2009	1 647 225
Result*	2010	1 685 664
Capital Charge	2008	242 268
Capital Charge	2009	238 672
Capital Charge	2010	250 977
Operational risk requirement**		**243 972**

** calculated according to Annex No. 14 to Resolution No. 76/2010 of the Polish Financial Supervision Authority, as amended*
*** estimated on the basis of the Standardized Approach*

As at 31.12.2012 and 31.12.2011, the exposure concentration limit, the large exposure limit and the capital concentration threshold were not exceeded in Kredyt Bank S.A.

The risk management process was strictly related to the capital management process. According to the industry standards, the amount of the internal capital was defined from the economic point of view. In consequence, the internal capital of Kredyt Bank S.A. was estimated by applying the internal capital model of KBC Group, which encompasses all material types of risk.

51. Consolidated cash flow statement – additional information

a) Cash and cash equivalents

in PLN '000'	31.12.2012	31.12.2011
Cash and balances with Central Bank	963 375	784 668
Due from other banks (up to 3 months)*	193 790	156 839
Cash and cash equivalents	**1 157 165**	**941 507**

** presented in the consolidated balance sheet in 'loans and advances to banks'*

b) Operating activities – unrealized gains (losses) on currency translation differences *in PLN '000'*	**01.01.2012 -31.12.2012**	**01.01.2011 -31.12.2011**
Currency translation differences on investment securities	23 427	-37 395
Currency translation differences on financial assets held for trading	11 515	-922
Currency translation differences on financial assets designated upon initial recognition as at fair value through profit or loss	3 178	-4 533
Currency translation differences on subordinated liabilities	-65 002	125 293
Total	**-26 882**	**82 443**

c) Operating activities – net increase/decrease in impairment *in PLN '000'*	**01.01.2012 -31.12.2012**	**01.01.2011 -31.12.2011**
Net increase/decrease in impairment of loans and advances to banks	0	-2 260
Net increase/decrease in impairment of loans and advances to customers	196 907	-505 839
Net increase/decrease in impairment of property, plant and equipment, intangible assets and investment properties	-862	2 909
Total	**196 045**	**-505 190**

d) Operating activities – interest *in PLN '000'*	**01.01.2012- 31.12.2012**	**01.01.2011- 31.12.2011**
Interest on investment securities	-459 617	-350 838
Interest on borrowed loans	116 570	123 130
Interest on leasing	-980	-1 527
Interest on subordinated liabilities	42 206	39 914
Total	**-301 821**	**-189 321**

e) Operating activities – gains (losses) from the sales of investments *in PLN '000'*	**01.01.2012- 31.12.2012**	**01.01.2011- 31.12.2011**
Profit/loss on the sales of equity investments	-17 262	0
Profit/loss on the sales of available-for-sale investment securities	-60 306	-867
Profit/loss on the sales of held-to-maturity investment securities	-93	-295
Profit/loss on the sales of property, plant and equipment and intangible assets	-4 448	-3 474
Other changes	-1 886	0
Total	**-83 995**	**-4 636**

f) Loans and advances to banks *in PLN '000'*	**01.01.2012- 31.12.2012**	**01.01.2011- 31.12.2011**
Net balance sheet change	8 282	275 977
Change in Nostro accounts – cash	16 559	-12 103
Change in term deposits up to 3 months – cash	20 392	-288 865
Impairment	0	2 260
Total	**45 233**	**-22 731**

g) Loans and advances to customers *in PLN '000'*	**01.01.2012- 31.12.2012**	**01.01.2011- 31.12.2011**
Balance sheet change	659 531	-1 385 395
Deconsolidation of Reliz	163 501	0
Total	**823 032**	**-1 385 395**

h) Financial assets held for trading *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in financial assets held for trading	-264 587	1 540 790
Currency translation differences in operating activities	-14 693	5 455
Total	**-279 280**	**1 546 245**

i) Operating activities – net increase/decrease in other assets *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in other assets	9 215	1 998
Net increase/decrease in property, plant and equipment held for sale	6 419	-5 058
Other net increase/decrease in investment properties	734	11 318
Net increase/decrease in held-to-maturity investments	-875	319
Other net increase/decrease in property, plant and equipment and intangible assets	28 779	-6 795
Balance sheet change in hedging derivatives (presented in assets)	-23 018	-21 252
Other changes	-14 834	9 272
Total	**6 420**	**-10 198**

j) Amounts due to banks *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in amounts due to banks	-4 203 413	-3 664 215
Proceeds from loans and advances	-905 877	-47 073
Repayment of borrowed loans/advances	2 808 212	2 827 397
Interest on borrowed loans in operating activities	-105 643	-114 062
Paid interest on borrowed loans – presentation in financing activities	89 128	63 620
Other changes	111	0
Total	**-2 317 482**	**-934 333**

k) Amounts due to customers *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in amounts due to customers	2 349 473	2 382 399
Other changes	-7 767	0
Proceeds from loans/advances	-406 784	-688 007
Repayment of borrowed loans/advances	18 707	6 075
Interest on borrowed loans in operating activities	-10 927	-9 068
Paid interest on borrowed loans – presentation in financing activities	10 872	8 928
Total	**1 953 574**	**1 700 327**

l) Operating activities – net increase/decrease in other liabilities *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in other liabilities	-13 633	56 240
Payment of lease payables from financing activities	-561	-4 374
Balance sheet change in hedging derivatives (presented in liabilities)	60 697	395
Other changes	31 824	-153
Total	**78 327**	**52 108**

m) Paid/received income tax *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Net increase/decrease in current tax receivables/liabilities	123 926	-271 885
Accrual of current tax	-98 671	-19 414
Other changes	0	9
Total cash flows due to income tax, presented as:	**25 255**	**-291 290**
Net increase/decrease in current tax receivable	0	-116 870
Paid/received income tax	25 255	-174 420

n) Net increase/decrease in investment securities *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Balance sheet change in investment securities	702 347	788 528
Net increase/decrease in interest receivables in operating activities	459 617	350 838
Net increase/decrease in available-for-sale financial assets in operating activities	251 794	4 913
Net increase/decrease in held-to-maturity investments in operating activities	968	-24
Balance sheet change in equity investments classified as available-for-sale	-103	0
Currency translation differences in operating activities	-23 427	37 395
Total net increase/decrease, presented as:	**1 391 196**	**1 181 650**
Acquisition in investment activity	-87 020 081	-91 344 482
Disposal in investment activity	88 055 300	92 283 935
Interest received in investment activity	355 977	242 197

o) Financing activities – other financial expenses *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Repayment of interest on loans received	-100 000	-72 548
Repayment of interest on subordinated liabilities	-42 181	-39 797
Payment of lease payables	1 541	5 901
Total	**-140 640**	**-106 444**

p) Subordinated liabilities *in PLN '000'*	**01.01.2012-31.12.2012**	**01.01.2011-31.12.2011**
Repayment of interest on subordinated liabilities – presentation in financing activities	42 181	39 797
Accrued interest on subordinated liabilities – presentation in operating activities	-42 206	-39 914
Currency translation differences on subordinated liabilities – presentation in operating activities	65 002	-125 293
Balance sheet change in subordinated liabilities	-64 977	125 410
Proceeds from a subordinated loan	**0**	**0**

52. Division of financial instruments measured at fair value depending on the method of fair value measurement

Below, we present the division of financial assets and liabilities measured at fair value depending on the method of fair value measurement according to IFRS 7. The method of classifying financial instruments at particular levels is presented in Note 4.1.

Assets measured at fair value	Level 1	Level 2	Level 3	Total as at 31.12.2012
Financial assets held for trading				
Debt securities	322 458	2 622	0	325 080
Derivatives, different from derivatives used as hedging instruments	0	1 036 591	0	1 036 591
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	27 253	0	0	27 253
Equity securities	0	11 127	0	11 127
Shares in investment funds	0	22 033	0	22 033
Available-for-sale financial assets*				
Debt securities	5 156 127	268 222	0	5 424 349
Hedging instruments				
Derivatives	0	118 610	0	118 610
Total	**5 505 838**	**1 459 205**	**0**	**6 965 043**

** except for equity securities measured at cost*

Liabilities measured at fair value	Level 1	Level 2	Level 3	Total as at 31.12.2012
Financial liabilities held for trading				
Debt securities (short selling)	115 424	0	0	115 424
Derivatives, different from derivatives used as hedging instruments	0	1 165 096	0	1 165 096
Hedging instruments				
Derivatives	0	62 366	0	62 366
Total	**115 424**	**1 227 462**	**0**	**1 342 886**

Assets measured at fair value	Level 1	Level 2	Level 3	Total as at 31.12.2011
Financial assets held for trading				
Debt securities	58 860	1 633	0	60 493
Derivatives, different from derivatives used as hedging instruments	0	975 497	0	975 497
Financial assets designated upon initial recognition as at fair value through profit or loss				
Debt securities	26 944	34 741	0	61 685
Equity securities	0	18 259	0	18 259
Shares in investment funds	0	20 740	0	20 740
Available-for-sale financial assets*				
Debt securities	4 551 660	704 981	0	5 256 641
Hedging instruments				
Derivatives	0	95 592	0	95 592
Total	**4 637 464**	**1 851 443**	**0**	**6 488 907**

** except for equity securities measured at cost*

Liabilities measured at fair value	Level 1	Level 2	Level 3	Total as at 31.12.2011
Financial liabilities held for trading				
Derivatives, different from derivatives used as hedging instruments	0	981 247	0	981 247
Hedging instruments				
Derivatives	0	1 669	0	1 669
Total	**0**	**982 916**	**0**	**982 916**

53. Fair value of financial assets and liabilities not recognized at fair value in the balance sheet

53.1. Fair value

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

The main categories of financial assets and liabilities not measured in the Group's balance sheet at fair value are assets or liabilities measured at amortized cost or historical cost:

- loans and advances granted as well as other own receivables not held for trading;
- held-to-maturity investments;
- available-for-sale financial assets recognized at cost, including equity investments;
- financial liabilities not held for trading.

The table below shows the carrying amount and estimated fair value of the Group's financial assets and liabilities not recognized in the Group's balance sheet at fair value.

As at 31.12.2012 ****

in PLN '000'	**Carrying amount**	**Fair value**
Assets		
Cash and balances with Central Bank	**963 375**	**963 375**
Net loans and advances to banks*	**1 179 730**	**1 240 342**
Net loans and advances to customers:	**28 229 316**	**27 696 932**
Natural persons**	**21 166 569**	**20 784 954**
- overdraft facilities	828 804	828 804
- term loans***	558 048	556 858
- cash loans, installment loans and cards	2 396 315	2 365 894
- mortgage housing loans	16 977 320	16 623 893
- other mortgage loans****	354 552	358 134
- purchased debt	15 287	15 128
- realized guarantees	180	180
- other receivables	36 063	36 063
Corporate customers and SME	**6 865 732**	**6 715 055**
- overdraft facilities	2 192 965	2 192 965
- term loans***	3 769 653	3 625 753
- purchased debt	165 116	157 749
- realized guarantees	17 917	17 917
- other receivables, including leasing fees	672 429	672 388
- debt securities classified as loans and receivables	47 652	48 283
Budgetary sector	**197 015**	**196 923**
- overdraft facilities	7 215	7 123
- term loans***	97 310	97 310
- debt securities classified as loans and receivables	92 490	92 490
Held-to-maturity investment securities	**2 548 590**	**2 712 956**

** comprises debt securities classified as loans and receivables*
*** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
**** comprises mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*
******the table does not include created, according to the description in Note 4, provision (in the amount of PLN 257.9 million) for credit risk concerning exposures assessed collectively - refers to carrying amount and fair value*

in PLN '000'	**Carrying amount**	**Fair value**
Liabilities		
Amounts due to banks and Central Bank	4 283 078	4 255 275
Amounts due to customers	30 392 630	30 383 605
Other financial liabilities recognized in the balance sheet at amortized cost*	971 533	971 533

** subordinated liabilities*

As at 31.12.2011

in PLN '000'	**Carrying amount**	**Fair value**
Assets		
Cash and balances with Central Bank	**784 668**	**784 668**
Net loans and advances to banks*	**1 188 012**	**1 200 858**
Net loans and advances to customers:	**29 085 754**	**27 578 640**
Natural persons**	**22 153 428**	**20 720 525**
- overdraft facilities	873 085	872 186
- term loans***	731 015	727 760
- cash loans, installment loans and cards	2 492 711	2 503 626
- mortgage housing loans	17 623 776	16 179 792
- other mortgage loans****	390 617	394 991
- purchased debt	12 153	12 032
- realized guarantees	554	483
- other receivables	29 517	29 655
Corporate customers and SME	**6 732 240**	**6 658 559**
- overdraft facilities	1 924 017	1 921 219
- term loans***	3 904 291	3 843 530
- purchased debt	211 327	209 919
- realized guarantees	35 001	25 631
- other receivables, including leasing fees	605 492	604 808
- debt securities classified as loans and receivables	52 112	53 452
Budgetary sector	**200 086**	**199 556**
- overdraft facilities	4 742	4 742
- term loans***	106 931	106 488
- purchased debt	19 960	19 873
- debt securities classified as loans and receivables	68 453	68 453
Held-to-maturity investment securities	**3 416 674**	**3 443 481**

** comprises debt securities classified as loans and receivables*
*** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
**** comprises mainly investment loans and working capital loans*
***** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

in PLN '000'	**Carrying amount**	**Fair value**
Liabilities		
Amounts due to banks and Central Bank	8 486 523	8 472 424
Amounts due to customers	28 043 157	28 040 276
Other financial liabilities recognized in the balance sheet at amortized cost*	1 036 510	1 036 510

** subordinated liabilities*

53.2. Loans and advances to banks and to customers

As stated in the sections concerning the accounting principles adopted by the Group and the material accounting estimates, granted loans and advances and other own receivables not held for trading are measured at amortized cost with the effective interest rate method, having regard for impairment measured on the basis of future expected cash flows (including those generated upon the sales of loan collateral) discounted with the original effective interest rate.

Poland does not have an active market on which loans and receivables may be traded, therefore, it is not possible to reliably determine the market price of these assets. Estimates performed on the basis of the models of measurement relying on discounted expected cash flows of the principal and interest are the best reflection of the fair value. The discount rate is the market rate as at the balance sheet date plus credit margin offered on the market for particular loan facilities and specific customer groups/segments, and also taking into account appropriate for Group cost of liquidity and cost of capital. The expected cash flows take into account potential overpayment of capital based on historical prepayment rates.

Calculation of the fair value as at 31.12.2012 is based on the estimated market interest rates. Due to the extinction of the active market for housing mortgages in CHF and EUR in Poland in 2012 it was crucial to estimate the market interest rate for such loans. Market interest rates were established on the basis of LIBOR interbank market and IRS market and adjusted for the credit risk margin attributable to given currency, and also taking into account appropriate for Group cost of liquidity and cost of capital. The valuation was made using the discounted cash flows method with the interest rate curves which were determined in accordance with the description above. The estimated cash flows include potential overpayments of capital determined based on historical prepayments.

The calculation of the fair value as at 31.12.2011 is based on estimated market interest rates. Estimating the market rate for housing purposes mortgages in CHF was necessary in particular, due to the extinction of the market of such mortgages in Poland. The Bank estimated the market interest rate on the basis of, among others, the public market information and the cost of the potential financing in CHF.

Data as at 31.12.2011 have not been restated for comparability.

53.3. Held-to-maturity investments

As stated in the section on the accounting principles adopted by the Group, held-to-maturity investments are measured at amortized cost with the effective interest rate methodology. The market prices of securities applied in the measurement of fair value, for both categories of assets, do not take into consideration any potential adjustments resulting from the limited liquidity of the market or transaction costs.

53.4. Financial liabilities not held for trading

As stated in Note 42 and Note 44, the deposits made in current accounts and term deposits with balance sheet maturities of less than three months, for which it was estimated that their carrying amount is equal to their fair value, constitute the bulk of the deposits made by banks and of customer deposits. The term loans and deposits received from KBC Group were discounted at the market rate from the inter-bank market for the respective currency and maturity.

54. Assets pledged as collateral

As at 31.12.2012, the following assets in the form of debt securities were collateral for the Group’s own liabilities:

- Commercial bonds of the nominal value of PLN 179,000 thousand and of the carrying amount of PLN 180,295 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 1,480,000 thousand and of the carrying amount of PLN 1,607,067 thousand as security for the loan extended by the European Investment Bank.

As at 31.12.2011, the following assets in the form of debt securities were collateral for the Group’s own liabilities:

- Commercial bonds of the nominal value of PLN 135,000 thousand and of the carrying amount of PLN 135,773 thousand were collateral for the protection fund for guaranteed cash in the Banking Guarantee Fund and were deposited in the National Depository for Securities;
- Treasury bonds of the nominal value of PLN 1,110,000 thousand and of the carrying amount of PLN 1,153,225 thousand as security for the loan extended by the European Investment Bank.

55. Related party transactions

In 2012 and in 2011, no significant non-standard transactions had place with related parties whose nature and terms were not related to current operations. All transactions were executed on market terms, without any exceptional or non-standard terms or conditions.

Transaction volumes as well as related income and expenses are presented below.

As at 31.12.2012

Assets	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)	Total as at 31.12.2012
Loans and advances to banks	0	23 166	1 678	24 844
Derivatives	0	282 600	1 366	283 966
Loans and advances to customers	0	0	0	0
Other assets	0	13	4 692	4 705
Total assets	**0**	**305 779**	**7 736**	**313 515**

Liabilities	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)	Total as at 31.12.2012
Amounts due to banks	0	4 137 168	5 437	4 142 605
Derivatives	0	279 471	6 262	285 733
Amounts due to customers	0	4 647	218 437	223 084
Other liabilities	0	50	403	453
Subordinated liabilities	0	971 533	0	971 533
Total liabilities	**0**	**5 392 869**	**230 539**	**5 623 408**

Off-balance sheet items	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)	Total as at 31.12.2012
Granted financing liabilities	0	312	20 207	20 519
Guarantees granted	0	51 094	21 160	72 254
Received financing liabilities	0	14 839	0	14 839
Guarantees received	0	722 892	33 329	756 221
Derivatives	0	34 070 586	757 238	34 827 824
Total off-balance sheet items	**0**	**34 859 723**	**831 934**	**35 691 657**

Income	Associates**	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2012-31.12.2012
Interest income	0	53 929	784	54 713
Fee and commission income	8 811	198	57 271	66 280
Net trading income	19	292 829	-48 801	244 047
Other operating income	11	0	2 734	2 745
Total income	**8 841**	**346 956**	**11 988**	**367 785**

** including WARTA Group by the date of the sale of its shares by KBC Group*
*** figures by the date of the sale of the shares of an associate KBC TFI S.A.*

Expenses	Associates***	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2012-31.12.2012
Interest expense	1 024	177 115	18 209	196 348
Commission expense	0	758	11 981	12 739
General and administrative expenses as well as other operating expenses**	2	2 330	22 788	25 120
Total expenses	**1 026**	**180 203**	**52 978**	**234 207**

** including WARTA Group by the date of the sale of its shares by KBC Group*
*** in 2012, general and administrative expenses as well as other operating expenses were presented in gross terms (incl. VAT)*
**** figures by the date of the sale of the shares of an associate KBC TFI S.A.*

As at 31.12.2011

Assets	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2011
Loans and advances to banks	0	75 221	2 462	77 683
Derivatives	0	201 285	10 671	211 956
Loans and advances to customers	0	0	0	0
Other assets	1 716	58	13 798	15 572
Total assets	**1 716**	**276 564**	**26 931**	**305 211**

** including WARTA Group*

Liabilities	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2011
Amounts due to banks	0	8 211 846	210 427	8 422 273
Derivatives	0	133 392	8 697	142 089
Amounts due to customers	40 385	2 385	839 267	882 037
Other liabilities	0	3 338	12 503	15 841
Subordinated liabilities	0	1 036 510	0	1 036 510
Total liabilities	**40 385**	**9 387 471**	**1 070 894**	**10 498 750**

** including WARTA Group*

Off-balance sheet items	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	Total as at 31.12.2011
Granted financing liabilities	90	0	241 827	241 917
Guarantees granted	0	51 491	40 717	92 208
Guarantees received	0	133 676	33 005	166 681
Derivatives	0	36 921 954	1 292 845	38 214 799
Collateral received	0	0	1 400	1 400
Total off-balance sheet items	**90**	**37 107 121**	**1 609 794**	**38 717 005**

** including WARTA Group*

Income	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2011-31.12.2011
Interest income	0	22 320	1 458	23 778
Fee and commission income	20 281	250	55 691	76 222
Net trading income	33	17 436	18 886	36 355
Other operating income	25	8	10 279	10 312
Total income	**20 339**	**40 014**	**86 314**	**146 667**

** including WARTA Group*

Expenses	Associates	Parent company KBC Bank NV	KBC Group (without KBC Bank NV)*	01.01.2011-31.12.2011
Interest expense	1 388	115 572	63 526	180 486
Commission expense	0	1 515	29 568	31 083
General and administrative expenses as well as other operating expenses	0	2 718	33 656	36 374
Total expenses	**1 388**	**119 805**	**126 750**	**247 943**

** including WARTA Group*

56. Disposal of subordinated companies

On 21.06.2012, Kredyt Trade Sp. z o.o., the Bank's subsidiary, signed the final agreement on the sale of its 30% stake in KBC TFI S.A. to KBC Asset Management NV and completed the transaction. The selling price for the 30% stake in KBC TFI S.A. was PLN 37.5 million. The net impact of the transaction upon the Group's result for 2012 amounted to PLN 11,535 thousand and was presented in the net gains from investment activities.

Further information about the said transaction is available in the current report dated 21.06.2012.

No subordinated companies were sold in 2011.

57. Changes in the Management Board and in the Supervisory Board of Kredyt Bank S.A. in 2012

In 2012, the composition of the Management Board of Kredyt Bank S.A. did not change and as at 31.12.2012 it was as follows:

Mr. Maciej Bardan - President of the Management Board, CEO

Mr. Umberto Arts - Vice President of the Management Board, Vice CEO

Mr. Mariusz Kaczmarek - Vice President of the Management Board, Vice CEO

Mr. Zbigniew Kudaś	- Vice President of the Management Board, Vice CEO
Mr. Piotr Sztrauch	- Vice President of the Management Board, Vice CEO
Mr. Jerzy Śledziewski	- Vice President of the Management Board, Vice CEO

The Ordinary General Meeting of Shareholders of Kredyt Bank S.A. appointed, as of 25.05.2012, Mrs. Lidia Jabłonowska-Luba as a Member of the Bank's Supervisory Board.

In addition, the Chairman of the Supervisory Board of Kredyt Bank S.A. received Mr. Jarosław Parkot's resignation from his membership in the Supervisory Board as from 25.05.2012.

As at 31.12.2012, the Supervisory Board of Kredyt Bank S.A. was composed of:

Mr. Andrzej Witkowski	- Chairman of the Supervisory Board
Mr. Adam Noga	- Vice Chairman of the Supervisory Board
Mr. Ronny Delchambre	- Member of the Supervisory Board
Mrs. Lidia Jabłonowska-Luba	- Member of the Supervisory Board
Mr. Guy Libot	- Member of the Supervisory Board
Mr. Stefan Kawalec	- Member of the Supervisory Board
Mr. Marko Voljč	- Member of the Supervisory Board

The Management Board and the Supervisory Board of Kredyt Bank S.A. performed their functions until 04.01.2013.

Due to the Bank's merger with Bank Zachodni WBK S.A., the composition of the Management Board of the merged Bank as at the date of the approval of these consolidated financial statements was as follows:

Mr. Mateusz Morawiecki	- President of the Management Board
Mr. Andrzej Burliga	- Member of the Management Board
Mr. Michael McCarthy	- Member of the Management Board
Mr. Piotr Partyga	- Member of the Management Board
Mr. Marcin Prell	- Member of the Management Board
Mr. Mirosław Skiba	- Member of the Management Board
Mr. Feliks Szyszkowiak	- Member of the Management Board
Mr. Juan de Porras Aguirre	- Member of the Management Board
Mr. Eamonn Crowley	- Member of the Management Board
Mr. Marco Antonio Silva Rojas	- Member of the Management Board

Due to the Bank's merger with Bank Zachodni WBK S.A., the composition of the Supervisory Board of the merged Bank as at the date of the approval of these consolidated financial statements was as follows:

Mr. Gerry Byrne	- Chairman of the Supervisory Board
Mr. José Antonio Alvarez	- Member of the Supervisory Board
Mr. Witold Jurcewicz, Ph.D.	- Member of the Supervisory Board
Mr. José Luis De Mora	- Member of the Supervisory Board

Mr. John Power - Member of the Supervisory Board

Mr. José Manuel Varela - Member of the Supervisory Board

Mr. Jerzy Surma - Member of the Supervisory Board

Mr. David R. Hexter - Member of the Supervisory Board

Mr. Guy Libot - Member of the Supervisory Board

58. Remunerations of the Members of the Management Board and of the Supervisory Board of Kredyt Bank S.A. as well as of the Group's companies

The figures presented in the tables below refer to paid remunerations, awards, bonuses, other benefits and severance pays for performing functions in the Bank's Management Board.

Bank's Management Board	Term on the Board	01.01.2012 – 31.12.2012				
		Basic remune-ration	Bonuses*	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2012-31.12.2012	1 344	1 587	56	0	2 987
Umberto Arts	01.01.2012-31.12.2012	1 414	0	484	0	1 898
Zbigniew Kudaś	01.01.2012-31.12.2012	1 212	1 238	70	0	2 520
Piotr Sztrauch	01.01.2012-31.12.2012	858	745	55	0	1 658
Jerzy Śledziewski	01.01.2012-31.12.2012	960	692	49	0	1 701
Mariusz Kaczmarek	01.01.2012-31.12.2012	924	545	74	0	1 543
Total		**6 712**	**4 807**	**788**	**0**	**12 307**

** comprises the payment of the bonus for 2011, a partial payment of the bonus for 2010 and a partial payment of the transactional bonus*

Bank's Management Board	Term on the Board	01.01.2011 – 31.12.2011				
		Basic remune-ration	Bonus*	Other benefits	Severance pay	Total
Maciej Bardan	01.01.2011-31.12.2011	1 345	317	31	0	1 693
Umberto Arts	01.01.2011-31.12.2011	1 304	0	366	0	1 670
Zbigniew Kudaś	01.01.2011-31.12.2011	1 209	232	47	0	1 488
Piotr Sztrauch	01.01.2011-31.12.2011	827	60	29	0	916
Jerzy Śledziewski	25.05.2011-31.12.2011	582	0	25	0	607
Mariusz Kaczmarek	01.07.2011-31.12.2011	464	0	8	0	472
Gert Rammeloo	01.01.2011-25.05.2011	655	0	254	0	909
Krzysztof Kokot	01.01.2011-25.05.2011	411	260	34	1 546	2 251
Total		**6 797**	**869**	**794**	**1 546**	**10 006**

** partial payment of the bonus for 2010*

Remunerations, awards, bonuses and other benefits for members of the managing authorities in the Group's companies.

Management Boards of Group's Companies	Gross remuneration in the period 01.01.2012-31.12.2012	Gross remuneration in the period 01.01.2011-31.12.2011
Reliz Sp. z o.o. (01.01.2012-31.08.2012)	302	376
Kredyt Lease S.A.	1 491	1 385
Kredyt Trade Sp. z o.o. w likwidacji	574	569
BFI Sp. z o.o.	12	20
Lizar Sp. z o.o.	0	0
Total	**2 379**	**2 350**

Remunerations, awards, bonuses and other benefits paid to Members of the Bank's Supervisory Board.

Bank's Supervisory Board	Term on the Board	01.01.2012-31.12.2012			
		Basic remune-ration	Bonus	Other benefits	Total
Andrzej Witkowski	01.01.2012-31.12.2012	385	370	16	771
Ronny Delchambre	01.01.2012-31.12.2012	0	0	0	0
Stefan Kawalec	01.01.2012-31.12.2012	289	0	16	305
Adam Noga	01.01.2012-31.12.2012	337	323	16	676
Marko Voljč	01.01.2012-31.12.2012	0	0	0	0
Guy Libot	01.01.2012-31.12.2012	0	0	0	0
Jarosław Parkot	01.01.2012-25.05.2012	0	0	0	0
Lidia Jabłonowska-Luba	25.05.2012-31.12.2012	0	0	0	0
Total		**1 011**	**693**	**48**	**1 752**

Bank's Supervisory Board	Term on the Board	01.01.2011-31.12.2011		
		Basic remuneration	Other benefits	Total
Andrzej Witkowski	01.01.2011-31.12.2011	369	14	383
Ronny Delchambre	01.01.2011-31.12.2011	0	0	0
Stefan Kawalec	01.01.2011-31.12.2011	277	9	286
Adam Noga	01.01.2011-31.12.2011	323	14	337
Jarosław Parkot	01.01.2011-31.12.2011	0	0	0
Marko Voljč	01.01.2011-31.12.2011	0	0	0
Dirk Mampaey	01.01.2011-25.05.2011	0	0	0
Guy Libot	25.05.2011-31.12.2011	0	0	0
Total		**969**	**37**	**1 006**

Total remuneration for each category of benefits paid to the Members of the Bank's Management Board and of the Bank's Supervisory Board.

Benefit	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Short-term employee benefits	14 059	9 466
Benefits paid after employment termination	0	0
Severance pays	0	1 546
Total	**14 059**	**11 012**

In 2012 and 2011, the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board did not receive remuneration for performing their functions in subsidiaries.

All disclosures concerning paid remunerations of the Members of the Bank's Management Board and of the Members of the Bank's Supervisory Board are presented in this Note and no other material remuneration-related benefits for the Members of the Management Board and the Members of the Supervisory Board were paid in 2012 and 2011.

59. Value of loans and advances granted to the Members of the Management Board and to the Members of the Supervisory Board of Kredyt Bank S.A. and its subsidiaries

Transactions concluded with the Bank's Management Staff were executed within the standard product offer.

As at 31.12.2012, the value of loans and cash loans extended by the Bank to the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board amounted to PLN 261 thousand. There were no past due receivables.

As at 31.12.2011, there were no receivables from the Members of the Bank's Management Board and the Members of the Bank's Supervisory Board.

The Members of the Management Board and the Members of the Supervisory Board did not receive any loans and advances in subsidiaries.

All disclosures concerning the Members of the Management Board and the Members of the Supervisory Board are presented in this Note and there is no other material information concerning loans and advances granted to the Members of the Management Boards and the Members of the Supervisory Boards in the Bank and in subsidiaries.

60. Dividends paid and declared

Due to the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A., merger issue shares allotted to the shareholders of Kredyt Bank will participate in the dividend on equal terms with all other shares of BZ WBK from 1 January 2012, i.e. in profits for the financial year ended 31 December 2012.

Pursuant to the Resolution of the Ordinary General Meeting of Shareholders of Kredyt Bank S.A. concerning the distribution of profit for 2011 adopted on 25.05.2012, the dividend for 2011 was not paid.

61. Significant events

61.1. The merger with Bank Zachodni WBK S.A.

On 27.02.2012, KBC Bank NV and Banco Santander S.A. signed an investment agreement in which the parties expressed their intention to merge Kredyt Bank S.A. and Bank Zachodni WBK S.A. ('BZ WBK S.A.'). On the same day, Kredyt Bank S.A., BZ WBK S.A., KBC Bank NV and Banco Santander S.A. signed an agreement on starting work to merge Kredyt Bank S.A. and BZ WBK S.A.

The Merger Plan agreed on and signed by Kredyt Bank S.A. and BZ WBK S.A. on 11.05.2012 provided that the merger would be carried out pursuant to Article 492 § 1 item 1 of the Code of Commercial Companies through the transfer of all the assets and liabilities of Kredyt Bank S.A., being the target entity, to BZ WBK S.A., being the surviving entity, with the simultaneous increase in the share capital of BZ WBK S.A. through the issue of up to 18,907,458 J series ordinary bearer shares in Bank Zachodni WBK S.A. with the nominal value of PLN 10.00 each, which were allocated by BZ WBK S.A. to all existing shareholders of Kredyt Bank S.A. As a result of the merger, these shareholders became the shareholders of BZ WBK S.A. on the date of the merger, i.e. on the date of the registration of the merger in the register relevant to the registered seat of Bank Zachodni WBK S.A.

The parties agreed that the exchange ratio of the shares of Kredyt Bank S.A. into the shares of Bank Zachodni WBK S.A. will be as follows: for 100 shares of Kredyt Bank, the shareholders of Kredyt Bank S.A. will be granted 6.96 Merger Issue Shares, i.e. for one share of Kredyt Bank S.A., 0.0696 shares of Bank Zachodni WBK S.A. will be allocated.

The merger depended on the following conditions which were met:

- obtaining the permit of the Polish Financial Supervision Authority to the merger;
- obtaining the permit of the Polish Financial Supervision Authority to the amendments to the statutes of BZ WBK S.A.;
- issuing by the European Commission of a decision declaring that the concentration of Kredyt Bank S.A. and Bank Zachodni WBK S.A. is in line with the common market;
- confirming by the Polish Financial Supervision Authority that both the form and content of BZ WBK S.A.'s information memorandum are equivalent to the information required to be included in a prospectus;
- the failure to object by the Polish Financial Supervision Authority to the acquisition by KBC Asset Management NV of the shares of KBC TFI S.A.;
- adopting by the Bank's General Meeting of Shareholders a resolution concerning the merger with BZ WBK S.A.;
- adopting by the General Meeting of Shareholders of BZ WBK S.A. a resolution concerning the merger with Kredyt Bank S.A.

In addition, if Article 25 clause 1 of the Banking Law applied, the exceeding by KBC Bank of the 10% limit of the votes at the General Meeting of Shareholders of BZ WBK depended on the issue by the Polish Financial Supervision Authority of a decision confirming the absence of grounds for an objection to the exceeding by KBC Bank of the 10% limit of the votes at the General Meeting of Shareholders of BZ WBK or the lapse of the statutory deadline for the delivery of the decision containing such an objection.

The Opinion of a certified auditor (KPMG Audyt Sp. z o.o.) issued on 20.06.2012 from the audit of the Merger Plan for BZ WBK S.A. and Kredyt Bank S.A. claims, among other things, that:

- the Merger Plan of BZ WBK S.A. with Kredyt Bank S.A. was prepared, in all material aspects, in an accurate and proper manner;
- the share exchange ratio was properly determined in all material aspects;

- the methods applied to determine the ratio of the exchange of the shares of Kredyt Bank S.A. for the shares of Bank Zachodni WBK S.A., as proposed in the Merger Plan, are justified;
- no special difficulties were identified as regards the valuation of the shares in the merging Banks.

The Polish Financial Supervision Authority, at the meeting held on 19.06.2012, found no reason to object to the planned, direct acquisition of the shares of KBC Towarzystwo Funduszy Inwestycyjnych S.A. by KBC Asset Management NV in the number resulting in exceeding the 50% limit of votes at the General Meeting of Shareholders.

On 28.06.2012, the Management Board of Kredyt Bank S.A., acting pursuant to Article 504 § 1 and 2 of the Code of Commercial Companies, in relation to Article 402[1] of the Code of Commercial Companies, issued the first notice concerning the merger of BZ WBK S.A. with Kredyt Bank S.A. At the same time, the Management Board of Kredyt Bank S.A. convened the Extraordinary General Meeting of Shareholders to adopt the resolution on the merger of Kredyt Bank S.A. with BZ WBK S.A.

The second notice about the planned merger was issued on 16.07.2012.

On 18.07.2012, the European Commission decided not to object to the acquisition of the control over Kredyt Bank S.A. by Banco Santander S.A., and accordingly also by Bank Zachodni WBK S.A., and declared that the planned acquisition of the control was compatible with the common market and with the Agreement on the European Economic Area.

On 30.07.2012, the Bank's Extraordinary General Meeting of Shareholders adopted the resolution concerning the merger with BZ WBK S.A.

On 04.12.2012, the Polish Financial Supervision Authority issued a decision granting consent to the Bank's merger with BZ WBK S.A.

Simultaneously, the Polish Financial Supervision Authority confirmed the absence of grounds for an objection to the planned direct acquisition by KBC Group NV, via KBC Bank NV, of such a number of shares of BZ WBK S.A. which would guarantee exceeding 10% of votes at the General Meeting of Shareholders; however, not resulting in exceeding 20% of votes at the General Meeting of Shareholders.

On 04.12.2012, the Polish Financial Supervision Authority issued a decision granting consent to amendments to the statutes of BZ WBK S.A. that were made in connection to the merger of BZ WBK S.A. with Kredyt Bank S.A.

On 06.12.2012, the Polish Financial Supervision Authority issued a decision confirming that both the form and content of the information included in the information memorandum of Bank Zachodni WBK S.A. prepared for the purpose of the merger of BZ WBK S.A. with the Bank were equivalent to the information required to be included in a prospectus.

From 02.01.2013 until the date of excluding such shares from the stock exchange trading, the trade in the Bank's shares marked with the code PLKRDTB00011 will have been suspended.

On 04.01.2013, the Bank was notified that, on 04.01.2013, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register registered the merger of Bank Zachodni WBK S.A. with Kredyt Bank S.A. The merger was effected in accordance with Article 492 § 1 item 1 of the Code of Commercial Companies by way of the transfer of all assets of Kredyt Bank S.A. to BZ WBK S.A. (a merger through acquisition) in exchange for newly issued J series shares in BZ WBK S.A. that were allotted to all existing shareholders of Kredyt Bank S.A.

On the date of entering the merger in the court register, the Bank was merged with Bank Zachodni WBK S.A., and hence ceased to be a subsidiary of KBC Group and, as a merged bank, became a part of Santander Group.

The justification as well as the description of strategic reasons and economic benefits related to the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. can be found in the Bank's Management Board's Report published along with the Merger Plan in the current report dated 11.05.2012.

61.2. Events after the reporting period

As it has been disclosed in the note 4 Accounting estimates, the Management Board of Bank Zachodni WBK S.A., after the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. has performed a review of judgements in relation to the value of impairment allowance for loan exposures and has made significant changes to those judgements.

Apart from the events described in Notes 4 and 61.1, no other significant events which should be disclosed in the financial statements had place from the balance sheet date to the date of the approval of these consolidated financial statements.

62. Employment structure

FTEs	**31.12.2012**	**31.12.2011**
Bank	4 532	4 875
- Head Office	2 083	2 297
- branches and affiliates	2 449	2 578
Companies	84	88
Total	**4 616**	**4 963**

63. Employee benefits

63.1. Employee Stock Ownership Plan

In 2012 and 2011, no employee stock ownership plan was implemented in the Group.

63.2. Retirement benefits and other benefits after retirement

The Group's companies paid retirement severance pays to employees who become retired in the amount set out in the Labor Code. As at the balance sheet date, a provision was established on the basis of an actuary's estimate.

in PLN '000'	**01.01.2012 -31.12.2012**	**01.01.2011 -31.12.2011**
Period beginning	1 737	1 585
Provision recognized	0	300
Paid benefits	-141	-148
Provision reversed	-364	0
Other changes	0	0
Period end	**1 232**	**1 737**

63.3. Benefits related to the dissolution of employment

in PLN '000'	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Period beginning	0	0
Recognized	0	1 287
Reversed	0	0
Utilization	0	-1 287
Period end	**0**	**0**

64. Social assets and the Company Social Benefit Fund

The companies of the Group which meet the requirements of the CSBF Act, established the CSBF and created periodical charges for this purpose. The Funds had no property, plant and equipment. The objective of the Funds was to subsidize the Company's employee-related operations, loans granted to employees and other employee-related expenses.

The Group's companies set off the Funds' assets against their liabilities to them, as these assets are not separate assets under IAS/IFRS.

The table below presents the analysis of the assets, liabilities and expenses of CSBF.

in PLN '000'	31.12.2012	31.12.2011
Employee cash loans	7 396	8 371
Cash on CSBF's bank accounts	7 864	7 440
Fund-related payables	15 260	15 811
Charges to the Fund in the period	6 085	6 017

65. Seasonality or cyclical nature of operations

The operations of the Group's companies were not of seasonal nature.

66. Non-typical factors and events

In 2012 and 2011, no untypical events occurred in the Group (not related to operating activities) that would affect the structure of balance sheet items and the financial result to a large extent, and which were not presented in these consolidated financial statements.

67. Custodian services

An offer of the Bank's custodian services entailed maintaining securities accounts and registers for domestic and foreign, both institutional and individual, customers. For the special group of customers, i.e. investment funds, the Bank also played a role of a custodian bank and an issue sponsor.

The Bank held an authorization of the Polish Securities and Exchange Commission to maintain securities accounts; it was also a direct participant in the National Depository for Securities (KDPW) as a Custodian Bank and a participant in the Securities Register (RPW) managed by the National Bank of Poland (NBP). On this basis, the Bank maintained accounts for securities admitted to public trading, deposited in KDPW or RPW. The Custody Office, the Securities Clearing Department in the Bank's Head Office was the Bank's unit responsible for maintaining securities accounts and the provision of the services of the issue sponsor.

The Custody Office provided the services of a payer's bank which involved making all financial clearings with the National Depository for Securities on behalf of serviced entities.

As regards the function of the custodian bank for investment funds, the Bank offered the following services:

- maintaining funds' assets registers;
- ensuring the correct calculation of net asset value and net asset value per share/participation unit;
- ensuring the correct settlement of agreements concerning funds' assets;
- controlling funds' investment activities.

The role of an issue sponsor is related to securities admitted to organized trading, including investment certificates of investment funds. It involves keeping records of securities owned by investors, but not deposited in securities accounts. The main tasks of an issue sponsor as regards investment certificates are as follows:

- issuing acknowledgments of the acquisition of certificates, and certificates of the ownership of shares deposited in securities account;
- maintaining and updating registers of funds' shareholders;
- verifying acknowledgments of the acquisition of certificates;
- making payments due to the redemption of certificates on redemption dates to the accounts of the persons listed in the issue sponsor's register;
- making payments of amounts due to shareholders as a result of the liquidation of a fund in the case of persons holding certificates listed the issue sponsor's register.

In 2012, income related to the maintenance of securities accounts and registers as well as the services of the issue sponsor and of the custodian bank amounted to PLN 4,960 thousand as compared to PLN 6,454 thousand in 2011, and is accounted for in the commission income.

68. Discontinued operations

The Group did not carry out operations which were discontinued in 2012 or in 2011.

69. Information on proceedings before a court, an authority competent for arbitration proceedings or a public administration authority

In 2012, the companies of the Group were not a party to any proceedings before a court, an authority competent for arbitration proceedings or a public administration authority, where the amount(s) claimed would amount to at least 10% of the Bank's equity.

Below, we present those pending proceedings, in which the amounts claimed are the highest and in which a company of the Group is the defendant.

- Two court proceedings regarding a credit granted to Laboratorium Frakcjonowania Osocza Sp. z o.o. in Mielec ('LFO'). The Bank is the leader of the syndicate of five banks, which, under the agreement of 04.03.1997, granted a syndicated loan to LFO. The loan was secured by, among others, a registered pledge on the company's property, plant and equipment and the surety of the State Treasury up to 60% of the drawn amount of the loan and accrued interest. As the investment project for which the loan was extended had not been completed and the dates of the payment of commitments had not been met, the Bank, representing the syndicate, terminated the agreement under its terms and conditions and called LFO to pay claims.

- The State Treasury requested for determination whether the syndicated loan agreement concluded between LFO and the syndicate of five banks had expired on 28.02.1998 as a result of the occurrence of a contractual condition, and, as a result, the commitment of the State Treasury as the guarantor of the loan under the guarantor's agreement had expired as well. The State Treasury is represented by the General Public Prosecutor's Office of the State Treasury. Experts' opinions and auxiliary opinions were prepared and additional witnesses were questioned. In the first quarter of 2007, the State Treasury changed the lawsuit and claimed PLN 8,207 thousand including interest. Pleadings were exchanged. In the fourth quarter of 2008, the court requested the Bank to submit documents concerning the debt collection process carried out against the State Treasury on the basis of a banking executory title with the enforceability clause. The Bank delivered the required documents to the court. In September 2010, the court ordered the Bank to hand over the documents confirming the launch of the loan (the launches dates and amounts) to an accounting expert. In June 2011, the court obliged the parties to submit pleadings containing all the statements and evidence material for the proceedings. In the second quarter of 2012, the parties submitted comments to the expert's auxiliary opinion. In the third quarter of 2012, the parties requested that the auxiliary opinion be prepared by a different expert. The court issued the decision in which they admitted the expert's opinion, ordered the preparation of the opinion and set the deadline for it. The new opinion will take into consideration the comments made by the parties to the previous opinion. The date of the hearing has not been set.

• On 17.01.2001, the President of the Office for Competition and Customer Protection, upon the request of the Polish Organization of Commerce and Distribution ('POHiD'), initiated proceedings concerning competition-restricting practices on the payment cards market by VISA and MasterCard as well as 20 banks, including Kredyt Bank S.A.

  On 29.12.2006, the President of the Office for Competition and Customer Protection issued the decision in which:

- they imposed a fine on Kredyt Bank of PLN 12,158.4 thousand;
- HSBC Bank Polska S.A. ('HSBC') was fined with PLN 193.0 thousand and the proceedings against this company were discontinued (under a binding agreement between HSBC and Kredyt Bank S.A., the fine for HSBC should be paid by Kredyt Bank S.A. as well).

The decision was to be enforced immediately as regards the order to discontinue the practice of joint determination of the intercharge fee rate. On 17.01.2006 and 19.01.2007, appeals against Decision No. DAR 15/2006 of the President of the Office for Competition and Customer Protection were made on behalf of HSBC Bank Polska and Kredyt Bank. In this decision, the President of the Office for Competition and Customer Protection resolved that joint determination by the Banks, Visa and MasterCard of the interchange fee restricted competition. On 18.01.2007, the President of the Office for Competition and Customer Protection issued a decision in which they obliged the banks to jointly and severally pay PLN 157.6 thousand to POHiD as reimbursement of the proceedings costs. Kredyt Bank S.A. complained against this decision on 31.01.2007 and deemed it unjustified. The case was referred to the Economic Court in Warsaw which split the case into separate proceedings against each of the banks involved in the case. On 25.08.2008, the court decided to withhold the execution of the decision issued in the case of interchange fees. On 12.11.2008, the circuit court in Warsaw, the Competition and Customer Protection Court, issued a judgment amending the contested decision, in which the court stated that the Banks had not applied monopolistic practices in this respect. On 03.02.2009, the Bank received the appeal against the judgment made by the President of the Office for Competition and Customer Protection. At the hearing held on 22.04.2010, the court issued a judgment by which it overruled the judgment of the circuit court advantageous for the Bank and referred the case to the circuit court to be re-examined. In the first half of 2012, two hearings took place at which no judgment was issued. On 08.05.2012, the court decided to suspend the proceedings upon the request of one of the participants in legal proceedings. By the date of the publication of these financial statements, the proceedings have still been suspended.

- The plaintiff – a meat processing company – filed a lawsuit against Kredyt Bank S.A. questioning the validity of concluded option transactions amounting to PLN 9,468,362, particularly the put options concluded by the Bank. The plaintiff claims and accuses the Bank of, inter alia, misleading the customer, abusing its stronger contractual position, and violating the norms of social coexistence. The Bank's attorneys responded to the lawsuit. No decisions were made at the hearings held in 2011 and 2012. The date of the next hearing was scheduled for June 2013.
- The plaintiff, i.e. partners in a general partnership, filed a lawsuit against the Bank for a compensation amounting to PLN 3 million.The plaintiff claims that the Bank violated its statutory obligation to keep a banking secret by disclosing, to a partner leaving the partnership, information concerning the bank account maintained for the partnership. The Bank's attorney responded to the lawsuit. No decisions were made at the hearings held at 13.02.2013. The date of the next hearing was scheduled for 14.04.2013.

Due to the loss of control of Reliz Sp. z o.o. and the deconsolidation of this company, the Group is not a party to any disputes concerning this company.

The Management Boards of the Group's companies are of the opinion that any risks related to the proceedings before courts or public administration authorities are properly secured by the provisions established by the Bank.

70. Risk management at Kredyt Bank S.A. Capital Group

The information disclosed in this Note has been valid by the date of the merger with Bank Zachodni WBK S.A. Details are presented in Note 1.

The Bank's supervisory bodies, explicitly the Management Board and the Supervisory Board, played the most important role in the risk management process.

The Bank's Supervisory Board, through the Audit, Risk and Compliance Committees, was informed about the most vital decisions and gave opinions about the actions of the Management Board in this respect.

In 2012, the Risk and Capital Committee, directed by the member of the Bank's Management Board responsible for risk and capital management, directly managed, controlled and monitored risk.

All types of risk in the Bank were measured and monitored by the departments in the Risk and Capital Management Function, which was supervised by the Member of the Management Board accountable for the risk and capital management, i.e.:

- Financial Risks, Capital and Shared Functions Department;
- Corporate and SME Loans Risk Department;
- Retail Loans Risk Department;
- Operational Risk Department.

These units monitored and reported all risk-related aspects, at the same time being fully independent of the Bank's business units.

In the process of the risk identification, measurement and management, the Bank applied techniques relevant to a given type of risk.

The overriding objectives of the risk management policy concerning mainly the observance of internal and external limits and optimizing and mitigating risk through the process of ongoing monitoring were being systematically implemented. The risk management process was strictly related to the capital management process. The main objective of capital management in the Bank was to optimize it and, at the same time, to meet external capital requirements. To achieve this goal, in 2008, the Bank implemented ICAAP (Internal Capital Adequacy Assessment Process).

71. Credit risk

Credit risk in Kredyt Bank S.A. was defined as the potential shortfall relative to the value expected for a financial instrument consequent on non-payment or non-performance by a borrower, guarantor or counter-guarantor, counterparty (in relation to treasury transactions) or an issuer (of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country.

The credit risk management process in the Bank entailed the following phases:

- risk identification;
- risk measurement (e.g. maximum approach, risk weighted assets, Exposure At Default – EAD, Expected Loss – EL, Unexpected Loss – UL);
- risk monitoring, particularly as regards the compliance of the risk profile with the determined risk appetite and established limits (e.g. exposures concentrations related to loans used to finance commercial properties, related to residential properties, industrial properties, professional properties and commercial properties);
- reporting;
- analyses and formulation of recommendations;
- a decision-making process.

The main participants in the credit risk management process, within the organization of the risk management system, were as follows:

- Supervisory Board;
- Audit, Risk and Compliance Committees;
- Bank's Management Board;
- Risk and Capital Committee;
- Retail Loans Risk Department;
- Corporate and SME Loans Risk Department;
- Business lines managers;
- Audit and Inspection Department.

Credit risk was managed taking into account the credit risk aspect corresponding to individual transactions and from the portfolio perspective.

The process of risk management for individual transactions entailed risk assessment for such a transaction and, depending on its level, application of an appropriate decision-making process. The Corporate and SME Loans Risk Department and the Retail Loans Risk Department played the key role in the process of risk management for individual transactions.

The portfolio risk management was the main responsibility of the Corporate and SME Loans Risk Department, Retail Loans Risk Department, as well as of the Risk and Capital Committee. The main tasks of the Risk and Capital Committee were as follows:

- supporting the Management Board in the following areas:
    - developing and reviewing the risk and capital management system, including the structures, processes, empowerments and policies;

  - informing about the risk management system;
  - monitoring the implementation status of the risk management system;
  - establishing tolerance to risk – risk appetite;
  - establishing the structure of internal risk limits consistent with the risk appetite;
  - monitoring the implementation status of measures taken in response to observed risk;
- taking measures in response to observed risk, including cyclical reviews of the structure, processes, empowerments and policies in the area of risk and capital management, internal risk limits and corrective measures (e.g. changes in the risk parameters for the Bank's products) related to the risk and capital management below the materiality threshold;
- monitoring the risk and capital profile (including the use of limits, stress-testing, the use of the regulatory capital and of the economic capital) on the basis of the overall risk report;
- deciding on the issues of the rating and modeling system;
- reporting risk management issues to the Bank's Management Board; also informing the Bank's Management Board about decisions aimed at making the defined risk and yield ratios reach pre-determined levels;
- taking decisions concerning credit risk related to the powers granted by the Management Board.

The Group's gross exposure towards 10 major corporate customers

31.12.2012		31.12.2011	
Company	**Share (%) in the portfolio**	**Company**	**Share (%) in the portfolio**
Customer 1	1.6	Customer 1	3.2
Customer 2	1.3	Customer 2	2.1
Customer 3	1.2	Customer 3	2.0
Customer 4	1.2	Customer 4	1.8
Customer 5	1.1	Customer 5	1.6
Customer 6	1.1	Customer 6	1.5
Customer 7	1.1	Customer 7	1.4
Customer 8	1.1	Customer 8	1.4
Customer 9	0.9	Customer 9	1.3
Customer 10	0.9	Customer 10	1.2
Total	**11.5**	**Total**	**17.5**

The Group's exposure in geographical segments (excluding banks)

Province	Gross loans structure (%) 31.12.2012	Gross loans structure (%) 31.12.2011
Mazowieckie	21.0	20.1
Dolnośląskie	10.7	10.7
Wielkopolskie	9.8	9.4
Lubelskie	9.2	9.1
Pomorskie	8.4	8.7
Małopolskie	7.4	7.6
Śląskie	6.0	6.7
Łódzkie	5.4	5.3
Zachodniopomorskie	4.8	5.2
Kujawsko-pomorskie	3.3	3.3
Podlaskie	3.3	3.3
Podkarpackie	2.7	2.7
Warmińsko-mazurskie	2.5	2.6
Lubuskie	2.3	2.3
Świętokrzyskie	2.0	1.8
Opolskie	1.1	1.1
Non-resident	0.1	0.1
Total	**100.0**	**100.0**

The Bank's exposure in industrial segments (excluding natural persons)

Industry	Exposure (%) 31.12.2012	Exposure (%) 31.12.2011
Trade	28.8	24.3
Commercial real estate	12.2	13.6
Building industry	11.8	12.6
Natural resources, metals, chemicals	10.3	9.8
Agriculture and foodstuff production	8.7	7.8
Services	7.5	7.1
Automotive industry, shipyards, aviation	4.7	7.0
Local government units and financial institutions	4.0	5.7
Timber and papermaking	4.4	5.3
Electrical engineering	3.2	3.3
Transport	2.4	2.0
Gas, energy and water suppliers	1.2	0.9
Media, telecommunications, IT	0.8	0.6
Total	**100.0**	**100.0**

As at 31.12.2012 and 31.12.2011, the concentration limits regarding a customer/a group of related customers were not exceeded.

*The Group's maximum exposure to credit risk*****

Balance sheet instruments	**31.12.2012**	**31.12.2011**
Debt securities:	**8 325 272**	**8 795 493**
- available-for-sale	5 424 349	5 256 641
- held-to-maturity	2 548 590	3 416 674
- financial assets measured upon initial recognition at fair value through profit or loss, and financial assets held for trading (excluding derivatives)	352 333	122 178
Derivatives	**1 155 201**	**1 071 089**
Net loans and advances to banks	**1 179 730**	**1 188 012**
Net loans and advances to customers:	**28 229 316**	**29 085 754**
Natural persons*:	21 166 569	22 153 428
- overdraft facilities	828 804	873 085
- term loans**	558 048	731 015
- cash loans, installment loans and cards	2 396 315	2 492 711
- mortgage housing loans	16 977 320	17 623 776
- other mortgage loans***	354 552	390 617
- purchased debt	15 287	12 153
- realized guarantees	180	554
- other receivables	36 063	29 517
Corporate customers and SME:	6 865 732	6 732 240
- overdraft facilities	2 192 965	1 924 017
- term loans**	3 769 653	3 904 291
- purchased debt	165 116	211 327
- realized guarantees	17 917	35 001
- other receivables, including leasing fees	672 429	605 492
- debt securities classified as loans and receivables	47 652	52 112
Budgetary sector:	197 015	200 086
- overdraft facilities	7 215	4 742
- term loans**	97 310	106 931
- purchased debt	0	19 960
- debt securities classified as loans and receivables	92 490	68 453
Various debtors (receivables recognized in other assets)	**57 081**	**74 908**
Total	**38 946 600**	**40 215 256**

***** the table does not include created, according to the description in Note 4, provision (in the amount of PLN 257.9 million) for credit risk concerning exposures assessed collectively.*

Granted off-balance sheet liabilities	**31.12.2012**	**31.12.2011**
Financial	3 763 557	4 346 382
Guarantees	1 696 711	2 201 666
Total liabilities granted	**5 460 268**	**6 548 048**
Total assets and off-balance sheet items	**44 406 868**	**46 763 304**

** comprises amounts due from private persons, individual entrepreneurs, individual farmers, and non-commercial institutions providing services to households*
*** comprises mainly investment loans and working capital loans*
**** comprises mortgage loans other than for housing purposes and refinancing loans secured with mortgages*

Having regard for the existing macroeconomic situation, which is characterized by a high level of uncertainty as regards the future evolution and a relatively low rate of its improvement, the Bank focused on the monitoring of credit risk with the use of cyclical and provisional reports and analyses in order to response fast to disadvantageous trends in the quality of the loans portfolio. The Group established early warning signs within portfolio limits, the principles for their monitoring and procedure in the case they are exceeded. On the basis of the findings of the analyses, the Bank introduced changes in the credit policy aimed at improving the quality of the loans portfolio.

The main areas of changes in terms of credit policy include:

a) for the portfolio of retail customers:

- changing the methodology of establishing impairment losses;
- changing the methodology of calculating household maintenance costs;
- introducing changes for the refinancing mortgage loan in the standard offer;
- limiting the maximum LtV for a portion of new production;
- introducing a new policy concerning the principles of appraising real estates;
- amending the principles of the credit policy for new customers applying for a cash loan;
- expanding the methodology of the behavioral assessment of customers;
- introducing new principles concerning the monitoring of payments to an account in the case of overdraft facilities;
- expanding the stress-testing methodology and its use in the process of establishing concentration limits;

b) for the portfolio of corporate and SME customers:

- introducing more restrictive principles of financing and monitoring agreements for customers from the building industry, i.e. engaged in the completion of building works under contracts and sub-contracts; and
- introducing more restrictive principles of financing non-impaired corporate and SME customers, but characterized, in the Bank's opinion, by a higher lending risk (relatively worse PD ratings);

  introducing for such customers, depending on the probability of default (PD rating):

  - minimum requirements concerning the coverage of transactions with collateral;
  - a ban on an increase in exposure to customers.

Currency derivatives

	31.12.2012		**31.12.2011***	
in PLN '000'	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Total balance sheet exposure, excluding banks	18 902	15 160	51 267	16 637
Net position aggregated at customer level, excluding banks	15 988	12 246	40 598	5 968

** the figures as at 31.12.2011 do not take account of the data concerning embedded instruments*

As at 31.12.2012, the Bank hedged concluded currency contracts by frozen cash in bank accounts in the total amount of PLN 4.5 million. The valuation of derivatives also entails credit risk. In 2012, write-downs for active derivatives of PLN 0.6 million (presented in net trading income) were created, and write-downs for mature derivatives of PLN 4 million (presented in impairment losses) were reversed, in the Bank's income statement.

As at 31.12.2011, the Bank hedged concluded currency contracts by frozen cash in bank accounts in the total amount of PLN 5 million. The valuation of derivatives also entails credit risk. In 2011, write-downs for active derivatives of PLN 3 million (presented in net trading income) were created, and write-downs for mature derivatives of PLN 10 million (presented in impairment losses) were reversed, in the Bank's income statement.

72. Operational risk

The Group defined the operational risk as a possibility of an unexpected influence upon the financial result, as a consequence of maladjustment or unreliability of internal processes, people, technical systems as well as a consequence of external incidents.

To calculate the capital requirement for operational risk in pillar I, the Group applied the Standardized Approach.

As a result, the Bank, inter alia,:

- had specified roles and responsibilities of employees within the operational risk management system;
- kept a record of operational events and losses resulting from the operational risk;
- had the operational risk management system which was regularly reviewed by independent auditors.

Pursuant to the requirements concerning the application of the Standardized Approach, the Bank strengthened the operational risk assessment system. Risk and control self-assessment (CRSA) was carried out systematically in particular business areas, action plans to reduce the risk were implemented and the level of risks was measured with the application of key risk indicators (KRI).

Once a year, for the purpose of operational risk, the Group identified key operational risks (Risk Scan).

Business units played a significant role in the implementation of operational risk management tools and techniques, as the direct responsibility for the operational risk management was on the managers of particular business lines.

The infrastructure of the management and methodology were coherent within the Bank and its subsidiaries. Operational risk identification and rating tools were identical. The whole process was supervised by the Risk and Capital Committee and the Bank's Management Board.

73. Market risk and ALM

Market risk is defined as a degree of the hazard to the Bank's financial standing resulting from adverse changes in market parameters (interest rates, exchange rates and prices of shares) and their market volatility.

The Bank did not trade on the stock market (investments in shares are long-term investments or strategic investments in subsidiaries). Also, the Bank did not trade on commodity markets. In the Bank, among all types of market risks, we dealt with interest rate risk, including basis risk, and currency risk.

The Bank's activity was divided into two parts: Trading Book and Banking Book. Due to different nature of opened positions, the risk was monitored in each book separately.

73.1. Trading Book

The Trading Book was a separated part of the Bank's portfolio, where the Bank intended to generate income resulting from short-term changes in prices, interest rates, exchange rates or other market parameters. The main activity of the Trading Book was associated with financial instruments in PLN, and, to a lesser extent, also in USD and EUR.

Value at Risk (VaR) was the basic metric of risk in the trading portfolio. Value at Risk means such a value that the probability of the Bank's loss exceeding this value amounts to 1% (with assumed 99% level of significance). VaR in the Bank was calculated by historical method in the time horizon of 10 days, taking into account market figures for the previous 500 days. VaR limit for the Trading Book overlapped Global VaR, which included both the currency risk and the interest rate risk. In the process of market risk management, the Bank took account of the limitations resulting from the Value at Risk methodology, including:

- The fact that the level of risk reflected by VaR is the resultant of historical changes in price parameters and in the position on a given day. In order to present the level of the risk to which the Bank was exposed in 2012 more fully, the tables below present both VaR on the last day of the year, and the average, minimum and maximum levels in the whole 2012.
- VaR does not provide information about the distribution of potential losses when the losses exceed VaR. Although, according to expectations, the losses will not exceed the calculated VaR at the pre-determined significance level (99%), in the remaining cases the losses may be much higher than the calculated VaR. To control the above-mentioned limitations, the Bank verifies the correctness of the adopted methodology by carrying out annual backtesting of the results from the VaR model.
- In the VaR model applied by the Bank, on the basis of historic price changes, it is assumed that the prices in the future will be subject to the same distribution as the prices in the examined period in the past.

Value at Risk (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

	Limit	31.12.2012	Data for 2012		
			Average	Minimum	Maximum
VaR	3 000.0	490.28	664.31	251.01	2 356.90

Value at Risk (for the whole Trading Book, entails both interest rate risk and currency risk) – in EUR '000'

	Limit	31.12.2011	Data for 2011		
			Average	Minimum	Maximum
VaR	3 000.0	1 580.54	1 497.31	298.82	2 894.13

73.1.1. Interest rate risk

Interest rate risk reflects a degree of a hazard to the Bank's financial standing arising from adverse changes in market interest rates.

The level of interest rate risk and basis risk was monitored and limited (by establishment of limits) against BPV (*basis point value* – price sensitivity to parallel shifts in interest rates on the yield curve).

All above-mentioned limits concern the total Trading Book. The Trading Book Unit in the Cash Processing Department managing the Trading Book was divided into two sections (with the primary term of instruments/transactions made on the interbank market as the basic division criterion): Short Term Desk and Long Term Desk. The activities of the Trading Book Unit in the area of interest rate risk were limited by an internal limit on VaR for the interest rate position and stop-loss limits (the maximum acceptable value of the loss). Interest rate risk VaR was calculated using the same parameters as for Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon.

In 2012, the Bank did not record any exceeded VaR limits, both global and internal interest rate VaR limit in the trading portfolio.

Value at Risk for interest rate positions

in EUR '000'	**Limit**	**31.12.2012**	**Data for 2012**		
			Average	Minimum	Maximum
Trading	2 600.0	448.96	684.49	259.38	2 428.11

Value at Risk for interest rate positions

in EUR '000'	**Limit**	**31.12.2011**	**Data for 2011**		
			Average	Minimum	Maximum
Trading	2 600.0	1 590.03	1 487.39	295.19	2 883.27

The interest rate risk analysis was supplemented by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in interest rates.

Interest rate options

The Bank offered interest rate options. The Bank did not maintain an options portfolio for its own account, i.e. it did not pursue speculative activities. Options on the inter-bank market were the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of interest rate option transactions did not exist.

73.1.2. Currency risk

Position in currencies

Exchange rate risk is a degree of the risk for the Bank's financial standing resulting from adverse changes in exchange rates on the market. This risk covers income on currency exchange operations and measurement of open position in currencies resulting from the difference between the value of assets and liabilities in a given currency. The Bank's position in currencies was managed for the Trading Book and the Banking Book jointly. The Bank's position in currencies was managed in the Trading Book.

The daily analysis of the sensitivity of the total Trading Book position to currency risk was performed through the calculation of currency risk VaR (with the same parameters as for Global VaR, i.e. the significance level of 99%, 10-day time horizon and 500-day observation horizon). Currency risk VaR values are as follows:

Value at Risk for the Trading Book – currency risk

in EUR '000'	**31.12.2012**	**Data for 2012**		
		Average	Minimum	Maximum
Trading	85.94	95.95	5.76	411.04

Value at Risk for the Trading Book – currency risk

in EUR '000'	**31.12.2011**	**Data for 2011**		
		Average	Minimum	Maximum
Trading	38.00	104.36	12.50	798.16

In the event of the currency risk, the 'value at risk' method was supplemented daily by stress-testing which is the amount of possible loss due to extremely adverse (critical) changes in exchange rates.

Currency options

The Bank offered currency options. The Bank did not maintain an options portfolio for its own account, i.e. it did not pursue speculative activities. Options on the inter-bank market were the options hedging the position resulting from transactions with customers. Therefore, the market risk in the portfolio of FX option transactions did not exist.

Below, we present the breakdown of balance sheet and off-balance sheet items by main currencies.

*Consolidated balance sheet by currencies as at 31.12.2012**

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	6 104	58 058	12 496	21 907	853 946	10 864	963 375
Gross loans and advances to banks	13 228	94 647	6 822	83 147	962 504	19 382	1 179 730
Receivables arising from repurchase transactions	0	0	0	0	117 700	0	117 700
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	0	60 413	0	60 413
Financial assets held for trading (excluding derivatives)	0	1 347	0	1 280	322 453	0	325 080
Derivatives	3 795	16 506	81	9 378	1 125 156	285	1 155 201
Gross loans and advances to customers	9 840 321	3 514 460	6 483	187 723	16 284 810	587	29 834 384
Impairment losses on loans and advances to customers	-99 372	-72 360	-23	-3 590	-1 429 700	-23	-1 605 068
Investment securities:	0	310 569	0	0	7 665 796	0	7 976 365
- available-for-sale	0	268 222	0	0	5 159 553	0	5 427 775
- held-to-maturity	0	42 347	0	0	2 506 243	0	2 548 590
Property, plant and equipment	0	0	0	0	223 338	0	223 338
Intangible assets	0	0	0	0	94 816	0	94 816
Deferred tax assets	0	0	0	0	329 578	0	329 578
Investment properties	0	0	0	0	16 137	0	16 137
Non-current assets held for sale	0	0	0	0	5 709	0	5 709
Other assets	0	8 625	11	82	75 734	25	84 477
Total assets	**9 764 076**	**3 931 852**	**25 870**	**299 927**	**26 708 390**	**31 120**	**40 761 235**

** the table does not include created, according to the description in Note 4, provision (in the amount of PLN 257.9 million) for credit risk concerning exposures assessed collectively.*

Consolidated balance sheet by currencies as at 31.12.2012 (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Liabilities							
Amounts due to banks	3 175 253	617 103	355	3 311	478 947	8 109	4 283 078
Liabilities arising from repurchase transactions	0	0	0	0	94 937	0	94 937
Financial liabilities held for trading (excluding derivatives)	0	0	0	0	115 424	0	115 424
Derivatives	580	12 322	1 210	4 932	1 208 180	238	1 227 462
Amounts due to customers	1 044 869	1 879 520	89 737	902 919	26 458 733	16 852	30 392 630
Current tax liability	0	0	0	0	7 238	0	7 238
Provisions	0	23 189	31	5 359	330 157	28	358 764
Deferred tax liabilities	0	0	0	0	1 380	0	1 380
Other liabilities	15	4 307	85	137	252 860	7	257 411
Subordinated liabilities	896 588	0	0	0	74 945	0	971 533
Total liabilities	**5 117 305**	**2 536 441**	**91 418**	**916 658**	**29 022 801**	**25 234**	**37 709 857**

Off-balance-sheet items as at 31.12.2012

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Off-balance sheet items							
Liabilities granted:	**0**	**941 150**	**8 067**	**289 462**	**4 201 005**	**20 584**	**5 460 268**
- financial	0	382 767	501	282 195	3 098 094	0	3 763 557
- guarantees	0	558 383	7 566	7 267	1 102 911	20 584	1 696 711
Liabilities received:	**0**	**294 200**	**0**	**806**	**837 997**	**14 839**	**1 147 842**
- financial	0	0	0	806	311 375	14 839	327 020
- guarantees	0	294 200	0	0	526 622	0	820 822
Liabilities related to the sale/purchase transactions	**10 868 875**	**5 718 025**	**94 530**	**4 441 951**	**143 481 613**	**147 575**	**164 752 569**

Consolidated balance sheet by currencies as at 31.12.2011

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Assets							
Cash and balances with Central Bank	7 730	69 332	14 522	24 875	663 477	4 732	784 668
Gross loans and advances to banks	24 770	161 419	8 931	54 166	930 390	8 336	1 188 012
Financial assets designated upon initial recognition as at fair value through profit or loss	0	0	0	34 741	65 943	0	100 684
Financial assets held for trading (excluding derivatives)	0	1 633	0	708	58 152	0	60 493
Derivatives	2 174	64 496	3 797	6 808	993 110	704	1 071 089
Gross loans and advances to customers	11 214 297	3 309 847	10 062	223 251	15 735 803	655	30 493 915
Impairment losses on loans and advances to customers	-62 211	-74 776	-1	-9 688	-1 261 460	-25	-1 408 161
Investment securities:	0	343 739	0	0	8 334 973	0	8 678 712
- available-for-sale	0	297 956	0	0	4 964 082	0	5 262 038
- held-to-maturity	0	45 783	0	0	3 370 891	0	3 416 674
Investments in associates valued using the equity method	0	0	0	0	19 152	0	19 152
Property, plant and equipment	0	0	0	0	259 797	0	259 797
Intangible assets	0	0	0	0	59 711	0	59 711
Deferred tax assets	0	0	0	0	263 257	0	263 257
Current tax receivable	0	0	0	0	116 870	0	116 870
Investment properties	0	0	0	0	209 065	0	209 065
Non-current assets held for sale	0	0	0	0	12 128	0	12 128
Other assets	2	11 820	57	67	81 663	83	93 692
Total assets	**11 186 762**	**3 887 510**	**37 368**	**334 928**	**26 542 031**	**14 485**	**42 003 084**

Consolidated balance sheet by currencies as at 31.12.2011 (cont.)

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Liabilities							
Amounts due to Central Bank	0	0	0	0	32	0	32
Amounts due to banks	6 795 371	1 124 012	967	1 241	562 890	2 010	8 486 491
Derivatives	105	44 479	75	9 101	929 150	6	982 916
Amounts due to customers	697 695	2 614 170	80 937	772 228	23 871 239	6 888	28 043 157
Current tax liability	0	0	0	0	182	0	182
Provisions	0	27 662	0	223	88 517	0	116 402
Deferred tax liabilities	0	0	0	0	725	0	725
Other liabilities	61	9 648	100	822	260 390	23	271 044
Subordinated liabilities	961 554	0	0	0	74 956	0	1 036 510
Total liabilities	**8 454 786**	**3 819 971**	**82 079**	**783 615**	**25 788 081**	**8 927**	**38 937 459**

Off-balance-sheet items as at 31.12.2011

in PLN '000'	CHF	EUR	GBP	USD	PLN	Other currencies	Total
Off-balance sheet items							
Liabilities granted:	**981**	**1 539 028**	**27 339**	**251 001**	**4 701 714**	**27 985**	**6 548 048**
- financial	981	591 978	527	237 293	3 511 359	4 244	4 346 382
- guarantees	0	947 050	26 812	13 708	1 190 355	23 741	2 201 666
Liabilities received:	**0**	**259 542**	**0**	**0**	**623 385**	**0**	**882 927**
- financial	0	9 417	0	0	32 004	0	41 421
- guarantees	0	250 125	0	0	591 381	0	841 506
Liabilities related to the sale/purchase transactions	**4 132 643**	**24 370 804**	**78 826**	**4 384 407**	**166 273 066**	**38 759**	**199 278 505**

73.1.3. Capital market risk

The Bank did not operate on the stock market within the Trading Book. In 2012, the Bank withdrew from its offer structured products in which the payment depended on the behavior of WIG 20 index; however, it still offered structured deposits in which the payment depended on the behavior of interest rate indices and exchange rates.

73.1.4. Commodity price risk

The Bank was not active on the commodity market within the Trading Book. At the same time, in 2012, the Bank offered commodity derivatives to corporate customers, in which the payment depended on the behavior of commodity prices. As in the case of currency options and interest rate options, the Bank did not have an open position in commodity instruments. Commodity derivatives on the inter-bank market were instruments hedging the position resulting from transactions with customers. Therefore, the commodity price risk did not exist.

73.1.5. Capital requirements

The capital requirements for the Trading Book as of 31.12.2012 and 31.12.2011 are as follows:

Capital requirements for the Trading Book

in PLN '000'	**31.12.2012**	**31.12.2011**
Equity securities price risk	0	0
Specific risk of debt instruments	20	11
General interest rate risk	30 548	31 057
Settlement risk and counterparty risk	37 587	46 940
Currency risk (total for the Trading Book and the Banking Book)	0	0
Total capital requirement in the Trading Book	**68 155**	**78 008**

73.2. Banking Book

The Banking Book covers operations not covered by the trading portfolio, i.e. commercial activities of branches, credit intermediaries and the portfolios of securities hedging the liquidity and constant interest income.

73.2.1. Interest rate risk

The Bank actively managed the interest rate risk in the main currencies of the balance sheet, including PLN, EUR, USD and CHF.

An interest rate gap prepared separately for each currency is the basic measurement and risk-limiting tool in the banking portfolio. The following risk metrics are calculated on that basis:

- sensitivity of the measurement of assets and liabilities (BPV);
- duration;
- cumulative gap ratios.

An analysis of the interest rate gap applied in the interest rate risk management of the Banking Book was based on information on particular items of the Bank's balance sheet as well as off-balance items sensitive to changes in interest rates. In the case of financial instruments without defined maturity dates (according to stability analyses for each type of a product), the Bank implemented the model of periodic deposits rollover, which replicates the behavior of particular products. This approach allows for more effective management of risk associated with this type of instruments and for the generation of constant income from investments of these assets.

Stress-testing and VaR calculations were additional interest rate risk monitoring tools in the Banking Book.

Interest rate risk analysis

The interest rate risk analysis was conducted upon the following assumptions:

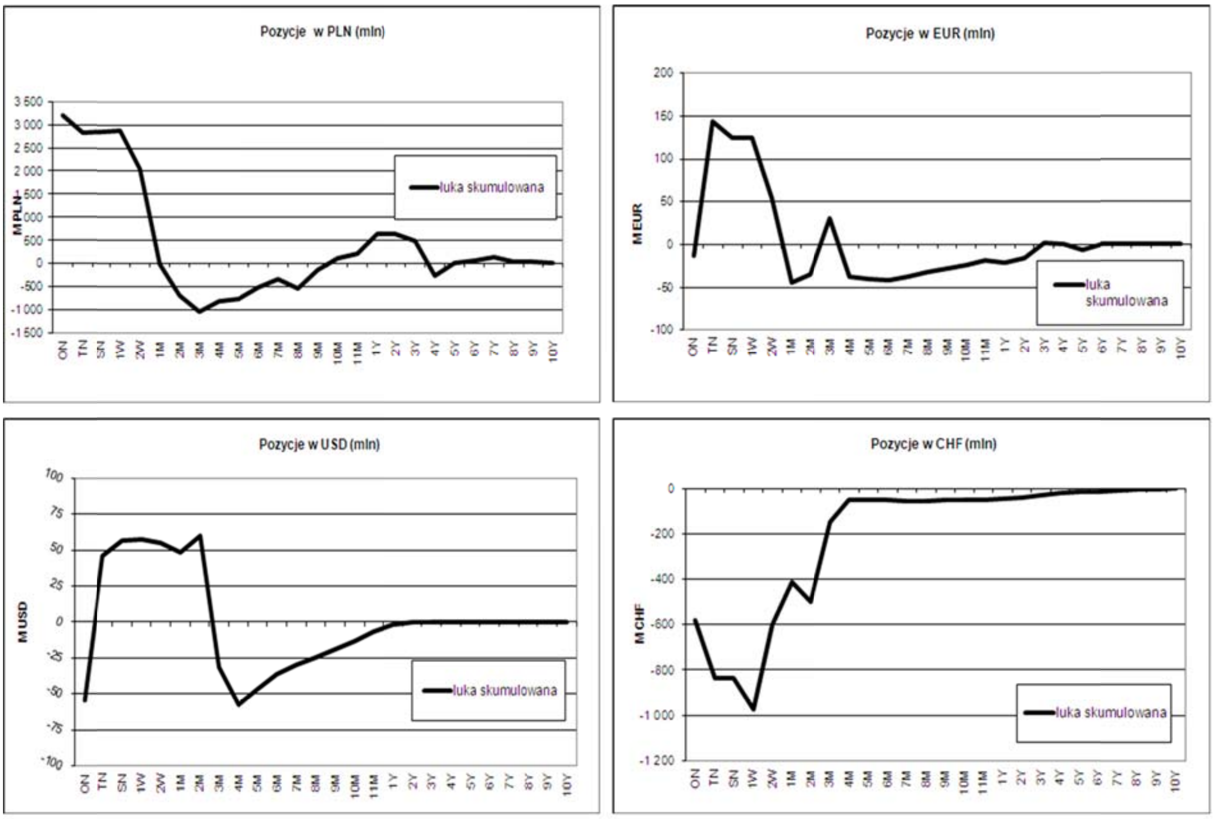
- a stable part of current accounts in PLN and EUR was cyclically invested for the period of:
  1. 8 years for PLN;
  2. 5 years for EUR;
- a stable portion of savings accounts in PLN was invested cyclically (every month) for the periods of 2 to 5 years; in the second half of 2012, to adapt the model interest rate risk profile to the product features through greater correlation between the interest rate on the savings account and the interest rate on short-term term deposits, average duration of assets in the benchmark portfolio of savings accounts was shortened through, among other things, the sales of Treasury bonds from the available-for-sale portfolio with the maturity from 2 to 5 years;
- unstable parts of current accounts in PLN and EUR, and current accounts in other currencies were classified in the shortest time horizon;
- an unstable part of savings accounts in PLN was invested cyclically in terms from 1 to 3 months (every month) and O/N; savings accounts in other currencies were classified in the shortest time horizon;
- free capital approved for the whole year was invested cyclically for the period of 10 years (with 1/120th of the free capital invested monthly); an excess or shortage compared to the present amount of free capital was classified in the shortest time horizon; and the passive portion of the free capital portfolio was deemed as insensitive to changes in interest rates;
- loans were recognized in net terms;
- fixed interest rate loans were accounted for according to the payment schedule, and the floating interest rate loans were presented in the closest revaluation period;
- a gap report, apart from flows related to the principal amount, also presented known future interest flows;
- each flow was divided proportionally into two parts which were classified in adjoining nodes of the curve;
- a cumulative gap was calculated from the longest to the shortest term period.

The interest rate gaps diagrams for the position resulting from the operation of branches (including derivatives used as hedging instruments) based on an internal system of transfer rates in particular currencies: PLN, EUR, USD and CHF, are presented below.

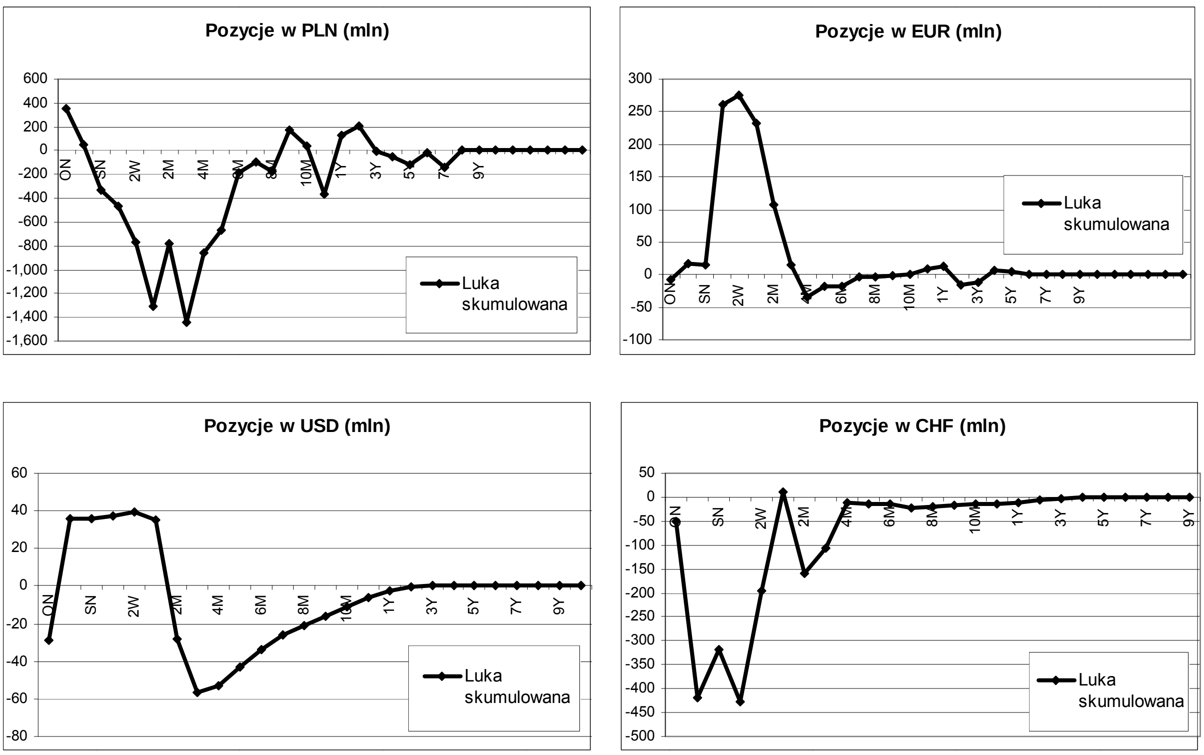
The diagrams present the mismatch between the repricing periods for assets and liabilities in time ranges: from O/N time range (overnight) to 10Y time range (10 years). The cumulative gap presents the total mismatch for a given time horizon; the gaps are accumulated beginning from the most remote date. The most noticeable mismatch both in particular time ranges and accumulated ranges appear in time ranges up to 3 months. It is related to the structure of the Bank’s balance sheet, namely customers’ floating interest rate loans portfolio with repricing periods of 1 month and 3 months and financing, i.e. customers’ deposits and long-term floating interest rate loans are the main position affecting the interest rate gap.

The Bank actively mitigated the risk resulting from the mismatch between balance sheet assets and liabilities, closing the positions with derivatives and applying hedge accounting.

Data for the Bank as at 31.12.2012 (in original currencies)



Data for the Bank as at 31.12.2011 (in original currencies)



The Bank analyzed BPV of the Bank, with the simultaneous upward shift of interest rates by 10 b.p. in breakdown into particular currencies.

The total BPV for the Banking Book is presented below. It was calculated as the aggregate BPV for particular currencies and portfolios. According to the methodology of calculating BPV for limits, the liabilities side of the Free Capital portfolio, as insensitive to changes in interest rates, was not included in calculations.

in EUR '000'	**31.12.2012**	**31.12.2011**
BPV (calculation to limit)	-2 149	-1 957

In addition, the Bank carried out stress-testing for the sensitivity of the economic value of the Banking Book position to changes in interest rates. The results of stress-testing are shown in the table below:

Change in NPV for the Banking Book position for pre-determined scenarios

in EUR million	**31.12.2012**	**31.12.2011**
Parallel upward shift of the curve by 200 b.p.	-43.6	-36.5
Parallel downward shift of the curve by 200 b.p.	50.4	42.6

73.2.2. Hedge accounting

Fair value hedging accounting

In 2012 and 2011, the Bank did not apply hedge accounting for fair value hedge.

Hedge accounting of cash flows

In 2012, as in 2011, the Bank continued to apply hedge accounting for the part of the mortgage loans portfolio based on 3-month WIBOR rate, which involved the conclusion of IRS's in which the Bank received fixed and paid floating interest rates. Interest rate risk resulting from a change in the 3-month interest rate was the hedged risk in this case.

In 2012, the Bank started to apply hedge accounting prior to changes in cash flows for mortgage loans granted in CHF resulting from changes in market interest rates (CHF LIBOR) and exchange rates (CHF/PLN), and for deposits made in PLN along with their rollover resulting from changes in market interest rates (WIBOR). Cross Currency Interest Rate Swap (CCIRS) was the instrument hedging both relations.

73.2.3. Currency risk

As mentioned above, the position in currencies was managed in the Trading Book. The positions related to the Bank's customers' transactions arising during the day were transferred, via internal transactions, to the Trading Book.

It should be noted here that the currency risk at Kredyt Bank was perceived not only as the risk occurring for an open position in currencies, but also as the risk of a change in the value of certain products as a result of changes in exchange rates. In particular, this risk occurs in the case of loans extended in foreign currencies. In order to mitigate credit risk, increasing in the case of the growth in the exchange rate of the loan currency (this also refers to loans granted in PLN, with its value indexed to the foreign currency exchange rate), the loans agreements for institutional customers contained clauses on the establishment of additional collateral or permit to translate the loan when the customer did not generate income in the loan currency. Additionally, in order to hedge the exchange rate risk the customer is exposed to, derivatives (forwards, options) were offered to him.

In order to mitigate the currency risk on granting housing purposes mortgages in a foreign currency to individual customers, the Bank, analyzing the creditworthiness:

a) determined the value of the highest monthly interest and principal repayment installment for the applied loan with the assumption that the principal of the applied loan is 20% higher;
b) calculated the maximum level of LtV (*Loan To Value*) ratio on a lower level than for loans in PLN (LtV ratio should be understood as the loan value/collateral value ratio);
c) additionally, the applicant was informed about the foreign exchange risk.

In May 2010, the Bank eliminated from its offer housing purposes mortgages denominated in CHF, focusing on the development of the offer in PLN and EUR. In January 2012, the housing purposes mortgages denominated in EUR were also withdrawn from the offer.

73.3. Liquidity risk

The liquidity risk is strictly associated with activities of any bank. It results, among other things, from the mismatch of assets and liabilities in terms of maturity dates, which is a natural effect of varied customers' requirements as regards deposits and loans. Maintenance of financial liquidity, understood as the ability to timely meet financial liabilities, is the crucial element of the policy on assets and liabilities management applied by the Bank. The current liquidity is maintained through correcting the surplus or shortage of liquid cash by operations conducted on the interbank money market. The Bank's safety calls for the maintenance of liquid reserves and of the proper term and quality structure of the whole balance sheet. Decisions related to liquidity risk management were made by the Risk and Capital Committee. The Market Risk Office measured and monitored strategic (long-term) liquidity.

The Bank hedged the liquidity risk by:

- maintenance of an appropriate level of cash, taking into account volume of statutory provisions;
- possession of a proper volume of portfolios of liquid securities (governmental bonds);
- performance of transactions on derivatives;
- maintenance of a diversified portfolio of deposits as regards terms and customers;
- diversification of the sources of long-term financing;
- access to the interbank market and open market transactions;
- access to the lombard loan.

An analysis of the Bank's liquidity was performed mainly on the basis of the assessment of the deposit base stability and the liquidity gap report through, among other things, monitoring the mismatch of the maturity dates of assets and liabilities, which makes it possible to forecast the demand for liquid assets and avoid excessive concentration of cash disbursements on a close date. In addition, the Bank regularly carried out stress-testing for the liquidity and monitored the level of liquidity buffers in stress conditions.

According to the methodology of the Financial Services Authority adopted by the Bank, the stable part of current accounts and savings accounts was recognized in the shortest term range. In the range up to 6 months, the Bank presented highly probable cash flows (the principal amount and interest). In ranges above 6 months, the Bank presented only cash flows related to principal amounts. The adoption of the said methodology resulted in a more restrictive picture of the Bank's liquidity than in the situation when the gap analysis shows all interest flows expected in the future.

In the tables below, the current accounts and savings accounts are presented in 'on demand' term range, term deposits are presented at maturity, which results in the negative gap in the ranges up to 1Y, particularly in the range up to 1M. In reality, the deposit base was characterized with a high level of stability, which was analyzed by the Bank on an ongoing basis. On this basis, the Bank prepared the liquidity gap, having regard for 'made real' (i.e. expected by the Bank) maturity dates for particular categories of customer deposits.

Liquidity gap report

Data for the Bank (in millions of PLN) as at 31.12.2012

Assets	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Cash in hand	599	0	0	0	0	0	0	0	599
NOSTRO	518	0	0	0	0	0	0	0	518
Loans granted	794	1 953	1 716	2 270	2 762	2 191	2 212	14 615	28 513
Other loans and receivables granted	170	0	0	0	0	0	0	0	170
Liquid bonds, money and Treasury bills	5	186	768	560	1 969	606	635	1 402	6 131
Non-liquid/held-to-maturity bonds	32	2	181	258	500	688	630	363	2 654
Liquid bonds in the Trading Book	223	0	0	0	0	0	0	0	223
Reverse repos/BSB	118	0	0	0	0	0	0	0	118
Equity investments	0	0	0	0	0	0	0	77	77
Other	0	76	0	0	5	0	0	0	81
Derivatives – cash flows to be received									
FX derivatives	5 512	2 182	1 067	130	54	41	0	0	8 986
IR derivatives	143	1 002	696	0	0	0	0	0	1 841
CIRS – cash flows to be received	0	440	13	93	9	0	1 379	0	1 934
Total	**8 114**	**5 841**	**4 441**	**3 311**	**5 299**	**3 526**	**4 856**	**16 457**	**51 845**

Liabilities	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Current accounts	4 352	4	5	0	0	0	0	0	4 361
Deposits/savings accounts	14 581	2 867	3 738	1 574	83	17	0	2	22 862
Deposits of the budgetary sector	1 372	164	8	7	28	0	0	0	1 579
Inter-bank deposits	505	855	146	27	10	0	0	0	1 543
Perpetual bonds and cash loans	87	28	358	1 445	93	47	1 175	1 726	4 959
LORO	62	0	0	0	0	0	0	0	62
Repos/SBB	95	0	0	0	0	0	0	0	95
Free capital*	0	0	0	0	0	0	0	2 843	2 843
Other	0	142	0	22	0	0	0	0	164
Derivatives – cash flows to be paid									
FX derivatives	5 490	2 181	1 050	132	61	44	0	0	8 958
IR derivatives	102	947	873	0	0	0	0	0	1 922
CIRS – cash flows to be paid	0	417	2	90	8	0	1 367	0	1 884
Total	**26 646**	**7 605**	**6 180**	**3 297**	**283**	**108**	**2 542**	**4 571**	**51 232**

** equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.*

	up to 1M	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**
Assets	8 114	5 841	4 441	3 311	5 299	3 526	4 856	16 457
Liabilities	26 646	7 605	6 180	3 297	283	108	2 542	4 571
Liquidity gap	**-18 532**	**-1 764**	**-1 739**	**14**	**5 016**	**3 418**	**2 314**	**11 886**

Data for the Bank (in millions of PLN) as at 31.12.2011

Assets	**up to 1M**	**1 - 3M**	**3 - 6M**	**6M - 1Y**	**1Y - 2Y**	**2Y - 3Y**	**3Y - 5Y**	**over 5Y**	**Total**
Cash in hand	669	0	0	0	0	0	0	0	669
NOSTRO	89	0	0	0	0	0	0	0	89
Loans granted	853	1 344	1 693	2 178	3 141	2 403	2 494	15 092	29 198
Other loans and receivables granted	194	0	0	0	0	0	0	0	194
Liquid bonds, money and Treasury bills	105	96	163	175	943	1 321	1 634	1 454	5 891
Non-liquid/held-to-maturity bonds	110	2	410	770	478	500	1 045	566	3 881
Liquid bonds in the Trading Book	60	0	0	0	0	0	0	0	60
Reverse repos/BSB	0	0	0	0	0	0	0	0	0
Equity investments	0	0	0	0	0	0	0	86	86
Other	0	52	0	0	2	0	0	0	54
Derivatives – cash flows to be received									
FX derivatives	4 146	3 303	1 726	1 107	83	0	0	0	10 365
IR derivatives	155	1 042	659	0	0	0	0	0	1 856
CIRS – cash flows to be received	0	8	184	1 038	16	11	10	0	1 267
Total	**6 381**	**5 847**	**4 835**	**5 268**	**4 663**	**4 235**	**5 183**	**17 198**	**53 610**

Liabilities	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y	Total
Current accounts	3 896	4	4	0	0	0	0	0	3 904
Deposits/savings accounts	14 200	2 155	3 693	552	140	1	1	3	20 745
Deposits of the budgetary sector	1 267	166	26	1	12	0	0	0	1 472
Inter-bank deposits	1 276	2 321	203	193	0	0	0	0	3 993
Perpetual bonds and cash loans	46	30	30	3 977	1 257	34	47	1 799	7 220
LORO	74	1	1	0	0	0	0	0	76
Repos/SBB	0	0	0	0	0	0	0	0	0
Free capital*	0	0	0	0	0	0	0	2 388	2 388
Other	0	84	0	102	31	0	0	0	217
Derivatives – cash flows to be paid									
FX derivatives	4 122	3 177	1 731	1 101	80	0	0	0	10 211
IR derivatives	116	1 074	605	0	0	0	0	0	1 795
CIRS – cash flows to be paid	0	4	183	1 056	13	11	8	0	1 275
Total	**24 997**	**9 016**	**6 476**	**6 982**	**1 533**	**46**	**56**	**4 190**	**53 296**

** equity net of current result less net property, plant and equipment (net of finance lease and operating lease), net intangible assets (net of finance lease and operating lease) and net value of interests in financial subsidiaries.*

	up to 1M	1 - 3M	3 - 6M	6M - 1Y	1Y - 2Y	2Y - 3Y	3Y - 5Y	over 5Y
Assets	6 381	5 847	4 835	5 268	4 663	4 235	5 183	17 198
Liabilities	24 997	9 016	6 476	6 982	1 533	46	56	4 190
Liquidity gap	**-18 616**	**-3 169**	**-1 641**	**-1 714**	**3 130**	**4 189**	**5 127**	**13 008**

The liquidity gap presented above was prepared on the basis of contractual maturities for particular balance sheet items. Liabilities without a defined maturity (current accounts and savings accounts) were recognized in the shortest term range, although the actual/made real maturity for such instruments occurred in further tenors.

At the end of 2012, as compared to the end of 2011, the following changes in the structure of the Bank's financial liabilities can be noticed:

- an increase in the balance of customers' deposits by PLN 2.7 billion;
- the amount of accepted inter-bank deposits and cash loans on the wholesale market decreased by PLN 4.7 billion.

The Bank's financial liquidity was also monitored on the basis of a system of ratios reflecting the structure of liabilities and receivables for time ranges from 7 days to 10 years.

- the ratio of the coverage of the 5- and 30-day liquidity gap with liquid assets – Short Term Liquidity Surplus (STLS) – short-term liquidity ratio (to 5 and 30 working days respectively);
- the liquidity buffer in the liquidity stress-test (within a 30-day horizon);
- Liquidity Mismatch Ratio (LMR) – medium-term liquidity ratio (up to 3, 6 months);
- Coverage Ratio (CR) – liquidity ratio which informs about a degree of financing long-term assets with long-term liabilities (1, 2, 3, 5 and 10 years);
- short-term and long-term liquidity ratios according to Basel III (LCR and NSFR).

The Bank's liquidity was also monitored through a set of regulatory liquidity ratios pursuant to the requirements of Resolution No. 386/2008 of the Polish Financial Supervision Authority.

73.3.1. Regulatory liquidity ratios

Within the liquidity management process, the Bank was required to maintain the ratios listed in Resolution No. 386/2008 of the Polish Financial Supervision Authority above the established minimum limit.

Data as at 31.12.2012

	Assets	*in PLN '000'*
A1	Basic liquidity reserve	8 222 087
A2	Supplementary liquidity reserve	5 632 051
A3	Other transactions on the wholesale financial market	11 170 976
A4	Limited liquidity assets	27 353 696
A5	Non-liquid assets	500 352
	Liabilities and equity	*in PLN '000'*
B1	Own funds less total capital requirements related to market risk, settlement risk and counterparty risk	3 724 512
B2	Stable external financing	28 734 211
B3	Other liabilities on the wholesale financial market	10 056 176
B4	Other liabilities	241 388
B5	Unstable external financing	11 949 643

	Liquidity ratios	Minimum value	Value
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	1 904 495
M2	Short-term liquidity ratio: ((A1+A2)/B5)	1.00	1.16
M3	Own funds to non-liquid assets: (B1/A5)	1.00	7.81
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets: ((B1+B2)/(A5+A4))	1.00	1.17

Data as at 31.12.2011

	Assets	*in PLN '000'*
A1	Basic liquidity reserve	8 984 754
A2	Supplementary liquidity reserve	4 234 595
A3	Other transactions on the wholesale financial market	14 965 149
A4	Limited liquidity assets	28 939 510
A5	Non-liquid assets	583 830
	Liabilities and equity	*in PLN '000'*
B1	Own funds less total capital requirements related to market risk, settlement risk and counterparty risk	3 566 284
B2	Stable external financing	30 223 000
B3	Other liabilities on the wholesale financial market	13 811 705
B4	Other liabilities	412 582
B5	Unstable external financing	9 658 566

	Liquidity ratios	Minimum value	Value
M1	Short-term liquidity gap: ((A1+A2)-B5)	0.00	3 560 783
M2	Short-term liquidity ratio: ((A1+A2)/B5)	1.00	1.37
M3	Own funds to non-liquid assets: (B1/A5)	1.00	6.11
M4	Own funds and stable external financing to non-liquid assets and limited liquidity assets: ((B1+B2)/(A5+A4))	1.00	1.14

73.3.2. Financing sources – amounts due to banks and subordinated liabilities

in PLN '000'	**31.12.2012**	**31.12.2011**
Loans and advances from KBC Group	1 332 759	3 234 826
Term deposits, including:	2 872 054	5 160 973
- from KBC Group	2 771 506	5 117 701
Current accounts, including:	73 967	83 795
- from KBC Group	38 340	69 746
Other liabilities	4 298	6 897
Total amounts due to banks	**4 283 078**	**8 486 491**
Subordinated liabilities (from KBC Group)	971 533	1 036 510
Total, including:	**5 254 611**	**9 523 001**
- from KBC Group, including:	5 114 138	9 458 783
- liabilities in the currency other than PLN	4 686 659	8 869 558

The deposits base, with the decreasing share of the financing from the wholesale market in the liabilities structure, was the main source of financing for the loans portfolio. In 2012, the Bank reduced the scale of the financing in foreign currencies sourced directly from KBC Group and, at the same time, to hedge the structural currency gap, greatly increased the exposure to currency derivatives (of swap type).

Due to a high degree of the deposits base diversification and the reduced scale of the financing from the wholesale market, the Bank was not clearly dependent on a particular market segment, group of customers or a specific type of deposits.

The structure of customers' deposits has been presented in Note 44.

Signatures of Members of The Management Board

date	07.03.2013	Mateusz Morawiecki	President	....
date	07.03.2013	Andrzej Burliga	Member	....
date	07.03.2013	Eamonn Crowley	Member	....
date	07.03.2013	Michael McCarthy	Member	....
date	07.03.2013	Piotr Partyga	Member	....
date	07.03.2013	Juan de Porras Aguirre	Member	....
date	07.03.2013	Marcin Prell	Member	....
date	07.03.2013	Marco Antonio Silva Rojas	Member	....
date	07.03.2013	Mirosław Skiba	Member	....
date	07.03.2013	Feliks Szyszkowiak	Member	....

Signature of a person who is responsible for maintaining the book of account

date	07.03.2013	Wojciech Skalski	Financial Accounting Area Director	....

Unaudited Pro Forma Condensed Consolidated Financial Information

2012

Bank Zachodni WBK S.A.

Unaudited Pro Forma Condensed Consolidated Financial Information

The following unaudited pro forma condensed consolidated financial information, which comprises the unaudited pro forma condensed consolidated statement of financial position as of 31 December 2012 and the unaudited pro forma condensed consolidated income statement for the year ended 31 December 2012, has been prepared based on the assumptions described in the notes hereto and in compliance with the recognition and measurement principles of IFRS. On 4 January 2013 the business combination of Bank Zachodni WBK and Kredyt Bank was completed (the "Merger"). The Merger was settled through the issue and take-up of merger shares as described in note 3 of this Unaudited Pro Forma Condensed Consolidated Financial Information.

The unaudited pro forma condensed consolidated financial information has been prepared only and exclusively for illustrative purposes and in light of its hypothetical nature, it does not represent the actual asset and financial position, financial result, the balance sheet sum or the equity of BZ WBK. Also, it does not form the basis for any forecasts, comparisons or budgets. It is not intended to be indicative of future results. Unless otherwise indicated, all the financial information relating to the companies covered by the unaudited pro forma condensed consolidated financial information is based on the consolidated financial statements of BZ WBK Group and of Kredyt Bank Group for the year ended 31 December 2012, to which the adjustments were made as indicated in the Pro Forma Financial Information.

The unaudited pro forma condensed consolidated statement of financial position gives effect to the Merger as if it had occurred on 31 December 2012. The unaudited pro forma condensed consolidated income statement gives effect to the Merger as if it had occurred on 1 January 2012, The unaudited pro forma adjustments are described in the accompanying notes.

The unaudited pro forma condensed consolidated financial information has been prepared based on the following:

- The audited consolidated financial statements of BZ WBK Group for the year ended 31 December 2012, presented in thousands of PLN, which have been prepared in accordance with IFRS as aprooved by the EU;

- The audited consolidated financial statements of Kredyt Bank Group for the year ended 31 December 2012, presented in thousands of PLN, which have been prepared in accordance with IFRS as aprooved by the EU, for which the audit opinion expressed by their independent auditors contains the following qualification:

"As described in the note 4 of additional information to the attached consolidated financial statements Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached consolidated financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012. Additionally, the amount of PLN 258 million out of the above increase in impairment allowances which relates to losses incurred but not recorded ('IBNR') and collective impairment was presented in line "Provisions" in the liabilities which is not compliant with the adopted accounting standards."

The unaudited pro forma condensed consolidated financial information should be read in conjunction with the relevant separately published financial statements.

The Merger is being accounted for using the acquisition method of accounting in accordance with IFRS 3 "Business combination" ("IFRS 3"). Under the acquisition method of accounting, the aggregate consideration paid is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values on the transaction date. Goodwill is measured as the excess, if any of, the sum of the consideration paid over the net amounts of identifiable assets acquired and liabilities assumed at the acquisition date. This unaudited pro forma condensed consolidated financial information has been prepared based on preliminary estimates of fair values. The final allocation of considaretion paid to assets acquired and liabilities assumed may differ materially from the information presented in this unaudited pro forma condensed consolidated financial information. In accordance with IFRS 3, acquirer have up to twelve months following the acquisition to finalize the allocation of purchase price, which is expected to be completed by 31 December 2013. The preliminary estimates of the fair values of the assets acquired and liabilities assumed herein may be subject to change upon finalization of the valuation of assets acquired and liabilities assumed as of the closing date as well as finalization of the audit that is in progress at the date of pro forma preparation of the underlying data of Kredyt Bank as of 4 January 2013 required for the valuation purposes.

The adjustments made in order to present these unaudited pro forma condensed consolidated financial statements have been made based upon available information and asumptions that our Management believes are reasonable, that are directly attributable to the Merger, and that are factually supportable. The unaudited pro forma financial statements have not been prepared, and shall not be construed as being prepared, in accordance with Regulation S-X under the US Securities Act. The unaudited pro forma condensed consolidated financial statements do not purport to present what our financial position or results of operations would actually have been if the Merger would have occurred on the dates described above, nor do they purport to represent our financial position or results of operations for any future period. No account has been taken within this unaudited pro forma condensed consolidated financial information of any future changes in accounting policies or any synergies (including cost savings), all of which may or may not occur as a result of the Merger.

Unaudited pro forma condensed consolidated statement of financial position as at 31 December 2012

as at 31.12.2012	BZWBK Group Historical data	Kredyt Bank Group Historical data	Inter-company transactions 5.1	Purchase Price Allocation & Acquisition Adjustments	Note	IFRS Harmonization Adjustments	Note	Other Adjustments	Note	Pro Forma Balance Sheet
ASSETS										
Cash and balances with central banks	4 157 274	963 375		-		-		-		5 120 649
Loans and advances to banks	1 458 128	1 179 730	(2 314)	-		(899 047)	4.1	117 700	5.6	1 854 197
Reverse repo transactions	-	117 700				-		(117 700)	5.6	-
Financial assets at fair value through profit and loss	-	60 413				-		(60 413)	5.7	-
Financial assets held for trading	831 715	1 361 671	(5 123)	-		-		60 413	5.7	2 248 676
Hedging derivatives	253 553	118 610		-		-		-		372 163
Loans and advances to customers	39 867 554	28 229 316		(497 727)	3.6	(257 800)	4.3	-		67 341 343
Investment securities	11 716 133	7 976 365		155 040	3.2	899 047	4.1	-		20 746 585
Investments in associates and joint ventures	115 685	-		-		-		-		115 685
Intangible assets	127 338	94 816		139 394	3.5, 3.11	-		-		361 548
Goodwill				1 689 049	3.3	-		(533)	5.10	1 688 516
Property, plant and equipment	479 811	223 338		(31 910)	3.10	-		-		671 239
Current income tax assets	-	-		-		-		-		-
Net deferred tax assets	258 037	329 578		27 376		(1 380)	4.5	-		613 611
Investment propety	-	16 137		-		-		-		16 137
Assets classified as held for sale	-	5 709		-		-		-		5 709
Other assets	753 949	84 477		(5 329)	3.9	-		-		833 097
Total assets	**60 019 177**	**40 761 235**	**(7 437)**	**1 475 892**		**(259 180)**		**(533)**		**101 989 155**

Unaudited pro forma condensed consolidated statement of financial position as at 31 December 2012 continued

as at 31.12.2012	BZWBK Group Historical data	Kredyt Bank Group Historical data	Inter-company transactions 5.1	Non-recurring transaction adjustments	Note	Changes in accounting policy and other	Note	Other Adjustments	Note	Pro Forma Balance Sheet
LIABILITIES										
Deposits from banks	1 351 050	4 283 078	(2 314)	(23 476)	3.7	-		94 937	5.6	5 703 275
Repo transactions	-	94 937				-		(94 937)	5.6	-
Hedging derivatives	321 950	62 366		-		-		-		384 316
Financial liabilities held for trading	728 831	1 280 520	(5 123)	-		-		-		2 004 228
Deposits from customers	47 077 094	30 392 630		(18 288)	3.7	-		-		77 451 436
Subordinated liabilities	409 110	971 533		-		-		-		1 380 643
Current income tax liabilities	154 916	7 238		-		-		-		162 154
Net deferred tax liabilities	-	1 380				(1 380)	4.5	-		-
Other liabilities	998 512	616 175		25 194	3.8, 3.12	(257 800)	4.3	(533)	5.10	1 381 548
Total liabilities	**51 041 463**	**37 709 857**	**(7 437)**	**(16 570)**		**(259 180)**		**(533)**		**88 467 600**
Equity				-		-		-		
Equity attributable to owners of BZ WBK S.A.	**8 884 367**	**3 051 378**	**-**	**1 492 462**		**-**		**-**		**13 428 207**
Share capital	746 376	1 358 294		(1 169 219)	3.1, 3.4	-		-		935 451
Other reserve funds	5 704 680	1 611 325		2 743 441	3.1, 3.4	-		-		10 059 446
Revaluation reserve	872 400	212 298		(212 298)	3.4	-		-		872 400
Retained earnings	127 064	25 914		(25 914)	3.4	-		-		127 064
Profit of the current period	1 433 847	(156 453)		156 453	3.4	-		-		1 433 847
Non-controlling interests in equity	**93 347**	**-**		**-**		**-**		**-**		**93 347**
Total equity	**8 977 714**	**3 051 378**	**-**	**1 492 462**				**-**		**13 521 554**
Total equity and liabilities	**60 019 177**	**40 761 235**	**(7 437)**	**1 475 892**		**(259 180)**		**(533)**		**101 989 155**

Unaudited pro forma condensed consolidated income statement for the year ended at 31 December 2012

for reporting period: 01.01-31.12.2012	BZWBK Group Historical data	Kredyt Bank Group Historical data	Inter-company transactions 5.1	Purchase Price Allocation & Acquisition Adjustments	Note	IFRS Harmonization Adjustments	Note	Other Adjustments	Note	Pro Forma Profit and loss
Interest income	3 867 485	2 299 386	(2 558)	58 012	3.2, 3.6	-		-		6 222 326
Interest expense	(1 566 408)	(1 539 720)	2 558	(16 186)	3.7	-		-		(3 119 757)
Net interest income	**2 301 077**	**759 666**	**-**	**41 826**		**-**		**-**		**3 102 569**
Fee and commission income	1 596 038	419 906		-		229 115	4.2	-		2 245 059
Fee and commission expense	(211 052)	(78 511)		-		-		-		(289 563)
Net fee and commission income	**1 384 986**	**341 395**	**-**	**-**		**229 115**		**-**		**1 955 496**
Dividend income	55 748	1 791		-		-		-		57 539
Net gain (loss) on sale of subsidiaries and associates	400	-						17 138	5.3	17 538
Net trading income and revaluation	164 345	305 340		-		(229 115)	4.2	-		240 570
Net result on hedging activities	-	(4 115)				-		4 115	5.8	-
Gains (losses) from other financial securities	180 052	77 471		-		-		(21 253)	5.3, 5.8	236 270
Other operating income	49 672	93 590		-		-		1 177	5.5	144 439
Impairment losses on loans and advances	(501 793)	(736 395)		-		-		9 195	5.5	(1 228 993)
Operating expenses incl.:	*(1 817 194)*	*(997 839)*	-	*(36 376)*		*36 192*		*16 778*		*(2 798 439)*
Bank's staff, operating expenses and management costs	*(1 653 112)*	*(959 400)*		*2 341*	*3.12*	*-*		*101 946*	*5.2, 5.5, 5.9*	*(2 508 225)*
Depreciation/amortisation	*(137 940)*	*-*		*(38 717)*	*3.5, 3.10*	*36 192*	*4.4*	*(70 833)*	*5.9*	*(211 299)*
Other operating expenses	*(26 142)*	*(38 439)*		*-*		*-*		*(14 335)*	*5.5.*	*(78 916)*
Operating profit	**1 817 293**	**(159 096)**	**-**	**5 450**		**36 192**		**27 150**		**1 726 989**
Share in net profits (loss) of entities accounted for by the equity method	19 746	1 019		-		-		-		20 765
Profit before tax	**1 837 039**	**(158 077)**	**-**	**5 450**		**36 192**		**27 150**		**1 747 754**
Corporate income tax	(374 404)	1 624		(534)		(6 876)		(35 788)	5.2, 5.4	(415 978)
Profit for the period	**1 462 635**	**(156 453)**	**-**	**4 915**		**29 315**		**(8 637)**		**1 331 775**
of which:										
attributable to owners of BZ WBK S.A.	*1 433 847*	*(156 453)*	-	*4 915*		*29 315*		*(8 637)*		*1 302 987*
attributable to non-controlling interests	28 788	-		-		-				28 788

Notes to unaudited Pro Forma Condensed Consolidated Financial Information

1. **Amounts have been obtained from the historical audited consolidated financial statements of BZ WBK Group for the year ended 31 December 2012.**

2. **Amounts have been obtained from the historical audited consolidated financial statements of Kredyt Bank Group for the year ended 31 December 2012. The audit opinion of Kredyt Bank Group as of and for the year ended December 31, 2012 contained the following qualification from Kredyt Bank's independent auditors:**

"As described in the note 4 of additional information to the attached consolidated financial statements Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached consolidated financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012. Additionally, the amount of PLN 258 million out of the above increase in impairment allowances which relates to losses incurred but not recorded ('IBNR') and collective impairment was presented in line "Provisions" in the liabilities which is not compliant with the adopted accounting standards."

3. Purchase Price Allocation & Acquisition Adjustments

The Merger is being accounted for using the acquisition method of accounting in accordance with IFRS 3 "Business combination". Under the acquisition method of accounting, the aggregate consideration paid is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their fair values on the transaction date. Goodwill is measured as the excess, if any of, the sum of the consideration paid over the net amounts of identifiable assets acquired and liabilities assumed at the acquisition date. This unaudited pro forma condensed consolidated financial information has been prepared based on preliminary estimates of fair values. The final allocation of consideretion paid to assets acquired and liabilities assumed may differ materially from the information presented in this unaudited pro forma condensed consolidated financial information. The preliminary estimates of the fair values of the assets acquired and liabilities indicated below may be subject to change based upon finalization of the valuation of the assets acquired and liabilities assumed as of the closing date as well as the effects, if any, of the resolution of the audit qualification noted by the independent auditors of Kredyt Bank Group in connection with their audit of the financial statements of Kredyt Bank Group as of and for the year ended December 31, 2012.

The rules of calculation of the number of the shares issued for the purpose of preparation of the unaudited pro forma condensed consolidated financial information was based on the exchange ratio of 100 Kredyt Bank shares for 6.96 of Merger Shares, i.e. 1 Kredyt Bank share exchanged for 0.0696 Bank Zachdni WBK share. As a result of the transaction, 18,907,458 merger shares have been issued, which multiplied by the Bank Zachdni WBK share price of PLN 240.32, yields the purchase price of PLN 4,543,840 thousand (consideration paid).

3.1 The following table set forth the total consideration paid:

Share capital			189 075
Share premium			4 354 765
Consideration paid			**4 543 840**

3.2 Investment securities held to maturity

Adjustment represents the excess of the fair value of financial instruments previously held at amortized cost over their carrying amounts at the Merger date of PLN 155,040 thousand, accompanied by a decrease in net deferred tax assets of PLN 29,458 thousand. At the same time, due to amortisation of the fair value adjustment, in the pro forma condensed consolidated income statement for the period from 1 January to 31 December 2012, the item “Interest income” and “Corporate income tax” were decreased by PLN 50,671 thousand and increased by PLN 9,627 thousand respectively.

3.3 Goodwill

On 4 January 2013 Bank Zachodni WBK completed the Merger through the issuance of 18,907,458 Merger Shares with a value of PLN 4,543,840 in exchange for the shares of Kredyt Bank. The value of consideration has been allocated to the identifiable assets acquired and liabilities assumed on the basis of preliminary estimates of fair value, which include PLN 196,586 thousand of net fair value adjustments.The underlying data of Kredyt Bank used for the purpose of purchase price allocation is in the process of audit and may change as a result of further reviews. The preliminary allocation of purchase price gives rise to goodwill of PLN 1,688,516 thousand as disclosed in the note 49 of Annual consolidated financial statements of Bank Zachodni WBK for the year ended 2012.

3.4 Elimination of Kredyt Bank Group’s shareholders’ equity

Adjustments represent the elimination of Kredyt Bank Group’s 31 December 2012 share capital of PLN 1,358,294 thousand, other reserve funds of PLN 1,611,325 thousand, revaluation reserve of PLN 212,298 thousand and retained earnings (including profit of the current period) of PLN (130,539) thousand, adding up to a total equity elimination of PLN 3,051,378 thousand in merged BZ WBK Group.

3.5 Intangible assets

As a result of the Merger, Bank recognized PLN 207,756 thousand of additional assets that meet the conditions for recognition as intangible assets resulting from the revaluation of the acquired deposits of individual and business customers as well as customer relationships created in former Kredyt Bank. The increase was accompanied by a decrease in net deferred tax assets of PLN 39,474 thousand. These intangible assets were estimated to have a useful life of 10 years. As a result, due to amortisation of the intangible asset, in the unaudited pro forma condensed consolidated income statement for the period from 1 January to 31 December 2012, the item “Depreciation/Amortisation” and “Corporate income tax” was respectively increased by PLN 46,437 thousand and decreased by PLN 8,823 thousand.

3.6 Fair value of loans and advances to customers

Adjustment represents the decrease of carrying amount of acquired loans and advances to customers of PLN 497,727 thousand resulting from fair value of loan portfolio. This adjustment is recognized together with related increase in deferred tax asset of PLM 92,380 thousand. At the same time, due to amortisation of the purchase price adjustment, in the pro forma condensed consolidated income statement for the period from 1 January to 31 December 2012, the items “Interest income” and “Corporate income tax” were increased by PLN 97,333 thousand and by PLN 17,992 thousand respectively.

3.7 Fair value of acquired financing

Adjustments represent the decrease of carrying amounts of “Deposits from banks” and “Deposits from customers” of PLN 23,476 and PLN 18,288 thousand respectively, resulting from more favorable terms and conditions applicable for acquired financing as compared with current market conditions for similar financial instruments. Those adjustment are recognized together with related decrease in deferred tax asset of PLM 7,935 thousand. At the same time, due to amortisation of the purchase price adjustments, in the unaudited pro forma condensed consolidated income statement for the period from 1 January to 31 December 2012, the items “Interest expense” and “Corporate income tax” were increased by PLN 16,186 thousands and decreased by PLN 3,075 thousand, respectively.

3.8 Fair value of retirement provision

As a result of the prelimiary purchase price allocation amounts included in the item "Other liabilities" of the pro forma condensed consolidated statement of financial position was increased by the value of the adjustment of PLN 13,758 thousand with the corresponding increase in deferred tax asset of PLN 2,614 thousand. to reflect the estimated fair value of certain acquired retirement programmes and related provisions of Kredyt Bank. The impact on the unaudited pro forma condensed consolidated income statement is not material.

3.9 Fair value of other assets

As a result of fair value calculation of consumables, an adjustment was made to the unaudited pro forma condensed consolidated statement of financial position by decreasing the item "Other assets" by PLN 5,329 thousand with a total positive impact on "Deferred tax assets" of PLN 1,013 thousand. The impact on the unaudited pro forma condensed consolidated income statement is not material.

3.10 Fair value of leasehold improvements

Adjustment represents the decrease of carrying amount of acquired "Property, plant and equipment" of PLN 31,910 thousand resulting from revised fair value adjustment on selected leasehold improvements. This adjustment is recognized together with related increase in deferred tax asset of PLN 6,063 thousand. Due to amortisation of this adjustment, in the unaudited pro forma condensed consolidated income statement for the period from 1 January to 31 December 2012, items "Depreciation and Amortisation" and "Corporate income tax" were decreased by PLN 7,720 thousand and increased by PLN 1,467 thousand, respectively.

3.11 Fair value of IT systems and advances

Adjustment represents the decrease of carrying amount of acquired "Intangible assets" of PLN 68,362 thousand resulting from fair value adjustments to the IT systems and advances. As tax deductibility of this adjustments is deemed to be determined on a case-by-case basis no deferred tax impact was proposed for the purpose of the unaudited pro forma condensed consolidated financial information.

3.12 Fair value of liabilities on rental contracts

Adjustments represent the increase of carrying amounts of "Other liabilities" of PLN 11,436 thousand, resulting from the unfavourable difference of terms and conditions for acquired rental contracts for branch network premises as compared to the current market conditions for similar rental agreements. This adjustment is recognized together with related increase in deferred tax asset of PLM 2,173 thousand. Due to amortisation of these adjustments, in the unaudited pro forma condensed consolidated income statement for the period from 1 January to 31 December 2012, the items "General and administrative expenses" and "Corporate income tax" were decreased by PLN 2,341 thousand and increased by PLN 445 thousand respectively.

4. IFRS Harmonization Adjustments

4.1 Investment securities

Adjustment PLN 899,047 thousand represents the reclassification of debt securities of Kredyt Bank which were historically accounted for using an amortized cost model, classified in the historical consolidated statement of financial position of Kredyt Bank Group as "Loans and advances to banks" to "Investment securities" to conform to the classification used for similar instruments in the historical statement of financial position of BZ WBK Group.

4.2 Fee and commission income from FX transaction

Adjustment of PLN 229,115 thousand represents the reclassification of the net fee and commission income from FX transactions, classified in the historical consolidated income statement of Kredyt Bank Group as "Net trading income and revaluation" to "Fee and commission income" to conform to the presentation and classification used in the historical income statement of BZ WBK Group.

4.3 Presentation of impairment losses on loans and advances to customers

Adjustments of PLN 257,800 thousand represents the reclassification of portfolio impairment losses, classified in the historical consolidated statement of financial position of Kredyt Bank Group as "Other liabilities", to "Loans and advances to customers" to conform to the presentation and classification used in the historical statement of financial position of BZ WBK Group.

4.4 Revised depreciation of acquired Property, plant and equipment and Intangible assets

Adjustments 3.9 and 3.10 together with implementation of new useful lives resulting from accounting policies of BZ WBK Group, have significant impact on the position "Depreciation and Amortisation" of Kredyt Bank. For the purposes of the unaudited pro forma condensed consolidated financial information bank has decreased "Depreciation and amortisation" by PLN 36,192 thousand which resulted from a difference between depreciation recognised in historical financial statements of Kredyt Bank and new amount of depreciation of PLN 34,641 thousand calculated based on revised values of tangible and intangible assets and under useful lives resulting from accounting policies of BZ WBK Group. As a result, the item "Corporate income tax" was increased by PLN 6,876 thousand.

4.5 Presentation of deferred tax liability

To conform to the presentation used in the historical statement of financial position of BZ WBK Group position "Deferred tax liability" was netted against "Deferred tax assets" by the amount of PLN 1,380 thousands.

5. Other Adjustments

5.1 Intercompany Transaction

For the purpose of this unaudited pro forma condensed financial Information, any transactions between the merging banks have been eliminated from the unaudited pro forma condensed consolidated statement of financial position and the unaudited pro forma condensed consolidated income statement. As at the reporting date intercompany eliminations took into account interbank placements and unsettled derivative contracts.

5.2 Merger-related expenses

For the purpose of preparation of the unaudited pro forma condensed financial information, the cost of consultancy, advice and management and other non-recurring costs that are directly related to the merger transaction incurred during the 2012 and recognised in historical financial information have been excluded from unaudited pro forma condensed income statement as non-recurring events directly connected with the Merger. In the unaudited pro forma condensed consolidated income statement the item "General and administrative expenses" were therefore decreased by a total amount of PLN 27,150 thousand attributable to BZ WBK Group and Kredyt Bank Group, with a corresponding adjustment increasing the item "Corporate income tax" by PLN 5,159 thousand.

5.3 Gain on sale of KBC TFI

For presentation purposes, the profit of PLN 17,138 thousand on the sale of the shares in KBC TFI S.A. was reclassified by decreasing the item "Gains (losses) from other financial securities" and increasing the item "Net gain (loss) on sale of subsidiaries and associates".

5.4 Elimination of the impact of utilised tax loss

Historical consolidated income statement of Kredyt Bank included utilisation of tax loss of PLN 30,629 thousand. For the purpose of preparation of the unaudited pro forma condensed consolidated income statement, the impact of utilisation was reversed, which resulted in the increase of Tax charge by the above-mentioned figure.

5.5 Presentation of provision charge

For the purpose of preparation of the unaudited pro forma condensed consolidated financial information, the presentation of write-offs and releases of provision for liabilities, termination benefits, assets for disposal and non-financial assets has been harmonised by decreasing the item "Impairment losses on loans and advances" by PLN 9,195 thousand, and making a corresponding adjustment to "Other operating income", "Employee costs" and "Other operating expenses".

5.6 Presentation of reverse repo and repo transactions

For the purpose of preparation of the Unaudited Pro Forma Condensed Consolidated Financial Information, the presentation of reverse repo and repo transactions has been harmonised by decreasing the items by PLN 117,700 and PLN 94,937 thousand respectively and making a corresponding adjustment to "Loans and receivables from bank" and "Deposits from banks".

5.7 Presentation of financial assets through profit and loss

For the purpose of preparation of the unaudited pro forma condensed consolidated financial information, of the financial assets at fair value through profit and loss has been harmonised by decreasing the item by PLN 60,413 thousand and making a corresponding adjustment to "Financial assets held for trading".

5.8 Presentation of net result on hedging activities

For the purpose of preparation of the unaudited pro forma condensed consolidated income stetment, of the profit/loss on hedging and hedged istruments has been harmonised by increasing the item by PLN 4,115 thousand and making a corresponding adjustment to "Gains (losses) from other financial securities".

5.9 Presentation of depreciation and amortisation

For the purpose of preparation of the unaudited pro forma condensed consolidated financial information, presentation of depreciation and amortization has been harmonized splitting between lines "Bank's staff, operating expenses and management costs" and Depreciation and amortization. The adjustment amounted to PLN 70,833 thousand.

5.10 Change in net equity of Kredyt Bank

Impact in amount of PLN 533 thousand on goodwill calculated on assets and liabilities position due to change in net equity of Kredyt Bank between December 31, 2012 and purchase price allocation dated January 4, 2013.

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