

**MANAGEMENT BOARD REPORT  
ON BANK ZACHODNI WBK  
PERFORMANCE IN 2010**

2010



**WBK** | Bank Zachodni WBK S.A.

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# I. Overview of BZ WBK Performance in 2010

The section below contains an overview of the financial performance of Bank Zachodni WBK in 2010 compared with the previous year and shows internal and external factors affecting the bank's profit and activity.

## Financial Highlights

- Total Income increased by 1.7% y-o-y to PLN 3,141.2 m.
- Total Costs increased by 7.8% y-o-y to PLN 1,594.9 m, with staff and other administrative expenses up 7.1% y-o-y to PLN 1,447.1 m.
- Profit-Before-Tax was PLN 1,182.3 m and up 2.1% y-o-y.
- Profit for the Period was PLN 916.9 m and 6.9% lower y-o-y.
- Capital Adequacy Ratio of 15.29% (12.34% as at 31 December 2009).
- Return on Equity of 17.7% (21.9% as at 31 December 2009).
- Cost to Income Ratio was 50.8% (47.9% for 2009).
- Net Impairment Losses on loans and advances amounted to PLN 364 m compared with PLN 449.7 m in 2009.
- NPL Ratio increased to 6.6% (5.6% as at 31 December 2009) while the ratio of impairment losses to the average credit volumes was 1.10% (1.35% as at 31 December 2009).
- Loans to Deposits Ratio of 75.9% as at 31 December 2010 versus 79.1% as at 31 December 2009.

## Key Factors Affecting the Bank's Profit and Activity in 2010

### Business Factors:

- Higher customer deposits (+2% y-o-y) compared with the end of 2009, mainly due to an increase in personal current accounts (+9.7% y-o-y). Slight changes in the deposit structure in favour of business deposits and current accounts.
- Lower gross credit volumes (-1.4% y-o-y) compared with the end of 2009 as a result of the decrease in business loans (-5.5% y-o-y) and the concurrent increase in personal loans (+7.6% y-o-y), particularly home mortgages (+14.3% y-o-y).
- Improved financial standing of business borrowers amid more favourable economic climate.
- Close risk monitoring in all areas of the bank's activity and flexible approach to the changing macroeconomic conditions.
- Expansion of the personal accounts and current accounts base (+7% y-o-y) on the back of advertising campaigns and the bank's competitive offering.
- Increase in the bank's contribution to the sales of Arka mutual funds due to intensified marketing efforts and favourable stock market.
- Strong increase in the number of BZWBK24 electronic banking users (+21% y-o-y) and Moja Firma Plus package (+16% y-o-y).
- Further expansion of the debit and charge cards base (+13% y-o-y), extension of the scope of additional services and intensive efforts to encourage increased activity of card holders.
- Wider use of relationship-based marketing in the CRM and sales campaigns with a particular focus on building relations with new retail and business customers.
- Constant monitoring of operating costs and continued improvement of cost-efficiency of processes.

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

**Key Developments and Achievements:**

- Announcement by AIB Bank of its decision to sell its entire shareholding in Bank Zachodni WBK (30 March 2010) and to select Banco Santander as the investor (10 September 2010).
- Changes in the composition of supervisory and senior management bodies: appointment of two new members of the BZ WBK Supervisory Board (Anne Maher, Piotr Partyga) and announcement of two Management Board members about their intention to step down from their roles in Bank Zachodni WBK (Jacek Marcinowski and Declan Flynn).
- Approval of the Annual General Meeting of Bank Zachodni WBK of 21 April 2010 of the proposed dividend pay-out of PLN 4 per share.
- Issue of 10-year BZ WBK subordinated bonds of EUR 100 m and recognition of the respective subordinated debt as own funds with consent of the Polish Financial Supervision Authority.
- Take-over of the transfer agent role by the bank effective from March 2010 and regular provision of services to the funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych.
- The title "Bank of the Year 2010 in Poland" for Bank Zachodni WBK from the British "The Banker" magazine (member of "Financial Times" Group) in the competition that awards banks in individual countries and regions (2 December 2010).
- Placing of the following ratings of Bank Zachodni WBK on Rating Watch Positive list: long-term IDR rating (BBB+), short-term rating (F2) and support rating (3).

**External Factors:**

- Continued economic recovery and acceleration of the annual economic growth from 3.0% in the first quarter of 2010 to 4.5% in the fourth quarter.
- Double-digit growth in industrial production coupled with accelerating growth in construction output and retail sales. Improvement in the financial results and optimism of the enterprise sector.
- Decrease in fixed investment with further reduction of investments in the private enterprise sector.
- Improvement of situation in the labour market, reflected in the steady increase in demand for labour in the business and all other sectors of the economy starting from the second quarter of 2010. A strong increase in employment - despite the low pace of wage rises – which led to a notable improvement in the wage bill growth in the business sector.
- Considerable volatility in the foreign exchange and debt securities markets. Zloty remained in the appreciation trend, which was interrupted by clear corrections connected with the rising concerns about sovereign debt problems in the euro zone. In the domestic treasury bonds market the downward trend in yields was prevailing with intermittent periods of the rise in bonds yields amid heightened risk aversion globally.
- Gradual improvement in functioning of the interbank market and drop in costs of funding the bank's assets.
- Slightly lower annual growth rate for total loan sales with stable annual growth of lending to households and a moderate decline of annual loan sales to enterprises.
- Lower annual growth rate in total deposits amid slower annual growth in household deposits and relatively stable growth of business deposits.
- Signs of recovery in the property market, both in supply and demand. A moderate growth in residential property prices in the main cities.
- Continued growth trend in the world and domestic stock markets with intermittent periods of increased volatility.
- Decrease of the CPI inflation in the first half of 2010 to 2% in July-August, and its notable increase at the year-end to 3.10% y-o-y, which is above the central bank's inflation target of 2.5%.
- Stabilisation of the main NBP interest rates with the reference rate unchanged at 3.5%.

## II. Basic Information

### 1. History and Profile of Bank Zachodni WBK

#### Background

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

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

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. Consequently, a tender offer for 100% of the share capital of Bank Zachodni WBK S.A. at the price of PLN 226.89 per share was launched by Banco Santander on 7 February 2011. 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.

#### Scope of Activities

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs and large companies. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products.

The bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current/personal accounts to provide their users with a precisely defined, tailored and comprehensive service.

The financial services of Bank Zachodni WBK also include trade finance and transactions in the capital, FX and money markets as well as in derivatives. The bank's own product range is complemented by specialist products offered by its connected companies, including: Dom Maklerski BZ WBK S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o., BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. In cooperation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

#### Distribution Network

As at 31 December 2010, Bank Zachodni WBK operated through 527 outlets, which is the third largest branch network in Poland. As a result of the rapid expansion of the branch network in 2007-2008, the bank's branches are present in all the provinces of Poland.

The bank's distribution network also includes 100 BZ WBK Partner outlets, which are mainly located in small towns and in residential districts of large cities.

High net worth individuals from all over Poland can use the comprehensive investment service of the mobile Private Banking advisors based in Warsaw, Poznań, Wrocław, Gdańsk and Szczecin.

Business customers are serviced through 15 Business Banking Centres located across all key markets in Poland. Corporate customers are serviced through the Corporate Business Centres in Warsaw, Poznań and Wrocław, and Corporate Property Department based in Warsaw which focuses on commercial property projects.

Through its modern Telephone and Electronic Banking Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after-sales service.

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

## Development of Bank Zachodni WBK in 2005-2010 and Position in the Sector

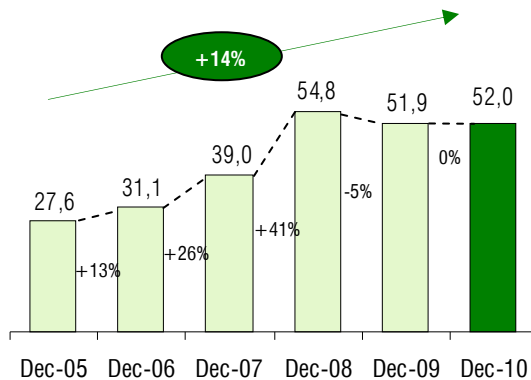
As per financial information available at the approval date of the 2010 annual report (23 February 2010), Bank Zachodni WBK is the fifth largest banking institution in Poland in terms of total assets and the fourth largest institution in terms of equity.

Selected data illustrating performance of BZ WBK in years 2005-2010

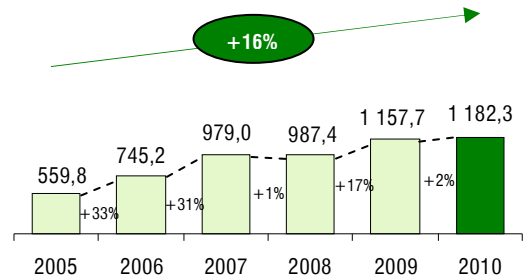
| Selected Financial Data                      | 2010       | 2009       | 2008       | 2007       | 2006       | 2005       |
|----------------------------------------------|------------|------------|------------|------------|------------|------------|
| Total Assets                                 | 52 034,8   | 51 946,3   | 54 811,1   | 38 993,3   | 31 050,8   | 27 587,9   |
| Loans and Advances to Customers              | 31 952,6   | 32 625,0   | 32 653,7   | 22 150,6   | 16 172,4   | 12 897,4   |
| Deposits from Customers                      | 42 099,2   | 41 262,2   | 43 381,9   | 30 264,7   | 24 482,0   | 20 969,9   |
| Total Equity                                 | 6 107,8    | 5 474,5    | 4 420,6    | 3 850,8    | 3 613,2    | 3 188,9    |
| Profit before Tax                            | 1 182,3    | 1 157,7    | 987,4      | 979,0      | 745,2      | 559,8      |
| Profit Attributable to Owners of BZ WBK S.A. | 916,9      | 985,3      | 809,2      | 809,5      | 592,8      | 446,2      |
| Selected Ratios                              | 2010       | 2009       | 2008       | 2007       | 2006       | 2005       |
| Cost to Income Ratio                         | 50,8%      | 47,9%      | 52,8%      | 58,5%      | 60,5%      | 63,8%      |
| Capital Adequacy Ratio                       | 15,29%     | 12,34%     | 9,81%      | 11,36%     | 13,79%     | 15,06%     |
| NPL Ratio                                    | 6,6%       | 5,6%       | 2,9%       | 2,9%       | 5,2%       | 7,2%       |
| Earnings per Share                           | 12,55      | 13,48      | 11,09      | 11,09      | 8,13       | 6,12       |
| Net Book Value per Share                     | 83,58      | 74,91      | 60,59      | 52,78      | 49,52      | 43,71      |
| Selected Non-Financial Data                  | 2010       | 2009       | 2008       | 2007       | 2006       | 2005       |
| Number of Branches                           | 527        | 512        | 505        | 406        | 372        | 383        |
| Number of FTEs                               | 9 163      | 8 809      | 9 515      | 8 469      | 7 467      | 7 204      |
| Dividend                                     | 8          | 4          | -          | 3          | 6          | 6          |
| Number of Shares at the Year-End             | 73 076 013 | 73 076 013 | 72 960 284 | 72 960 284 | 72 960 284 | 72 960 284 |
| Closing Share Price at the Year-End          | 214,9      | 190,0      | 110,8      | 251,0      | 225,0      | 141,5      |

\* total assets as reported by BZ WBK for 2005, 2006 i 2007 have been adjusted by the amount of deferred tax liabilities due to the changed presentation of deferred tax assets and liabilities (both categories are now netted off)

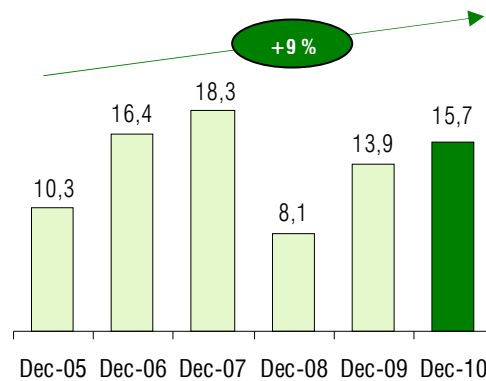
Total assets of BZ WBK as at 31 Dec. in years 2005-2010 (PLN bn) and CAGR



Profit-before-tax of BZ WBK in years 2005-2010 (PLN m) and CAGR



Capitalisation of BZ WBK as at 31 Dec. (PLN bn) in years 2005-2010 and CAGR



## 2. Companies Connected with Bank Zachodni WBK

### Subsidiary Undertakings

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

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

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

Compared with 31 December 2009, the structure of Bank Zachodni WBK Group did not change.

## **Joint Ventures and Associates**

In the consolidated financial statements of Bank Zachodni WBK for the period ending 31 December 2010, the following companies are accounted for using the equity method in accordance with IAS 28 and 31:

### **Joint ventures:**

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

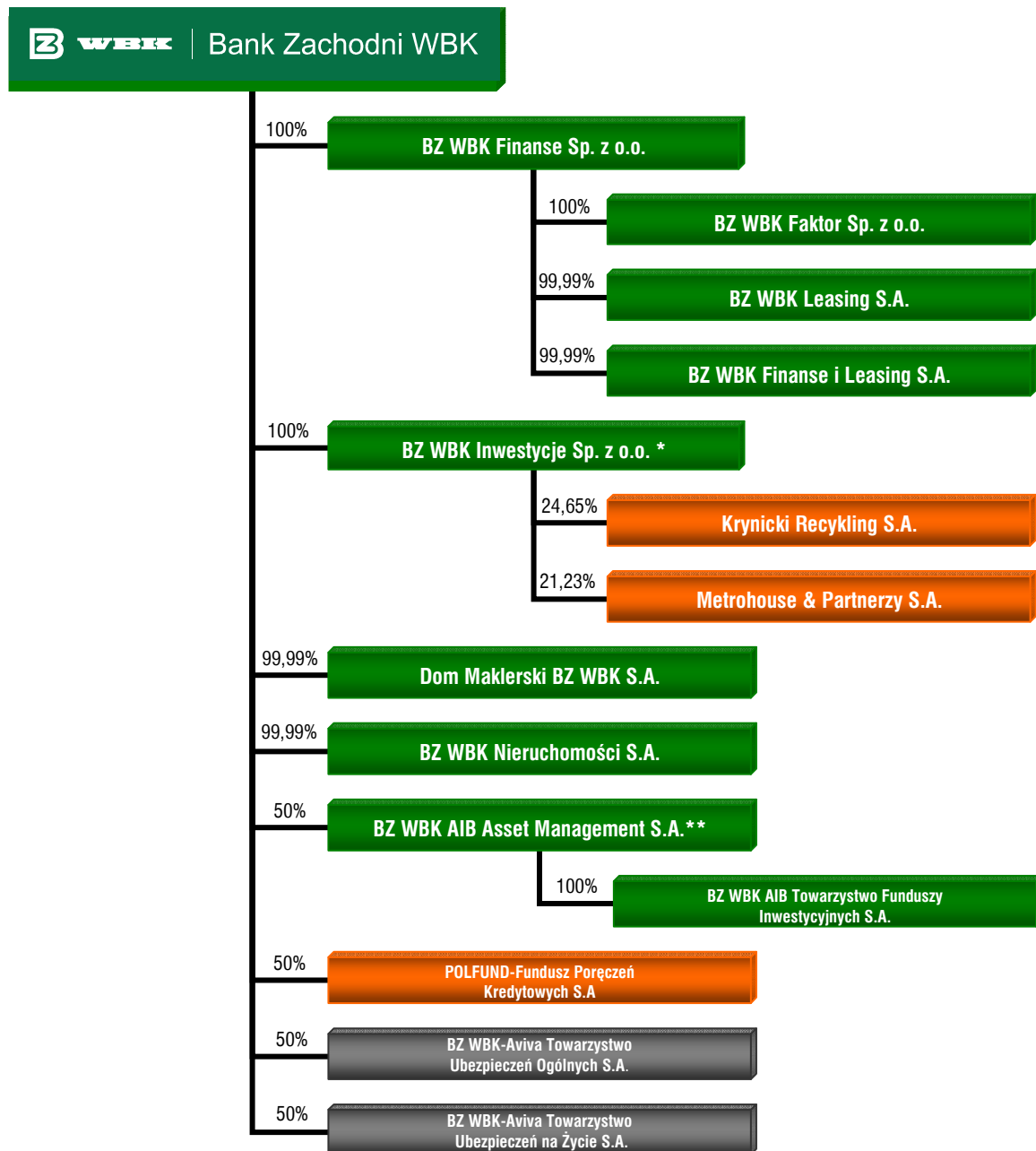
### **Associates:**

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

Compared with 31 December 2009, the list of associates and joint ventures of Bank Zachodni WBK did not change.



Organisational chart of Bank Zachodni WBK Group



\* Associated undertakings of BZ WBK Inwestycje Sp. z o.o., i.e. Metrohouse S.A. and Krynicki Recykling S.A. are classified as associates since the bank has a significant impact on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of "pre-IPO" investments.

\*\* As at 31 Dec. 2010 Bank Zachodni WBK was a co-owner of BZ WBK AIB Asset Management S.A., together with AIB Capital Markets p.l.c. Both owners were members of AIB Group and each held an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercised control over the company and its subsidiary, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., because through its agency the ultimate parent (AIB) pursued its policy in Poland. Consequently, the company was treated as subsidiary. In September 2010, the Board of AIB resolved to sell its entire stake in Bank Zachodni WBK and 50% of shares in BZ WBK AIB Asset Management S.A. to Banco Santander. In February 2011, the Polish Financial Supervision Authority announced its decision not to object to Banco Santander's intended acquisition of the above-mentioned shares.

Legend:

- % Voting power
- Subsidiaries (fully consolidated with BZ WBK)
- Associates
- Joint ventures

### 3. Other Equity Investments

As at 31 December 2010 and 31 December 2009, Bank Zachodni WBK owned more than 5% of share capital in the following companies:

| Ref. | Company                                                       | % in the Share Capital |            | Voting Power at AGM |            |
|------|---------------------------------------------------------------|------------------------|------------|---------------------|------------|
|      |                                                               | 31.12.2010             | 31.12.2009 | 31.12.2010          | 31.12.2009 |
| 1.   | Kuźnia Polska                                                 | 16,67%                 | -          | 16,67%              | -          |
| 2.   | Krajowa Izba Rozliczeniowa S.A.                               | 11,48%                 | 11,48%     | 11,48%              | 11,48%     |
| 3.   | Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.     | 10,00%                 | 10,00%     | 10,00%              | 10,00%     |
| 4.   | Aviva Towarzystwo Ubezpieczeń na Życie S.A.                   | 10,00%                 | 10,00%     | 10,00%              | 10,00%     |
| 5.   | Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.                   | 10,00%                 | 10,00%     | 10,00%              | 10,00%     |
| 6.   | ARKA BZ WBK Fundusz Rynku Nieruchomości 2 Specjalistyczny FIZ | 6,48%                  | 6,48%      | -                   | -          |
| 7.   | AWSA Holland II B.V.                                          | 5,44%                  | 5,44%      | 5,44%               | 5,44%      |
| 8.   | Biuro Informacji Kredytowej S.A.                              | 5,14%                  | 5,14%      | 5,14%               | 5,14%      |
| 9.   | NFI Magna Polonia S.A.                                        | -                      | 5,06%      | -                   | 5,06%      |

## III. External Environment in 2010

### Situation Abroad

2010 was the year of recovery in the global economy, which was driven in most countries by rebuilding activity in manufacturing and foreign trade (a rebound after a strong decline during the 2008-2009 crisis). As regards the pace of growth, the Asian and South American economies were in the lead (including China, India and Brasil). The high economic growth noted by Germany, which remains our most important trading partner, was very positive from the Polish economy's perspective. The prospect of the necessary fiscal tightening and expiry of economic stimulus packages simultaneously in many economies, as well as the lack of a clear improvement in the labour markets, were raising concerns about the sustainability of the economic recovery, which in turn induced major central banks to maintain historically low interest rates. The US Fed decided to launch another round of quantitative monetary easing in November 2010. On balance, however, GDP growth forecast for major economies were gradually raised during the year.

The financial markets focused on the debt problems of the peripheral euro area countries and the risk of spreading the debt crisis over Europe. Credit crunch was replaced with the fiscal crisis. Facing the risk of insolvency of some euro area countries, extraordinary measures were undertaken to prevent the spread of the fiscal crisis, including the establishment of the European Financial Stability Facility.

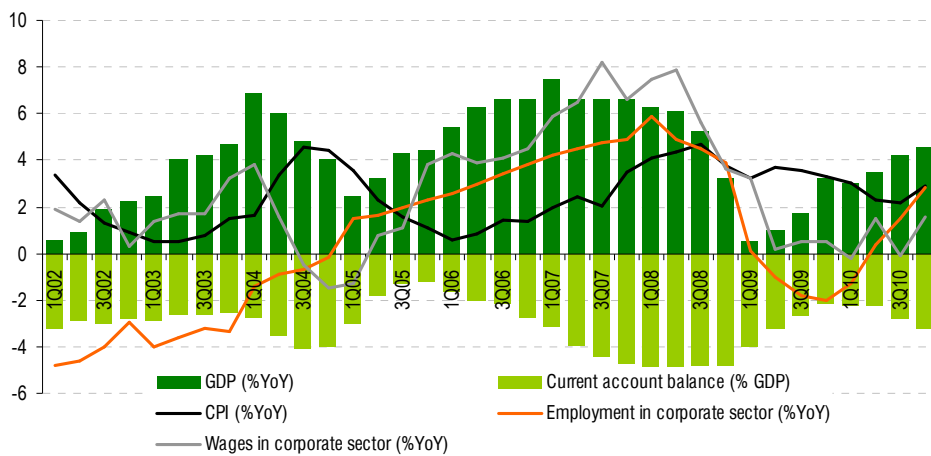
### Domestic Economy

The Polish economy continued economic revival, based largely on the growth in manufacturing and exports, supported by growing foreign demand and still competitive level of the zloty. Poor weather conditions caused a temporary worsening of the economic situation in the early months of the year but losses were compensated in the subsequent quarters. As a result, GDP growth accelerated steadily from 3.0% in the first quarter of 2010 to more than 4.5% in the last quarter. Throughout 2010 the GDP growth reached 3.8% and was more than twice that of the previous year. Gradually, the role of the domestic demand as the economy driver was increasing. Over the year, domestic demand grew by 3.9%, against a fall of 1% recorded in 2009. It was largely fuelled by acceleration in private consumption growth - from 2.2% in the first quarter to around 4% in the fourth quarter of 2010 (3.2% on average in the entire year). The growth in private consumption was supported by a reversal of negative trends in the labour market.

At the turn of the first and the second quarter of 2010, employment in the enterprise sector and in the entire economy started growing. Although the number of planned redundancies in the enterprise sector remained at a high level (an average of over 40,000 per month, mainly in the public sector), the number of job offers increased at a pace last seen in mid-2008. Growth in the labour demand did not cause a strong pressure on salaries, due to a clear increase in labour activity of Poles. The number of people active in the Polish labour market increased in the period between the third quarter of 2009 and 2010 by ca. 400,000 (this may be partly attributable to the return of Poles working abroad and activation of the domestic market). This is why despite an increase in employment, there was a rise in unemployment rate as well (according to LFS, from 6.6% in Q3 2008 to 9.1% in Q3 2010). The pace of salary growth remained at a moderate level for the better part of the year, but a growing number of jobs triggered quite a marked improvement in household incomes.

Improving economic situation in 2010 was not accompanied by the revival in fixed investments. Despite growth in capacity utilization (in the second half of the year at ca. 80%, i.e. above the long-term average), quite a substantial increase in demand (both domestic and foreign) and good financial results, the private sector businesses delayed investments. Public investment continued to be supported by funding from the EU. Overall, gross fixed capital formation decreased during the year by 2%, after declining by 1.1% in 2009.

## Selected Macroeconomic Indicators



## Foreign Trade

After a strong, double-digit decline in foreign trade turnover in 2009, the next year saw a clear rebound. As a result of growing foreign demand and levelling-off of zloty appreciation (which remained above the profitability hurdle for exporters), euro-denominated exports grew as much as ca. 20% during the year, after a strong decrease of ca. 16% in 2009. At the same time, the growth of the domestic demand triggered even stronger recovery in imports, and as a result the trade deficit in 2010 roughly doubled (to ca. EUR 6.4 bn from EUR 3.1 bn in the previous year). The current account deficit rose to over EUR 11 bn, or ca. 3.2% of GDP, from EUR 6.7 bn (2.1% of GDP) in 2009.

## Inflation

In the first half of 2010, inflation was in a downward trend, which brought the annual CPI growth rate down to 2.0% y-o-y in the summer months. In the subsequent months, however, there was a clear rebound of inflation, driven primarily by strong growth in food prices (the effect of rapidly increasing prices of food commodities in the world, as well as the delayed impact of floods and extreme weather events on the domestic market), rising fuel prices (the effect of high global commodity prices), and higher prices of clothing and footwear. As a result, in the last quarter of the year the CPI growth returned above the NBP inflation target (2.5%), and in December it was at 3.1% y-o-y.

## Interest Rates

At the beginning of 2010, the Monetary Policy Council's term of office finished. In addition, Sławomir Skrzypek was replaced by Marek Belka as the NBP Governor in the second quarter of 2010. The main interest rates of the central bank remained unchanged throughout the year (main reference rate at 3.5%). However, the available information indicates that some Council members were arguing for interest rate hikes since August. In October, the MPC decided to raise reserve requirement rate from 3.0% to 3.5% with effect from January 2011. The Monetary Policy Guidelines for 2011, adopted by the MPC in September last year, did not introduce significant changes as compared with previous years.

## Exchange Rate

Despite the gradual increase in economic activity, the year 2010 was a period of considerable turbulences in financial markets, which was primarily caused by fiscal problems in some countries of the euro zone and concerns about the risk of spreading fiscal crisis. As a result, during the year there were significant fluctuations in exchange rates. The zloty remained in the medium-term appreciation trend, which however was interrupted by periods of clear corrections caused by growing concerns about debt problems in the euro zone (specifically, in the second quarter and in the last months of the year).

An interesting issue is the changed approach of the economic authorities to the exchange rate policy, i.e. more active exchange rate policy of the government and the NBP than in previous years. In April, the NBP intervened in the currency market - for the first time since 1999 - taking steps toward weakening the zloty. The subsequent wave of depreciation was slowed by the government's intervention, which sold euros in the market through Bank Gospodarstwa Krajowego.

## Situation in the Banking Market

In 2010, the banks were gradually relaxing their lending policies, among others due to improved macroeconomic situation, the recovery in the labour market and the expected further improvement in the economic outlook. Loans to households recorded a moderately high growth, mainly in mortgage loans segment, which increased by ca. 13% y-o-y (on the constant currency basis), similar to 2009. A significant change in the market for mortgage loans was a decrease in popularity of foreign currency loans and a clear shift of the customer demand and customer proposition towards zloty-denominated products, which resulted largely from actions and regulations of the Polish Financial Supervision Authority. A clear slowdown occurred in consumer loans (growth below 2% y-o-y in 2010 compared with a 13% rise in the previous year). The business lending market remained in stagnation - the value of the business loans portfolio decreased by ca. 2.5% y-o-y (on the constant currency basis) while a year before the decrease was 3.7%. The increase in deposits from business customers stabilized at around 10% y-o-y. The increase in household deposits slowed slightly compared with 2009 and amounted to ca. 10% y-o-y (compared with about 15% a year earlier).

## Stock Exchange in 2010

2010, like the previous year, saw an increase in the main indexes of the Warsaw Bourse. WIG, the key broad-based market barometer, rose by 18.8% over 12 months, while WIG20, an index of the biggest and most liquid blue chip companies, gained 14.9% in the same period. The increase was a continuation of the upward trend observed in February 2009 that put an end to the bear market started late in 2007.

The good moods at the Warsaw Stock Exchange in 2010 reflected the positive trends in the global markets. Investors supported by the biggest central banks with their policy of introducing cheap money into sovereign financial systems, were benefiting from the economic growth enlivened by an injection of fresh cash.

Equity trading on the Warsaw Stock Exchange was uneven. In the first half of the year investors were equally interested both in small and large companies, while the second half definitely belonged to blue-chips. In addition, the dynamic growth in the first quarter was followed by a significant correction in the second one (a natural follow-up on profit taking). Another growth wave started in early summer and eased off as late as in early December.

The Polish banking sector increased in value by 17.9%, as demonstrated by the WIG-Banks index. An increased interest in the sector that was not directly hit by the global crisis elevated the share prices to a level that was not so far away from the record-breaking value of the index in 2007. It was this group of companies which – in addition to the fuel and raw-materials sector – were the key drivers of index growth in 2010.

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## Growth Prospects for 2011

It may be expected that the growth rate of the Polish economy in 2011 will stabilize slightly above 4% y-o-y. The growth rate of exports is likely to slow down gradually, influenced by the predicted slowdown in economic growth abroad, yet it will remain relatively high (above 10% y-o-y). The most important engine of economic growth will be the domestic demand. It can be assumed that private consumption growth will accelerate slightly (amid a drop in unemployment), supported by the growth in household income. After a prolonged period of stagnation, we should finally see a clear rebound in investment as a response to the continued growth in demand and high levels of capacity utilization. Consequently, on the supply side, this would imply slightly worse conditions for the industry, a better situation in the construction sector and maintenance of the positive trends in retail trade (albeit without the temporary effects already observed at the end of 2010).

Faster economic growth, mainly due to an acceleration in domestic demand, will favour the growth of inflation in early 2011 (particularly in conditions of high commodity prices on global markets and VAT hikes) and a relatively high inflation level in the following quarters. This will be an argument for the Monetary Policy Council to increase interest rates. We can expect that the reference rate will go up gradually, in increments of 25 bp, and at the end of 2011 it will reach 4.5%.

In the financial markets, we expect a scenario similar to that observed in 2010. The trend of the zloty appreciation is likely to continue with possible corrections during the year triggered by returning waves of increased risk aversion and the intensification of debt problems in Europe.



## IV. Business Development of Bank Zachodni WBK in 2010

### 1. Key Business Development Directions - Summary

In 2010, Bank Zachodni WBK continued its strategy for 2009-2011, trying to be distinctive in the market by its customer proposition and customer service quality. The bank flexibly responded to the changing business environment with a focus on maintaining its deposit base, developing its loan-book and controlling risk in all aspects of its activity. During the year, several key initiatives were undertaken to further improve work organisation, information flows and customer service (the New Branch Energy Programme, stronger multichannel integration, centralisation of operational tasks performed for business and corporate customers). The results of these efforts will be subject to evaluation in the next reporting period.

Below is a summary of the key areas of business activity of Bank Zachodni WBK in the previous year:

- Development of the savings base by providing a comprehensive range of deposit and investment products. Continued strategy of offering distinctive deposit products.
- Increasing attractiveness of personal and current accounts through development of linked products and services, better alignment of packages to different customer needs and introduction of additional facilities in electronic banking channels.
- Adjustment of the credit policy to the favourable changes in the economic environment and the optimistic outlook with continued conservative approach to credit risk management.
- Introduction of changes in the repayment capacity calculation for personal customers to ensure that the bank's procedures optimally address the guidelines of Recommendation T issued by the Polish Financial Supervision Authority to improve the quality of retail credit risk management in Poland.
- Focusing credit delivery on existing, active customers of the bank (sales campaigns/preferential pricing system). Additionally, becoming more open to new external customers.
- Increased activity in delivery of marketing and promotional campaigns to support the sale of the bank's and subsidiaries' products (mutual funds).
- Improvement of Customer Relationship Management (CRM) and sales tools. Increased individual contacts with customers with more sophisticated financial requirements, CRM campaigns, other sales and promotional campaigns. Customer rather than product focus. Structured efforts to prevent customer attrition.
- Further development - in quantitative and qualitative terms - of the key distribution channels and their stronger integration: establishment of the Telephone and Electronic Banking Centre, integration of BZ WBK Partner outlets with the branch network and alignment of the products and services available in the franchise channel with the bank's offering.
- Continued improvement of the electronic banking functionality (new products available "by click") and support for the development of safe web transactions, contactless and prepaid cards as well as other technologically advanced solutions.
- Continuation of the ongoing processes: improvement of customer service quality, streamlining of operations (centralisation of back-office activities) and implementation of simpler procedures for customers.
- Tight monitoring of operating costs, renegotiation of contracts with suppliers and gradual implementation of further savings initiatives.

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

### Segmentation and Customer Relationship Management (CRM)

#### Service Models and Segmentation

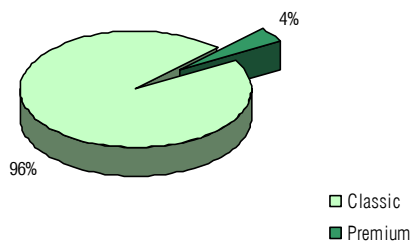
The bank's CRM system is based on segmentation of the customer base with two service models (Premium and Classic) responding to different customer requirements for banking products and services.

The bank proactively approaches the customers who have a major transaction potential and require a specialist support in order to better understand their needs and to strengthen co-operation with them. The customer's direct contact with the dedicated advisor allows to provide tailored service, satisfy diverse needs and establish engaging relationships. In the BZ WBK branches such interactions characterise the "Premium" service model that covers personal customers from the Prestige and VIP segment, and business customers from the micro and small companies segment who meet the defined criteria. Management of individual relations with customers from the business and corporate segment is the responsibility of specialised units from the Business and Corporate Banking Division, supported by the Branch Banking and other central units responsible for banking products and services.

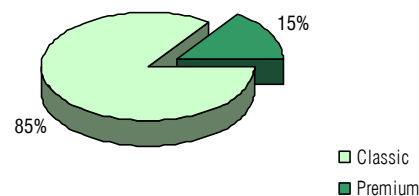
The customers who use standard products and appreciate speed and functionality of transactions are serviced through electronic channels or the branch network in accordance with the "Classic" service model. The bank proactively contacts such customers mainly as part of sales campaigns. This relationship model is used with regard to the mass personal segment and the enterprises who do not meet the criteria of the "Premium" model.

The highest service standards apply to both models, and customers are targeted with sales campaigns that use the most appropriate communication channels and are adjusted to the customer profiles. The bank is constantly increasing the effectiveness of its sales actions. Cessation or reduction of business activity by customers with the bank is tracked on an on-going basis and steps are taken to minimise the attrition rate.

Personal customers by service models  
as at 31 Dec. 2010



Business customers by service models  
as at 31 Dec. 2010



#### Business Development in CRM

In 2010, the bank introduced the "Onboarding" programme which is designed to ensure regular contacts with newly acquired customers to identify their needs and encourage them to use carefully selected products and services. The bank has also modified its anti-attribution campaigns and implemented a programme designed to retain customers who have decided to opt out of individual products.

Proactive relations with customers, effective service and sales campaigns require constant support and development of specialist IT infrastructure. In 2010, a number of tools and solutions were implemented in the NFE (New Front End) CRM branch system, including optimised delivery of individual and campaign-based tasks by staff, changed registration and planning of customer contacts and new urgent alerts functionality. Also, a campaign process was launched in the Partner outlets.



The plans for 2011 focus on the acquisition and retention of customers and on providing them with the top quality of service through staff development and upskilling. The bank also plans to consistently develop sales support tools by improving the quality of databases generated for sales campaign purposes and increasing the number of identified sales opportunities that are the basis for initiating a contact with the customer.

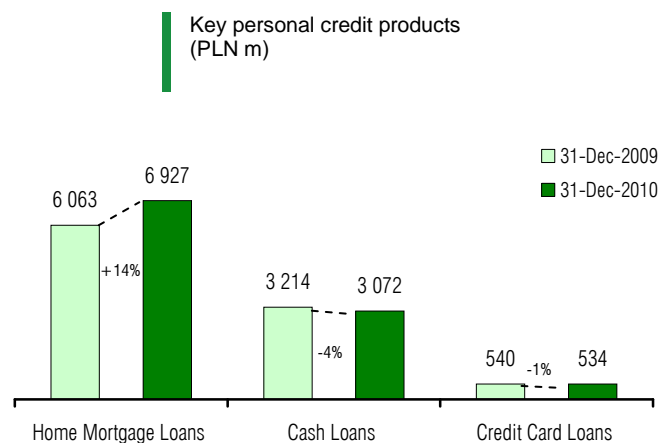
## Retail Banking

Retail Banking in Bank Zachodni WBK includes the sale of products and services addressed to personal customers, and small/micro companies.

### Personal Loans

Bank Zachodni WBK offers a comprehensive and attractively priced credit proposition to its customers. The bank's mortgage offering includes a home loan and an equity release. The customers who seek short-term funding may take out a cash loan, including one backed with liquid assets, or apply for a credit card or an overdraft. Other products, include a car loan, loan for the purchase of securities in the primary market and a brokerage loan.

In 2010, the bank aligned its personal lending policy to the changing environment and adjusted its product range accordingly. In the second half of 2010, the bank was progressively implementing Recommendation T to complete the process on 29 November. Sales campaigns were targeted mainly at the existing customer base, respective efforts being supported by the system of preferences for the active users of accounts as well as other products and services.



### Mortgage Loans

Given the recovery of the foreign currency market and reduced cost of funding, in the first quarter of 2010 Bank Zachodni WBK reinstated euro-denominated mortgage loans offering for customers who earn income in Poland.

In line with the prevailing trends in the domestic mortgage market, the bank reduced its standard margins for PLN and currency (EUR) loans while maintaining its previously offered special promotional margin of 1.35 pp for PLN mortgages extended to its best customers. The customers borrowing in PLN were offered an option to accept a higher margin in return for a zero fee on the loan. Branch managers were equipped with additional discretions to negotiate fees with the customers who actively use banking products and services. The bank also increased availability of its PLN housing loans by raising the maximum standard LTV ratio to 90%.

The bank actively participated in the government programme of subsidised loans "First Family Home" ("Rodzina na swoim"), regularly adding new attractive features to its offering. The loan fee was reduced from 4 pp to 2 pp, and the LTV ratio was increased from 80% to 90%, thus reducing the required customer personal contribution to 10%.

Product and price changes in PLN and EUR mortgage loans introduced by Bank Zachodni WBK became distinctive in the market and induced the bank to start in June 2010 a Poland-wide campaign under the slogan "Check how low your mortgage payment can be. Number 1 in Poland". The attractiveness of the bank's pricing was confirmed by the highest positions regularly held in the rankings published by the media and financial brokers.

### Cash Loans

In 2010, Bank Zachodni WBK improved its cash loan offering by introducing the "Worry-Free Loan" insurance ("Spokojny Kredyt") which protects credit payments in the event of a job loss or inability to work and ensures reduced pricing. Bank Zachodni WBK was one of the first in the market to equip its electronic banking system (BZWBK24) with a "buy-by-click" functionality for cash loans. The feature allows to drawdown the loan over the Internet shortly after submitting a loan application and immediately after receiving a positive credit decision ("Loan in 10 Minutes"). The service is available from December 2010 to the bank's customers who meet the required criteria.

The cash loan campaigns completed in 2010 were based on customised offers to the bank's internal customers based on the relationship history. Customers were approached with individual price proposals where the interest rate on the cash loan was adjusted to the risk profile of each borrower.

### Credit Cards

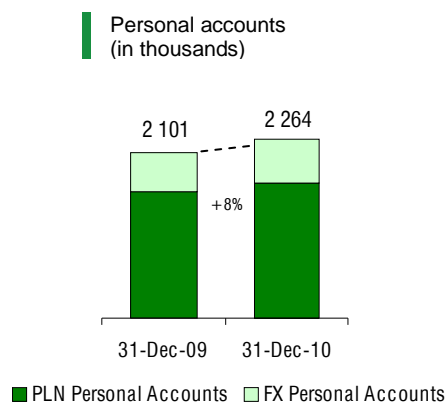
In 2010, Bank Zachodni WBK continued its prudent credit policy with regard to credit cards. Cards were sold mainly through the branch banking and the Phone and Electronic Banking Centre as part of campaigns addressed to internal customers.

Similar to the previous year, a particular focus was placed on retaining credit cards users and encouraging their greater activity. To this end, the bank implemented a number of campaigns, including the "Welcome Call" campaign and an anti-attrition campaign.

In April 2010, the bank introduced the MasterCard PAYBACK card issued in co-operation with the entity organising the PAYBACK Bonus Programme. Originally, the card was offered in lieu of the co-branded cards that were being withdrawn from the card catalogue, but in August 2010 it became available as a standard. The MasterCard PAYBACK credit card is covered by the loyalty programme and facilitates safe payments using magnetic stripe/chip, contactless (PayPass) technology and internet payments based on the 3D Secure service.

### Personal Accounts

In accordance with its retail banking development strategy, Bank Zachodni WBK offers a rich range of credit accounts to accommodate various needs. Retail customers can avail of standard accounts (Konto24 and Konto24.pl), prestige accounts (Konto24 Prestiż, Konto24 VIP) and "tailor-made" accounts for specific customer segments (Konto<30, Konto Aktywni 50+), as well as unique products such as Moneyback Accounts and High-Heels Accounts. Current accounts are accompanied by cards, specialised service, insurance packages, loyalty programmes, discounts and other benefits to their holders.



The bank's current accounts along with their related products and services are being continuously enhanced to suit customer requirements. On 17 February 2010, the bank introduced a new Moneyback Account that replaced its previous version implemented in May 2008. The key features of the new product include lack of account maintenance fees (subject to a minimum monthly turnover of PLN 1k), free-of-charge access to all the ATMs in Poland and 1% refund for all non-cash transactions made with the VISA card issued to the account. The sales of the account were supported by a wide-scale successful advertising campaign.

In 2010, Bank Zachodni WBK introduced more attractive pricing for servicing personal accounts, e.g. by waiving debit card and Internet transfer fees on Konto<30 Accounts and offering free-of-charge cash withdrawals from all ATMs in Poland for the holders of High Heels and Aktywni 50+ Accounts. Furthermore, holders of cards issued to the bank's PLN accounts could benefit from free-of-charge cash withdrawals from ATMs abroad during the holiday season (from 21.06.2010 to 30.09.2010).

The bank's personal accounts were highly appreciated by experts and customers: the High-Heeled Account was awarded with the "Laur Klienta" accolade (January 2010), Konto<30 Account was announced the students' "Product of the Year" in the category of "Banks" ("Dlaczego?" magazine, May 2010) and Konto Aktywni 50+ Account came third in the ranking "Friendly Bank According to Seniors" ("Newsweek", October 2010).

## **Deposit and Investment Products**

Bank Zachodni WBK provides its customers with a wide range of deposit and investment products (term deposits, savings accounts, mutual funds, structured products) facilitating diversification of savings in accordance with the customer preferences and investment goals.

In 2010, the bank continued the strategy of balanced development of its savings and investment base in line with customer expectations, own needs for core business funding and market conditions.

### ***Deposit Facilities***

In 2010, as in previous years, the situation in the deposit market and the customer balances in the bank's term and savings accounts were under close scrutiny. In the prevailing external conditions, the bank aimed at maintaining an optimal balance between the deposit pricing and the market interest rates. To support acquisition of deposit funds, work was continued to improve the bank's product range with a strong focus on non-price aspects.

In 2010, the bank introduced an Easy Earning Deposit for a 6 and 9-month term. In addition to being attractively priced, the deposits can be terminated before maturity without losing the accrued interest. Flexibility of the Easy Earning Deposit makes it one of the most popular deposits in the bank.

In response to customer requirements, in November 2010, the bank implemented a new product with the daily interest capitalisation – the Daily Earning Deposit. Its advantages include the short 1-day tenor, automatic roll-over and interest pay-out for the actual deposit period. This is another step in the process of developing deposit products that can be freely managed by the customer.

In 2010, the bank introduced a proposal which includes two attractively-priced term deposits (for 3 and 6 months) addressed to personal customers investing in structured bonds and selected Arka funds or those participating in the BZ WBK InPlus Investment Programme. With these deposits investors can diversify their savings on favourable terms.

### ***Structured Products***

In 2010, Bank Zachodni WBK introduced further structured products for customers seeking investment instruments ensuring capital protection and potential profits.

In liaison with BZ WBK Brokerage House (acting as an issue agent), the bank carried out four subscriptions for issues of TOP5 DUO bonds and three subscriptions for issues of FlexInvest BRIC bonds and Market Giants bonds. All the instruments were 2-year investments with the minimum value of an investment of PLN 1k. They offered 100% or 90% capital protection on redemption and yield based on the strategy investments linked to the growth potential of stock indices and shares of the companies operating in Poland and in emerging markets.

The bank also completed 13 issues of structured deposits for customers from the VIP segment. The deposits are available in the Personal Banking network via the VIP Advisors. The products combine features of a traditional banking deposit with an FX investment. Their pricing is linked to the EUR/PLN rate, which allows one to choose between three investment strategies assuming the following developments: the strengthening of the zloty vs. euro (Zloty Plus), the weakening of the zloty vs. euro (Euro Plus) and the stabilisation of the zloty vs. euro.

Strong activity of Bank Zachodni WBK in the area of structured products for personal customers, which is reflected in the sales volumes and continuous introduction of new investment solutions, put the bank among the leaders in that market.

### ***Investment Funds***

In 2010, Bank Zachodni WBK became more active in distribution and promotion of open-ended Arka mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych (BZ WBK AIB TFI). In addition to new promotions and bonus programmes launched, a marketing campaign was held last year to reinforce the Arka brand. The availability of investment products in the banking delivery channels was also increased.

In November, the company launched a new fund – Arka Prestiż SFIO, which is to leverage on the growth potential of the CEE countries. The fund is addressed to HNW customers who seek diversified risk investments through subfunds offering different expected yields.

To make the investment products more attractive, an umbrella fund Arka BZ WBK FIO was set up with subfunds created by transforming the former seven separate funds: BZ WBK Arka Equity Fund FIO, BZ WBK Arka Balanced Fund FIO, BZ WBK Stable Growth Fund FIO, BZ WBK Arka Capital Protection Fund FIO, BZ WBK Bonds Fund FIO, BZ WBK New Europe Development Fund FIO and BZ WBK Arka Energy Fund FIO. This solution is favourable for customers as it allows them to move their investments between subfunds without having to pay any capital gains tax.

The bank also continued to distribute the BZWBK InPlus investment programme offered jointly with BZWBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. This is an investment product in the form of life insurance, giving an additional option of investing in 21 capital investment funds with various levels of risk and profit earning potential. The funds are managed by 5 different investment associations, including BZ WBK AIB TFI and Aviva Investors Poland TFI.

## Cards

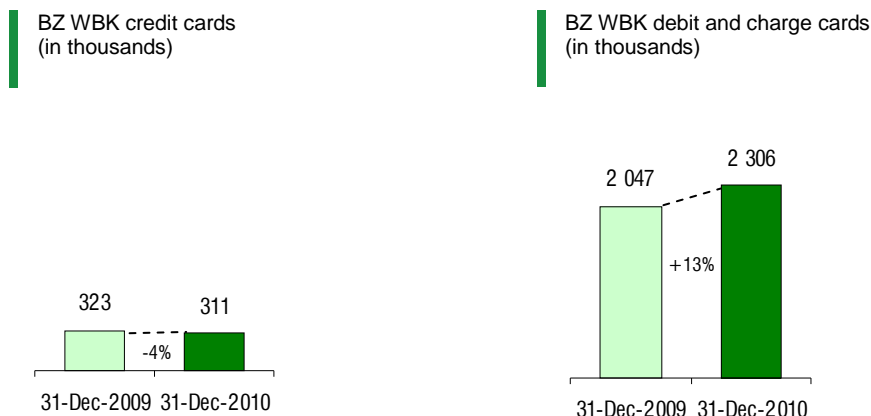
A wide array of credit, debit and pre-paid cards is a permanent element of the bank's core proposition that will satisfy different customer needs. The bank issues cards of the two main card organisations: Visa and MasterCard. The cards are equipped with chip technology in accordance with the EMV standard (Europay, MasterCard, Visa) to ensure the top security of card transactions. The standard functionality of the cards attached to the bank's personal account packages includes Internet payments in the 3D-Secure technology (for higher security, transactions are confirmed via authorisation tools available in the electronic banking system) and Cash-Back service (cash withdrawal at the time of card payment for goods and services).

Having achieved an advanced level of technology and high cards diversification, Bank Zachodni WBK mainly focused on efficient card-related services provision and promoting more active use of such instruments. To increase attractiveness of debit cards, a number of permanent and temporary incentives were put in place, including free-of-charge withdrawals from third party ATMs in Poland for a few more cards (Visa Moneyback, Visa High-Heels, Visa Electron Active 50+), free-of-charge withdrawals from ATMs abroad during the holiday period and elimination of handling fees for some cards. The bank also continued its efforts to make contactless cards more popular with customers. In addition, it joined the Poland-wide campaign delivered by MasterCard and Visa payment organisations under their respective programmes: "Four Seasons of the MasterCard Year" and "Golden VISA Zone".

### PAYBACK Cards

Since 2009, Bank Zachodni WBK has been an issuer of the official payment card of PAYBACK Bonus Programme and has been gradually expanding its offering with new card products that allow customers to gather points during daily shopping at stores and on the Internet, and swap them for prizes within the multi-partner loyalty programme. In 2010, two new cards were introduced: MasterCard PAYBACK credit card (August 2010) and MasterCard PAYBACK Multi card (November 2010). These cards along with the MasterCard PAYBACK debit card launched in 2009 are available in all the sales channels of the bank and through the web platform of the Programme's operator ([www.payback.pl](http://www.payback.pl)). The bank opened a dedicated website ([www.payback.bzwbk.pl](http://www.payback.bzwbk.pl)) that contains all the necessary information on the programme and the bank's products with PAYBACK functionality.

To increase the sales of these cards, a number of actions were implemented, including sales campaigns on the Internet, promotions in branches, on the bank's website [www.bzwbk.pl](http://www.bzwbk.pl) and in the BZWBK24 home banking tool, and migration of cards from the bank's liquidated card catalogue into MasterCard PAYBACK cards. In November 2010, a new agreement was signed with Loyalty Partner to support further development of the bank's products and services with point-earning functionality. The agreement made the bank an official partner of the PAYBACK Programme.



### **Pre-Paid Cards**

In 2010, active sales of pre-paid cards were continued, resulting in 218 k new cards issued. During the year, the range of pre-paid cards was expanded with Mastercard Premium card with a top-up functionality, virtual internet card, prepaid cards in foreign currencies (EUR, GBP, USD), school and stadium cards. The pre-paid cards of Bank Zachodni WBK were used as payment instruments in 3 major mass events held last year: Opener Festival, Coke Live Music Festival and Selektor Festival. The bank improved its website dedicated to prepaid cards [www.prepaid.bzwbk.pl](http://www.prepaid.bzwbk.pl) and started the sale of cards and promotional items through allegro.pl auction portal. In 2010, the school card received the highest recognition among experts: it won an award at the International Conference Warsaw 2010 and ranked first in the ranking published by the Onet.pl portal, showing the most interesting and technologically advanced products in 2010. The award-winning card is based on contactless technology and provides pupil identification and school access control functionality.

### **Insurance**

In 2010, Bank Zachodni WBK continued to expand its bancassurance proposal, effective distribution of insurance products and further development of insurance skills among staff. In co-operation with BZ WBK-Aviva insurance companies, the bank introduced a new product, Endowment Policy for Bank Zachodni WBK Customers (Investment Policy), and started the sale of policies in the Direct Banking channels: accident insurance "Next of Kin" ("Dla Bliskich"), "NNW Direct" accident insurance (pilot), and travel insurance ("Na Podróż"). Also, communication, promotional and organisational actions were launched to support the distribution of the Payment Protection insurance, houses and premises insurance "Locum", BZWBK InPlus Investment Programme, Open-Ended Pension Fund Aviva BZ WBK and other product proposals.

In 2010, all holders of Visa Elektron VIP cards were covered with free insurance packages:

- Financial Insurance Package – providing cover against, inter alia: unauthorised use of the cards, theft of cash withdrawn from ATM, lowest-price guarantee, cover for products purchased with a card, as well as
- VIP BZ WBK Concierge Services Package with access to information service and a wide range of other free-of-charge services, including car maintenance, child care and travel.

### **International Settlements**

#### **International Payment Orders**

In July 2009, the bank joined the pan-European payment system SEPA (Single Euro Payments Area), and consequently is in a position to receive payment orders in favour of its own customers as well as those of third-party banks for whom it acts as an intermediary using the Euroelixir system for domestic settlements. In 2010, the bank implemented a solution for processing SEPA payments instructed by customers via electronic banking (BZWBK24 and Moja Firma Plus tools), in the Internet application (PRO+) for handling mass lodgements and in selected branches that handle payment orders in the New Front End system.

As a direct participant of the TARGET2 clearing system, Bank Zachodni WBK is prepared in terms of organisation and infrastructure to provide agency services to third party banks. Due to its participation in TARGET2, the bank added the Target express transfer to its range of EUR payments. The product made the bank distinctive in the market as few other Polish financial institutions can offer its clients settlements in the TARGET2 system, which is the RTGS system (operating in real-time) and therefore the fastest channel for payment execution.

With constant improvement of the settlement-related processes, the payment messages generated by the bank have been for many years characterised by high quality, which reduces the related costs. The efficient organisation of the payment handling process and the high quality of customer service is best proven by the bank being placed among the institutions that comply with the ISO 9001-2000 standard for international payment orders. This is additionally confirmed by the regular awards received from the key EUR and USD correspondents for the high STP (Straight Through Processing) rate of its SWIFT messages. In 2010, the regular group of institutions awarding Bank Zachodni WBK was joined by Commerzbank.

In 2010, outgoing and incoming payments increased by 27% and 20%, respectively.

The bank also continues to provide Wester Union transfer services through its branch network, partner outlets and subagents. At the end of 2010, the bank co-operated with 39 agents who operated a total of 115 outlets.

## **Loans for Micro and Small Companies**

Bank Zachodni WBK has a wide array of loans that will satisfy the current and long-term needs for business finance of micro and small companies and larger enterprises. These include overdraft facilities, working capital, payment, revolving and investment loans, finance for EU projects, factoring and leasing. A distinctive feature of the bank's offering is the universal Biznes Ekspres loan provided to micro, small and medium-sized enterprises. The loan can be used for any purpose and is available within 24 hours from submitting a complete application. The bank's competitive edge is based on prompt credit delivery process for the customers whose total debt with the bank does not exceed PLN 200 k. Furthermore, the bank customers may obtain an additional security cover for the loan in the form of a guarantee from Fundusz Poręczeń Kredytowych Polfund S.A., a guarantee fund connected with the bank.

In 2010, as in the previous year, the bank concentrated its credit acquisition activity around regular sales campaigns addressed to the companies already co-operating with the bank.

### ***Development of Credit Offering for Micro and Small companies***

The European Investment Bank awarded Bank Zachodni WBK a credit line up to EUR 100 m to finance small and medium-sized enterprises in the sectors of agriculture, industry and services. Bank Zachodni WBK offers the acquired funds in the form of a modified Biznes Ekspres loan (Biznes Ekspres EBI) implemented on 22 June 2010. The maximum amount of the loan is PLN 500 k. It may be used to finance business activity in its broad sense, i.e. to cover working capital requirements or fund replacement or expansion investments.

In September 2010, Bank Zachodni WBK branches started to sell Faktoring Ekspres loan for micro and small companies. The product comes with a factoring limit of PLN 700 k (maximum funding of PLN 500 k). Credit decisions for the facility are taken locally by the authorised branch employees.

In October, the range of products for micro and small companies was expanded with Leasing Ekspres, a facility which like Faktoring Ekspres is handled directly by the bank's branches. The key features of the new proposal include a simple and fast lease signing process, a wide range of financed assets and no requirement to provide details of the supplier or type of the leased asset.

## **Current Accounts**

The bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current accounts to provide their users with a precisely defined, tailored and comprehensive service (e.g. Package for Freelancers, AgroPakiet for Farmers).

On 15 March 2010, Bank Zachodni WBK introduced new Business Packages: MINI, OPTI and MAXI addressed to different companies, depending on the size of their business as well as value and frequency of their transactions. Each package includes a current account and Visa Business Electron card, enables access to electronic banking services and offers attractive transaction fees, including free Internet transfers to Social Security, Tax Office and accounts held with Bank Zachodni WBK. In addition, start-ups were offered exemption from account maintenance fees for 9 months. The implementation of the new Business Packages was supported by the promotional campaign held in April and May 2010.

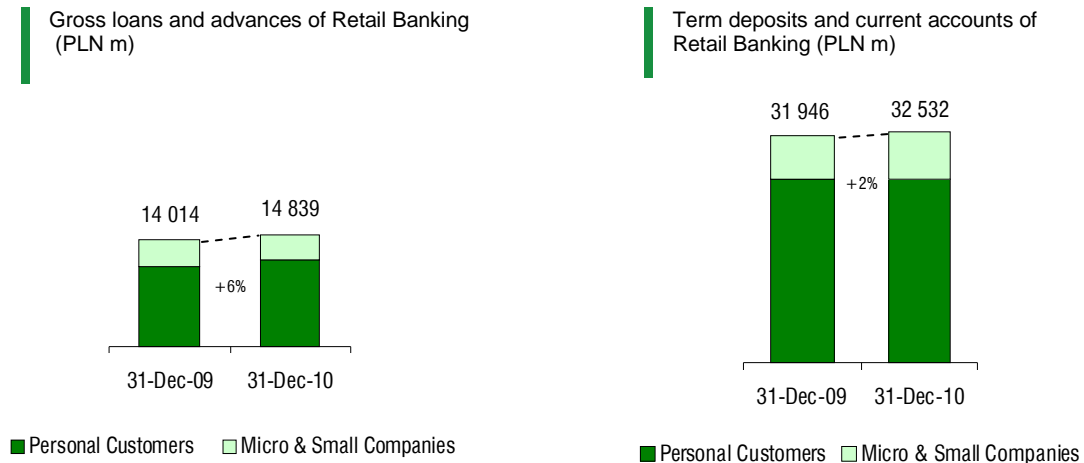
### ***Cards for Business Customers***

As the bank introduced three new business product packages, each of them was equipped with a separate debit card (Mini, Opti and Maxi). The cards carry different images and vary in terms of fees charged.

The customers availing of the Leasing Ekspres product can use the fuel card allowing them to make cash-free transactions for fuel and other products at Orlen and Bliska gas stations (covered by the Flota programme). Other benefits include a monthly transactions statement and deferred payment terms of up to 50 days.

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## Business Volumes of BZ WBK Retail Banking



Compared with the end of 2009, BZ WBK Retail Banking increased its deposit base by 2% y-o-y. The internal structure of deposits changed in favour of current deposits, which confirms effectiveness of the bank's strategy of becoming a distinctive market player with its personal and current accounts and account-related services. Gross loans and advances to customers of Retail Banking increased by 6% y-o-y, driven primarily by home mortgages.

## Business and Corporate Banking

### Organisation structure

Business and Corporate Banking Division is responsible for delivering the bank's strategy to provide comprehensive service to medium and large enterprises (with annual turnover exceeding PLN 30 m and credit facilities exceeding PLN 3 m). The operating units of the Division are located in 15 key economic centres of Poland and include 15 Business Banking Centres, 3 Corporate Banking Centres and a centralised Property Finance Department providing specialised service for the commercial properties market. These centres operate under the bank's Customer Relationship Management model, whereby a relationship manager is dedicated to a particular customer, maintains direct contact with them, controls their credit process and has overall responsibility for managing all other areas of the relationship. Apart from individual approach, the high quality of service is ensured by effective credit delivery based on highly skilled local personnel with adequate credit discretions and strong support to advisors from individual units in the bank (e.g. branches, Securities Centre) as well as specialists from different banking areas.

### Products and services

Business and corporate customers can avail of a wide array of current accounts in the main currencies (PLN, EUR, USD, GBP) and non-standard currencies (NOK, SEK, DKK, CAD, JPY, AUD, CZK, HUF) together with cards that will accommodate different customer needs. The bank also provides three types of escrow accounts to meet the requirements of various undertakings. The available credit facilities include a range of solutions that support the company at any stage of its business, from working capital to long-term financing for expansion purposes, acquisition and project finance.

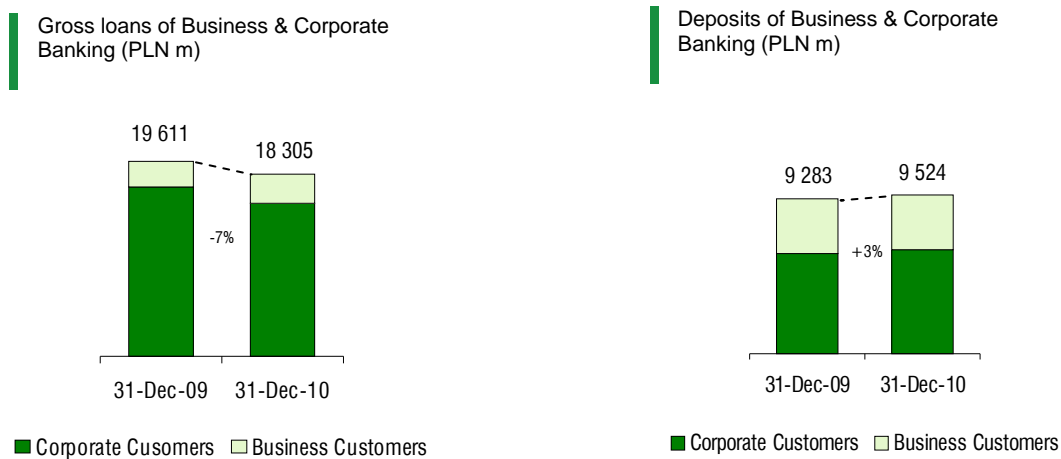
The bank also provides a broad range of deposit and investment products (including overnight and negotiable deposits), treasury and liquidity management services, including FX and interest rate risk management products, international trade finance, cash pooling, mass payments, electronic banking and others. With the transaction banking tools (BZWBK24 or Moja Firma Plus) as well as the alternative PC-banking Minibank24 tool, customers have access to the solutions which facilitate mass transfers, standing orders, direct debits and electronic identification of receivables. In liaison with its subsidiaries, the bank also offers specialised services, including brokerage, equity and asset management services as well as leasing and factoring.

## Development directions

In 2010, Business and Corporate Banking was focused on developing its product range and improving the service quality, particularly in transactional banking, trade finance and treasury. The projects commenced at that time are designed to increase satisfaction of business and corporate customers with the bank services and to achieve greater diversity of the income streams generated by both customer segments. The bank plans to implement an IT system for remote browser-based service (iBiznes24) of medium and large enterprises and to develop a centralised operational service (Business Service Centre) with regard to their current accounts and related services, such as card products, electronic banking, deposits, payments, etc. In 2010, as part of the efforts to optimise account opening and management, a process was put in place to automate and centralise the management of overnight deposits. The Central Services Department has also taken over operational responsibility for all the transactions involving negotiable deposits and FX derivatives.

The bank's corporate lending strategy is to actively support business development of the existing customers and to establish relations with new customers having a robust business strategy. In order to achieve better competitive position in the improving macroeconomic environment, in 2010 the bank began to adopt a more flexible approach to business and corporate lending, and revised its pricing models. Business and Corporate Banking closed the year with strong profit performance, key focus being placed on the growth of interest and non-interest income, credit portfolio quality and service level.

## Business Volumes of BZ WBK Business & Corporate Banking



Total deposits gathered by Business and Corporate Banking of Bank Zachodni WBK increased by 3% y-o-y while the gross credit portfolio decreased by 7% y-o-y in line with declining credit exposures to commercial property sector as required under the bank's portfolio diversification strategy and as a result of low inclination of corporations to engage in major fixed investment projects.

## Investment Banking

### Advisory Services

In 2010, Bank Zachodni WBK acted as an advisor in the following transactions effected together with Dom Maklerski BZ WBK:

- initial public offering of Kulczyk Oil Ventures with a value of PLN 314 m
- initial public offering of Agroton p.l.c. with a value of PLN 153 m
- initial public offering of Eko S.A. with a value of PLN 95 m
- initial public offering of Sadovaya Group with a value of PLN 93 m
- initial public offering of Tesgas S.A. with a value of PLN 62 m
- initial public offering of ABC Data S.A. with a value of PLN 52 m
- initial public offering of Europejskie Centrum Odszkodowań S.A. with a value of PLN 31 m
- secondary public offering of Pozbud S.A. with a value of PLN 25 m.

The bank also provided analytical and advisory services to its customers (in relation to IPOs, valuations, mergers and acquisitions) including financial consultancy for a number of companies, e.g. with respect to privatisation of Stoleczne Przedsiębiorstwo Energetyki Ciepłej S.A., Zakłady Chemiczne "Police" S.A. and Zakłady Azotowe "Puławy" S.A.



## Debt Securities Issues

In 2010, Bank Zachodni WBK concluded 2 agreements for the arrangement of non-treasury debt securities issue totalling PLN 510 m and arranged the issue of non-treasury debt securities for 5 entities with a total value of PLN 275.2 m. The securities were allocated to the entities indicated by the issuers.

## Equity Portfolio Management

In March 2010, 22,334 VISA Inc. shares were sold for USD 91.6930 per share, bringing profit of PLN 3.1 m.

Pursuant to the co-operation agreement with Aviva Group, Bank Zachodni WBK took up PLN 10 m worth of shares of Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. The shareholding structure did not change, including the bank's ownership of 10% of the share capital.

In September 2010, the bank acquired 1,954 investment certificates of Private Bank Alternative Investment Fund SICAV-SIF based in Luxembourg for PLN 6.4 m in total.

In relation to the buyback of the first tranche of shares in PKM Duda S.A. from banks for the purpose of redemption (pursuant to the Sell-Buy-Back Agreement of 24 July 2009 as amended), in December 2010 Bank Zachodni WBK sold 664,734 shares in PKM Duda S.A. representing 0.22% of the company's share capital. The transaction brought PLN 86 k worth of profit. The shares had been acquired by the bank by way of debt conversion pursuant to the agreement dated 15 September 2009.

## Treasury

The Treasury Services business, which delivers treasury solutions to the corporate and business customer market, experienced a strong surge in revenue momentum in the second half of the year. This revenue growth reflected more buoyant economic conditions and a more integrated customer relationship approach with Business Banking and Retail Banking implemented during the year. A more active marketing and customer visiting programme with a focus on ensuring a better understanding by customers of treasury products and services was also a key feature in rebuilding the momentum in this business. The BZ WBK internet FX dealing platform attracted an increasing number of existing and new customers, and further development is underway to integrate it into an upgraded electronic business banking channel to be launched in 2011. 2010 also saw a recovery on fair valuation adjustments in respect of derivative transactions, which suggests that the difficulties that arose at the turn of 2008 and 2009 are now behind us. As a result of these trends, there was an increase in the total net revenue outturn from BZ WBK Treasury Services business in 2010 and the momentum evident in the second half of the year suggests continued strong growth in this business in 2011.

The Wholesale Treasury business, which manages the bank's liquidity, interest rate and foreign exchange rate risk activities also delivered a very strong performance in 2010. Notwithstanding the fact that the business reported a lower revenue outturn than the record performance of 2009, it was still well ahead of expectations. The continuation of a low interest rate environment in zloty throughout 2010 supported higher than expected revenues from our cashbook and strategic interest rate books. Mark to market trading activities performed well in what were more challenging market conditions as spreads tightened in the face of a gradual return to more normalized wholesale market conditions.

From a liquidity and funding perspective, the bank continues to maintain a conservatively structured balance sheet as is evident in a customer loan/deposit ratio of 75.9% at the year end and the holding of a large portfolio of high quality Polish Government Bonds. During the year the bank took additional actions to diversify its sources and the maturity of long term funding, particularly in foreign currencies and so further insulate the bank against the impact of future global and macro-economic shocks.

As a result of all of the above, 2010 was a very strong performance in the BZ WBK Treasury business, which is a continuation of trends in recent years.

## Services to financial institutions

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

As a result of successful acquisition activities, the bank gradually expands its card and ATM services to financial institutions. In 2010, the bank launched its services for three commercial banks (Bank Pocztowy S.A., Invest Bank S.A., FM Bank S.A.) and took measures to enhance co-operation with business partners with respect to issuance and handling of contactless cards. In addition, the bank signed ATM and card support agreements with three cooperative banks.

Banks cooperating with Bank Zachodni WBK are offered dynamic currency conversion services in ATMs, which enable holders of FX or foreign accounts (EUR, USD, GBP) to make withdrawals with transaction amount being converted to their local currency at pre-defined rates.

As at the end of December 2010, Bank Zachodni WBK maintained business relations with more than 20 banks and financial institutions, handling 3.6 m of third-party cards (Visa/MasterCard) and a network of approximately 1,660 third-party ATMs.

## Distribution Channels

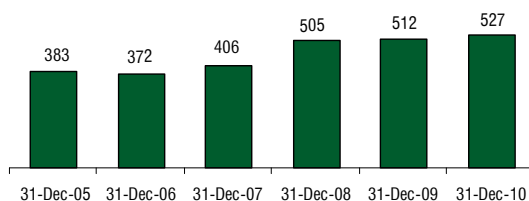
The bank offers its products and services primarily through the branch network supported by Corporate and Business Banking Centres, Housing Market Specialists, Telephone and Electronic Banking Centre, Mobile Sales Agents, BZ WBK Partner outlets and Mortgage House in Lodz. Long-term sales targets and income growth are underpinned by the Sales Activation Programme implemented a few years ago. The Programme is reviewed and revised on a regular basis. It enables the alignment of sales targets and plans with the local economic potential and changing economic environment, as well as measurement and reward of individual and team bonuses vis-à-vis sales performance.

### Branch Network

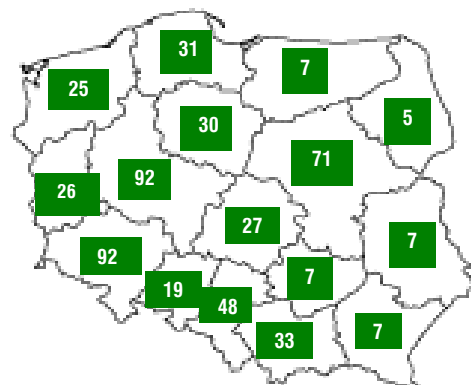
With 15 new branches opened during 2010, the BZ WBK branch network grew to 527 branches as at 31 December 2010 and was the third biggest in Poland.

As a result of the rapid expansion of the branch network in 2007-2008, the bank's branches are present in all the provinces of Poland. The heaviest concentration of branches is in the following regions: Wielkopolska, Lower and Upper Silesia and Mazowsze, as well as in large cities in other areas. Last year, the branch development process covered mainly Cracow and Malopolska region as well as provinces of Łódź, Pomorze and Upper Silesia. The branch network is divided into 10 regions reporting to the Branch Banking Director.

Expansion of the BZ WBK branches in years 2005-2010



Geographic location of BZ WBK branches in Poland as at 31 Dec. 2010



## Private Banking

Private Banking focuses on high net worth individuals and business entities with surplus funds in excess of PLN 1 m. Eligible Private Banking customers, regardless of their location in Poland, are serviced by mobile relationship managers operating from Warsaw, Poznań, Wrocław, Gdańsk and Szczecin. The comprehensive savings and investment proposition includes full array of term deposits (PLN and FX), structured products, treasury bonds, municipal and corporate bonds and participation units/certificates of the leading mutual funds in Poland and abroad. Additionally, the bank - as an agent of Dom Maklerski BZ WBK - provides full range of services available with the subsidiary. It also offers comprehensive services with respect to treasury transactions and other products and services available with Bank Zachodni WBK Group.

In 2010, the Private Banking Department was reorganised and became fully operational in its new form in the fourth quarter of 2010. Despite the above process, the new business grew by 200 customers y-o-y.

## Personal Banking

Under the Personal Banking model introduced in 2009, other affluent customers are offered tailored services by dedicated VIP advisors within the branch structure. In 2010, the number of VIP advisors was increased and individual investment solutions were expanded to diversify the risk of customer portfolios (e.g. structured term deposits).

## Mobile Sales

The bank offers mobile banking services through 200 Financial Advisors who co-operate with the bank Poland-wide and arrange meetings with customers at a convenient time and place. Mobile banking services are addressed mainly to external customers acquired through individual and group meetings. Financial Advisors also manage customer requests received via the bank's website. In 2010, Mobile Sales network was the most efficient in selling cash loans via Web-Call-Back application. The sales process is finalised in a branch which takes over the new business. The range of products available in the Mobile Sales channel includes: personal accounts and business packages, savings accounts, credit cards, cash loans, personal overdrafts, mortgage loans, SME lending and leasing products.

## BZ WBK Partner

Since early 2010, the bank has taken measures to enhance the integration between Partner outlets and Branch Banking. These include stronger support for Partner outlets from Branch Banking as well as intensified efforts to standardise the two channels in terms of service quality and available products and services. The product range of the Partner outlet network was significantly expanded to include PLN savings accounts, debit cards (Maestro Savings, MasterCard Payback, MasterCard Payback Multi), credit card (MasterCard Payback), payment protection, Easy Earning Deposit and overnight deposit as well as full proposition for SME. In addition, Partner outlets provide agency services with respect to mortgage loans, credit cards and business loans.

As at 31 December 2010, the number of BZ WBK Partner outlets grew to 100 (from 89 as at the end of 2009).

## Business and Corporate Banking

In 2010, the bank provided services to medium-sized companies through 15 Business Banking Centres launched in 2009 in the key economic centres of Poland.

In the first half of 2010, the Corporate Banking business was formally split into two distinct business lines. The first one is dedicated to large corporate customers and operates through centres located in Warsaw, Poznań and Wrocław. The other one is based in Warsaw and specializes in property finance (for more information see chap. IV, the section on Business and Corporate Banking).

## Direct Banking

### *BZWBK 24 Transaction System*

February 2010 saw commencement of a mass migration of the bank's customers to a new BZWBK24 transaction system. The upgraded home banking application, available since October 2009, offers a new layout and more user-friendly solutions as well as improved instruction placement options. The application provides a "buy-by-click" functionality (no need to sign and return banking documents), facilitates personal data management and provides customers with vital information.

In 2010, the mailbox functionality was added to communicate new regulations as well as banking and marketing information to customers. On top of that, the mailbox was enhanced with an active image alert notifying about new e-mails from the bank. The replacement of regular mail with e-mail contributed to the bank's cost savings. The functionality of the system was further upgraded with the solutions enabling to: request a meeting with an advisor in a branch with respect to insurance products including payment protection or Locum (home insurance), open "by click" High Heels Account bundled with Visa debit card, buy "by click" cash loans (fully web-based), view repayment schedules (cash loans, home loans and business loans) and change personal/contact details (available to personal customers). Work on credit facilities will be continued in 2011.

In 2010, the bank launched BZWBK24 mobile service, enabling access to the transaction system via mobile phones.

The bank took measures to activate BZWBK24 users including: promotional campaign covering services available in BZWBK24 and products sold via Internet as well as a loyalty programme "Bank via BZWBK24" entered by 5.7 k users. At the end of 2010, the BZWBK24 electronic banking system was used by nearly 2 m customers, an increase of 21% y-o-y.

Last year also saw a fast growth in volumes of electronic payments. Due to the measures taken to encourage the wider use of such transactions (e.g. the promotion of a discount programme), the total value of Przelew24 electronic payments increased by 159% y-o-y.

### **ATM Network**

As at 31 December 2010, the bank's ATM network included 1,051 machines (1,042 ATMs as at 31 December 2009). In the second half of 2010, the bank implemented the project of upgrading 50 ATMs to make them accessible for the visually impaired. Also, Hal-Cash service was launched allowing cash withdrawals of money transfer receipts from ATMs without a card, using transaction code and PIN texted to beneficiaries.

### **Telephone and Electronic Banking Centre (T&EBC)**

In the third quarter of 2010, the bank launched Telephone and Electronic Banking Centre comprising former Telephone and Electronic Sales Centre and Call Centre. The new unit handles customer requests and instructions more effectively and explores the sales potential of internal customers to a larger extent.

In 2010, the range of products available via Internet and phone was expanded to include savings accounts (PLN and FX). To increase the accessibility of products and services to customers who are temporarily abroad, the bank launched sale of personal accounts via Internet and phone bundled with savings accounts (package offer).

In 2010, the bank added a number of functionalities to telephone sales, including:

- implementation of the production chat platform on [www.bzwbk.pl](http://www.bzwbk.pl) (enabling online conversations between T&EBC staff and prospective customers);
- use of BZ WBK ATMs for customer acquisition (enabling a customer to leave T&EBC their contact phone number in an ATM);
- use of autodialer to support the relations campaign "Welcome Call" for new personal account holders and also for the credit cards sale campaign (higher successful call rate and increased capacity of T&EBC).

## **3. Service Quality Improvement**

### **Customer Excellence**

In 2010, Bank Zachodni WBK continued its customer excellence policy aimed to ensure top quality standardised services to all customers irrespective of the scope of services, time with BZ WBK or form of contact. "Service Standards +" adopted by the bank are encapsulated in the strap-line "Be Ready to Go the Extra Mile". The Standards promote personal commitment in dealings with customers, giving more than expected and managing customer experience. To ensure customer excellence, services rendered by all branches, points of service, subsidiaries and Partner outlets are monitored on a monthly basis by way of a mystery shopping.

## Barrier-Free Banking

In 2010, Bank Zachodni WBK launched Barrier-Free Banking Programme aimed to enhance the disabled customers' experience with BZ WBK in all distribution channels: branches and via phone, Internet or in ATM. To this end, the following improvements were introduced:

- barrier-free access to branches (accessibility certificates awarded to nearly 40 branches whose staff were trained by disabled trainers);
- modern ATMs adapted to the needs of visually-impaired and blind customers (nearly 50 dedicated ATMs launched);
- BZWBK24 home banking services certified for accessibility to visually-impaired customers;
- service standards for disabled customers, including the opportunity to arrange the advisor's visit at the customer's place and dedicated points in branches where the disabled are served first.

In recognition of the Barrier-Free Banking Programme, Bank Zachodni WBK received the Integration Advocate Award given to persons and institutions distinguished by disability awareness, treatment of the disabled as fully fledged members of community and commitment to social integration.

## High Customer Satisfaction Index

In 2010, Bank Zachodni WBK recorded the highest Customer Satisfaction Index in its history. The global CSI, including 33 measured attributes, amounted to 89%, which was higher than the CSI achieved by the bank's competitors under the same methodology. The most spectacular score was recorded in face-to-face customer service with the branch index coming in at 91.2%, which gave the bank the top ranking among the Polish banks.

## Position in Rankings

In 2010, Bank Zachodni WBK received a number of awards in recognition of its market-leading customer service. The bank came first in the service quality ranking published by Puls Biznesu based on the results of mystery shopping. It was ranked high in the prestigious Friendly Bank ranking published by Newsweek (second place in the category of "Retail Customer Friendly Bank" and third place in the category of "Friendly Bank for Seniors"). The bank also received the Customer Excellence Award taking the second place in the Poland-wide Internet ranking of banking services (more details in Chapter VII, section "Awards, Recognitions, Position in Rankings").

## Customer Care Officer

The role of the Customer Care Officer adds to the competitive edge of Bank Zachodni WBK. Customer Care Officer is responsible for handling customer queries and setting customer service standards by: developing complaint management standards and procedures, assisting bank employees with particularly difficult complaints, regular reporting of the results of complaint analysis to senior executives, addressing customer dissatisfaction, liaising with the Bank Arbitrator at the Polish Banks Association (ZBP).

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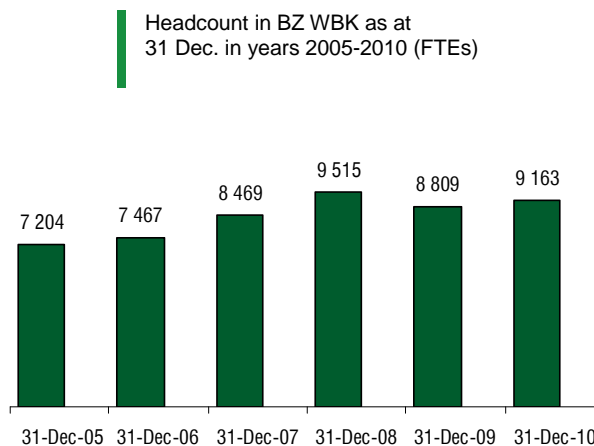
## V. Human Resources and Corporate Culture

### 1. Human Resources Management

#### Human Resources

As at 31 December 2010, the number of FTEs in Bank Zachodni WBK was 9,163 i.e. 354 higher y-o-y. Increase in employment stemmed from natural staff turnover and alignment of employment levels with the bank's business needs driven by the branch network development and positive changes in economic environment.

Despite higher headcount y-o-y, the average number of FTEs in Bank Zachodni WBK was 8,974 which was stable compared to the previous year. This is the effect of high staff levels in the first months of 2009 when the number of FTEs still exceeded 10 k despite the downward trend. During 2009, the headcount was gradually decreased in the wake of the Management Board decision to freeze employment and not to fill in natural vacancies given the sharp slowdown in economic environment. The lower employment was also related to the continued centralization of back-office functions. The downward trend in employment reversed in the fourth quarter of 2009.



#### HR Initiatives

In 2010, Bank Zachodni WBK focused on maintaining high HR management standards and on fostering good staff relations and team spirit in line with corporate values.

As in 2009, the bank gave high priority to initiatives aimed to keep staff motivated and engaged, and to maintain top quality two-way communication to ensure a full understanding of the bank's situation and embed the sense of ownership and dedication among the staff.

Bank Zachodni WBK continues its Performance Management Process, based on objectives set in three performance areas: business focus, customer focus and people focus. The process includes individual objectives, performance monitoring and assessment. Due to regular performance reviews, the staff are aware of their role in the overall strategy of the bank and receive support and feedback. As a result of changes introduced to the performance management process, a 5-rating scale was used for the first time in 2010 and the staff with the best rating had their personal development plans designed.

In 2010, the bank launched workshops for the management team to increase their awareness of staff relations, refresh their knowledge and raise the sense of ownership of the following BZ WBK policies: "Respect and Dignity at Work", "Speak up Policy" and "Mother-friendly BZWBK" (the policy supporting expectant and new mothers). The workshops also deal with negative issues that might occur in the workplace such as: bullying, discrimination and harassment.

In September 2010, the Staff Attitude Survey was conducted for the sixth time among the employees of Bank Zachodni WBK. Each staff member had the opportunity to give their opinion (via an electronic questionnaire) regarding the corporate culture, training, remuneration system, management style, management team and other issues. The survey was aimed to provide feedback on the quality of management across the bank and set directions for further development and remedial actions, where required. It was voluntary, anonymous and confidential. In 2010, the staff gave their top ranking to such corporate values as: ethics, leadership and strategy.

## Training

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

In 2010, the bank continued to invest in the development of management skills of its leaders by pursuing such programmes as TOP 10 (10 Regional Directors), TOP 100 (ca. 100 Branch Directors reporting to Regional Directors) and Development Academy (other Branch Directors).

In order to ensure top quality management practice at all levels, the newly appointed managers participated in the Success Through People programme as well as specialist training courses aimed to induct them into their new role (including such aspects as staff support and development). The bank also continued the Leaders of the Future programme addressed to top performers with leadership potential (7<sup>th</sup> and 8<sup>th</sup> edition). Individual development programmes were delivered to the existing and future managers and specialists to enhance their interpersonal and managerial skills and build up their expertise. The bank also co-funded post-graduate studies, specialist certified training courses and language courses for the staff who look to build up their competence.

In 2010, the bank completed the project "BZ WBK Advisor – towards customer excellence" co-financed by the European Social Fund (ESF). The bank also secured funds from the ESF to launch a 2-year training project "Professional sales – development programme for the front-office staff in BZ WBK". The new project, just like the previous one, is addressed to Branch Banking staff and aims to enhance customer experience.

In the 11<sup>th</sup> edition of the Poland-wide competition "HR Management Leader", Bank Zachodni WBK was awarded for application of modern forms of training. The bank was recognized for a number of training and development initiatives which used various training methods (workshops, blended learning, outdoor training, assessment & development centres) and engaged trainers, assessors, mentors and in-house experts, which already proved successful during the economic slowdown.

In 2010, the bank delivered 143 workshops and 142 e-learning courses for the branch staff and the Business Support Centre staff. The workshops were delivered to 66% of staff with the training averaging 4.4 days per employee. The key issues addressed in the training courses included: flagship products, sales techniques, SME lending and hands-on training for the users of applications.

The total number of participants in the training sessions and development programmes held in 2010 exceeded 85.7 k and was 35% lower y-o-y. Although the number of e-learning courses grew in 2010, the target groups were less numerous. However, the bank delivered a number of training courses addressed to all staff to promote the strategic projects.

## Performance Share Programme

Every year from 2006 through to 2008, Bank Zachodni WBK launched a 3-year incentive scheme for the key employees of Bank Zachodni WBK Group, allowing them to purchase the bank's shares on preferential terms, subject to achievement of performance targets in the years covered by the scheme. The incentive schemes were designed to motivate the key employees of the bank and its subsidiaries to continue their efforts, inspire strong dedication to the organisation's strategic objectives and thus to ensure high competitiveness and financial efficiency of Bank Zachodni WBK Group in the long-term perspective as well as to bring benefit to the shareholders.

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

On 21 April 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 of the 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. On 10 July 2009, the H series shares were registered with Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository of Securities).

On 27 July 2010, the Supervisory Board of Bank Zachodni WBK passed a resolution stipulating that the conditions for the second Incentive Scheme were not met. Consequently, the 2<sup>nd</sup> Incentive Scheme expired in 2010 with no rights exercised.

The 3<sup>rd</sup> Incentive Scheme, under which the shares may be vested depending on the performance in 2008-2010, is still valid.

The long term programme is monitored to check if any of the employees might have lost their participant status. As of 31 December 2010, the number of shares vested under the Programme was 268,020 compared with 341,701 a year before.

## 2. Corporate Values

### Code of Business Ethics

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

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

The Code of Business Ethics is supported by detailed policies and procedures which are regularly reviewed and updated. In 2010, stricter regulations were introduced with a view to preventing the conflicts of interest.

### Corporate Culture

Bank Zachodni WBK attaches great importance to compliance with the law, internal regulations and best practice in all aspects of its activities.

The responsibility for implementing and monitoring the effectiveness of mechanisms mitigating the risk of non-compliance with general laws and regulatory regime rests with the Compliance Area. Also, the corporate culture developed and endorsed by the bank ensures that all activities conform to the laws, best practice and ethical standards. On top of that, the bank raises the awareness of the staff's impact on the bank's reputation.

The bank constantly seeks to reinforce the professional and ethical behaviour of its employees. Training on business ethics is mandatory for all new entrants. Also, an ongoing Compliance and Business Ethics training programme (COMeT) addressed to all employees from the bank has been continued. The programme is designed to raise awareness of the staff and to encourage proper behaviours should they be faced with a conflict of interest, suspected fraud or situations which may raise ethical dilemmas. Throughout 2010, employees of the bank were required to participate in further training (e-learning) on ethical issues, prevention of money laundering and operational risk management.

Bank Zachodni WBK places a great emphasis on the quality and integrity of product information communicated to customers, ensuring that the advertising materials are duly prepared, the sales staff are well qualified and the information available in the Intranet and branches is of top quality.

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## Corporate Social Responsibility

In line with the Code of Business Ethics, the bank is engaged in various programs addressed to local communities.

One of the strategic priorities of the bank is to provide excellent service to all customers, with consideration for the special needs of people with disability. This priority goal is delivered in line with Service Standards+ (which recognise the needs of disabled customers). Another initiative is the "Disabled-friendly Bank" program launched in 2010 (for more details, see Chapter IV, section "Service improvement initiatives").

The Foundation of Bank Zachodni WBK operates for the benefit of children and adolescents. It runs two financial support programs. The Bank of Children Smiles provides financial support to organisations which take care of children from impoverished or dysfunctional families. The bank's funds secure the delivery of valuable educational programs.

The Bank of Ambitious Youth was launched in 2010. As part of this program, the bank finances projects aimed to raise the young people's awareness that their education, resourcefulness and personal involvement in community initiatives have a direct impact on their future both in the private and public sphere. This program also aims to develop community-oriented attitudes among the youth as well as promote the spirit of volunteerism among high school and university students.

The Foundation also finances charity projects initiated by the bank staff whose involvement in such initiatives has been growing steadily. In 2010, the bank carried out ca. 20 initiatives across Poland, such as pre-Christmas events for hospitalised children ("Mikołajki") as well as for kids in orphanages and day-care centres. The bank also organised public donations, aid for flood victims, an integration contest for deaf children ("Music painted by imagination") as well as participated in the organisation of nativity plays, sports tournaments, events and concerts (mainly for children from dysfunctional families).

Orlik Academy, a Poland-wide community relations programme, aims to promote sports among children. This initiative is addressed to children aged 6-8. The second edition of the program was launched in May 2010. It is organised in cooperation with local government authorities on 101 local soccer fields known as "Orliki". Currently, 2,600 children are trained by 140 trainers.

The Orlik Academy program is organised by Bank Zachodni WBK under the patronage of the Ministry of Sports and Tourism. This initiative is delivered as part of the "My Sports Field – Orlik 2012" programme.

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

## VI. Key Developments, Projects and Other Information

### 1. Organisational Changes

#### Telephone and Electronic Banking Centre

The third quarter saw a merger of the two units of the bank – the Telephone and Electronic Sales Centre (responsible for acquiring customers and selling products via phone and the Internet) and the Communication Centre (responsible for after-sales service over the phone). The new unit - the Telephone and Electronic Banking Centre – has a greater capability of handling customer queries and instructions and exploring the buying potential of internal customers.

### 2. Agreements with International Financial Institutions

#### Agreement with European Investment Bank (EIB)

Pursuant to the agreement dated 28 January 2010, the European Investment Bank extended an SME financing line (EUR 100 m) to Bank Zachodni WBK, earmarked for entities from the manufacturing, agriculture and service industries. The funds are offered by Bank Zachodni WBK in the form of a modified Biznes Ekspres loan (Biznes Ekspres EBI/Business Express EIB) included in the bank's offer effective from 22 June 2010.

#### Agreement with European Bank for Construction and Development (EBRD)

On 29 July 2010, EBRD entered into an agreement with Bank Zachodni WBK S.A. to take up the bank's entire issue of 10-year floating rate subordinated notes with the nominal value of EUR 100 m. According to the agreement, the bank will use the proceeds to provide financing to eligible micro, small and medium-sized enterprises using a variety of facilities such as term loans, working capital loans, revolving loans, leasing, factoring and other appropriate instruments, excluding any property-related loans.

Starting from 13 October 2010 Bank Zachodni WBK S.A. is permitted by the Polish Financial Supervision Authority to include the amount of EUR 99 m representing 10-year debt securities in issue acquired by EBRD in its Tier II supplementary own funds.

### 3. Other information

#### Compliance with EU Directives

##### Markets in Financial Instruments Directive (MIFID)

Bank Zachodni WBK complies with all the regulations arising from MIFID implementation to the Polish legal system. As part of the adjustment measures, the bank introduced relevant regulations for customers and internal procedures, which enhanced customer protection and quality of investment services. Extensive information campaigns were launched to communicate new legal requirements to customers.

## The Third Anti-Money Laundering and Counter-Terrorism Financing Directive

Bank Zachodni WBK meets the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Act (as amended under the 3rd EU Directive). The bank implemented all of the statutory regulations and internal procedures within stipulated deadlines, and adjusted its IT systems. A wide information campaign was launched in the bank with a cycle of training courses designed to cover all the new requirements.

### Key Projects

#### Transfer Agent Service

On 7 March 2010 an official agreement was signed between Bank Zachodni WBK and BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych whereby the bank launched a transfer agent office and acquired the register database of Arka funds participants. Currently the funds are serviced by the BZ WBK Transfer Services Office by means of highly functional systems that ensure top service quality and fast implementation of changes initiated by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych. Transfer agent services include: maintenance of registers of fund participants; processing of transactions (purchases, redemptions, changes); monitoring and reconciling balances in the bank accounts of the funds; handling payments; rendering service to customers; providing IT tools and support processes (mail merge, archive maintenance, complaint handling, maintenance of transactions register (in accordance with the Anti-Money Laundering and Counter-Terrorism Financing Act, etc.); exchange of information with regulators (e.g. Polish Financial Supervision Authority).

#### Other Projects Delivered or Underway in 2010

**New Branch Front End** - delivery of the third and final stage of the project designed to create an integrated branch environment based on business processes and involving the development of automated sale processes within a single application, improvement of the data density and quality, optimization of processes and elimination of some applications and servers in branches. The third stage focuses on cash management and is now in the pilot phase. Mass roll-out is scheduled for 2011.

**Branch without Back Office** – project aimed to simplify and centralize, at the BSC (Business Support Centre/Head Office) level, a number of after-sales, control and administrative activities. The programme will be continued in 2011.

**Remote service for business and corporate customers via a web browser and the Business Services Centre (COB)** - both programmes relate to the launch of a central website for operational processes underlying current account and connected services for corporate and business customers. In 2010, the focus was on transferring overnight deposits from branches to the Business Support Team for central handling, starting the pilot of profitability calculator, expansion of the COB unit and preparation of a framework agreement. The programme will be continued in 2011 (for more details see chapter IV, part 2, section "Business and Corporate Banking" and chapter XII, section "Strategic Priorities for 2011").

**Umbrella project for ARKA funds** – establishment of a fund with separate subfunds, which is currently a standard in the mutual funds market. The project covers 7 funds with 3 further funds to join in 2011 (for more details see chapter IV, part 2, section "Mutual Funds").

**NEO New Branch Energy** – the programme seeks to implement new working concepts, and to equip branch advisors with improved tools to implement the flow and style of work, and increase its flexibility and productivity. The activity reports, including reports on individual performance against plans and objectives, will help advisors keep track of their performance, compare it with the average activity in branches and to analyse effectiveness of the individual sales campaigns. The project will be continued in 2011 (for more details see chapter XII, section "Strategic Priorities for 2011").

**Multi-Channel Integration** - the IT environment for integrating the bonus system for different distribution channels was prepared by extending the PAS application used for managing the bonus system for branch employees.

**Effective management of correspondence returns** – the second stage of the project to block dispatch of statements if outgoing correspondence is returned to the bank was implemented.

**Inclusion of SME loans to the check against Fraud Detection rules** – credit applications filed by SMEs were included for review in the Fraud Detection system.

**Adjustment of ATMs to the needs of the visually-impaired** – solutions facilitating the use of ATMs by visually-impaired and blind customers was implemented.

**Hal-Cash** – permits customers to withdraw transferred funds from BZ WBK ATMs without having to use any card. The beneficiary is advised of the transaction via a text message with the necessary information.

**Handling of SEPA messages** - Credit Transfer for outgoing payments – the BZWBK24 Internet system was adjusted to handle outgoing EUR payments in accordance with the SEPA CT standard.

## Other Achievements

### Compliance with ISO Standards

As a result of an external audit, the certificate of compliance with ISO 20000-1:2005 for the IT Service Management System in the bank's IT Area was extended for the next three years. The certificate confirms:

- effective monitoring of IT service provision and support;
- systemic and effective failure removal;
- full support for changes and projects;
- structured documentation management;
- effective relationships with IT service customers;
- effective and consistent co-operation with customers and suppliers.

On the basis of the external audit results, the certificate of compliance with ISO 9001:2008 for the Change Management Process was extended for the next 2 years.

In 2010, the ISO 9001:2000 Quality Management System was expanded with the next three processes: management of correspondence with law enforcement authorities; processing of requests to secure CCTV recordings from BZ WBK ATMs maintained by the Financial Crime Prevention Department, and settlement of mass payment agents co-operating with the bank's Banking Operations Management Area.

## 4. Capital Expenditure

In 2010, Bank Zachodni WBK incurred PLN 61.3 m (compared with PLN 83.1 m in 2009) on the delivery of investment projects and initiatives.

Bank Zachodni WBK continued expansion of its branch network and Partner outlets. 15 branches were opened, 4 branches were moved to locations that were more convenient for customers, and the network of Partner outlets was increased from 89 outlets at the end of 2009 to 100 outlets at the end of December 2010.

To maintain a high service standard, the bank upgraded more than twenty of its branches. The IT infrastructure was refreshed as PCs, terminals, printers, copiers/scanners and UPSs were replaced, which increased productivity and work comfort in addition to reducing the time of customer service. Also, the bank modernized its heating, lighting, air-conditioning and security systems.

A number of projects were completed to upgrade, increase the capacity and performance of the network infrastructure supporting the banking systems. The bank purchased hardware infrastructure that was necessary to maintain continuity and ensure development of the internal systems. The implemented solutions helped to maintain the high level of data security and ensured continuity of the services offered by the bank. In the area of security, a particular focus was placed on increasing oversight and control of information subject to banking secrecy, and on prevention and detection of internal frauds.

In 2010, Bank Zachodni WBK worked intensively on developing and implementing a new Internet banking solution for business customers (iBiznes24) and on preparing a new model of operational service to business and corporate customers through the establishment of a dedicated unit. Furthermore, efforts were continued to implement another stage of the integrated branch environment, and to further simplify, optimise and centralise branch activities, centralise and automate operational handling of credit and other processes, with the key ones described in detail in the section "Key Projects".

## VII. Awards, Recognitions, Position in Rankings

| Awards, Recognitions, Position in Rankings                                                                         | Bank Zachodni WBK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>"Bank of the Year 2010 in Poland" Accolade</b>                                                                  | The British monthly "The Banker" (member of "Financial Times" Group) awarded BZ WBK with an accolade "Bank of the Year 2010 in Poland" (December 2010) in the competition assessing banks in individual countries and regions based on a comprehensive range of criteria, including financial performance, development process, equity, assets, profitability, strategy and organisational structure. The most highly valued characteristics, however, were operational effectiveness, service quality and innovation. The award is very prestigious, recognised internationally and a great honour to BZ WBK.                                                                                                                       |
| <b>Top bank in the Listed Company of the Year ranking</b>                                                          | BZ WBK came first in the bank category and took the sixth position overall in the Listed Company of the Year ranking published on 9 March 2010 by the Puls Biznesu daily. The bank scored 70.48 out of 100 points, losing 5 points to the leader. The survey was conducted by Pentor Research International among 180 analysts, advisors and brokers who ranked the listed companies in terms of management competence, quality of products and services, investor relations, growth prospects and performance in 2009.<br>In the Listed Company of the Year ranking by Puls Biznesu published on 4 February 2011 the bank was awarded the first place in the Investor Relations category ex aequo with three other large companies. |
| <b>2nd position in the "Friendly Bank" ranking by Newseek (in the category of "Retail Customer-Friendly Bank")</b> | In the 8th edition of the Newseek's ranking "Friendly Bank" (October 2010), based on the survey conducted by MillwardBrown SMG/KRC in the form of mystery shopping, BZ WBK came second in the category of "Retail Customer-Friendly Bank" and third in the category of "Senior-Friendly Bank".                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>1st position in the banking services ranking by Puls Biznesu</b>                                                | BZ WBK took the first position (jointly with BOŚ Bank) in the banking services ranking among 20 banks, which was conducted by Dive Group and published by Puls Biznesu on 24 February 2010. The bank was recognised for the distinctive customer service which was assessed by way of mystery shopping exercise.                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Second best bank among financial institutions</b>                                                               | BZ WBK was ranked second among banking institutions in Poland (in the category of banks) in the ranking published by the Rzeczpospolita daily on 24 June 2010. An independent panel of experts assessed the banks against: movements in the net profit and loan & deposit portfolios, number of accounts operated by the bank, key financial ratios.                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Service Quality Award</b>                                                                                       | In the Poland-wide web-based survey on the quality of banking services (September 2010), BZ WBK was given the "Service Quality" award for taking the second position out of 23 banks. Banks were voted by the consumers on the social media website dedicated to service quality.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>First position in the "Phone Customer Service" ranking</b>                                                      | BZ WBK's helpline support provided by the Telephone and Electronic Banking Centre topped the "Phone Customer Service" ranking by ARC Rynek i Opinia (a research institute) twice in 2010 (in Q2 and Q4). The bank was recognised for customer excellence as well as effective organisational and control framework.                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Leader among peer banks in the cash loans ranking by Gold Finance</b>                                           | BZ WBK was ranked fourth (the best position among peer banks) in the ranking "Best priced cash loans in September 2010" by Gold Finance (October 2010). The bank came second in the customer proposition category.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>"Good Example" accolade for the 1st position in the category of services</b>                                    | BZ WBK's Idea Bank won the "Good Example" accolade for the first position in the category of services in the "Best designed products and services in Poland" competition held by Industrial Design Institute (September 2010). The bank was recognised for the ability to accommodate customer needs.                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Top position in the ranking of the most innovative and technologically advanced products</b>                    | BZ WBK's school card combining a debit card and an access control chip topped the ranking of the most innovative and technologically advanced products in 2010 published by Onet.pl (January 2011).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Recognition in the "HR Management Leader" competition</b>                                                       | BZ WBK was recognised in the 11th edition of the Poland-wide competition "HR Management Leader" for application of modern forms of training (10 June 2010). BZ WBK's HR management solutions were awarded for the fourth year in a row.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Recognition in "The Best Annual Report 2009" competition</b>                                                    | BZ WBK was recognised for the best financial report compliant with IFRS/IAS in the Best Annual Report 2009 competition held under the patronage of the Polish Association of Listed Companies (October 2010).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |



## VIII. Financial Performance of BZ WBK in 2010

### 1. Profit and Loss Account

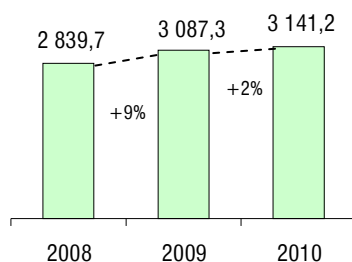
#### Summary

The table below shows year-on-year changes in key items of the BZ WBK profit and loss account in 2010 compared with the previous.

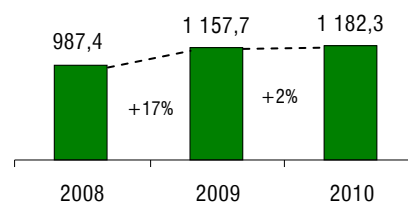
| Condensed Profit & Loss Account         | PLN m          |                |              |               |               |
|-----------------------------------------|----------------|----------------|--------------|---------------|---------------|
|                                         | 2010<br>1      | 2009<br>2      | 2008<br>3    | Change<br>1/2 | Change<br>2/3 |
| Total income                            | 3 141,2        | 3 087,3        | 2 839,7      | 1,7%          | 8,7%          |
| Total costs                             | (1 594,9)      | (1 479,9)      | (1 500,4)    | 7,8%          | -1,4%         |
| Impairment losses on loans and advances | (364,0)        | (449,7)        | (351,9)      | -19,1%        | 27,8%         |
| <b>Profit-before-tax</b>                | <b>1 182,3</b> | <b>1 157,7</b> | <b>987,4</b> | <b>2,1%</b>   | <b>17,2%</b>  |
| Charges                                 | (265,4)        | (172,4)        | (178,2)      | 53,9%         | -3,3%         |
| <b>Net profit for the period</b>        | <b>916,9</b>   | <b>985,3</b>   | <b>809,2</b> | <b>-6,9%</b>  | <b>21,8%</b>  |

In 2010, Bank Zachodni WBK achieved a profit-before-tax of PLN 1,182.3 m, i.e. 2.1% more than in 2009. The net profit for the period was PLN 916.9 m, and lower by 6.9% y-o-y. This performance reflects the bank's consistent efforts to diversify its income streams, align the product structure to the customer needs and market conditions, execute well-crafted marketing campaigns and deliver effective risk management. It was achieved amid continued economic growth, gradual stabilisation of the customer deposits market, improved situation in the property market and rising indexes on the Warsaw Stock Exchange. These positive developments were accompanied, however, by uncertainty about prospects for the world economy, volatility in the stock and FX markets, sustained aversion to investments into risk-bearing assets, weak fixed investment activity of Polish companies, higher unemployment and slow growth of salaries.

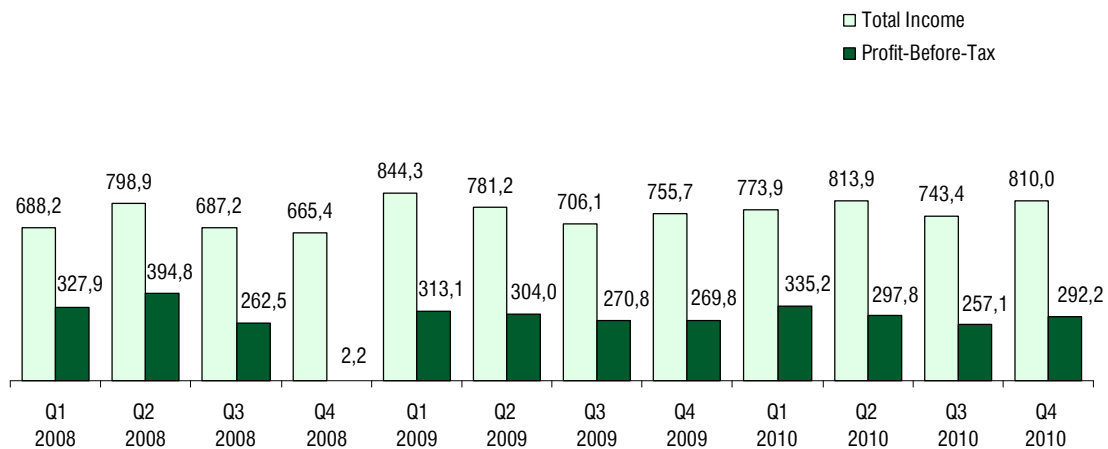
Total income of BZ WBK  
in years 2008-2010 (PLN m)



Profit-before-tax of BZ WBK  
in years 2008-2010 (PLN m)



Total income and profit-before-tax of BZ WBK in the consecutive quarters of 2008-2010 (PLN m)



## Income

The total income earned by Bank Zachodni WBK in 2010 was PLN 3,141.2 m and up 1.7% y-o-y

| Total Income                               | PLN m          |                |                |               |               |
|--------------------------------------------|----------------|----------------|----------------|---------------|---------------|
|                                            | 2010<br>1      | 2009<br>2      | 2008<br>3      | Change<br>1/2 | Change<br>2/3 |
| Net interest income                        | 1 668,3        | 1 415,5        | 1 491,5        | 17,9%         | -5,1%         |
| Net fee and commission income              | 1 021,9        | 1 021,8        | 974,1          | 0,0%          | 4,9%          |
| Net trading income and revaluation         | 264,0          | 268,9          | 45,3           | -1,8%         | 493,6%        |
| Dividend income                            | 131,4          | 337,6          | 218,3          | -61,1%        | 54,6%         |
| Gains (losses) from financial securities * | 8,8            | (6,1)          | 56,1           | -             | -             |
| Other operating income                     | 46,8           | 49,6           | 54,4           | -5,6%         | -8,8%         |
| <b>Total</b>                               | <b>3 141,2</b> | <b>3 087,3</b> | <b>2 839,7</b> | <b>1,7%</b>   | <b>8,7%</b>   |

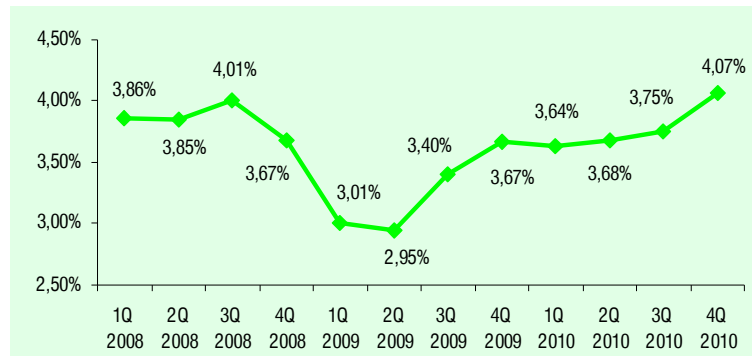
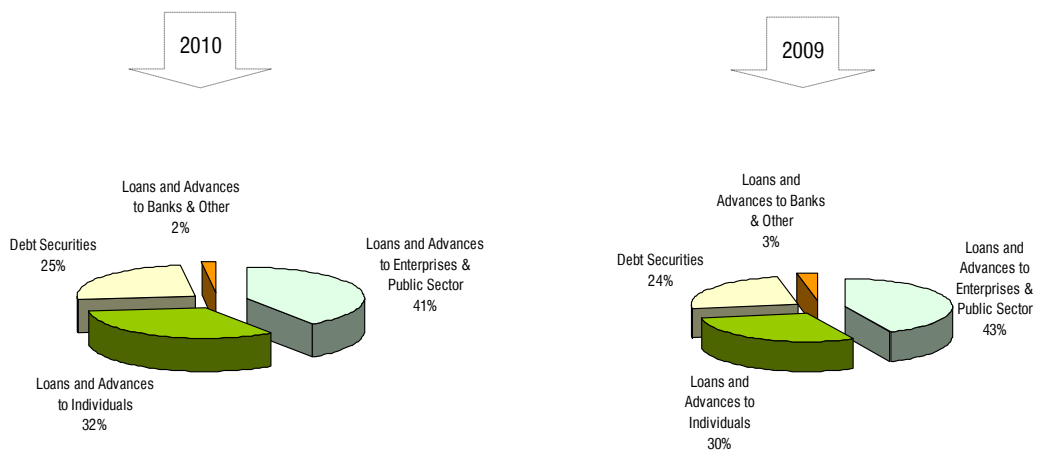
\* includes gains/losses from other financial securities and net gains/(losses) on sale of subsidiaries and associates

### Net Interest Income

Net interest income amounted to PLN 1,668.3 m and increased by 17.9% y-o-y as the situation in the Polish deposits market continued to improve. The price war for deposits that last escalated in the first quarter of 2009 led to a material erosion of margins. Under the impact of declining money market prices, improved liquidity position of Polish banks and slower credit delivery, the competition for customer deposits changed in nature and intensity, which is also reflected in the increase of annualized (on a cumulative basis) net interest margin of Bank Zachodni WBK from 3.26% for 2009 to 3.80% for 2010. Over the last three quarters of 2010, the market interest rates remained in a relatively narrow volatility band, and the recovering deposit margins compensated for falling lending margins.

Net interest income was also favourably impacted by changes in the bank's balance sheet structure, particularly an increase in current balances in the customer accounts (+6.7% y-o-y).

Taking into account other interest-related income from FX Swaps and Basis Swaps (PLN 192.1 m in 2010 and PLN 215.4 m in 2009), which are recognised under "trading income and revaluation", the net interest income increased by 14.1% y-o-y.

**Net interest margin of BZ WBK in the consecutive quarters of years 2008-2010 (including swap points)**

**Structure of interest revenue of BZ WBK in 2009 and 2010**

**Net Commission Income**

| Net Fee and Commission Income             | PLN m          |                |              |               |               |
|-------------------------------------------|----------------|----------------|--------------|---------------|---------------|
|                                           | 2010<br>1      | 2009<br>2      | 2008<br>3    | Change<br>1/2 | Change<br>2/3 |
| Direct banking *                          | 280,3          | 273,2          | 236,8        | 2,6%          | 15,4%         |
| Account maintenance and cash transactions | 252,1          | 251,6          | 233,7        | 0,2%          | 7,7%          |
| FX fees                                   | 201,7          | 226,5          | 235,0        | -10,9%        | -3,6%         |
| Credit fees **                            | 140,0          | 144,3          | 103,1        | -3,0%         | 40,0%         |
| Distribution fees                         | 83,5           | 65,4           | 92,1         | 27,7%         | -29,0%        |
| Insurance fees                            | 60,0           | 65,7           | 71,5         | -8,7%         | -8,1%         |
| Other ***                                 | 4,3            | (4,9)          | 1,9          | -             | -             |
| <b>Total</b>                              | <b>1 021,9</b> | <b>1 021,8</b> | <b>974,1</b> | <b>0%</b>     | <b>4,9%</b>   |

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

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

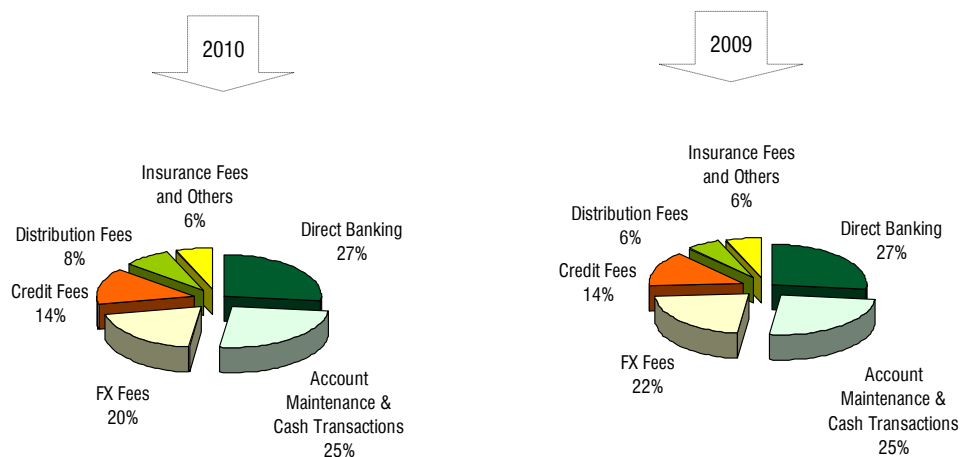
\*\*\* includes issue arrangement fees and other miscellaneous fees and charges



In 2010, net commission income amounted to PLN 1,021.9 m and remained at the level of 2009. Details of the changes in the value of the constituent items are presented below:

- Broadly understood Direct Banking services of BZ WBK generated net commission income of PLN 280.3 m, which was 2.6% higher year-on-year. The significant increase in debit card income, driven by the expanding base of these instruments (+13% y-o-y) and the growing number and value of related non-cash transactions, was partly offset by the decline in interchange rates earned by the bank as well as lower fees charged on third party banks for card services.
- Although the number of personal and current accounts increased by 7% y-o-y, the fee and commission income from account maintenance and cash transactions remained at the previous year's level (PLN 252.1 m), which results from more favourable pricing offered to customers in respect of selected accounts and payment services.
- Income from FX fees decreased by 10.9% to PLN 201.7 m amid lower value of customer FX trading processed via the branch network and Treasury service units.
- The decline of 3% in the net income from credit fees (PLN 140 m) can be attributed, among other things, to the prudential policy continued by the bank with regard to sanctioning credit cards limits, which constrained the portfolio of newly issued cards.
- Net distribution income represents remuneration for the bank's sales of structured products and Arka mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych (BZ WBK AIB TFI). In 2010, the respective income totalled PLN 83.5 m and exceeded the amount reported a year before by 27.7% due to a much stronger focus on mutual funds distribution, which also increased the bank's contribution to the annual sales of BZ WBK AIB TFI to 60%. The net fee income related to the structured products amounted to PLN 7.4 m in 2010 against PLN 10.3 m in the comparable period.
- Income from insurance fell by 8.7% to PLN 60 m due to the decelerated sales of the cash loans insurance offered in co-operation with Aviva joint ventures.

Structure of net fee and commission income of BZ WBK in 2009 and in 2010 - by main sources



### Dividend Income

Dividend income of PLN 131.4 m decreased by 61% y-o-y due to lower dividend received in 2010 from BZ WBK AIB Asset Management (PLN 25 m in 2010 vs. PLN 187.3 m in 2009) and Aviva Towarzystwo Ubezpieczeń na Życie (PLN 28 m in 2010 vs PLN 70.3 in 2009).

### Net Trading Income and Revaluation

Net trading income and revaluation amounted to PLN 264 m, down 1.8% y-o-y. A significant portion of this figure is the interest income from FX Swap and Basis Swap transactions, which totalled PLN 192.1 m in 2010, compared with PLN 215.4 m in 2009. Net trading income and revaluation also includes a fair value adjustment of derivatives resulting from counterparty risk which in 2010 was positive and amounted to PLN 6 m (reversal of adjustment) compared with negative value of PLN (28.8) m recorded a year before. In 2010, Bank Zachodni WBK S.A. revised the spreads used for mark-to-market valuation of CIRS transactions with a view to making fair value of these instruments more accurate. The total fair value adjustment of these derivatives amounted to PLN (14.5) m at the end of December 2010. These transactions 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.

### Impairment

In 2010, the loan impairment charge to the profit and loss account was PLN 364 m compared with PLN 449.7 m in 2009.

|                                             | PLN m          |                |                |
|---------------------------------------------|----------------|----------------|----------------|
| Impairment Losses on Loans and Advances     | 2010           | 2009           | 2008           |
| Collective and individual impairment charge | (425,6)        | (402,3)        | (179,4)        |
| Impaired but not reported losses (IBNR)     | 43,0           | (61,4)         | (176,3)        |
| Recoveries of loans previously written off  | 20,3           | 17,5           | 10,2           |
| Off-balance sheet credit related items      | (1,7)          | (3,5)          | (6,4)          |
| <b>Total</b>                                | <b>(364,0)</b> | <b>(449,7)</b> | <b>(351,9)</b> |

The impairment level is an effect of improved macroeconomic conditions in Poland compared with 2009 when economic slowdown led to an accumulation of many negative developments. In 2010, the financial and market position of Polish companies was gradually improving, and so was their debt repayment capacity. Also, the property market was showing clear signals of recovery, favourably affecting investors, real estate developers, their business partners and contractors. The revised outlook for this and other sectors combined with tactical changes in the bank's credit structure influenced the decision to write back the provisions of PLN 60 m in total for incurred but not reported losses (IBNR) in the Business and Corporate Banking portfolio.

The economic slowdown of 2009 and its after-effects most strongly impacted the SME sector and weakened the solvency of such representatives. Also, a number of personal customers experienced difficulties with timely debt service as a result of a delayed effect of the economic crisis, relatively high unemployment and slow salary growth.

### Costs

Total costs of Bank Zachodni WBK amounted to PLN 1,594.9 m and were 7.8% higher y-o-y due to the requirements of the developing business, staff and organization. With this growth rate of the cost base, the C/I ratio reached 50.8% compared with 47.9% in 2009 when rigid measures were taken to reduce the operating expenses in the prevalent unfavourable macroeconomic situation.

|                                                    | PLN m            |                  |                  |             |              |
|----------------------------------------------------|------------------|------------------|------------------|-------------|--------------|
| Total Costs                                        | 2010             | 2009             | 2008             | Change      | Change       |
|                                                    | 1                | 2                | 3                | 1/2         | 2/3          |
| Staff and other administrative expenses, including | (1 447,1)        | (1 351,7)        | (1 386,8)        | 7,1%        | -2,5%        |
| - staff expenses                                   | (853,6)          | (780,4)          | (785,9)          | 9,4%        | -0,7%        |
| - other administrative expenses                    | (593,5)          | (571,3)          | (600,9)          | 3,9%        | -4,9%        |
| Depreciation/amortisation                          | (117,1)          | (112,2)          | (97,6)           | 4,4%        | 15,0%        |
| Other operating expenses                           | (30,7)           | (16,0)           | (16,0)           | 91,9%       | 0%           |
| <b>Total</b>                                       | <b>(1 594,9)</b> | <b>(1 479,9)</b> | <b>(1 500,4)</b> | <b>7,8%</b> | <b>-1,4%</b> |

In 2010, staff expenses increased by 9.4% y-o-y to PLN 853.6 m, mainly as a result of accruals for staff bonuses linked to the bank performance in 2010. Base salaries reflect the average 3.5% pay increase (effected in April 2010 as part of the annual performance review) while the average employment was similar to the previous year's level.

The bank's other administrative expenses increased by 3.9% y-o-y to PLN 593.5 m driven by the cost of advertising, marketing, maintenance and lease of buildings, consultancy and other third party services. The higher consultancy costs (+58.4% y-o-y) are connected with the bank's large projects that required legal advice, research work and expert knowledge. A significant year-on-year growth was also noted in "Other external services" (+42.3% y-o-y), which is a combined effect of a number of factors, including the higher cost of outsourcing of multi-purpose print machines and debt recovery. An increase in marketing costs (+6.2% y-o-y) is a result of the bank's wider mass media advertising campaigns. In 2010, the bank focused its marketing efforts on promotion of the Moneyback Personal Current Account. Advertising campaigns were also held to promote the High-Heels Account, e-Konto<30 Account, Aktywni 50+ Account, Business Packages and mutual funds. The cost of maintenance and lease of buildings increased (+4.2%), mainly due to increased office space, rental rates and higher price of electricity and heating.

Bank Zachodni WBK places an ongoing focus on cost control and continues administrative, technological and enablement efforts to reduce its cost base. In 2010, cost reductions were achieved in postal/telecommunication fees (-13.3% y-o-y) and data transmission (-8.6% y-o-y), which is an effect of reviewing the key contracts and renegotiating rates with service providers.

In 2010, depreciation amounted to PLN 117.1 m and was 4.4% higher year-on-year.

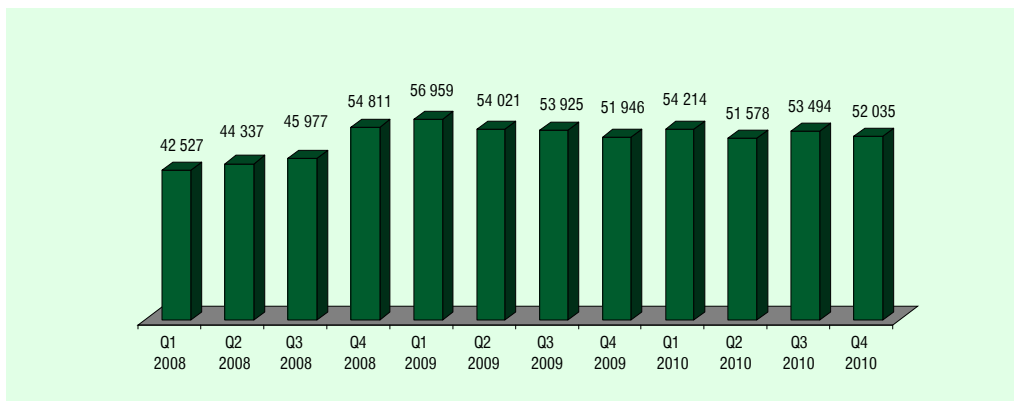
Other operating expenses increased by 91.9% y-o-y to PLN 30.7 m as a result of write-offs made in respect of operational and legal risks.

## 2. Financial Position

### Assets

As at 31 December 2010, total assets of Bank Zachodni WBK amounted to PLN 52,034.8 m and remained stable year-on-year.

Total assets of BZ WBK in 2008-2010 quarter by quarter (PLN m)



The table below presents major developments in the key categories of the assets of Bank Zachodni WBK as at 31 December 2010 versus 2009 and 2008.

PLN m

| Assets                                 | 31.12.2010      | Structure<br>31.12.2010 | 31.12.2009      | Structure<br>31.12.2009 | 31.12.2008      | Structure<br>31.12.2008 | Change      | Change       |
|----------------------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-------------|--------------|
|                                        | 1               | 2                       | 3               | 4                       | 5               | 6                       | 1/3         | 3/5          |
| Loans and advances to customers *      | 31 952,6        | 61,4%                   | 32 625,0        | 62,8%                   | 32 653,7        | 59,6%                   | -2,1%       | -0,1%        |
| Investment securities                  | 13 355,9        | 25,7%                   | 13 265,8        | 25,5%                   | 12 894,4        | 23,5%                   | 0,7%        | 2,9%         |
| Cash and operations with Central Banks | 2 534,5         | 4,9%                    | 2 660,6         | 5,1%                    | 3 178,1         | 5,8%                    | -4,7%       | -16,3%       |
| Financial assets held for trading      | 2 201,0         | 4,2%                    | 1 303,2         | 2,5%                    | 3 222,4         | 5,9%                    | 68,9%       | -59,6%       |
| Loans and advances to banks            | 601,6           | 1,2%                    | 648,7           | 1,3%                    | 1 348,4         | 2,5%                    | -7,3%       | -51,9%       |
| Fixed and intangible assets            | 688,5           | 1,3%                    | 743,8           | 1,4%                    | 774,2           | 1,4%                    | -7,4%       | -3,9%        |
| Other assets                           | 700,7           | 1,3%                    | 699,2           | 1,4%                    | 739,9           | 1,3%                    | 0,2%        | -5,5%        |
| <b>Total</b>                           | <b>52 034,8</b> | <b>100,0%</b>           | <b>51 946,3</b> | <b>100,0%</b>           | <b>54 811,1</b> | <b>100,0%</b>           | <b>0,2%</b> | <b>-5,2%</b> |

\* including impairment write-down

The most prominent change in the bank's statement of financial position as at 31 December 2010 was noted in the line "financial assets held for trading", which grew by 68.9% y-o-y along with expansion of the bank's portfolio of NBP bills. Investment securities remained close to the previous year's level as a combined effect of redemption at maturity of Treasury securities from the available-for-sale and held-to-maturity portfolios, and also the sale and purchase transactions made as part of managing the balance sheet structural risk. "Cash and operations with the Central Bank" decreased by 4.7% y-o-y due to implementation of the procedure for monitoring of the cash holding risk in the bank's branch network. A decrease was also observed in loans and advances to banks (-7.3% y-o-y) and net loans and advances to customers (-2.1% y-o-y).

## Credit Portfolio

PLN m

| Gross Loans and Advances to Customers                      | 31.12.2010      | 31.12.2009      | 31.12.2008      | Change       | Change      |
|------------------------------------------------------------|-----------------|-----------------|-----------------|--------------|-------------|
|                                                            | 1               | 2               | 3               | 1/2          | 2/3         |
| Loans and advances to business and public sector customers | 21 801,0        | 23 078,7        | 23 842,5        | -5,5%        | -3,2%       |
| Loans and advances to personal customers                   | 11 409,8        | 10 600,1        | 9 208,5         | 7,6%         | 15,1%       |
| Other *                                                    | 10,2            | 21,6            | 452,6           | -52,8%       | -95,2%      |
| <b>Total</b>                                               | <b>33 221,0</b> | <b>33 700,4</b> | <b>33 503,6</b> | <b>-1,4%</b> | <b>0,6%</b> |

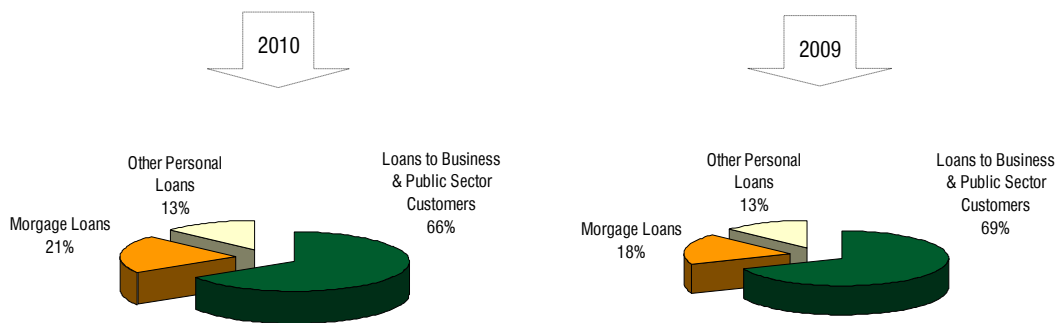
\* other receivables include repo and other transactions

As at 31 December 2010, gross loans and advances to customers amounted to PLN 33,221 m, down 1.4% on the end of December 2009.

In 2010, loans and advances to business and public sector customers decreased by 5.5% y-o-y to PLN 21,801 m. As at the end of December, property loans, which make up a large portion of this portfolio, decreased by 16.9% y-o-y to 9,545.8 m in line with declining credit exposures to commercial property sector required under the bank's credit portfolio diversification strategy and also due to stagnant fixed investment.

Loans to personal customers amounted to PLN 11,409.8 m, an increase of 7.6% compared with 2009. The main growth driver were mortgage loans, which went up by 14.3% y-o-y to PLN 6,926.6 m at the end of December 2010 due to the quality of the bank's mortgage proposition with its competitive prices, efficient credit delivery processes and insurance packages. The cash loan portfolio decreased by 4.4% y-o-y to PLN 3,071.9 m.

Loans and advances to customers of BZ WBK as at 31.12.2009 and 31.12.2010

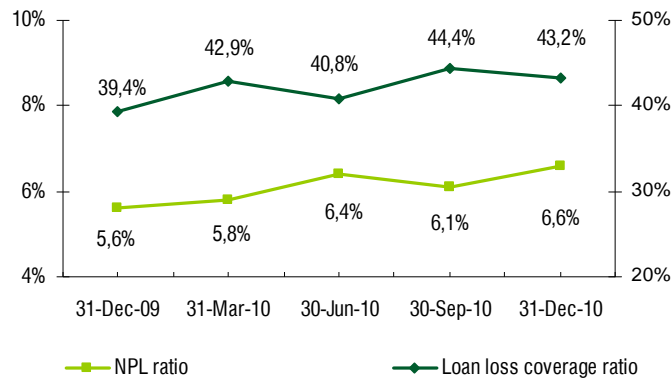


At the end of December 2010, the impaired loans accounted for 6.6% of the gross portfolio versus 5.6% recorded 12 months before. The provision cover ratio for the impaired loans was 43.2% compared with 39.4% as at 31 December 2009.

The bank also maintains relatively high stock of IBNR provisions (for incurred but not reported losses), including an exceptional element related to the property portfolio.

Impairment losses by portfolios were presented in section "Calculation of Impairment" (chapter X, part 3 "Credit Risk Management").

The NPL ratio and provision cover ratio of BZ WBK at the end of consecutive quarters from 31.12.2009 to 31.12.2010.



## Equity and Liabilities

The table below presents major developments in key categories of the equity and liabilities of Bank Zachodni WBK at the end of December 2010 versus 31 December of 2009 and 2008.

| Equity & Liabilities                   | PLN m           |                         |                 |                         |                 |                         |             |              |
|----------------------------------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|-------------|--------------|
|                                        | 31.12.2010      | Structure<br>31.12.2010 | 31.12.2009      | Structure<br>31.12.2009 | 31.12.2008      | Structure<br>31.12.2008 | Change      | Change       |
|                                        | 1               | 2                       | 3               | 4                       | 5               | 6                       | 1/3         | 3/5          |
| Deposits from customers                | 42 099,2        | 80,9%                   | 41 262,2        | 79,4%                   | 43 381,9        | 79,1%                   | 2,0%        | -4,9%        |
| Deposits from banks                    | 2 144,0         | 4,1%                    | 2 301,5         | 4,4%                    | 1 957,6         | 3,6%                    | -6,8%       | 17,6%        |
| Financial liabilities held for trading | 578,6           | 1,1%                    | 815,1           | 1,6%                    | 3 253,3         | 5,9%                    | -29,0%      | -74,9%       |
| Subordinated liabilities               | 395,2           | 0,8%                    | -               | -                       | -               | -                       | -           | -            |
| Amounts owed to the Central Bank       | -               | -                       | 1 519,2         | 2,9%                    | 1 242,6         | 2,3%                    | -100%       | 22,3%        |
| Other liabilities                      | 710,0           | 1,4%                    | 573,8           | 1,1%                    | 555,1           | 1,0%                    | 23,7%       | 3,4%         |
| Total equity                           | 6 107,8         | 11,7%                   | 5 474,5         | 10,6%                   | 4 420,6         | 8,1%                    | 11,6%       | 23,8%        |
| <b>Total</b>                           | <b>52 034,8</b> | <b>100,0%</b>           | <b>51 946,3</b> | <b>100,0%</b>           | <b>54 811,1</b> | <b>100,0%</b>           | <b>0,2%</b> | <b>-5,2%</b> |

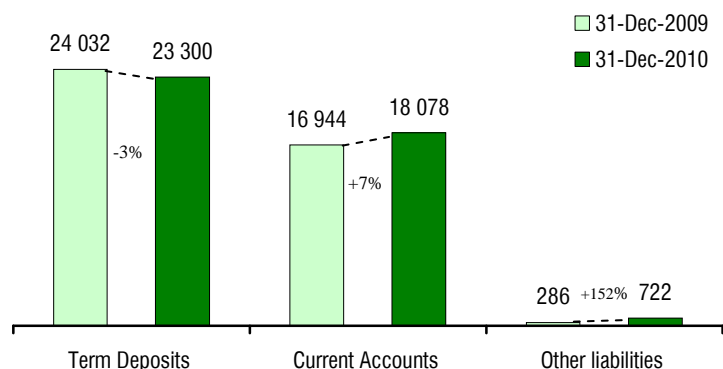
The statement of financial position does not show any “amounts due to the Central Bank” as NBP suspended its open market funding operations with banks. A decrease was also witnessed in deposits from banks (-6.8% y-o-y). The financial liabilities held for trading decreased by 29% y-o-y on account of derivative transactions. “Other liabilities” increased markedly (+23.7% y-o-y) due to the higher volume of settlements arising at the turn of 2010 and 2011 in the ordinary course of the bank’s and subsidiaries’ business. Subordinated liabilities of PLN 395.2 m represent 10-year bonds issued by the bank.

## Deposit Base

| Deposits from Customers                            | PLN m           |                 |                 |             |              |
|----------------------------------------------------|-----------------|-----------------|-----------------|-------------|--------------|
|                                                    | 31.12.2010      | 31.12.2009      | 31.12.2008      | Change      | Change       |
|                                                    | 1               | 2               | 3               | 1/2         | 2/3          |
| Deposits from personal customers                   | 24 617,8        | 24 988,9        | 23 817,1        | -1,5%       | 4,9%         |
| Deposits from business and public sector customers | 17 481,4        | 16 273,3        | 19 564,8        | 7,4%        | -16,8%       |
| <b>Total</b>                                       | <b>42 099,2</b> | <b>41 262,2</b> | <b>43 381,9</b> | <b>2,0%</b> | <b>-4,9%</b> |

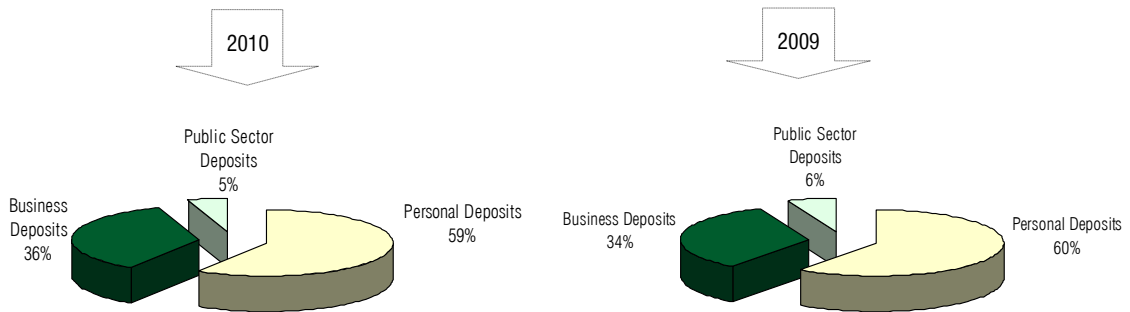
Deposits from customers, which represent 80.9% of Bank Zachodni WBK total equity and liabilities are the primary source of funding the bank’s lending business. At the end of December 2010 they amounted to PLN 42,099.2 m, up 2% on 31 December 2009. This figure is comprised of term deposits of PLN 23,300 m (-3% y-o-y), balances in current accounts of PLN 18,077.6 m (+6.7% y-o-y) and other liabilities, including a credit line of EUR 100 m from the European Investment Bank for SME funding.

Structure of deposits from customers of BZ WBK (by deposit type) as at 31.12.2009 and 31.12.2010 (PLN m)

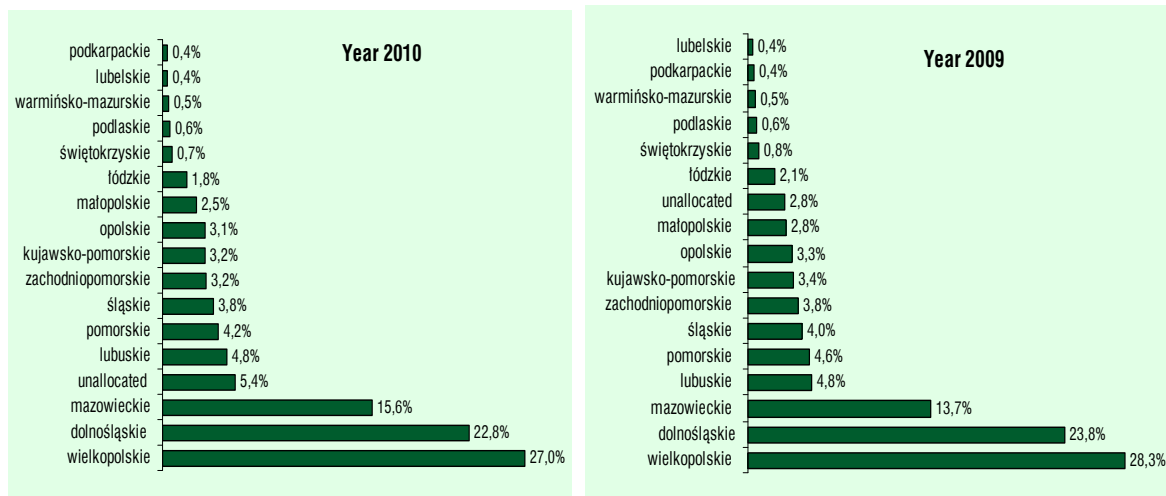


As at 31 December 2010, the bank's deposits from retail customers amounted to PLN 24,617.8 m, down 1.5% y-o-y. The structure of these deposits changed as customers were shifting funds from term deposits to current accounts, which is attributable to the increase in the number of personal and savings accounts and lower attractiveness of term deposits in the low interest rates environment. Deposits from business customers amounted to PLN 17,481.4 m and were by 7.4% higher y-o-y.

Deposits from customers of BZ WBK as at 31.12.2009 and 31.12.2010 (by entities)



Geographical structure of deposits from customers of BZ WBK (by provinces) as at 31.12.2010



## Liquidity Position

The bank's liquidity position improved year on year in that deposits from customers increased, loans to customers declined and the bank issued term funding in the form of a subordinated debt issue during the year. As a result, the bank had less reliance on interbank deposit funding. By the end of 2010, the bank's short term cash position (i.e. cash and operations with central banks and loans and advances to banks less deposits from banks and amounts owed to the central bank) had moved into a net surplus compared to a net deficit at the end of 2009. A continued strong balance of investment securities supported the cash position.

The liquidity profile of the bank as well as gap analysis is presented in Note 3 "Risk Management" of "Financial Statements of Bank Zachodni WBK for 2010" in section "Liquidity Risk".

## Interest Rates on Loans and Deposits

Over 2010, interest rates in the interbank market stabilised at a relatively low level. However, due to the uncertain macroeconomic situation, a high and quite volatile level of credit spreads, including spreads on currency loans, was observed.

Despite the low market rates, the interest rates offered to the credit customers of Bank Zachodni WBK were similar to those available in 2009 due to the high cost of credit risk and funding.

The limited availability of wholesale funding observed since 2008 (e.g. in the interbank market) increased the attractiveness of deposits from non-banking customers. The increase in demand for customer deposits prompted banks to adopt aggressive deposit pricing policies that continued through 2009. However, the tighter lending criteria and sustained interest rates on loans led to a gradual easing of the market pressure on deposit pricing in 2010.

As a result, the interest rates on deposits offered by Bank Zachodni WBK came closer to the rates available in the interbank market.

## Key Financial Ratios

| Selected Financial Ratios                                            | 31.12.2010 | 31.12.2009 | 31.12.2008 |
|----------------------------------------------------------------------|------------|------------|------------|
| Total costs/Total income                                             | 50,8%      | 47,9%      | 52,8%      |
| Net interest income/Total income                                     | 53,1%      | 45,8%      | 52,5%      |
| Net interest margin *                                                | 3,80%      | 3,26%      | 3,83%      |
| Net commission income/Total income                                   | 32,5%      | 33,1%      | 34,3%      |
| Customer loans/Customer deposits                                     | 75,9%      | 79,1%      | 75,3%      |
| NPL ratio                                                            | 6,6%       | 5,6%       | 2,9%       |
| NPL coverage ratio                                                   | 43,2%      | 39,4%      | 56,5%      |
| IBNR coverage ratio                                                  | 1,04%      | 1,15%      | 0,95%      |
| Impairment losses on loans and advances / Average loans and advances | 1,10%      | 1,35%      | 1,33%      |
| ROE **                                                               | 17,7%      | 21,9%      | 22,4%      |
| ROA ***                                                              | 1,8%       | 1,9%       | 1,7%       |
| Capital adequacy ratio                                               | 15,29%     | 12,34%     | 9,81%      |
| Book value per share (in PLN)                                        | 83,58      | 74,91      | 60,59      |
| Earnings per share (PLN) ****                                        | 12,55      | 13,48      | 11,09      |

\* interest margin includes interest-related income on FX Swaps and Basis Swaps

\*\* net profit of Bank Zachodni WBK for the 12-month period to equity as at the end of the reporting period, net of current year's profit

\*\*\* net profit of Bank Zachodni WBK for the 12-month period to average assets derived from the two comparative reporting

\*\*\*\* net profit of Bank Zachodni WBK for the reporting period divided by the number of ordinary shares

## 3. Additional Financial Information

### Selected Transactions with Connected Entities

Transactions between the bank and its connected entities are banking operations carried out on an arm's length basis as part of the ordinary business and represent mainly loans, bank accounts, deposits, guarantees and leases.

As at 31 December 2010, total exposure on loans to subsidiaries (mainly BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., Dom Maklerski BZ WBK S.A., BZ WBK Faktor Sp. z o.o.) amounted to PLN 2,093 m compared with PLN 1,121.8 m as at 31 December 2009.

As at 31 December 2010, the deposits held by the subsidiaries with Bank Zachodni WBK totalled PLN 1,114.5 versus PLN 1,033 m a year before.

Guarantees to subsidiaries (Dom Maklerski BZ WBK S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Leasing S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Nieruchomości S.A.) amounted to PLN 246.2 m versus PLN 254.8 m as at 31 December 2009.

These intercompany items have been eliminated from the consolidated accounts.

The receivables from the parent entity (AIB Group) amounted to PLN 93.4 m compared with PLN 376.2 m as at 31 December 2009, while the obligations towards AIB Group amounted to PLN 325.8 m compared with PLN 811.5 m as at 31 December 2009.



## Selected Off-Balance Sheet Items

### Commitments and Derivatives

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

|                                 | PLN m           |                 |                  |
|---------------------------------|-----------------|-----------------|------------------|
| Derivatives by Nominals         | 31.12.2010      | 31.12.2009      | 31.12.2008       |
| Derivatives - Forward (hedging) | 1 669,9         | 1 773,7         | 2 704,7          |
| Derivatives - Forward (trading) | 55 920,4        | 51 914,7        | 140 560,0        |
| Current FX transactions         | 935,5           | 1 119,6         | 957,3            |
| <b>Total</b>                    | <b>58 525,8</b> | <b>54 808,0</b> | <b>144 222,0</b> |

|                                               | PLN m          |                |                 |
|-----------------------------------------------|----------------|----------------|-----------------|
| Guarantees and Commitments                    | 31.12.2010     | 31.12.2009     | 31.12.2008      |
| <b>Financial commitments:</b>                 | <b>6 267,6</b> | <b>7 317,4</b> | <b>9 848,0</b>  |
| - credit lines                                | 5 389,1        | 6 414,8        | 8 726,1         |
| - credit cards debits                         | 819,0          | 845,5          | 879,9           |
| - import letters of credit                    | 55,1           | 29,2           | 60,0            |
| - term deposits with future commencement term | 4,4            | 27,9           | 182,0           |
| <b>Guarantees</b>                             | <b>1 431,8</b> | <b>1 130,0</b> | <b>951,0</b>    |
| <b>Total</b>                                  | <b>7 699,4</b> | <b>8 447,4</b> | <b>10 799,0</b> |

### Description of Guarantees Issued

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

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

### Operating Lease

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

|                       | PLN m        |              |              |
|-----------------------|--------------|--------------|--------------|
| Payments - maturity   | 31.12.2010   | 31.12.2009   | 31.12.2008   |
| less than 1 year      | 146,2        | 142,3        | 119,3        |
| between 1 and 5 years | 446,4        | 456,5        | 374,4        |
| over 5 years          | 306,3        | 325,9        | 311,1        |
| <b>Total</b>          | <b>898,9</b> | <b>924,7</b> | <b>804,8</b> |

## Garnishee Orders and Value of Collateral

The table below shows the number and value of the garnishee orders issued by Bank Zachodni WBK in 2010 compared to 2009.

| Facility                  | 31.12.2010    |              | 31.12.2009    |              |
|---------------------------|---------------|--------------|---------------|--------------|
|                           | Number        | Value        | Number        | Value        |
| <b>Personal loans</b>     | <b>40 781</b> | <b>331,3</b> | <b>36 825</b> | <b>251,9</b> |
| Cash loans and overdrafts | 26 796        | 248,5        | 24 073        | 188,9        |
| Credit cards              | 13 885        | 54,1         | 12 699        | 44,7         |
| Mortgage loans            | 100           | 28,7         | 53            | 18,3         |
| <b>Business loans</b>     | <b>1 696</b>  | <b>397,6</b> | <b>476</b>    | <b>394,0</b> |
| <b>Total</b>              | <b>42 477</b> | <b>728,9</b> | <b>37 301</b> | <b>645,9</b> |

PLN m

As at 31 December 2009, the value of collateral on customer's accounts or assets amounted to PLN 26,229.1 m compared with PLN 27,534.4 m as at 31 December 2009.

## 4. Factors Which May Affect Financial Results in 2011

The following external factors are expected to influence the financial performance and operations of Bank Zachodni WBK in 2011:

- Slight deceleration of economic growth globally, including the economies of Poland's key trading partners, which to a certain extent will weaken Polish exports and industrial production output. Nonetheless, the growth in foreign demand should be strong enough to increase demand for goods and services in the domestic market and encourage investments with a stimulating effect on the appetite for business loans and other banking products.
- Continued improvement in the labour market supporting an increase in quality of the loans to households and a higher demand for new consumer and housing loans.
- Continued tightening of the domestic monetary policy that commenced in January 2011, with an expected continuation of robust economic growth and inflation level above the target set by the Monetary Policy Council.
- Changes in the cost of asset funding linked to the timing and extent of increases of the basic interest rates, changes in the PLN rate, developments in the liquidity position of the banking sector and intensity of pricing competition for deposits.
- High volatility in the financial markets due to the uncertainty around indebtedness of many economies and the possible tightening of monetary policies in key developing states.
- Further developments in the global stock markets and their impact on investors' interest in mutual funds or, alternatively, safe bank deposits.



**WBK**

**Bank Zachodni WBK S.A.**

## IX. Investor Relations

### 1. Investor Relations in Bank Zachodni WBK

Bank Zachodni WBK is committed to ensuring effective communication with investors.

The main objective of the unit dedicated to investor relations is to provide information on the company's business and performance and to strengthen its position as a reliable and reputable market player.

In 2010, the bank continued standard activities in the scope of investor relations. Investors, shareholders and stock market analysts had the opportunity to meet the representatives of the bank's Management Board at numerous conferences in Poland and abroad as well as road-shows or individual meetings.

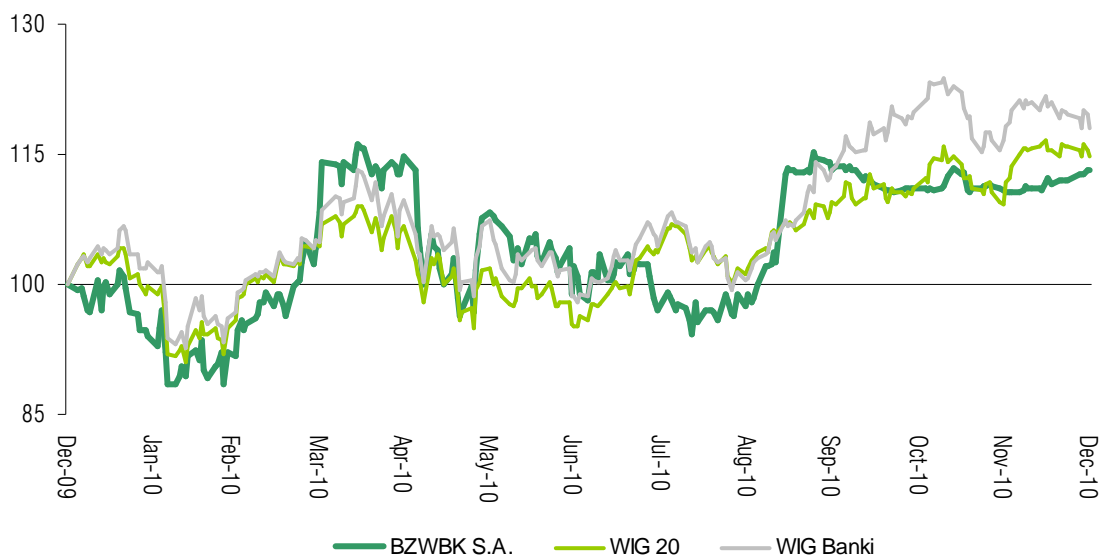
As each year, four conferences were held to present market analysts with the bank's quarterly performance. In line with best practice, they were broadcast online in Polish and English. The recording was available at the bank's website ([www.inwestor.bzwbk.pl](http://www.inwestor.bzwbk.pl)).

Up-to-date information on the key developments regarding Bank Zachodni WBK is published on [www.inwestor.bzwbk.pl](http://www.inwestor.bzwbk.pl).

The bank was awarded the first place in the Investor Relations category of the "Listed Company of the Year" ranking by "Puls Biznesu" (4 February 2011) ex aequo with three other large companies (the bank scored 81.9 out of 100 points). Investor Relations is one of the five categories of the comprehensive "Listed Company of the Year" ranking which has been prepared by TNS Pentor for 12 years based on interviews with a large population of analysts, consultants and brokers from domestic financial institutions.

### 2. Share Price of Bank Zachodni WBK vs. Indices

Share price of Bank Zachodni WBK vs. indices  
BZ WBK share price, WIG 20 and WIG Banks as at 31.12.2009 = 100

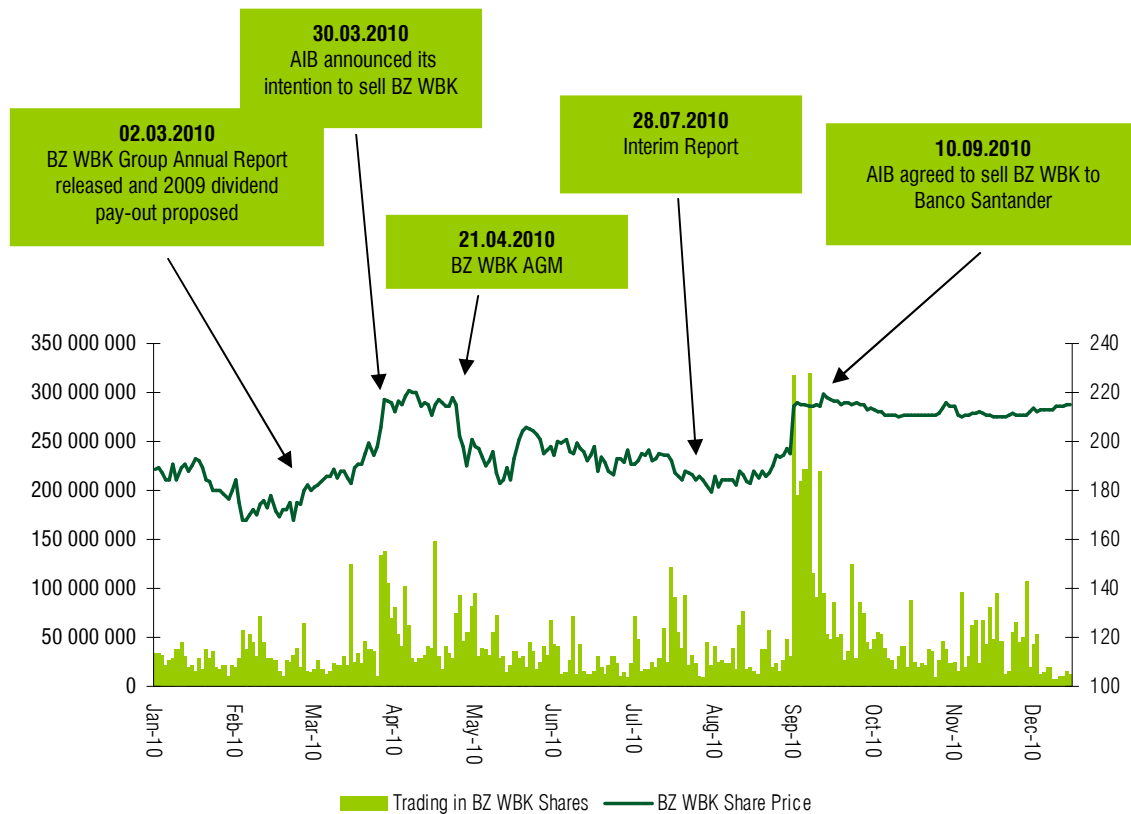


An upward trend in the Warsaw stock indices observed from February 2009 levelled off in the second quarter of 2010 as a consequence of the adjustments related to the profits generated by investors. The beginning of summer saw another dynamic upward shift which lost its momentum as late as early December.

During the year, WIG grew by 18.8%, WIG20 by 14.9% and WIG-Banks by 17.9%. The price of Bank Zachodni WBK shares, which is a part of these indices, increased from PLN 190 on 31 December 2009 to PLN 214.9 on 31 December 2010. The minimum share price during the year was PLN 168.10 (5, 8 and 25 February 2010). The maximum share price was PLN 220.90 (14 April 2010). From 10 September 2010 when AIB announced its intention to sell its Polish assets to Banco Santander till the end of the year, the share price of Bank Zachodni WBK traded in the region of PLN 210-214.

As at 31 December 2010, capitalisation of Bank Zachodni WBK amounted to PLN 15,704 m compared to PLN 13,884.4 m a year before. P/E ratio totalled 17.13 times vs. 14.09 times as at the end of 2009 whereas P/BV amounted to 2.57 times vs. 2.54 times at the end of 2009.

BZ WBK share quotations and trading turnover in PLN  
from 1.01.2010 to 31.12.2010



### 3. Dividend per Share

Bank Zachodni WBK S.A. will propose an allocation of 63.76% of the profit for the current reporting period to dividends, which is PLN 584.6 m in total and PLN 8.00 per share. Outstanding profit of PLN 332.2 m will be allocated to other capital. The final decision on dividend payment and amount will be made by the Annual General Meeting of Bank Zachodni WBK Shareholders.

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 21 April 2010 resolved on allocation of PLN 292.3 m of the 2009 net profit for dividend to shareholders. The dividend of PLN 4 per share was awarded to shareholders of Bank Zachodni WBK as at 7 May 2010 COB (dividend registration date) and paid out on 21 May 2010.

Pursuant to AGM Resolution dd. 21 April 2009, 2008 dividend was not paid out and the total profit of 2008 was allocated to the reserve capital and general risk fund.

## 4. Bank Zachodni WBK Rating

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

BZWBK rating actions by Fitch Ratings in the period from 2009 to 2010

| Rating type                      | Announcement<br>of 15.09.2010 | Announcement<br>of 12.05.2010 | Announcement<br>of 13.02.2009 | Announcement<br>of 15.01.2009 |
|----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Long-term IDR                    | BBB+ (RWP)                    | BBB+                          | BBB+                          | BBB+                          |
| Outlook for the long-term rating | Rating Watch Positive         | Stable                        | Negative                      | Stable                        |
| Short-term IDR                   | F2 (RWP)                      | F2                            | F2                            | F2                            |
| Individual Rating                | C                             | C                             | C                             | C                             |
| Support Rating                   | 3 (RWP)                       | 3                             | 3                             | 2                             |

In 2010, the agency made three announcements on the bank.

On 31 March 2010, the agency announced that AIB's plan to sell its stake in Bank Zachodni WBK would have no immediate impact on Bank Zachodni WBK's ratings.

In the announcement dated 12 May 2010, Fitch revised the bank's outlook (Long-term IDR) to stable from negative while the other ratings were affirmed. The revision reflected the resilience of BZ WBK's profitability in a deteriorating operating environment. It also factored in a better than market average quality of the bank's credit portfolio, adequate currency structure of the loan book as well as lower risk associated with the exposure to the property segment due to gradual market recovery.

In the announcement dated 15 September 2010, Fitch placed the following ratings for Bank Zachodni WBK on Rating Watch Positive:

- long-term IDR (BBB+),
- short-term IDR (F2), and
- support rating (3).

The Support Rating Floor was affirmed at 'BB'. These rating actions did not affect Individual rating for Bank Zachodni WBK.

The above rating actions followed the announcement on 10 September 2010 that Allied Irish Banks p.l.c. agreed to sell its stake in Bank Zachodni WBK (70.4% of the share capital) to Banco Santander (rated 'AA/Stable/F1+'). After the transaction is completed Fitch will resolve the RWP on BZ WBK's ratings. BZ WBK's support rating as well as short-term and long-term IDRs will be based on support from the bank's new parent - Banco Santander.

# X. Risk Management

## 1. Risk Management Principles

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

Risk management in Bank Zachodni WBK is consistent with the risk profile approved by the Risk Management Committee which corresponds to the general risk appetite defined by the bank. The risk appetite is expressed as quantitative limits and captured in "Risk Appetite Statement" approved by the Management Board and Supervisory Board. Global limits are used to set watch limits and shape risk management policies.

The applicable risk management policies govern the process of identifying, measuring and reporting the risk level and the process of setting limits for individual risks on a regular basis. The bank modifies and expands its risk management procedures on a regular basis, taking into account evolving good practice in the sector as well as changes to market conditions, product offer and regulatory environment.

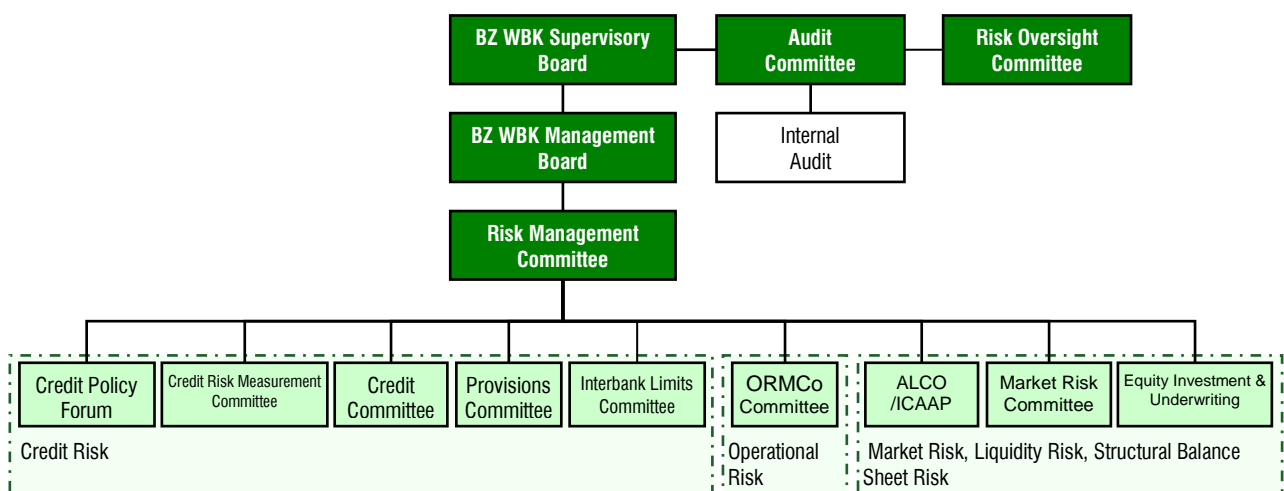
## 2. Risk Management Structure in Bank Zachodni WBK

The bank's Management Board, which is responsible for shaping and implementing the risk management structure, sets up committees, which are directly accountable for developing risk management methods and monitoring risk levels in specific areas.

The activities of these committees are supervised by the Risk Management Committee which defines the risk management strategy in Bank Zachodni WBK, in particular identifies key risks, specifies the risk appetite and methods of its measurement, controlling, monitoring and reporting.

The following Committees report to the Risk Management Committee: Credit Policy Forum, Credit Risk Measurement Committee, Credit Committee, Provisions Committee, Operational Risk Management Committee (ORMCo), Market Risk Committee, Assets and Liabilities Management Committee (ALCo), Equity Investment and Underwriting Committee, Interbank Limits Committee, Disclosure Committee, DWG (Deposit Working Group) and Private Banking Investment Committee.

Corporate governance structure for risk supervision and management



### 3. Credit Risk Management

#### Credit Risk

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

The bank's credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits. The bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan portfolio. On top of that, the bank uses collateral (financial and tangible assets) and specific covenants and clauses in agreements to mitigate credit risk.

The bank's credit risk management involves actions taken as a result of the on-going analysis of the macroeconomic environment and the internal review of the particular credit portfolios. The advanced credit risk assessment tools allow quick remedial action to be taken in response to the first signals of changes in the portfolio quality or structure.

Bank Zachodni WBK continues to develop and improve risk based methods of pricing loans, allocating capital and measuring returns. For all significant portfolios, risk assessment models based on EVA have been or are being implemented.

In 2010, the bank continued its conservative credit risk management policy. Proactive approach to credit risk management involved:

- review of the credit risk management framework and implementation of necessary changes to streamline the process and enhance the effectiveness of oversight; the review concluded with the Responsible Lending document setting out precise rules of credit delivery and credit risk management in Bank Zachodni WBK;
- step-by-step review of the approach to credit risk management, including alignment of the risk assessment methods with new parameters and adjusting of the existing credit policies on a selective basis;
- implementation of new and update of the existing application models of credit risk assessment together with the models supporting cash loan monitoring and collection processes;
- review of Recommendation T requirements and adequate adjustment of credit delivery and credit risk assessment processes to ensure that the solutions applied by the bank optimally address the regulatory recommendations;
- continuation of conservative management of Income-Producing Real Estate portfolio, in keeping with the strict credit risk limits and focusing on the portfolio quality.

#### Credit Policy

In its lending activity Bank Zachodni WBK focuses on a balanced growth of a high quality profitable loan book and on customer satisfaction. High quality credit exposure is ensured by applying principles of loan sanctioning and monitoring, which mitigate the credit risk.

Bank credit policy is composed of a set of principles and guidelines, which constitute credit policies and procedures, and guidance communicated internally across the bank in response to changes in the business environment. Internal limits are crucial components of the bank's lending policy. They facilitate monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies. The business lending policy sets a direction for credit delivery and conditions under which the bank would finance specific groups of customers. The policy governs, inter alia, financing of specific segments, lending purposes and mitigation of acceptable risk.

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

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

## Credit Decision Making Process

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

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

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

## Credit Grading

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

In 2010, the bank implemented new models supporting and enhancing collections and recovery. In addition, an innovative and pioneering Fraud Detection model was implemented to enable automated fraud detection and prevention.

The bank runs regular monitoring of credit grading pursuant to the rules described in the lending manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or behavioural factors analysis. Credit grade is also verified at subsequent sanctions.

## Credit Reviews

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

## Collateral

Monitoring of collateral perfection and validity is centralised in the Securities Centre.

The role of the Securities Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The Securities Centre is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected. In addition, the Securities Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral, gathers data on security covers and ensures adequate management information.



## Credit Risk Stress Testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the bank's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality in stressed conditions. The process also delivers management information about adequacy of agreed limits and internal capital allocation.

## Calculation of Impairment

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

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

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

Advances to customers by impaired & non-impaired loan portfolios

|                                                    | Loans and advances to customers |                 |                 |
|----------------------------------------------------|---------------------------------|-----------------|-----------------|
|                                                    | 31.12.2010                      | 31.12.2009      | 31.12.2008      |
| Individually impaired (gross amount)               | 989,9                           | 917,9           | 582,1           |
| Charge due to impairment losses                    | (344,9)                         | (299,8)         | (295,2)         |
| <b>Net amount (individually impaired)</b>          | <b>645,0</b>                    | <b>618,1</b>    | <b>286,9</b>    |
| Collectively impaired (gross amount)               | 1 200,6                         | 886,2           | 383,2           |
| Charge due to impairment losses                    | (601,7)                         | (410,6)         | (250,1)         |
| <b>Net amount (collectively impaired)</b>          | <b>598,9</b>                    | <b>475,6</b>    | <b>133,1</b>    |
| Non-impaired portfolio (past-due and non-past due) | 30 956,9                        | 31 815,6        | 32 032,0        |
| Charge due to impairment losses                    | (321,7)                         | (365,0)         | (304,6)         |
| <b>Net amount (non-impaired)</b>                   | <b>30 635,2</b>                 | <b>31 450,6</b> | <b>31 727,4</b> |
| Other receivables                                  | 73,5                            | 80,7            | 506,3           |
| <b>Total</b>                                       | <b>31 952,6</b>                 | <b>32 625,0</b> | <b>32 653,7</b> |

## 4. Market Risk and Liquidity Risk Management

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

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

## Market Risk

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

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

The direct market risk management is centralised within the Treasury Division.

### Identification and Assessment of Market Risk

At the bank level, interest rate and FX risks associated with the banking book are transferred to the Treasury Division and managed centrally.

Market risk management policies adopted by the bank define risk measurement and mitigation parameters, including regulatory and watch limits and indicators. Risk limits are periodically reviewed to align them with the bank's strategy and current objectives.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by the Market Risk Committee and ALCo.

Bank Zachodni WBK uses a number of market risk measurement methods, including: Value at Risk (VaR), sensitivity analysis and stress testing.

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

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.

Risk levels at the end of 2010, 2009 i 2008

|                                                                                 | PLN m      |            |            |
|---------------------------------------------------------------------------------|------------|------------|------------|
|                                                                                 | 31.12.2010 | 31.12.2009 | 31.12.2008 |
| <b>Interest Rate Risk</b>                                                       |            |            |            |
| VaR (1M period)                                                                 | 27,8       | 36,5       | 20,1       |
| Stress Scenario (1M period)                                                     | 144,4      | 142,9      | 102,7      |
| Sensitivity of securities portfolio (parallel increase of yield curves by 1 bp) | (3,2)      | (3,0)      | (2,5)      |
| <b>FX Risk</b>                                                                  |            |            |            |
| VaR (1M period)                                                                 | 1,8        | 2,2        | 0,9        |
| Stress Scenario (1M period)                                                     | 15,0       | 14,7       | 6,2        |

## Liquidity Risk

### Liquidity Risk

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

The liquidity policy adopted by the bank is to ensure that all outflows expected within 1 month are fully covered by the anticipated inflows or qualified liquid assets. In addition, the aim of the policy is to ensure an adequate structure of financing the bank's operations by maintaining the medium- and long-term liquidity ratios at a pre-defined level together with monitoring of stress testing results. The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

In 2010, as in the previous year, the bank focused on keeping its loan-to-deposit ratio at a comfortable level, which totalled 75,9% as at 31 December 2010. The bank also maintained a stable level of deposits which constituted the main source of financing for Bank Zachodni WBK.

### Liquidity Risk Management

ALCo has overall responsibility for the supervision of liquidity risk on behalf of the Management Board. ALCo makes recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and results of stress tests are regularly reviewed by the senior management and by ALCo.

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.

Independent review of liquidity management in the bank is exercised by Internal Audit Area of Bank Zachodni WBK.

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

### Identification and Assessment of Liquidity Risk

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

GAP analysis based on the Management Report of Treasury Division as at 31.12.2010, 31.12.2009 and 31.12.2008

| Liquidity Risk | PLN m        |                |            |                |            |                |
|----------------|--------------|----------------|------------|----------------|------------|----------------|
|                | 31.12.2010 * |                | 31.12.2009 |                | 31.12.2008 |                |
|                | GAP          | Cumulative GAP | GAP        | Cumulative GAP | GAP        | Cumulative GAP |
| <1W            | 10 622,4     | 10 622,4       | 7 885,1    | 7 885,1        | 6 940,7    | 6 940,7        |
| <1M            | 43,2         | 10 665,6       | 291,8      | 8 176,9        | (303,1)    | 6 637,6        |
| >1M            | (10 665,6)   | -              | (8 176,9)  | -              | (6 637,6)  | -              |

\* At the end of 2010 there was an increase in the duration of retail deposits, which was reflected in the contractual gap. The level of liquid assets was not significantly changed yly.

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

In 2010, the bank's funds significantly exceeded the level required to cover the expected outflows.

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

In 2010, the bank met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

## 5. Operational Risk Management

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

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

In order to manage operational risk, Bank Zachodni WBK 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) established by the Management Board is responsible for setting operational risk management standards for Bank Zachodni WBK. The Committee sets the strategic direction as well as defines and monitors operational risk management objectives, in relation to, inter alia, BCM, information security, outsourcing and insourcing and fraud prevention in all business areas.

Bank Zachodni WBK is committed to maintaining superior standards of operational risk management, which involves: in-depth analysis of the environment in which the bank operates, identification of risks and development of effective controls to curb operating losses. The operational risk appetite factors in the maximum loss before tax resulting from residual operational risk that the bank is ready to incur in pursuit of its business goals (the limit was based on net income).

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

- Identification and assessment of operational risk

In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks in terms of their likelihood and impact, and describe the existing controls. The risks with high residual rating have proper action plans developed with progress against them reviewed quarterly by ORMCo.

- Reporting on operational incidents and lessons learned

Each organisational 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 reinforces and facilitates operational risk management. It also ensures that decisive steps are taken if any operational incidents materialise and cause or might cause losses.

- Analysis of risk indicators

Risk indicators are financial and operational indicators which depict the risk level present in Bank Zachodni WBK and provide early warning of emerging threats and operational losses.

- Business continuity management (BCM)

Each organisational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur. IT continuity management conforms to ISO 20000 and ITIL best practice. IT support is provided by two data centres linked by high-capacity and interference-resistant connections. IT support covers mainly payment, clearing and end-user applications.

- Regular reporting to the Risk Management Committee and Supervisory Board

Operational risk reports include, inter alia: operational risk incidents, risk indicators, operational risk self-assessment (Review & Challenge).

- Insurance

The bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Professional Indemnity.

## 6. Legal and Regulatory Risk Management

### Legal and 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 Bank Zachodni WBK 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 Bank Zachodni WBK 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 Finance Division and prudential regulation to Finance Division and Risk Management Division in respective aspects.

Every six months, the Bank Zachodni WBK 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 the 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 provides the Compliance Area with the relevant mandate and ensures it is sufficiently independent to support management in effective compliance risk management. Every six months, the Audit Committee reviews key compliance risks to assess the extent to which they are being managed effectively.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence & sufficient resources of the Compliance Area. The compliance unit major responsibilities include in particular (subject to the specific responsibility of Finance Division, Risk Management Division and HR Management Division):

- independent identification, assessment and monitoring of compliance risk the bank 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 them.

Legal and regulatory (compliance) risk management is coordinated by the Legal and Compliance Division reporting to the Management Board Member.

## 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.

## 7. Capital Management

### Introduction

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

Basel II defines the approach to measurement of the minimum regulatory capital requirement (Pillar 1) and sets out the general principles of internal capital measurement (Pillar 2) where in-house models are applied by banks in day-to-day risk management. Internal capital adequacy assessment is an integral part of the management of the bank's business.

In addition, the bank's capital level is determined by the ultimate external rating and stress tests results for individual risks identified as material to the business.

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

The bank's Management Board delegated the day-to-day capital management to ALCo/ICAAP Forum. The Committee assesses capital adequacy, including capital adequacy under stressed scenarios, on an ongoing basis. Also, the Committee monitors the capital level and initiates transactions which affect the capital level (recommending e.g. the amount of dividend to be paid out). ALCo/ICAAP Forum defines the capital policy, principles of capital management, principles of capital adequacy assessment in the bank; reviews and approves capital plans, and sets out principles of capital allocation to individual business segments when assessing their profitability. However, binding decisions on movements in the capital level (increase or release) are taken by appropriate bank's governing bodies in line with applicable laws and the bank's Statutes.

### Capital Policy

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

Under the bank's capital management policy, the target minimum solvency ratio is 10%.

At the same time, the Tier 1 capital ratio (which is the ratio of core equity capital to risk-weighted assets for credit, market and operational risks) may not be lower than 8% within the bank (an additional requirement may be introduced as part of the Supervisory Review and Evaluation Process depending on the regulatory assessment of capital adequacy).

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## Regulatory Capital

Pillar 1 risks and capital required to cover such risks are assessed quantitatively. The bank uses regulatory approaches to the measurement of these risks. The bank applies the following approaches with respect to individual risks:

- credit risk – the standardised approach,
- operational risk – the standardised approach,
- market risk – the foundation approach.

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

The table below shows the amounts used to calculate the solvency ratio for Bank Zachodni WBK as of 31.12.2010, 31.12.2009 and 31.12.2008.

|           |                                                                 | PLN k            |                  |                  |
|-----------|-----------------------------------------------------------------|------------------|------------------|------------------|
|           |                                                                 | 31.12.2010       | 31.12.2009       | 31.12.2008       |
| <b>I</b>  | <b>Total Capital requirement (Ia + Ib + Ic + Id), of which:</b> | <b>2 880 685</b> | <b>3 042 079</b> | <b>3 220 737</b> |
| Ia        | - due to credit risk                                            | 2 429 154        | 2 592 133        | 2 748 200        |
| Ib        | - due to market risk                                            | 31 077           | 15 397           | 20 554           |
| Ic        | - due to settlement / counterparty risk                         | 27 888           | 41 983           | 116 691          |
| Id        | - due to operational risk                                       | 392 566          | 392 566          | 335 292          |
| II        | Total own funds                                                 | 5 907 924        | 5 090 339        | 4 337 694        |
| III       | Reductions                                                      | 403 985          | 396 972          | 389 614          |
| <b>IV</b> | <b>Own funds after reductions (II-III)</b>                      | <b>5 503 939</b> | <b>4 693 367</b> | <b>3 948 080</b> |
| <b>V</b>  | <b>CAD [IV/(I*12.5)]</b>                                        | <b>15,29%</b>    | <b>12,34%</b>    | <b>9,81%</b>     |

## Internal Capital

Bank Zachodni WBK defines internal capital as the capital required to safeguard the bank against the impact of major unexpected losses which may jeopardise its solvency.

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

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

The current approach is to aggregate the capital for Pillar 1 risks and the estimated capital for actual and potential Pillar 2 risks. Quantitative risk measurement methods are applied where practical and feasible. 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.

# XI. Statement on Corporate Governance Compliance in 2010

## 1. Introduction

The information included in this chapter fulfils the requirements of corporate governance report set out in §29 section 5 of the Terms of Reference of Warsaw Stock Exchange (WSE) and §1 of the WSE Management Board Resolution no. 1013/2007 dated 11 December 2007.

In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 dated 16 December 2009, preparation of "Statement on Corporate Governance Compliance in 2010" in line with the "Ordinance of the Minister of Finance dated 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state" and its publishing as part of the annual report is tantamount to the fulfilment of the requirement to provide WSE with a corporate governance report.

## 2. Code of Best Practice

Corporate governance rules applicable to Bank Zachodni WBK are set forth in "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no.17/1249/2010 dated 19 May 2010 and is available at WSE website (<http://corp-gov.gpw.pl/>) and the bank's website ([www.inwestor.bzwbk.pl](http://www.inwestor.bzwbk.pl)). It is an updated code of best practice which was introduced on 1 July 2010. The new version reflects changes in laws, international trends in corporate governance and expectations of market participants.

Bank Zachodni WBK has complied with the official corporate governance rules since 2002 when the first version of the code of best practice was published ("Best Practice for Public Companies in 2002").

The latest "Code of Best Practice for WSE Listed Companies" was approved for use in Bank Zachodni WBK by virtue of BZ WBK Management Board Resolution no. 64/2010 dd. 30 June 2010 and BZ WBK Supervisory Board Resolution no. 26/2010 dd. 22 September 2010. In connection with the obligation to comply with all rules set out in the applicable best practice document, the bank's Statutes were amended accordingly (for detailed information please see the section on the bank's Statutes).

## 3. Management Board's Statement on Corporate Governance Compliance

In 2010, Bank Zachodni WBK duly complied with all the corporate governance rules set forth in the binding version of "Code of Best Practice for WSE Listed Companies". During that period, no corporate governance breaches occurred.

## 4. Equity Securities Issued by the Bank

### Ownership Structure of Share Capital

According to the information held by the bank's Management Board as at 23 February 2011 (i.e. the date of BZ WBK 2010 Annual Report approval for release), the shareholder having minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., a fully-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 is 70.4%. The remaining shares are in free float.



| Shareholder                   | Number of Shares Held |                   | % in the Share Capital |                | Number of Votes at AGM |                   | Voting Power at AGM |                |
|-------------------------------|-----------------------|-------------------|------------------------|----------------|------------------------|-------------------|---------------------|----------------|
|                               | 31.12.2010            | 31.12.2009        | 31.12.2010             | 31.12.2009     | 31.12.2010             | 31.12.2009        | 31.12.2010          | 31.12.2009     |
| AIB European Investments Ltd. | 51 413 790            | 51 413 790        | 70,40%                 | 70,40%         | 51 413 790             | 51 413 790        | 70,40%              | 70,40%         |
| Other                         | 21 662 223            | 21 662 223        | 29,60%                 | 29,60%         | 21 662 223             | 21 662 223        | 29,60%              | 29,60%         |
| <b>Total</b>                  | <b>73 076 013</b>     | <b>73 076 013</b> | <b>100,00%</b>         | <b>100,00%</b> | <b>73 076 013</b>      | <b>73 076 013</b> | <b>100,00%</b>      | <b>100,00%</b> |

## Change of the 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, 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 (for a price of ca. EUR 150 m). Banco Santander will acquire the shares in Bank Zachodni WBK 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.

On 7 February 2011, Banco Santander announced that it had launched a tender offer for 100% of the share capital of Bank Zachodni WBK offering PLN 226.89 per share. Under the tender offer Santander intends to buy 73,076,013 shares in Bank Zachodni 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 Bank Zachodni WBK. As required by the 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.

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.

As at the date of approval of 2010 annual report for release, the Management Board of Bank Zachodni WBK had no other information on any agreements that in the future might lead to changes in the current ownership structure.

## Rights and Restrictions Attaching to the Issuer's Securities

The shares of Bank Zachodni WBK are ordinary bearer shares. The bank did not issue any shares that would give the holders any special control rights or would limit their voting or equity rights. Likewise, there are no restrictions on the transfer of title to the Issuer's shares.

## 5. Governing Bodies

### General Meeting of Shareholders

#### The last General Meeting of Shareholders of Bank Zachodni WBK

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 21 April 2010 (AGM) approved the 2009 financial statements submitted by the Management Board and the Supervisory Board, granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year, appointed two new members of the Supervisory Board and resolved on distribution of the net profit and dividend payment of PLN 4 per share. Furthermore, the AGM approved changes to the bank's Statutes and adopted its consolidated version. As a result, the business profile of the bank, the organisation of General Meetings and powers of the Supervisory Board were adjusted to the applicable laws. In addition, paragraphs on the build-up and allocation of the reserve capital were made more precise.

## Organisation and Powers of the General Meeting of Shareholders

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

GM resolves on the issues within its remit, as defined by the above laws and internal regulations.

The resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of secret ballot – allows shareholders to stay anonymous. Each share gives one vote.

Candidates for the Supervisory Board are voted upon on an individual basis, in an alphabetical order.

The General Meeting is broadcast live online to all interested parties and the recording is available at the bank's website for later use.

## Shareholders' Rights

The rights of the shareholders of Bank Zachodni WBK are set out in the Terms of Reference of BZ WBK GM in line with the Commercial Companies Code.

In particular, the shareholders have the following rights with respect to GM:

- Each shareholder may request that the list of shareholders be e-mailed free-of-charge to the indicated address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their expense.
- Shareholders may:
  - a week before AGM, demand copies of requests included in the AGM agenda;
  - have access to minutes of GM and request copies of resolutions confirmed by the bank's Management Board as true copies;
  - request voting by secret ballot;
  - appeal against resolutions made by GM in cases permitted in the Commercial Companies Code;
  - seek information from the Management Board on issues on the GM agenda, as provided for by the Commercial Companies Code;
  - exercise their voting rights (each share gives one vote at GM).
- Shareholders may attend GM and vote personally or through proxies.

## Method of Changing the Statutes

Bank Zachodni WBK changes its Statutes in a method prescribed by the applicable law.

The last GM resolved on changes to the Statutes regarding, inter alia, the opportunity to attend the General Meeting via electronic communication, including:

- live online broadcast of GM;
- two-way real-time online communication enabling the shareholders to give their opinion at the General Meeting from remote locations;
- exercising of the voting right at GM personally or by proxy.

## Supervisory Board

### Composition of the Supervisory Board

As at 31 December 2010, the composition of Bank Zachodni WBK Supervisory Board was as follows:

| Role in the Supervisory Board      | Composition as at 31.12.2010 |
|------------------------------------|------------------------------|
| Chairman of the Supervisory Board: | 1. Aleksander Szwarc         |
| Members of the Supervisory Board:  | 2. Gerry Byrne               |
|                                    | 3. Waldemar Frąckowiak       |
|                                    | 4. Aleksander Galos          |
|                                    | 5. Anne Maher                |
|                                    | 6. Maeliosa OhOgartaigh      |
|                                    | 7. Piotr Partyga             |
|                                    | 8. John Power                |
|                                    | 9. Jacek Ślotała             |

Compared to 31 December 2009, two new members of the Supervisory Board were appointed: Anne Maher and Piotr Partyga. The new members were appointed by virtue of the AGM Resolution dd. 21 April 2010.

The other persons listed above were appointed for a joint 3-year term of office by the GM held on 18 April 2008.

As at 31 December 2010, the following members of the Supervisory Board held an independent status: Waldemar Frąckowiak, Aleksander Galos, Piotr Partyga, John Power, Aleksander Szwarc and Jacek Ślotała.

In the period from 1 January 2010 to 31 December 2010, 9 Supervisory Board meetings were held at which 41 resolutions were passed. Average attendance was 97.5%.

### Role of the Supervisory Board

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

The Supervisory Board is composed of at least 5 members who are appointed for a joint 3-year term of office. The members of the Supervisory Board, including the Chairperson, are appointed and dismissed by General Meeting of Shareholders. The Management Board advises the Polish Financial Supervision Authority (KNF) of the Supervisory Board's composition. At least half of the Supervisory Board members, including the Chairperson, should have Polish citizenship.

Six members of the Supervisory Board confirmed in writing their independent status of the bank and its connected entities. Pursuant to the bank's Statutes, at least two members should have an independent status.

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

### Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. The role of the committees is to facilitate the work of the Supervisory Board, i.e. prepare draft resolutions of the Supervisory Board with respect to own requests or requests submitted by the Management Board for approval.

The following Supervisory Board committees operate in Bank Zachodni WBK: Audit Committee, Risk Oversight Committee, Remuneration and Nominations Committee and Social Responsibility Committee.

**Composition of Supervisory Board Committees as at 31.12.2010:**

| Supervisory Board Committee            | Role     | Ref. No. | Composition          |
|----------------------------------------|----------|----------|----------------------|
| Audit Committee                        | Chairman | 1.       | John Power           |
|                                        | Members: | 2.       | Waldemar Frąckowiak  |
|                                        |          | 3.       | Aleksander Galos     |
|                                        |          | 4.       | Maeliosa OhOgartaigh |
|                                        |          | 5.       | Piotr Partyga        |
| Risk Oversight Committee               | Chairman | 1.       | John Power           |
|                                        | Members: | 2.       | Waldemar Frąckowiak  |
|                                        |          | 3.       | Aleksander Galos     |
|                                        |          | 4.       | Maeliosa OhOgartaigh |
|                                        |          | 5.       | Piotr Partyga        |
| Remuneration and Nominations Committee | Chairman | 1.       | Gerry Byrne          |
|                                        | Members: | 2.       | Aleksander Szwarc    |
|                                        |          | 3.       | Jacek Ślotała        |
| Social Responsibility Committee        | Chairman | 1.       | Gerry Byrne          |
|                                        | Member   | 2.       | Jacek Ślotała        |

The Audit Committee oversees the financial reporting in the bank, ensuring top quality of financial reports and disclosure practice and its compliance with the accounting policies. Furthermore, the Committee assesses the effectiveness of internal control system and financial and non-financial risk management frameworks and ensures that the chartered auditor and the entity authorised to audit the financial statements are independent. The Committee members receive reports from an external auditor and participate in regular meetings with the representatives of Internal and External Audit, which are not attended by the bank's Management Board members. The Audit Committee is composed mostly of independent Supervisory Board members.

The Risk Oversight Committee was established in September 2009 and has been operational since January 2010. The Committee presents the Supervisory Board with the conclusions and recommendations on the existing risk exposure, general risk management framework and the most effective strategy in this regard.

Throughout a year, the Audit Committee and Risk Oversight Committee convene at least four times at the dates adjusted to the reporting and audit cycle. Additional meetings are held if the Chairperson or the members find it necessary.

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

Social Responsibility Committee coordinates systemic solutions and individual initiatives aimed to boost the prestige and awareness of the bank's brand. In addition, the Committee reviews the corporate social responsibility policy and monitors its delivery along with the budget allocated to marketing, promotion and corporate social responsibility (CSR) objectives.

The Remuneration and Nominations Committee and the Social Responsibility Committee convene at least three times a year. Additional meetings are held at the request of the Chairperson. The quorum is two.

The annual reports on activities of the Supervisory Board and its Committees as well as the Supervisory Board's reports on examination of the bank's and the Group's annual report along with the assessment of their operations are published in current reports which convey the resolutions passed by the AGM of Bank Zachodni WBK. As of the approval date of this report, such information was last published in the current report no. 8/2010 which referred to AGM held on 21 April 2010 and operations of the bank, Bank Zachodni WBK Group as well as Supervisory Board in 2009.

## Management Board

The table below presents the composition of Bank Zachodni WBK Management Board as at 31 December 2010 together with the roles and responsibilities of its members.

Composition of the Management Board and role of MB members as at 31.12.2010

| Role in the Management Board       | Ref. | Composition as at 31.12.2010 | Reporting Areas                                                                                                                     |
|------------------------------------|------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| President of the Management Board: | 1.   | Mateusz Morawiecki           | Reporting units: Treasury Division, Internal Audit Area, Corporate Communication Area, Brand Management and Investor Relations Area |
|                                    | 2.   | Paul Barry                   | Finance Division                                                                                                                    |
|                                    | 3.   | Andrzej Burliga              | Risk Management Division                                                                                                            |
|                                    | 4.   | Declan Flynn                 | Credit Division                                                                                                                     |
|                                    | 5.   | Justyn Konieczny             | Investment Banking Division                                                                                                         |
|                                    | 6.   | Janusz Krawczyk              | HR Management Division                                                                                                              |
| Members of the Management Board:   | 7.   | Jacek Marcinowski            | Private Banking Department, Bancassurance Office, Partner Outlets Office                                                            |
|                                    | 8.   | Michael McCarthy             | Business and Corporate Banking Division                                                                                             |
|                                    | 9.   | Marcin Prell                 | Legal and Compliance Division                                                                                                       |
|                                    | 10.  | Miroslaw Skiba               | Retail Banking Division                                                                                                             |
|                                    | 11.  | Feliks Szyszkowiak           | Business Support Division                                                                                                           |

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

Compared with 31 December 2009, the composition of the Management Board of Bank Zachodni WBK did not change.

On 16 December, Jacek Marcinowski tendered his resignation from the Management Board effective from 31 December 2010 in connection with his appointment as President of the Management Board of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych, effective from 1 January 2011. Jacek Marcinowski was in charge of the Private Banking Department, Bancassurance Office and Partner Outlet Development Office which, following his resignation, were incorporated into other organisational structures within Bank Zachodni WBK.

On 6 December 2010, Mr. Declan Flynn submitted his decision to step down from his position of the Management Board member for personal reasons (effective as of 13 April 2011).

### Appointment and Removal of Executives

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

The Management Board is composed of at least 3 members (including the President) who are appointed for a joint 3-year term of office by the Supervisory Board. At least half of Management Board members should have Polish citizenship. Two members of the Management Board, including the President, are appointed subject to approval from the Polish Financial Supervision Authority (KNF). The Management Board members may be dismissed by the Supervisory Board or General Meeting of Shareholders at any time.

### Powers of Executives

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

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

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

### **Role of the Management Board**

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

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

The Management Board resolves on all issues which have not been restricted to the remit of the General Meeting of Shareholders or Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Secret ballot is held in the cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret voting. The Management Board meetings are held as needed. The Management Board Members convene at the same time in a single location or in different locations communicating via telephone or video links.

## **Other Information on the Management and Supervisory Boards**

### **Remuneration of the Supervisory and Management Board Members**

Information on the remuneration of the BZWBK Supervisory and Management Board members for 2010 and the comparable period is presented in Note 45 to the "Financial Statements of Bank Zachodni WBK for 2010".

### **Agreements between Bank Zachodni WBK and its Executive Directors**

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

### **Shares in Possession of the Supervisory and Management Board Members**

As at the approval date of the Annual Report of the Bank Zachodni WBK for 2010 and 2009, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK.

Under the 1<sup>st</sup> Bank Zachodni WBK Share Incentive Scheme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 of H series shares issued as part of the conditional increase of the share capital. Due to the expiry of the 2<sup>nd</sup> Incentive Scheme under which no rights were exercised, the Management Board members have conditional rights to acquire shares under the 3<sup>rd</sup> Incentive Scheme. Below are the shares and rights held by the Management Board Members as of the approval date of 2010 and 2009 annual reports.

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

Shares and the attached rights held by Management Board members as at 31.12.2010 and 31.12.2009

| Management Board Members<br>as at 31.12.2010 | 31.12.2010              |               | 31.12.2009              |               |
|----------------------------------------------|-------------------------|---------------|-------------------------|---------------|
|                                              | No. of BZ WBK<br>shares | Rights        | No. of BZ WBK<br>shares | Rights        |
| Mateusz Morawiecki                           | 3 591                   | 7 403         | 3 591                   | 9 961         |
| Paul Barry                                   | -                       | -             | -                       | -             |
| Andrzej Burliga                              | 1 606                   | 3 332         | 1 606                   | 4 417         |
| Declan Flynn                                 | -                       | -             | -                       | -             |
| Justyn Konieczny                             | 3 591                   | 5 182         | 3 591                   | 7 847         |
| Janusz Krawczyk                              | 3 397                   | 4 442         | 3 397                   | 6 661         |
| Jacek Marcinowski                            | 3 397                   | 4 442         | 3 397                   | 6 661         |
| Michael McCarthy                             | -                       | -             | -                       | -             |
| Marcin Prell                                 | 2 530                   | 4 442         | 2 530                   | 6 661         |
| Mirostlaw Skiba                              | 1 575                   | 1 850         | 1 575                   | 2 813         |
| Feliks Szyszkowiak                           | 3 438                   | 4 442         | 3 438                   | 6 661         |
| <b>Total</b>                                 | <b>23 125</b>           | <b>35 535</b> | <b>23 125</b>           | <b>51 682</b> |

## 6. Control System of Financial Statements

### Internal Control System and Risk Management

Bank Zachodni WBK operates an internal control system which supports the decision-making processes and contributes to efficient operation of the organisation, reliability of financial reporting and compliance with laws, internal regulations and best practice. The internal control system is adjusted to the organisational structure and risk management system and includes the Business Support Centre, branches, Partner outlets and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. Oversight over the internal control and risk management system is exercised by the Audit Committee of the Supervisory Board.

The bank has adopted the Internal Control Policy in Bank Zachodni WBK which defines, inter alia, the structure, purpose and scope of the internal control and lists the related roles and responsibilities.

The internal control and risk management systems are based on three lines of defence:

- first line – controls embedded in processes delivered by each staff member and their line manager;
- second line – units supporting the management team in risk identification and management as well as units assessing the effectiveness of the first line;
- third line – internal audit unit which reviews the adequacy and efficiency of the first and second lines.

Each organisational unit operates in line with their Terms of Reference approved by the head of the division. The document defines the roles and responsibilities within each business area, including quality and processing of financial data. The ongoing controls and management checks carried out in the bank enable to verify due delivery of the assigned tasks.

One of the key objectives of the internal control framework is to ensure full credibility of financial reporting.

Financial data preparation for the purpose of reporting is automated and based on the General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information. Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are under strict control as well.

The bank follows any legal and regulatory changes related to reporting in the law and updates its accounting rules and disclosures accordingly.

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

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

## Internal Control Compliant with the Sarbanes-Oxley Act

Bank Zachodni WBK as a subsidiary of the AIB Group must fulfil the requirements arising from the Sarbanes-Oxley (SOX) Act insofar as it relates to the latter. This regulation introduced very strict rules with respect to exercising internal control over the company's financial reporting.

The design and effectiveness of controls is tested on an annual basis by dedicated second line units. The audit covers business and IT processes and controls. The test results are the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the AIB Group's SOX certification process in 2010, the bank's management confirmed that no incidents were identified which could significantly affect the relevant processes and threaten the effectiveness of the internal control of financial reporting.

## Selection of Auditor

In accordance with §32 point 10 of the Statutes of Bank Zachodni WBK, applicable regulations and the industry practice, on 22 September 2010 the bank's Supervisory Board passed a resolution appointing KPMG Audyt as an entity to audit the bank's stand-alone and the Group's consolidated financial statements for 2010. The bank entered into an agreement with KPMG Audyt for the period necessary to conduct the audit. A few months earlier, i.e. on 9 June 2010, the bank's Supervisory Board passed a resolution appointing the same entity to review the bank's stand-alone and the Group's consolidated financial statements for the first half of 2010. KPMG Audyt audited the bank's financial statements for the previous financial years and through other KPMG Group companies provided consultancy and tax advisory services permitted by law and the bank's internal regulations, in a manner that ensured impartiality and independence of the auditor.

## Remuneration of Auditor

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

|                                                                                       | PLN k                                    |                                          |
|---------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------|
|                                                                                       | Reporting Year<br>ended on<br>31.12.2010 | Reporting Year<br>ended on<br>31.12.2009 |
| <b>Remuneration of KPMG Audyt</b>                                                     |                                          |                                          |
| Audit fees in respect of the parent bank                                              | * 1070                                   | 1 019                                    |
| Audit fees related to the assurance services, including the review of the parent bank | ** 432                                   | 360                                      |

\* based on the Agreement on Audit of Financial Statement and Group Report of 27 September 2010

\*\* based on the Agreement on Review of Interim Financial Statement and Group Report of 14 June 2010

## 7. Pending Court Proceedings

As at 31 December 2010, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank that would equal or exceed 10% of the Bank Zachodni WBK equity.

The value of all litigations totalled PLN 158.8 m, which is 2.6% of the bank's equity (vs. PLN 225.2 m, i.e. 4.1% of the bank's equity in 2009). It includes PLN 29.3 m claimed by the bank, PLN 129.4 m in claims against the bank and PLN 0.08 m of the bank's receivables in the arrangement or bankruptcy proceedings.



## XII. Future Growth Prospects

### Strategic Directions for 2009-2011

#### Mission Statement of Bank Zachodni WBK: The third largest banking institution in Poland

Bank Zachodni WBK intends to strengthen its position in the financial market, as a universal bank which offers a full array of financial services in the retail, business and investment banking segments. The mission statement of BZ WBK assumes the following:

- outperform market growth and achieve higher position in terms of assets and equity;
- high awareness and prestige of bank brand, based on attractive offer;
- customer proposition that is distinctive by its competitiveness and service quality;
- strong and stable financial base for the development of credit delivery operations, including the adequate level of liquidity and a strong capital position;
- numerous and diversified sources of income in three basic segments: retail, business and investment banking;
- efficient risk management as required by stakeholders;
- shareholders satisfied with the volume and sustainability of generated profits.

#### Brand Image: A dependable nationwide bank going extra mile vis-à-vis its competitors

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

- provides more value to the customer compared to other financial institutions and strives to outperform its market competitors;
- guarantees financial stability and protection of funds;
- offers products which are easy to understand and use;
- stands out in the market, with its modern and innovative solutions.

#### Corporate Culture: In keeping with the brand values

Bank Zachodni WBK focuses on providing value to its customers through increased focus on:

- building the relationship based on trust and ethical values;
- performance focus;
- professional and timely delivery of tasks;
- readiness to learn;
- demonstrating respect for work and sense of ownership for the actions taken;
- ethical conduct, compliance with law, internal regulations and best practice.

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

#### Customer Acquisition and Retention

*Retail Banking: Distinctive customer service*

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

The bank also gives priority to strengthening loyalty of the existing customers and increasing the scope and value of its customer relations. To this effect, the bank uses its IT capability, CRM and customer information systems to ensure above-average quality of service, and offers a wide scope of savings, credit and settlement products. It also strengthens its leadership position on innovative savings products market, based on deposits, investment and insurance products.

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

Retail customers are serviced by a nationwide network of BZ WBK branches. Supplementary service is available from Partner outlets, a call centre, Internet, mobile agents and other distribution channels.

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

#### *Business and Corporate Banking: Diversified business and development of Business and Corporate Banking Centres*

Business customers of Bank Zachodni WBK are serviced by a nationwide network of Business Banking Centres operating in all major cities. Strategic corporate customers are serviced by dedicated units in Warsaw, Poznań and Wrocław. All business customers are serviced by professional advisors, on an individual basis. In this segment, BZ WBK pursues the two strategic goals: business diversification and support for business advisors who are charged with full ownership of the customer relationship management. Business diversification is delivered at three levels:

- diversification of the loan portfolio by sectors;
- diversification of income streams by geographical locations;
- diversification of income streams by products, through increasing revenues from non-credit products.

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

#### *Investment Banking: Maintained financial performance and new income sources*

In the time of economic slowdown, Bank Zachodni WBK focuses on probing new income sources, strengthening the prestige of the brand, raising the service quality, attaining competitive investment performance and expanding the share in specific capital markets (investment funds, asset management, brokerage service) as well as increasing other business lines such as advisory services, M&A (Mergers and Acquisitions) and LBOs.

#### *Operational and Cost Efficiency: A leaner organisation and faster changes*

Bank Zachodni WBK continues its cost optimisation initiatives, in particular it:

- streamlines the operating processes and customer service processes;
- centralizes and automates control and back-office processes in the branches;
- seizes any opportunity to reduce costs, through the implementation of savings programmes, more efficient management, monitoring of contracts with key suppliers, utilization of advanced IT technologies, etc.

#### **Development and use of IT systems**

The bank has been awarded the ISO 9001:2000 certificate for the software development and integration process and this quality standard will be maintained. The quality management system will be improved further so that the requirements of business units (regarding projects and tasks being delivered) are best addressed. The expected benefits include a more effective change implementation process and a better supervision over the range of applications/systems and their development technologies.

All IT services provided to system users and bank customer are subject to a comprehensive supervision under the IT Service Management System. This tool complies with the ISO/IEC 20000-1:2005 standard as well as recommendations and provisions defined in the Information Technology Infrastructure Library (ITIL) which is generally regarded as the source of best practice in that respect. The strategic objective of the bank's IT Department is to maintain the quality of services provided to business units and other customers (in compliance with ISO 20000 and ITIL) coupled with Continual Service Improvement, which means alignment of services in line with the changing business requirements, rather than simple improvement of quality.

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## Strategic Priorities for 2011

The top priority of Bank Zachodni WBK is a dynamic growth of efficiency and reduction of C/I ratio to 47% in 2011 and 41% in 2013. The bank will implement further cost optimisation initiatives and maintain the cost discipline introduced in 2008. Nevertheless, the revenue growth will be the key factor contributing to the reduction of C/I ratio.

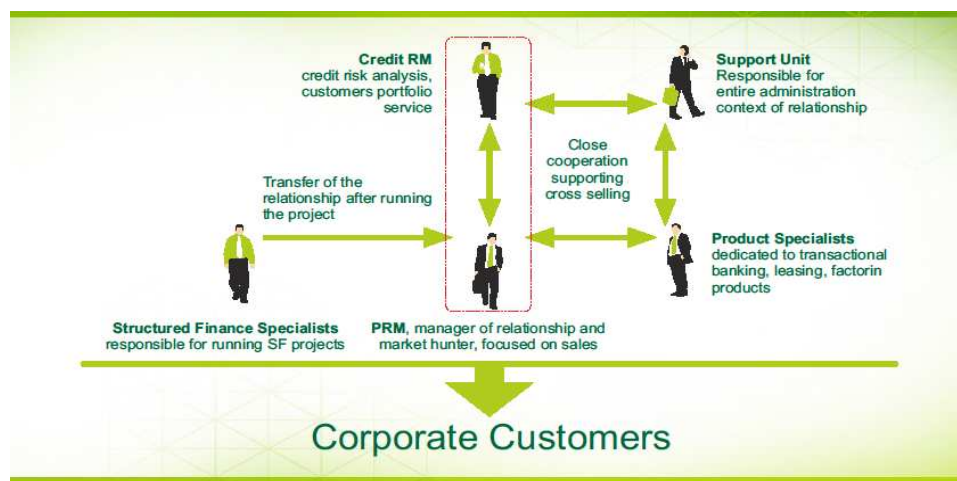
These ambitious goals need to be supported by relevant systemic solutions which were already developed and piloted in 2010. The first one is the New Branch Energy project (NEO) aimed to introduce changes to sales management at the branch level, including daily and weekly agenda, regular coaching sessions, sales activity planning and introduction of a suite of tools as an aid to advisors and branch directors in their day-to-day business.

### New Branch Energy Project



The second key project involves implementation of a new service model for corporate customers, which will significantly relieve relationship managers of operational and analytical tasks. Local units will provide support for relationship managers with respect to loans, transactional banking, leasing, factoring and treasury products on an ongoing basis. Central to the model is the Customer Service Centre (COB) and a web-based transaction platform. Both structures will be launched in early 2011 and will assume a number of back-office functions, which used to be handled at the local level (branch network). Consequently, they will add to operational efficiency of corporate banking. The principal goal of the project is to improve the quality of customer service and boost the sales performance of relationship managers, particularly in the area of non-credit products.

### New Energy of Corporate Banking – new customer service model



The new solutions in place will help to deliver the business goals, which, in the upcoming years, will be centred on the most profitable products. Consequently, the bank will strive to increase volumes and market shares with simultaneous improvement of profitability.

As regards retail banking, Bank Zachodni WBK will give more focus to consumer finance products (cash loans, credit cards and personal overdrafts) and investment banking products (mutual funds, structured products, unit-linked insurance policies). The bank's ambition is to:

- retain the new customer base at the record high level of 2010;
- maintain the bank's share in the deposit market;
- keep the dynamic sales of mortgage loans, which in 2010 approached the record high level of 2008.

As regards micro and small companies, the bank's objective is to build up credit volumes along with an increase in non-interest income (domestic and foreign transactions, currency exchange, insurance products for business customers as a new source of income). In pursuit of this objective, the bank will deliver numerous initiatives addressed to small companies which seek funding above PLN 500 k, including:

- enhancement of sales and credit skills in the branch network;
- streamlining of credit processes and procedures;
- close liaison with leasing and factoring companies;
- strong support for advisors who sell treasury products.

In addition to initiatives aimed to boost effectiveness of the key segments, the bank reviewed the day-to-day business of central units to devise solutions which promote optimised and performance-focused management of internal processes. The operational processes in the key areas were measured and tracked as a first step to implementing precise planning and monitoring of effectiveness of the introduced changes.

## XIII. Representations of the Management Board

### True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Financial Statements of Bank Zachodni WBK for 2010 were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK. The Management Board's Report contained in this document shows a true picture of the bank's development, achievements and position (including the underlying risks) in 2010.

### Selection of Auditor

The auditing firm responsible for reviewing the financial statements of Bank Zachodni WBK for 2010 was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

| Signatures of the Management Board Members |                    |                        |           |
|--------------------------------------------|--------------------|------------------------|-----------|
| Date                                       | Name and Surname   | Function               | Signature |
| 23.02.2011                                 | Mateusz Morawiecki | President of the Board |           |
| 23.02.2011                                 | Paul Barry         | Member of the Board    |           |
| 23.02.2011                                 | Andrzej Burliga    | Member of the Board    |           |
| 23.02.2011                                 | Declan Flynn       | Member of the Board    |           |
| 23.02.2011                                 | Justyn Konieczny   | Member of the Board    |           |
| 23.02.2011                                 | Janusz Krawczyk    | Member of the Board    |           |
| 23.02.2011                                 | Michael McCarthy   | Member of the Board    |           |
| 23.02.2011                                 | Marcin Prell       | Member of the Board    |           |
| 23.02.2011                                 | Miroslaw Skiba     | Member of the Board    |           |
| 23.02.2011                                 | Feliks Szyszkowiak | Member of the Board    |           |