

- I. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF :**
- **2009 FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A.**
 - **MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK S.A. PERFORMANCE IN 2009**
 - **2009 CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BANK ZACHODNI WBK**
 - **MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2009**
 - **MOTION OF THE MANAGEMENT BOARD ON THE 2009 PROFIT DISTRIBUTION**
- II. ASSESSMENT OF BANK ZACHODNI WBK STANDING INCLUDING AN EVALUATION OF THE INTERNAL CONTROL SYSTEM AND THE SIGNIFICANT RISK MANAGEMENT SYSTEM**

Warsaw, February 2010

I. REPORT OF THE SUPERVISORY BOARD

This report was produced based on the conducted examination and includes the opinion of the Supervisory Board on the following documents presented by the Bank's Management Board to the Annual General Meeting of Shareholders of Bank Zachodni WBK, convened for 21 April 2010:

- 2009 Financial Statements of Bank Zachodni WBK S.A.,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2009,
- 2009 Consolidated Financial Statements of the Capital Group of Bank Zachodni WBK,
- Management Board Report on Bank Zachodni WBK Group in 2009,
- Management Board motion on the 2009 profit distribution.

The obligation to review the above documents is imposed on the Supervisory Board by § 32 clause 1 and clause 6 of the Bank's Statutes.

1. Examination of Financial Statements and Reports on operations for 2008

By force of resolution no. 33/2009, adopted on 24 June 2009, the Supervisory Board selected KPMG Audyt Sp. z o.o. as the Bank's auditor and vested it with a task of auditing the 2009 Financial Statements. The above audit covered the following documents produced by the Bank's Management Board:

1. Financial Statements of Bank Zachodni WBK S.A. for year 2009:

- Balance sheet as at 31 December 2009,
- Profit & Loss Account for the accounting period from 1 January to 31 December 2009,
- Cash Flow Statement for the accounting period from 1 January to 31 December 2009,
- Movements in equity,
- Off-balance sheet liabilities,
- Notes.

2. Management Board Report on Bank Zachodni WBK S.A. performance in 2009.

3. Consolidated Financial Statements of the Capital Group of Bank Zachodni WBK for year 2009:

- consolidated Balance Sheet as at 31 December 2009,
- consolidated Profit & Loss Account for the accounting period from 1 January to 31 December 2009,
- consolidated Cash Flow Statements for the accounting period from 1 January to 31 December 2009,
- movements in equity,

- off-balance sheet liabilities,
- notes.

4. Management Board Report on Bank Zachodni WBK Group in 2009.

Based on the findings of the audit conducted by KPMG Audyt Polska Sp. z o.o., presented in the following documents:

- Opinion of the independent auditor on the audited Financial Statements of Bank Zachodni WBK SA and the Capital Group of Bank Zachodni WBK SA for the financial year ended 31 of December 2009.
- Reports of the independent auditor on the Financial Statements of Bank Zachodni WBK SA for 2009 and on the Consolidated Financial Statements of the Capital Group of Bank Zachodni WBK SA for 2009,

the Supervisory Board stated that the 2009 Financial Statements of Bank Zachodni WBK S.A. and the 2009 Consolidated Financial Statements of Bank Zachodni WBK Capital Group presented by the Management Board, have been prepared, in all material respects, and give a true and fair view of the financial position of the Bank and the Group as at 31 December 2009 and of their financial performance and their 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 Bank's unconsolidated financial statements and the consolidated financial statements applicable.

The Supervisory Board decided with resolution no. 6/2010, dated 1st March 2010, to submit to the AGM for approval:

- Financial Statements of Bank Zachodni WBK S.A. for year 2009,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2009,
- Consolidated Financial Statements of the Group of Bank Zachodni WBK for year 2009,
- Management Board Report on Bank Zachodni WBK Group in 2009.

2. Review of the Bank's Management Board motion related to the 2009 profit distribution

The Supervisory Board examined the Bank's Management Board motion related to the 2009 profit distribution, and with resolution no. 7/2010, dated 1st March 2010 decided to recommend approval of the above motion to the General Annual Meeting of Shareholders.

3. Wrap-up

The Supervisory Board stated that it acted with due diligence with regard to comprehensive examination of the documents presented by the Bank's Management Board and in line with its resolution no. 9/2010, dated 1st March 2010, the Supervisory Board presents this report to the General Annual Meeting of Shareholders of Bank Zachodni WBK.

II. ASSESSMENT OF THE BZWBK GROUP'S STANDING INCLUDING AN EVALUATION OF THE INTERNAL CONTROL SYSTEM AND THE SIGNIFICANT RISK MANAGEMENT SYSTEM

1. Assessment of the BZ WBK Group's operations in 2009

- **Macroeconomic environment in 2009**

Economic Growth

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

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

Labour Market and Consumption

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

Investments

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

Inflation

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

The last months of the year brought a decline of the CPI inflation below this level and a rebound to 3.5% y-o-y in December, amid a decrease in the annual growth rate of energy prices and an increase in fuel prices. The impact of the significant zloty depreciation on

inflation in the first half of the year was partly offset by the strong deceleration in economic growth, while the zloty recovery in the second half of the year supported lower prices growth. The substantial weakening of the internal demand and reduction of the tensions in the labour market acted towards weakening of the inflationary pressures.

Interest Rates

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

Exchange Rate

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

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

• Financial Performance of the BZWBK Group in 2008

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

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

Profit and Loss Account

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

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

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

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

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

Income

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

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

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

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

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

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

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

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

Dividend income of PLN 96.6 m increased by 37.4% y-o-y mainly as a result of the dividends paid by the Aviva companies included in the bank's equity investment portfolio. This change was mainly influenced by the dividend allocated to the bank by the Aviva Group companies, i.e. Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Aviva Powszechnie Towarzystwo

Emerytalne Aviva BZ WBK S.A. In 2009, these entities disbursed PLN 88.7 m in dividends to the bank as compared to PLN 64.7 m last year.

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

Costs

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

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

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

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

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

Balance Sheet

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

Credit Facilities

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

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

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

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

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

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

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

Deposits

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

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

The lower deposits from customers result from the decrease in the deposits from business and public sectors companies. In 2009, businesses suffered from tighter liquidity and had to resort to a greater extent to cash deposit balances to fund their ordinary activities and investments. Concurrently, the Group's deposits from retail customers increased by 5.7% to PLN 25,613.7 m, which is attributable to the bank's diversified deposit offer for this segment, both with regard to current accounts and term deposits.

• Share Price of Bank Zachodni WBK

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

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

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

• Rating

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

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

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

2. Assessment of the Internal Control System and the Risk Management system

• Internal Control System

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

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

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

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

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

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

• Risk Management

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

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

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

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

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

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

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