ANNUAL REPORT 2010
OF BANK ZACHODNI WBK GROUP

2010

Bank Zachodni WBK S.A.

	FINANCIAL HIGHLIGHTS	PLN k			EUR k		
	for reporting period ended:	31.12.2010	31.12.2009	31.12.2008	31.12.2010	31.12.2009	31.12.2008
				Consolidated financial statements			
I	Net interest income	1 822 175	1 563 191	1 635 105	455 048	360 129	462 928
II	Net fee and commission income	1 344 661	1 314 312	1 373 815	335 799	302 792	388 952
III	Operating profit	1 352 729	1 162 170	1 211 357	337 814	267 742	342 957
IV	Profit before tax	1 357 181	1 161 836	1 210 580	338 926	267 665	342 737
V	Net profit attributable to owners of BZ WBK S.A.	974 223	885 258	855 446	243 291	203 946	242 192
VI	Total net cash flow	(1191 465)	239 341	300 322	(297 542)	55 140	85 027
VII	Total assets	53 153 871	54 065 025	57 433 069	13 421 678	13 160 271	13 764 996
VIII	Deposits from banks and central bank	2 526 082	5 349 984	5 338 051	637 851	1 302 270	1 279 372
IX	Deposits from customers	41 970 454	41 222 871	42 810 727	10 597 797	10 034 290	10 260 456
X	Total liabilities	46 380 296	48 028 555	52 220 628	11 711 309	11 690 900	12 515 729
XI	Total equity	6 773 575	6 036 470	5 212 441	1 710 369	1 469 371	1 249 267
XII	Non-controlling interests in equity	150 519	108 338	239 872	38 007	26 371	57 490
XIII	Profit of the period attributable to non-controlling interests	66 346	53 964	98 840	16 568	12 432	27 983
XIV	Number of shares	73 076 013	73 076 013	72 960 284			
XV	Net book value per share in PLN/EUR	92,69	82,61	71,44	23,41	20,11	17,12
XVI	Solvency ratio	15,77%	12,97%	10,74%			
XVII	Profit per share in PLN/EUR	13,33	12,11	11,72	3,33	2,79	3,32
XVIII	Diluted earnings per share in PLN/EUR	13,28	12,06	11,68	3,32	2,78	3,31
XIX	Declared or paid dividend per share in PLN/EUR	8,00	4,00	-	2,02	0,97	-

The following rates were applied to determine the key EUR amounts for selected financials:

- for balance sheet items – 3.9603 PLN rate to EUR as at 31.12.2010 stated by National Bank of Poland (NBP), 4.1082 PLN rate to EUR as at 31.12.2009 and 4.1724 PLN rate to EUR as at 31.12.2008
- for profit and loss items – as at 31.12.2010: 4.0044 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2010), as at 31.12.2009: 4.3406 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2009) and as at 31.12.2008: 3.5321 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2008).

As at 31.12.2010, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 255/A/NBP 2010 dd. 31.12.2010.

CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR 2010

2010

Bank Zachodni WBK S.A.

Dear All

The year 2010 will go down in the Polish history as the year marked by an unprecedented event – the Smolensk tragedy, which dominated the public debate and impacted our daily lives. We were preoccupied with this issue for months, approaching it with care, grief and responsibility. Although it was a public event, it affected each of us so significantly that it needed to be brought up in this Annual Report.

Last year saw the Polish economy on the rise. The annual economic growth accelerated, particularly in industrial production, construction output and retail sales. Stronger performance brought more optimism to the enterprise sector. On the other hand, the decline in the gross fixed capital formation was coupled with reduced investments in the private sector. However, both global and domestic equity markets trended continuously upwards despite occasional drops and high volatility.

In this economic environment, the Allied Irish Banks Group - our long-time majority shareholder - resolved in March 2010 to sell its stake in Bank Zachodni WBK and BZ WBK AIB Asset Management. The main reason behind this decision was the capital position of AIB Group and a downturn in the Irish economy. In September 2010, AIB Group announced its intention to sell the stake in our bank to Spanish Banco Santander. After the deal was approved by the Polish Financial Supervision Authority in February 2011, Bank Zachodni WBK Group will become a part of a strong multinational organisation - one of the largest financial groups worldwide.

The year 2010 was yet again marked by strong performance of Bank Zachodni WBK Group. Our profit before tax grew by 16.8% y-o-y and totalled PLN 1 357.2 m. Our capital adequacy ratio improved significantly – it is now at 15.8% compared to 13% in 2009. The loan-to-deposit ratio gave comfort throughout 2010, coming in at 78.2% at the year end. The return on equity was also at a satisfactory level of 17.3%. The volume of provisions at the end of 2010 added up to PLN 420.8 m against PLN 481 m in 2009, which reflects very well on management of the bank's loan portfolio.

Our new retail business exceeded 2.5 m customers, which was one of our greatest achievements in 2010. The number of new personal accounts grew by 25% to 375 k. It was attributed mainly to another successful sales campaign of the MoneyBack Account. Our proposition for personal customers was significantly expanded. We reintroduced EUR mortgage lending and increased the availability of PLN mortgage loans. We actively delivered the state programme of subsidised housing loans "Rodzina na swoim".

With 15 new branches opened during 2010, the BZ WBK network grew to 527 branches at the year end and with 100 BZ WBK Partner outlets in place it was the third largest in Poland.

We also expanded our SME offer by introducing EIB Business Express loan (financed from the credit line with the European Investment Bank), Leasing Express and Factoring Express. All the above solutions were better tailored to the needs of small and medium size companies for which time-to-yes and customer-friendly products are critical.

Business and Corporate Banking Division produced very strong results in 2010 with Operating Surplus growing by 37% and PBT by 167%. All segments and businesses in the Division (Business Banking, Corporate Banking, Corporate Property, Leasing and Faktor) contributed to this performance and in an overall context the Division is now a key contributor to Group profitability. From our 15 business locations across the country we provided our business and corporate customers with a wide range of tailor-made solutions through our locally driven relationship banking model which brings decision makers and specialists close to our customers. From a product and operational perspective we re-designed our Corporate Banking business model and made significant progress in the upgrading of our cash management proposition. In 2011 we plan to further develop our operating model to create even greater opportunity for our people to be in the market doing business.

The income of BZ WBK AIB TFI and BZ WBK AIB Asset Management went up by 22.5% against the previous year. In 2010, the proposition for this segment was expanded to include eight structured products which enjoyed high popularity among the customers. We also launched the new Arka BZ WBK FIO umbrella fund composed of subfunds formerly operating independently.

BZ WBK Brokerage House yet again established itself as a domestic market leader, also in terms of the number of IPOs, three of which regarded foreign companies. BZ WBK Brokerage House constantly strives to increase the investors' awareness of the potential of our capital city as the financial centre of Central and Eastern Europe.

We are one of the most innovative financial groups in Poland. Last year, we again proved that we are in the forefront of implementing the state-of-the-art technologies in the delivery of financial products to our customers. We introduced such innovative products as: virtual prepaid cards, FX prepaid cards and cards for football fans. As the first bank in Poland, we introduced the card for school students, which combines top security and payment functionalities. At present, these cards are used in more than 20 schools. On top of that, we launched a urban card in liaison with the City Office of Wrocław and concluded an agreement with the City Office of Poznań regarding a similar solution.

Bank Zachodni WBK Group has been continuously committed to social responsibility, which manifested itself in development of the Barrier-Free-Banking programme. We were the first bank in Poland to adapt over thirty branches to cater for the needs of the disabled and we launched ATMs dedicated to the sight-impaired. We are the first commercial institution to render the full array of services to disabled customers in barrier-free branches. So far, no other financial institution has responded to the needs of the disabled in such a comprehensive way.

Our initiative and potential have not only been recognised in Poland. In 2010, our Bank was awarded the title of "Bank of the Year in Poland" by The Banker magazine issued by the Financial Times Group. It is by far the most prestigious banking award in the financial sector. The key criteria the bank was assessed against included service quality and innovation. The top position in this prestigious ranking confirmed that the bank is in keeping with the international standards. We were yet again recognized as the Customer-friendly bank by the "Newsweek" weekly. Independent experts from MillwardBrown SMG/KRC confirmed the top quality of customer service in our bank.

The top priority of Bank Zachodni WBK Group for the coming years is steady growth of profitability and efficiency. These ambitious goals need to be supported by relevant systemic solutions which include the New Branch Energy project aimed to introduce changes to sales management at the branch level. Concurrently, the new corporate customer service model is planned to be implemented in 2011.

Bank Zachodni WBK is a well-established financial institution boasting continuously satisfactory performance and strong potential. The major asset of Bank Zachodni WBK Group is, and will be, the staff potential. I would like to thank all employees for their efforts and commitment, which manifested itself at each staff and management level and brought such positive results. I also appreciate the valuable contribution of my colleagues from the Management and Supervisory Boards of the Group companies. The Group's success would not be also possible but for the satisfactory cooperation between the Management Board and the Supervisory Board of Bank Zachodni WBK.

We have started the new year full of optimism about the future of the Group. As a member of Santander Group, a global market player, we will have even more opportunities for dynamic development, while our customers - an access to innovative and competitive services and products. The new strong investor from Spain will enable us to achieve synergy between our operations and over a 150-year experience in the financial market. Our growth prospects within the new structure are excellent. We are well satisfied and enthusiastic about the plans and ambitions for the coming years as they will let us boast new successes and reinforce our leadership position in the domestic financial market.

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:		01.01.2010-31.12.2010	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.

In thousands of PLN

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**

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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
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.

In thousands of PLN

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.

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 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.

In thousands of PLN

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

In thousands of PLN

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

In thousands of PLN

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.

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**	**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

In thousands of PLN

Consolidated income statement (by business segments)

Data converted as descried in the note 2 ‘Comparability with results of previous periods’

31.12.2009	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.

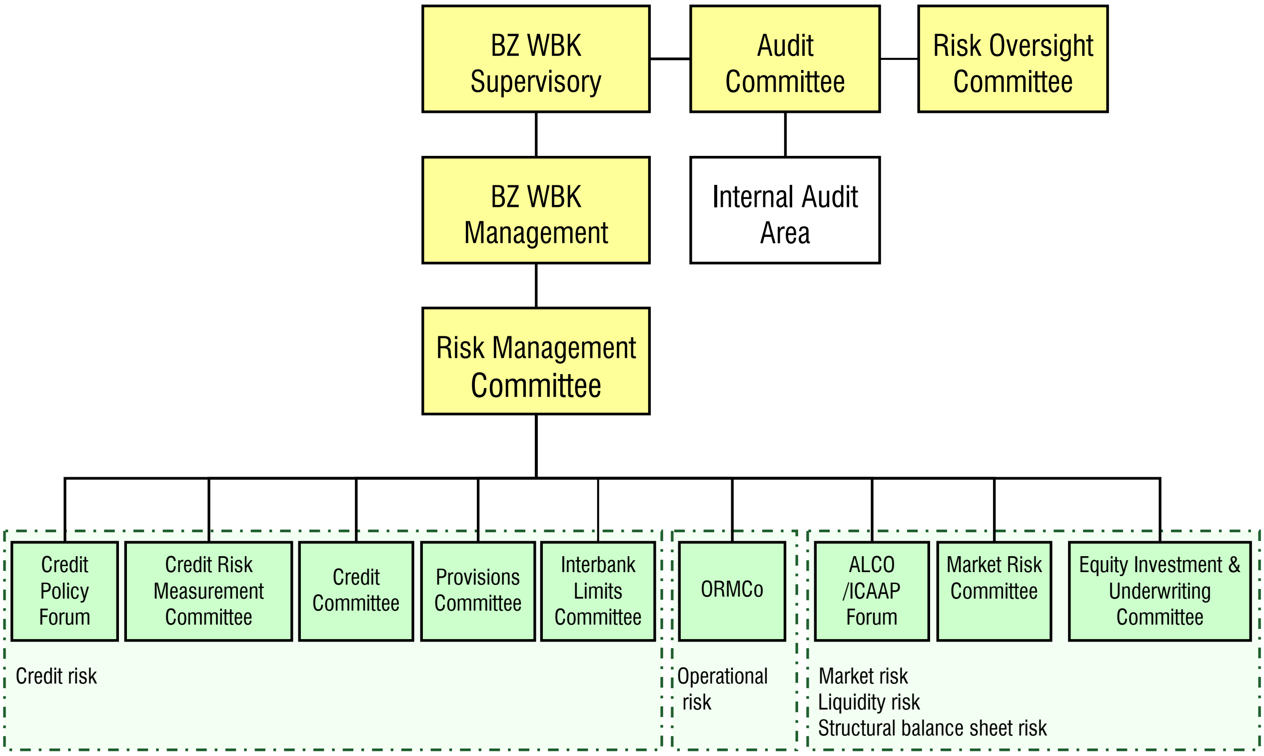
Market Risk Committee oversees the risk management and the policies on the market risk in BZ WBK Group, including the strategies on treasury and brokerage activities and monitors relevant parameters on market risk.

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.

In thousands of PLN

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

In thousands of PLN

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.

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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%).

In thousands of PLN

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**

In thousands of PLN

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.

In thousands of PLN

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)**

In thousands of PLN

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).

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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**

In thousands of PLN

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:

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	48 325	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**	

In thousands of PLN

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**	

In thousands of PLN

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.

In thousands of PLN

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.

In thousands of PLN

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)

In thousands of PLN

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**

In thousands of PLN

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.

In thousands of PLN

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)**

In thousands of PLN

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)**

In thousands of PLN

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.

In thousands of PLN

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.

In thousands of PLN

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**

In thousands of PLN

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**

In thousands of PLN

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**

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.

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

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

In thousands of PLN

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**

In thousands of PLN

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**

In thousands of PLN

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**

In thousands of PLN

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**

In thousands of PLN

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**

In thousands of PLN

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.

In thousands of PLN

34. Debt securities in issue

Debt securities in issue	Average coupon 31.12.2010	31.12.2009	31.12.2008	Nominal value 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.

In thousands of PLN

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**

In thousands of PLN

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.

In thousands of PLN

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.

In thousands of PLN

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

In thousands of PLN

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.

In thousands of PLN

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.

In thousands of PLN

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**

In thousands of PLN

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)**

In thousands of PLN

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.

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	31.12.2010	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**

In thousands of PLN

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.

In thousands of PLN

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*

In thousands of PLN

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

In thousands of PLN

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 Managment 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.

In thousands of PLN

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.

In thousands of PLN

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.

In thousands of PLN

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:

In thousands of PLN

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

In thousands of PLN

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.

In thousands of PLN

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	-

In thousands of PLN

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	