ANNUAL REPORT 2012
OF BANK ZACHODNI WBK S.A.

2012

Bank Zachodni WBK S.A.

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	for reporting period ended:	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	Stand alone financial statements				
I	Net interest income	2 150 575	1 923 748	515 281	464 662
II	Net fee and commission income	1 195 784	1 090 749	286 511	263 460
III	Operating profit	1 703 995	1 427 118	408 279	344 706
IV	Profit before tax	1 703 995	1 427 118	408 279	344 706
V	Profit for the period	1 367 589	1 158 502	327 676	279 825
VI	Total net cash flow	449 078	2 916 257	107 600	704 393
VII	Total assets	59 196 103	59 016 847	14 479 747	13 361 902
VIII	Deposits from banks	1 291 655	2 361 433	315 947	534 648
IX	Deposits from customers	47 162 169	46 992 079	11 536 170	10 639 395
X	Total liabilities	50 912 042	52 192 791	12 453 413	11 816 879
XI	Total equity	8 284 061	6 824 056	2 026 335	1 545 023
XII	Number of shares	74 637 631	73 076 013		
XIII	Net book value per share in PLN/EUR	110.99	93.38	27.15	21.14
XIV	Solvency ratio	16.49%	14.60%		
XV	Profit per share in PLN/EUR	18.52	15.85	4.44	3.83
XVI	Diluted earnings per share in PLN/EUR	18.45	15.79	4.42	3.81
XVII	Declared or paid dividend per share in PLN/EUR*	7.60	8.00	1.86	1.81

*As disclosed in the Note 48, after the balance sheet date, the Bank has issued 18 907 458 shares that are entitled to dividend from 2012 profit.

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

- for balance sheet items – 4.0882 PLN rate to EUR as at 31.12.2012 stated by National Bank of Poland (NBP), 4.4168 PLN rate to EUR as at 30.12.2011
- for profit and loss items – as at 31.12.2012: 4.1736 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2012), as at 31.12.2011: 4.1401 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2011)

As at 31.12.2012, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 252/A/NBP/2012 dd. 31.12.2012.

FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. FOR 2012

2012

Bank Zachodni WBK S.A.

Dear All,

2012 was the year of challenges. Once again, the eurozone was searching for options of the economic growth and put off threats of its potential disintegration. The Polish economy has suffered from the economic slowdown, particularly noticeable in the third and fourth quarters. The banking sector retained its stability the credit for which goes largely to the Polish Financial Supervision Authority (KNF). Bank Zachodni WBK strengthened its position in the Polish banking sector and within Santander Group. It successfully completed the first stages of the planned merger with Kredyt Bank.

Last year, the Polish economy still noted a growth, yet the clear symptoms of the slow-down could be seen. The GDP growth was 2.0% as compared to 4.3% at 2011-end. The primary source of the economic slowdown in Poland was a substantial deterioration in the business climate of the global economy, especially in the eurozone which again suffered from the recession. High uncertainty on the global financial markets and information about the crisis in the eurozone affected the sentiments of the domestic entrepreneurs and consumers. A strong decline in the domestic demand, including consumption, was recorded. The fall in investments was noted in H2 and some key sectors of the economy, such as construction, found themselves in the worst position since the beginning of the transformation period.

In such an economic environment, in February 2012, Management Boards of Bank Zachodni WBK and Kredyt Bank signed an agreement on the planned merger. Authorities of both banks, their strategic investors (Santander and KBC), professional task forces and external advisors were involved in that process. In May 2012, the Management Boards filed an application with KNF seeking approval for the merger of our financial institutions. In December, KNF issued a positive decision in this respect. Following the merger of Bank Zachodni WBK with Kredyt Bank, the third largest bank in Poland, in terms of assets, loan portfolio and deposits, has been established. At present, Bank Zachodni WBK has a network of ca. 1000 branches and provides services to 4.1 million customers. At the same time, in 2012, in line with the schedule of works, the most important processes for the integration of Bank Zachodni Group with its strategic investor, Banco Santander, were completed.

2012 was another very robust year for Bank Zachodni WBK in terms of the financial performance. Last year, our Bank generated profit before taxation of PLN 1 704,0 m, i.e. higher by 19.4% than in 2011. We recorded a two-digit growth in the net interest income 11.8% as a result of higher volumes.

Monthly sales of cash loans reached their all times record for the Bank. From December 2011 to December 2012, the sales went up by 15.9%. Overall, personal loans increased by 9.1% and business loans (SME and corporate customers) by over 4.5%. It is worth highlighting that the growth in the volumes of cash loans was much stronger than on the market which recorded not only stagnation, but actually a downward trend in second half year 2012.

ROE achieved by Bank Zachodni WBK at 21.4% was amongst the highest ones on the market. It was similar with the efficiency ratio (C/I) which at the year-end stood at 43.2% (49.6% in 2011). Despite the deteriorating condition of households and businesses, the NPL portfolio in 2012 declined vs. the previous year by 0.2 pp and stood at 5.1%. Total costs fell by 4.6% and staff costs by 1.2%.

The value of net assets of investment funds and individual portfolios over the last twelve months increased by 23.8%. We are also satisfied that the number of BZWBK24 e-banking users reached 2.2 m (+10.1% y/y), and the basis of Bank Zachodni WBK S.A. payment cards covered 2.7 m debit instruments (+6.6% y/y).

The Business and Corporate Banking has successfully delivered its development strategy – it retained good growth rate in sales of corporate loans. Actions were also taken aimed to increase sales of leasing and factoring. The Global Banking & Markets (GBM) Division, established towards the end of 2011, responsible for managing relationships with Bank Zachodni WBK customers at an international scale, successfully continued to strengthen its market position in 2012. As at the end of 2012, GBM generated ca. 10% of gross profit for our Bank.

As in the previous years, we have proved that we continue to be one of the most innovative financial groups in Poland. We have become a fully mobile bank. Customers of Bank Zachodni WBK who have smartphones with the Windows Phone system can upload an application that enables to avail of a mobile offering of BZWBK24 e-banking services. The launch of that application – next to applications for iOS, Android, Blackberry and Symbian systems means that we have a mobile banking proposition for users of all types of smartphones and some tablets. At present, over 130 thousand customers avail of the BZWBK24 mobile service. In cooperation with a telecommunication company Polkomtel S.A. we expand the special mobile banking offering (Avocado package) and its distribution via a new external channel. In December 2012, one year after the debut, 81 thousand customers availed of Avocado services. Moreover, the “School Card” project delivered in cooperation with over 50 schools develops dynamically. The card combines two functions – a card allowing to enter a school building and a card with a payment function to make non-cash transactions.

In its operations, Bank Zachodni WBK Group guides itself by corporate social responsibility. Last year saw Santander Universidades program in Poland, managed by Bank Zachodni WBK, spread its wings. Already 25 our universities have signed agreements on cooperation with Santander Universidades. Thanks to the support of Bank Zachodni WBK, Polish universities take part in student exchanges, offer on-the-job training, scholarships and receive funds for research programs and organization of university events. Bank Zachodni WBK Foundation undertakes various initiatives for the benefit of children and young people. Among others, the Foundation runs two large grant programs – the Bank of Children's Smiles and the Bank of Ambitious Youth. We also fight against the social exclusion of the disabled by expanding the network of outlets adapted to service the physically disabled and visually handicapped by means of a pioneer program on the market – the "Barrier-free service".

Last year, the operations of our Bank were recognized by international experts from the banking sector. In July we were awarded the title of the "Best Bank in Poland 2012" by Euromoney magazine. In November, Bank Zachodni WBK was named the "Bank of the Year in Poland" by a prestigious British monthly "The Banker". The rationale highlighted the improvement in profitability and efficiency ratios despite the difficult market environment, proposed innovative solutions and strong growth potential resulting from the merger with Kredyt Bank. It should be highlighted that in both cases we had been awarded not only for achievements to-date but also for the Bank's ideas for the future.

The key priority of Bank Zachodni WBK continues to be the growth in profitability, efficiency and the top quality of customer service. Moreover, we intend to quickly and successfully leverage business synergies arising from the merger with Kredyt Bank.

The new stronger Bank Zachodni WBK will have a significant growth potential. The core "asset" of our Bank have always been its employees. Without their professionalism, commitment and passion we would not have achieved such good results both financial ones and those related to the efficiently executed integration with Kredyt Bank. In particular, I would like to address the words of appreciation and thanks to the Members of the Bank's Management Board and Supervisory Board of Bank Zachodni WBK. It was the year full of challenges and hard work. We close it as the winners. We form a team of people who working together can achieve the planned targets. We can boast strong capital ratios and sufficient liquidity to develop the lending business, we have excellent efficiency ratios and an adequately sized platform now.

We enter 2013 stronger than before and enriched by new experience. Let this year in the Polish banking sector be the year of Bank Zachodni WBK. This is what I wish both for you and myself!

Mateusz Morawiecki

Management Board President
of Bank Zachodni WBK

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In thousands of PLN

Income statement of Bank Zachodni WBK S.A.

for reporting period:		01.01.2012-31.12.2012	01.01.2011-31.12.2011
Interest income		3 749 465	3 291 718
Interest expense		(1 598 890)	(1 367 970)
Net interest income	Note 5	**2 150 575**	**1 923 748**
Fee and commission income		1 337 809	1 208 919
Fee and commission expense		(142 025)	(118 170)
Net fee and commission income	Note 6	**1 195 784**	**1 090 749**
Dividend income	Note 7	120 574	182 552
Net trading income and revaluation	Note 8	164 005	261 618
Gains (losses) from other financial securities	Note 9	178 486	12 552
Other operating income	Note 10	50 934	50 194
Impairment losses on loans and advances	Note 11	(490 473)	(347 695)
Operating expenses incl.:		(1 665 890)	(1 746 600)
Bank's staff, operating expenses and management costs	*Notes 12,13*	*(1 526 684)*	*(1 513 763)*
Depreciation/amortisation		*(125 917)*	*(202 765)*
Other operating expenses	*Note 14*	*(13 289)*	*(30 072)*
Operating profit		**1 703 995**	**1 427 118**
Profit before tax		**1 703 995**	**1 427 118**
Corporate income tax	Note 15	(336 406)	(268 616)
Profit for the period		**1 367 589**	**1 158 502**
Net earnings per share (PLN/share)	Note 16		
Basic earnings per share		18.52	15.85
Diluted earnings per share		18.45	15.79

Statement of comprehensive income of Bank Zachodni WBK S.A.

for reporting period:	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Profit for the period	**1 367 589**	**1 158 502**
Other comprehensive income:		
Available-for sale financial assets valuation	381 726	88 542
including deferred tax	*(72 528)*	*(16 823)*
Cash flow hedges valuation	18 955	61 633
including deferred tax	*(3 601)*	*(11 711)*
Other comprehensive income for the period, net of income tax	**324 552**	**121 641**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 692 141**	**1 280 143**

Notes presented on pages 13 – 86 constitute an integral part of these Financial Statements.

In thousands of PLN

Statement of financial position of Bank Zachodni WBK S.A.

	as at:	31.12.2012	31.12.2011
ASSETS			
Cash and balances with central banks	Note 17	4 157 270	1 425 537
Loans and advances to banks	Note 18	1 454 313	1 198 349
Financial assets held for trading	Note 19	818 581	5 779 309
Hedging derivatives	Note 20	253 553	141 578
Loans and advances to customers	Note 21	39 464 701	37 422 196
Investment securities	Notes 22,23	11 697 393	11 625 143
Investments in subsidiaries, associates and joint ventures	Note 24	264 658	264 599
Intangible assets	Note 25	113 678	134 581
Property, plant and equipment	Note 26	468 028	486 312
Current income tax assets		-	24 455
Net deferred tax assets	Note 27	172 445	165 775
Other assets	Notes 28,29	331 483	349 013
Total assets		**59 196 103**	**59 016 847**
LIABILITIES			
Deposits from banks	Note 30	1 291 655	2 361 433
Hedging derivatives	Note 20	322 252	523 725
Financial liabilities held for trading	Note 19	728 831	937 982
Deposits from customers	Note 31	47 162 169	46 992 079
Subordinated liabilities	Note 32	409 110	441 234
Current income tax liabilities		160 417	-
Other liabilities	Note 33	837 608	936 338
Total liabilities		**50 912 042**	**52 192 791**
Equity			
Share capital	Note 34	746 376	730 760
Other reserve funds	Note 35	5 292 875	4 382 125
Revaluation reserve	Note 36	877 221	552 669
Profit of the current period		1 367 589	1 158 502
Total equity		**8 284 061**	**6 824 056**
Total equity and liabilities		**59 196 103**	**59 016 847**

Notes presented on pages 13 – 86 constitute an integral part of these Financial Statements.

In thousands of PLN

Movements on equity of Bank Zachodni WBK S.A.

Movements on equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Note	**34**	**35**	**36**		
Opening balance as at 31.12.2011	**730 760**	**4 382 125**	**552 669**	**1 158 502**	**6 824 056**
Total comprehensive income	-	-	324 552	1 367 589	1 692 141
Issue of shares*	15 616	316 384	-	-	332 000
Transfer to other capital	-	573 894	-	(573 894)	-
Transfer to dividends for 2011	-	-	-	(584 608)	(584 608)
Share scheme charge	-	20 472	-	-	20 472
As at 31.12.2012	**746 376**	**5 292 875**	**877 221**	**1 367 589**	**8 284 061**

As at the end of the period revaluation reserve in the amount of PLN 877 221 k comprises of debt securities of PLN 402 635 k and equity shares classified as available for sale of PLN 407 296 k and additionally cash flow hedge activities PLN 67 290 k.

* Detailed information on "Issue of shares" is included in Note 34.

Movements on equity	Share capital	Other reserve funds	Revaluation reserve**	Retained earnings and profit for the period	Total
Note	**34**	**35**	**36**		
Opening balance as at 31.12.2010	**730 760**	**4 048 213**	**431 028**	**897 772**	**6 107 773**
Total comprehensive income	-	-	121 641	1 158 502	1 280 143
Transfer to other capital	-	313 164	-	(313 164)	-
Transfer to dividends for 2010	-	-	-	(584 608)	(584 608)
Share scheme charge	-	20 748	-	-	20 748
As at 31.12.2011	**730 760**	**4 382 125**	**552 669**	**1 158 502**	**6 824 056**

As at the end of the period revaluation reserve in the amount of PLN 552 669 k comprises of debt securities of PLN 89 379 k and equity shares classified as available for sale of PLN 411 354 k and additionally cash flow hedge activities PLN 51 936 k.

**On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity', and reclassified them into the "investment financial assets available for sale" category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Bank.

Notes presented on pages 13 – 86 constitute an integral part of these Financial Statements.

In thousands of PLN

Statement of cash flows of Bank Zachodni WBK S.A.

for reporting period:	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Profit before tax	**1 703 995**	**1 427 118**
Total adjustments:		
Depreciation/amortisation	125 917	202 765
(Profit) loss from investing activities	(177 434)	(9 470)
Impairment losses	9 167	-
	1 661 645	**1 620 413**
Changes in:		
Trading portfolio financial instruments	(209 827)	570 006
Loans and advances to banks	10 080	19 931
Loans and advances to customers	(2 042 505)	(5 469 508)
Deposits from banks	(1 069 778)	217 426
Deposits from customers	31 400	4 405 539
Provisions	(13 579)	17 411
Other assets and liabilities	(118 740)	191 455
	(3 412 949)	**(47 740)**
Interests and similar charges	303 549	134 127
Dividend received	(120 574)	(182 552)
Paid income tax	(234 333)	(318 627)
Net cash flow from operating activities	**(1 802 662)**	**1 205 621**
Inflows	**41 960 747**	**3 585 769**
Sale/maturity of investment securities	41 837 291	3 400 783
Sale of intangible assets and property, plant and equipment	2 882	2 434
Dividend received	120 574	182 552
Outflows	**(39 517 821)**	**(1 705 365)**
Purchase of subsidiaries, associates and joint ventures	-	(15 600)
Purchase of investment securities	(39 441 729)	(1 583 721)
Purchase of intangible assets and property, plant and equipment	(76 092)	(106 044)
Net cash flow from investing activities	**2 442 926**	**1 880 404**
Inflows	**470 690**	**487 330**
Drawing of long-term loans	138 690	487 330
Proceeds from issuing bonds/shares	332 000	-
Outflows	**(661 876)**	**(657 098)**
Dividends and other payments to shareholders	(584 608)	(584 608)
Other financing outflows	(77 268)	(72 490)
Net cash flow from financing activities	**(191 186)**	**(169 768)**
Total net cash flow	**449 078**	**2 916 257**
Cash at the beginning of the accounting period	**7 251 654**	**4 335 397**
Cash at the end of the accounting period*	**7 700 732**	**7 251 654**

*Cash components are presented in Note 43.

Notes presented on pages 13 – 86 constitute an integral part of these Financial Statements.

In thousands of PLN

Additional notes to financial statements of BZ WBK

1. General information about issuer

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

The direct parent of Bank Zachodni WBK S.A. is Banco Santander S.A. seated in Santander, Spain.

BZ WBK S.A. offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, it offers also the following services:

- intermediation in trading securities,
- leasing,
- factoring,
- asset/ fund management,
- insurance services,
- trading in stock and shares of commercial companies.

2. Basis of preparation of financial statements

Statement of compliance

The annual unconsolidated financial statements of Bank Zachodni WBK S.A. for the year ended 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations and the provisions of the Bank's Statutes that apply to the Bank's unconsolidated financial statements.

Changes in accounting policies

Comparability with results of previous periods
For the purpose of the adaptation to the politics of Group, the following material presentation changes were made in:

- Change in presentation of standardised purchase/sales transactions in respect of financial assets and their recognition in the statement of financial position as at the transaction settlement date rather than as at the date of concluding the transaction as in previous periods of time.

	31.12.2011		
ASSETS	**Before revision**	**Revision**	**After revision**
Loans and advances to banks	1 238 467	(40 118)	1 198 349
Financial assets held for trading	5 803 575	(24 266)	5 779 309
Investment securities	11 637 455	(12 312)	11 625 143

LIABILITIES	Before revision	Revision	After revision
Deposits from banks	2 413 078	(51 645)	2 361 433
Financial liabilities held for trading	963 033	(25 051)	937 982

The changes were made to appropriate items of the statement of cash flows, i.e.:

a) Change in loans and advances to banks,
b) Change in trading portfolio financial instruments,
c) Purchase/sale of investment securities.

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

	31.12.2011		
INCOME STATEMENT	Before revision	Revision	After revision
Impairment losses on loans and advances	(341 936)	(5 759)	(347 695)
Other operating expenses	(35 831)	5 759	(30 072)

Changes in judgments and estimates

On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity' and reclassified them into the "investment financial assets available for sale"category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group.

The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Bank.

In 2011 the Management Board of BZ WBK revised its estimates in respect of the economic life of intangible assets and property, plant and equipment as part of the ongoing process of integration with Santander Group. A resultant non-recurring increase in depreciation of fixed assets and amortisation of intangible assets was PLN 75 318 k, that is included in the total amount of once-off adjustments of PLN 87 746 k.

In thousands of PLN

New standards and interpretations or changes to existing standards or interpretations, which can be applicable to the Bank and are not yet effective or have neither been implemented earlier

IFRS	Description of changes	Effective in the European Union from	Impact on the Bank
IFRS 9 Financial Instruments	Changes in classification and measurement - the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value.	1 January 2015	The Bank has not completed its analysis of changes.
IFRS 10 Consolidated Financial Statements	New standard supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements as far as presentation and preparation of **consolidated** financial statements is concerned.	1 January 2014	The Bank has not completed its analysis of changes.
IFRS 11 Joint Arrangements	Supersedes SIC –13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures.	1 January 2014	The Bank has not completed its analysis of changes.
IFRS 12 Disclosures of Interests in Other Entities	New standard requires the disclosure of information that enables users of financial statements to evaluate: -the nature of, and risks associated with, its interests in other entities; -the effects of those interests on its financial position, financial performance and cash flows.	1 January 2014	The Bank has not completed its analysis of changes.
IFRS 13 Fair Value Measurement	IFRS establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs.	1 January 2013	Amendments will not have material impact over the financial statements.
IAS 19 Employee Benefits	The standard modifies the rules of settlement of the defined benefits plans and the employment termination benefits. It introduces changes to disclosures.	1 January 2013	Amendments will not have material impact over the financial statements.
IAS 27 Separate Financial Statements	IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate **(non-consolidated)** financial statements.	1 January 2014	The Bank has not completed its analysis of changes.
IAS 28 Investments in Associates and Joint Ventures	The change prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2014	The Bank has not completed its analysis of changes.
IAS 1 Presentation of Financial Statements	The amendments requires preparing presentation of items of other comprehensive income (OCI) in financial statements.	1 January 2013	Amendments will not have material impact over the financial statements.
IFRS 7 Financial instruments: disclosures	The amendments introduce the change in the disclosure requirements with regard to the effects of offsetting of financial assets and financial liabilities.	1 January 2013	Amendments will not have material impact over the financial statements.
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments.	1 January 2014	The Bank has not completed its analysis of changes.
Improvments to IFRSs (2009-2011)	Subject of amendment: -IAS 1 - Clarification of requirement for comparative information; -IAS 16 Classification of servicing equipment; -IAS 32 Income tax consequences of distributions to holders of an equity instrument; - IAS 34 segment information for total asset.	1 January 2013	Amendments will not have material impact over the financial statements.
Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)	The amendment exempts from consolidation „investment entities" such as mutual funds.	1 January 2014	The Bank has not completed its analysis of changes.
Transition Guidance (Amendments to IFRS 10)	The amendments clarify transition guidance in IFRS 10 and also provide additional transition relief in IFRS 10, IFRS 11, IFRS 12.	1 January 2014	The Bank has not completed its analysis of changes.

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2012

IFRS	Description of changes	Effective in the European Union from	Impact on the Bank
IFRS 7 Financial instruments: disclosures	The change required disclosure of information so that the readers of the financial statements may: understand the relation between the transferred financial asset which has not been fully excluded from the financial statements and the underlying financial obligations; assess the nature of the asset, associated risks and exposure towards the excluded asset. The change includes definition of "continous engagement" to ensure compliance with disclosure requirements.	1 January 2012	Amendments have not had material impact on the financial statements.

Basis of preparation

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

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

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

Accounting policies

Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

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

Key estimates made by the Bank

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which Bank Zachodni WBK S.A. is exposed and other external factors such as legal and regulatory requirements. A provision is made against impaired loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision in the Bank is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. The Bank uses a consistent system for grading advances according to agreed credit criteria with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in the Bank; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability. IBNR (Incurred But Not Reported) provisions are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans. As experience shows, such claims exist in every credit portfolio.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio.

Estimates of loss take into account the following key factors:

- EP - Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Bank,
- PD - Probability of default, based on historical observations together with EP is considered to be best indicator of incurred but not reported losses,
- LGD - Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default,
- EAD - exposure at default,
- CCF - Credit Conversion Factor for the Bank's contingent commitments (conversion of off-balance sheet items into on-balance sheet exposure).

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

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

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

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

Assets held for sale are recorded at the lower of their carrying amount or estimated fair value less estimated costs to sell.

Fair value of financial instruments
Some of the Bank's financial instruments are carried at fair value, including all derivatives, other financial assets measured at fair value through profit or loss and financial instruments available for sale. Financial instruments are either marked-to-market or priced by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used).

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

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

Foreign currency

Foreign currency transactions
PLN is the accounting currency in the Bank.

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

Financial assets and financial liabilities

Classification

The Bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

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

This is a financial asset or liability that meets either of the following conditions.

a) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
    i. it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
    ii. it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
    iii. derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
b) Upon initial recognition it is designated by the Bank at fair value through profit or loss. As at the balance sheet date the Bank doesn't hold this category of financial instrument.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
b) those that the entity upon initial recognition designates as available for sale;
c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables comprise loans and advances to Banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market and receivables due to reverse repo transactions.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

a) loans and receivables;
b) held-to-maturity investments;
c) financial assets at fair value through profit or loss.

Other financial liabilities

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

Recognition

The Bank recognises a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provision of the instrument.

A regular way purchase of a financial asset is recognised in the statement of financial position as at the transaction settlement date. This method is applied consistently for all purchases and sales of financial assets. Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

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

A regular way purchase of a financial asset is derecognised from the statement of financial position as at the transaction settlement date. This method is applied consistently for all purchases and sales of financial assets.

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

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

After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

a) loans and receivables which shall be measured at amortised cost using the effective interest method;
b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;
c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

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

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

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for:

a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value;
b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

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

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

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

Gains and losses on subsequent measurement
A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows:

- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss,

- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised in other comprehensive income, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

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

Subsidiaries, associates and joint ventures

An investment in subsidiaries, associates and joint ventures is recognised at cost less impairment. Impairment is recognised in the income statement. A release of an impairment provision is recognised in a statement of comprehensive income if estimates used to calculate return on investment have changed.

Repurchase and reverse repurchase transactions

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

Securities sold subject to repurchase agreements (“repo and sell-buy-back transactions”) are not derecognised from the statement of financial position at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements (“reverse repo and buy-sell-back transactions”) are not recognised in the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

Derivative financial instruments

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Certain derivatives embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the profit and loss account.

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

Hedge accounting

Hedge accounting recognises the offsetting effects on the statement of comprehensive income of changes in the fair values of the hedging instrument and the hedged item.

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

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

The Bank discontinues hedge accounting when:

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

Fair value hedge

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

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

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:

a) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and
b) could affect the statement of comprehensive income.

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

Interest income and expenses from cash flow hedge instruments are recognised as net interest income.

Impairment of financial assets

Assets carried at amortised cost – loans and receivables

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

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

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

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

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

The analysis of impairment is carried out:

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

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

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

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

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

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

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

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

The amount of the reversal is recognised in profit or loss.

When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non-recoverable is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income shall be removed and recognised in profit or loss. The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Held-to-maturity investments

If there is objective evidence of impairment of the held-to-maturity investments carried at amortised cost, the impairment loss is the difference between the balance sheet value of the asset and the present value of estimated future cash flows discounted using the original effective interest rate (i.e. the effective interest rate at the date of initial recognition). If the investment is a variable rate instrument, the discount rate used for estimation of impairment is the present effective interest rate set under the particular contract. The balance sheet value of the asset is reduced by recognising the applicable provisions in the Bank's loss.

Contingent liabilities

The Bank creates provisions for impairment of risk-bearing irrevocable conditional liabilities (irrevocable credit lines, financial guarantees, Letter of Credits, etc.). The value of the provision is determined as the difference between the estimated amount of available conditional exposure and the current value of expected future cash flows under this exposure.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Leased assets

Leases for which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Owner-occupied property acquired through finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

The Bank recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each asset. The estimated useful lives are as follows:

- buildings 40 years
- structures 22 years
- plant and equipment 3 – 14 years
- vehicles 4 years

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Fixed assets held for sale

On initial date of classification of non-current assets as assets held-for-sale, the Bank measures them at the lower of carrying amount and fair value less cost to sell.

Any initial or subsequent write-down of assets held-for-sale to fair value less cost to sell is recognised in the profit and loss account.

Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Other intangible assets
Other intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful live is 3 years.

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Other items of statement of financial position

Other trade and other receivables
Trade and other receivables are stated at cost less impairment losses.

Other liabilities
Liabilities, other than financial liabilities, are stated at cost.

Equity
Equity comprises capital and funds created in accordance with applicable law, acts and the Statutes. Equity also includes retained earnings and prior year losses carried forward.

Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.

Supplementary capital is created from profit allocations and share issue premiums.

Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.

The result of valuation of profit sharing scheme is included in reserve capital (IFRS 2.53).

Revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax. The revaluation reserve is not distributable.

On derecognition of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the profit and loss account.

The net financial result for the accounting year is the profit disclosed in the profit and loss account of the current year adjusted by the corporate income tax charge.

Dividends

Dividends for a particular year, which have been declared and approved by the General Meeting of Shareholders but not paid at the at the end of the reporting period are recognised as dividend liabilities in “other liabilities” item.

Employee benefits

Short-term service benefits
The Bank’s short-term employment benefits which include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

Long-term service benefits
The Bank's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the Collective Labour Agreement and terms of individual employee contract as well as the accrual for disability pension bonus is estimated using actuarial valuation methods. The valuation of those accruals is updated at least once a year.

Share based payments
The Bank operates a share based compensation plan. For share options after 7 November 2002 (IFRS 2.53), the fair value of the employee services received is measured by reference to the fair value of awards granted on the day of the grant. The cost of the employee services received in exchange for awards granted is recognized in the income statement over the period during which the employees become unconditionally entitled to the share based payments, which is the vesting period. The amount expensed is determined by reference to the fair value of awards granted. The fair value of awards granted is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors. The Bank assesses probability of the programme vesting which affects the programme value in the costs of the reporting period.

Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms are dependent on market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services so that ultimately, the amount recognized in the income statement reflects the number of vested awards.

The expense related to share based payments is credited to shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

Provisions

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for off balance sheet items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Net interest income

Interest income from a financial asset is recognised when is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably.

Interest income and expenses for all financial instruments is recognised in the income statement at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses.

The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

In case impairment is recognized for a financial asset, interest income is accrued based on the carrying amount of receivable (this is the value reduced by revaluation charge) using of the interest rate according to which future cash flows were discounted for impairment valuation.

Net commission income

Fees and commissions settled under effective interest rate are listed above.

Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are recognized on a straight-line basis in the profit and loss account.

Other fees and charges, which are not settled according to effective interest rate, are included in profit and loss account in accordance with accrual method.

Net commission income from FX transactions in the branch network includes elements of revaluation.

Net trading income and revaluation

Net trading income and revaluation include profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest costs and incomes related to the debt instruments are also reflected in the net interest income.

Dividend income

Dividends are taken to the Bank's profit at the moment of acquiring rights to them, provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably.

Profit on disposal of subsidiaries, associates and joint ventures

Profit on the sale of interests in subsidiaries is the difference between the net asset value and their sale price.
Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity of the Bank.

These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

Operating lease payments are taken to the Bank's cost on a straight-line basis over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Risk management

Bank Zachodni WBK is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that the Bank continues to take risk in a controlled way in order to enhance shareholder value. Risk is a possibility that some events would materialise, which would impact the achievement of the Bank's strategic goals.

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set and review appropriate risk limits, which restrict the risk exposure. Bank Zachodni WBK continues to modify and enhance its risk management practices to reflect changes in the Bank's risk profile, economic environment, regulatory requirements and evolving best practice.

In Bank Zachodni WBK, the Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

The Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies, the acceptable risk level and monitors the utilisation of the internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring of remedial actions. The Supervisory Board assesses if the Management Board control activities are effective and aligned with the Supervisory Board policy, including the assessment of the risk management system.

Audit and Compliance Committee of the Supervisory Board supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports from the independent internal audit unit and compliance units. The Committee receives the regular quarterly reports on the status of the implementation of audit recommendations as the basis of the assessment of the quality of management actions. The Audit Committee assesses the efficiency of the internal control system and the risk management system.

Risk Oversight Committee supports the Supervisory Board in assessment of the effectiveness of the internal control system and risk management system and the resources, which were accepted and planned in order to provide the efficient management of the material risks of the Bank.

Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, is responsible for implementation and updating of the written risk management strategies, and transparency of the activities. The Management Board reviews the financial results of the Bank. The Management Board established a number of committees directly responsible for the development of the risk management methodology and monitoring of risks in particular areas.

Risk Management Committee sets the direction of the risk management strategy in Bank Zachodni WBK. The Risk Management Committee has a supervisory role for all the committees responsible for managing the risks identified in the Bank's operations. The comprehensive reporting process ensures that the Committee has a full and consistent picture of the Bank's current risk profile.

The Risk Management Committee has an oversight over the following risk committees:

Risk Management Forum, a body authorised to approve and supervise the risk measurement policy and methodology and to monitor the credit risk, market risk in the banking book, market risk in the trading book, structural balance sheet risk and liquidity risk. The Forum operates through 4 panels:

- **Credit Risk Panel;**
- **Market Risk Panel;**

- **Models and Methodology Panel;**
- **Equity Investment and Underwriting Panel.**

Credit Committee takes credit decisions in accordance with the applicable credit discretion levels.

Provisions Committee decides on the amount of impairment losses on credit exposures and the legal provisions. The Committee approves the methodology and the parameters used for the calculation of impairment on a portfolio level for the Bank.

Monitoring Committee ensures a continuous and effective monitoring of the credit portfolio of the business and the corporate segment.

Operational Risk Management Committee (ORMCo) sets the strategic activities within the operational risk management in the Bank, including business continuity management, information security and fraud prevention.

ALCO/ICAAP Forum is responsible for capital management, especially for the ICAAP process. It exercises oversight over the banking portfolio activity and takes decisions on liquidity management and the management of the interest rate risk on the banking book. It is responsible for the funding and balance sheet management, including for the pricing policy.

Disclosures Committee verifies the Bank's financial information in terms of its compliance with legal and regulatory requirements.

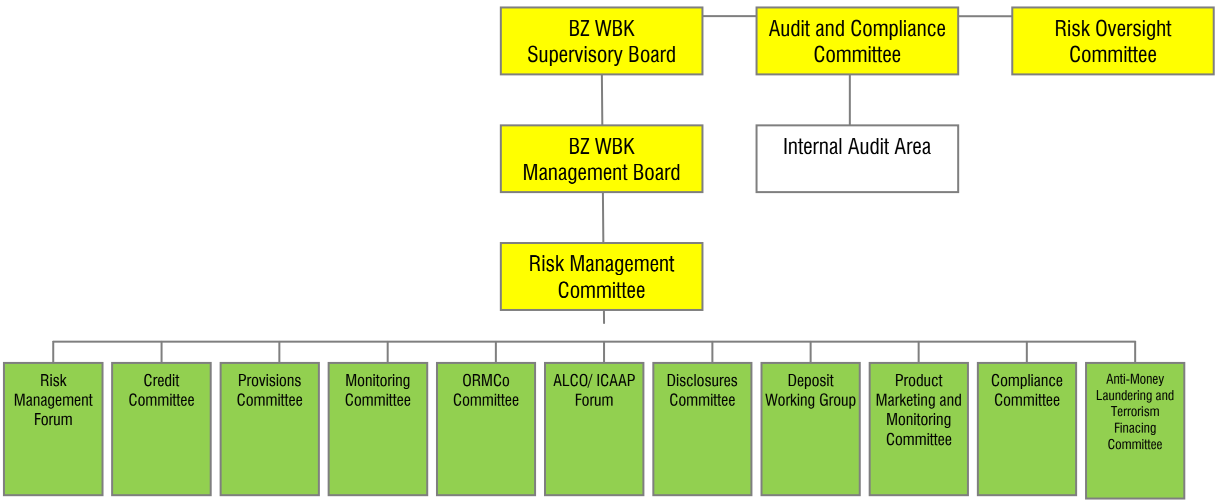
Deposit Working Group has a responsibility for ensuring a balanced growth of the savings and investment products portfolio.

Product Marketing and Monitoring Committee approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

Compliance Committee is responsible for setting standards with respect to the management of compliance risk and the codes of conducts adopted by the Bank.

Anti-Money Laundering and Terrorism Financing Committee approves the Bank's policy on prevention of money laundering and the financing of terrorism. It approves and monitors the bank's activities in this area.

The picture below presents the corporate governance in relation to the risk governance process.



Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee.

Risk appetite is expressed as quantitative limits and captured in the "Risk Appetite Statement" approved by the Management Board and the Supervisory Board. With global limits in place, watch limits are set and risk management policies are drafted.

Bank Zachodni WBK is exposed to a variety of risks affecting its strategic goals. The Bank continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. The risks the Bank is exposed to include:

- credit risk;
- concentration risk;
- market risk;
- liquidity risk;
- operational risk;
- compliance risk.

Detailed principles, roles and responsibilities of the Bank's units have been described in the relevant internal policies on the management of the particular risks.

Credit risk

The credit delivery activities of Bank Zachodni WBK focus on growing a high quality and profitable loan-book and ensuring customer satisfaction.

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 procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan-book. Additionally the Bank uses a large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Bank continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models based on EVA (Economic Value Added) are used for all significant credit portfolios.

Continued pro-active credit risk management is recognised as key to the Bank's performance in the volatile markets and deteriorating economic growth conditions. In 2012, the Bank continued its risk management policy that focused both on credit risk and business effectiveness. Under the strategy of pro-active management, in 2012 the Bank took the following measures:

- In the face of the economic slowdown and instability in the currency markets, leading to an increase in the cost of risk and causing liquidity problems for customers, especially in the construction sector, the Bank was carefully analysing the situation and monitoring its credit exposure in the individual customer segments and economic sectors to ensure the most adequate parameters of its credit policy;
- Strengthened the role of the Risk Management Division, which became responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio;
- Reviewed the structure of the committees that take decisions on credit risk. Appointed the Monitoring Committee, which is responsible for ensuring a continuous and effective monitoring of the credit portfolio of the business and the corporate segment. In 2012, the Bank established the Recoveries Forum with a responsibility for recovering high-risk credit exposures and making regular reviews of the non-performing loans portfolio;
- Constantly developed and upgraded risk-based decision-making systems and methods of grading loans, allocating capital, measuring and increasing returns and monitoring of risk profile in all credit portfolios. In particular, the Bank expanded the risk analysis of new SME loans by using an external database of borrowers "BIK Przedsiębiorca", which ensured a significant reduction of the risk of SME lending.

The Bank's priorities during the year, and also for 2013, include continuation of the prudential risk management policy while carefully observing the external environment, with a particular focus on ensuring compliance with the regulatory standards and requirements, working on optimisation of credit delivery to make it more efficient and free from human errors, providing smooth customer service and keeping operating costs down.

Risk Management Forum

The credit risk oversight in Bank Zachodni WBK is performed by Credit Policy Panel (CPP) operating within the Risk Management Forum. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the Bank's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment.

The oversight over the credit risk models is the responsibility of the Models and Methodology Panel.

Risk Management Division

Following the combination with the Credit Division, the Risk Management Division became responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the Bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Bank reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Bank's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

Credit Decision Making Process

The credit decision-making process as a part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience within the business segments. Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management and top executives.

The Bank continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

The Bank uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loan, cash loans, credit cards and personal overdrafts.

The Bank regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. Credit grade is also verified at subsequent credit assessments.

Credit Reviews

The Bank performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Collateral

In the Bank's security model, the Securities Centre is the central unit responsible for creation and maintenance of securities.

The role of the Securities Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The Securities Centre is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral and ensuring effectiveness of the process of establishing, monitoring and releasing the security covers.

Furthermore, the Securities Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information.

The tables below present different forms of collaterals that can be used against loans and advances to customers from non-banking sector.

Retail customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank's account, court registered pledge on movables, transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Business customers

Type of loan	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank's account, court registered pledge on movables, transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Collateral management process

Before a credit decision is approved, the Securities Centre assesses the collateral quality, a process that includes:

- verification of the valuation reports – assessment of the security value;
- assessment of the legal status of the security;
- assessment of the investment process for the properties;
- seeking legal advice on the securities offered.

The Securities Centre actively participates in the individual stages of the credit process, focusing on:

- drafting credit documentation;
- verification and assessment of the signed credit documentation;
- verification of data in the IT systems;
- collateral monitoring and reporting;
- releasing the collateral.

The Bank's process of managing its exposures also includes liquidation of collateral. The choice of the scope and method of collateral liquidation to satisfy the Bank's claims depends on the type of collateral (personal or tangible). As a rule, the Bank aims to liquidate the collateral voluntarily through negotiation. If the collateral provider is uncooperative the Bank follows the debt collection course prescribed by law and the Bank's internal regulations.

Credit risk stress testing

Stress testing is one of the components of the credit risk management process aimed at assessing how the Bank might be affected by specific changes in its environment, changes in financial and macroeconomic indicators or in the risk profile. The analysis also looks at the potential credit quality changes in the wake of adverse developments. The process also provides management information about adequacy of agreed limits and internal capital allocation.

Calculation of impairment

Bank Zachodni WBK posts impairment losses on credit exposures in accordance with the International Accounting Standards / International Financial Reporting Standards (IAS/IFRS). Impairment losses reflect deterioration in the value of credit assets. An impairment loss is recognised if the Bank has objective evidence that the debt cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with recommendations of the Basel Committee and the International Accounting Standards (IAS 39).

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

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Twice a year, to facilitate proper calculation of impairment, the Bank compares the assumptions and parameters used for impairment calculations with the actual situation, taking into account changes of economic conditions, amendments to the Bank's credit policies and recovery processes. The responsibility for ensuring adequacy of the impairment charges rests with the Provisions Committee.

The tables below present the Bank's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2012	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	495 458	-	-	-
	50% - 70%	312 870	-	-	-
	70% - 85%	138 019	-	-	-
	over 85%	119 842	-	-	-
Gross amount		**1 066 189**	**-**	**-**	**-**
Allowance for impairment		(514 846)	-	-	-
Net amount		**551 343**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	320 094	-	-	-
	50% - 70%	244 226	-	-	-
	70% - 85%	313 851	-	-	-
	over 85%	148 399	-	-	-
Gross amount		**1 026 570**	**-**	**-**	**-**
Allowance for impairment		(606 180)	-	-	-
Net amount		**420 390**	**-**	**-**	**-**
IBNR portfolio (past due&non-past due)					
	up to 0.10%	14 410 748	1 454 313	11 697 393	818 581
	0.10% - 0.30%	7 514 937	-	-	-
	0.30% - 0.65%	7 421 098	-	-	-
	over 0.65%	9 365 781	-	-	-
Gross amount		**38 712 564**	**1 454 313**	**11 697 393**	**818 581**
IBNR provision		(324 351)			
Net amount		**38 388 213**	**1 454 313**	**11 697 393**	**818 581**
Other receivables		**104 755**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		11 341 318	-	-	-
Guarantees		2 531 943	-	-	-
Nominal value of derivatives - purchased		-	-	-	52 216 811
Allowance for off-balance sheet exposures		(17 619)	-	-	-
Off-balance sheet exposures - total		**13 855 642**	**-**	**-**	**52 216 811**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 19.

In thousands of PLN

31.12.2011	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	556 485	-	-	-
	50% - 70%	137 931	-	-	-
	70% - 85%	110 916	-	-	-
	over 85%	120 013	-	-	-
Gross amount		**925 345**	**-**	**-**	**-**
Allowance for impairment		(399 036)	-	-	-
Net amount		**526 309**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	435 838	-	-	-
	50% - 70%	171 432	-	-	-
	70% - 85%	379 615	-	-	-
	over 85%	124 037	-	-	-
Gross amount		**1 110 922**	**-**	**-**	**-**
Allowance for impairment		(583 829)	-	-	-
Net amount		**527 093**	**-**	**-**	**-**
IBNR portfolio (past due&non-past due)					
	up to 0.10%	8 059 301	1 198 349	11 625 143	5 779 309
	0.10% - 0.30%	13 428 985	-	-	-
	0.30% - 0.65%	4 099 393	-	-	-
	over 0.65%	11 033 678	-	-	-
Gross amount		**36 621 357**	**1 198 349**	**11 625 143**	**5 779 309**
IBNR provision		(331 177)	-	-	-
Net amount		**36 290 180**	**1 198 349**	**11 625 143**	**5 779 309**
Other receivables		**78 614**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		9 288 686	-	-	-
Guarantees		1 798 569	-	-	-
Nominal value of derivatives - purchased		-	-	-	67 159 401
Allowance for off-balance sheet exposures		(22 224)	-	-	-
Off-balance sheet exposures - total		**11 065 031**	**-**	**-**	**67 159 401**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 19.

IBNR portfolio

	Loans and advances to customers	
	31.12.2012	31.12.2011
Non-past due	**37 343 922**	**35 623 958**
Past-due	**1 368 642**	**997 399**
1-30 days	955 912	811 519
31-60 days	321 392	120 330
61-90 days	79 991	59 249
> 90 days	11 347	6 301
Gross amount	**38 712 564**	**36 621 357**

In thousands of PLN

Allowances for impairment by classes

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Individual allowance for impairment				
up to 50%	(101 359)	(97 563)	-	-
50% - 70%	(196 408)	(94 467)	-	-
70% - 85%	(100 550)	(88 132)	-	-
over 85%	(116 529)	(118 874)	-	-
Total individual allowance for impairment	**(514 846)**	**(399 036)**	**-**	**-**
Collective allowance for impairment				
up to 50%	(78 666)	(66 493)	-	-
50% - 70%	(144 450)	(101 035)	-	-
70% - 85%	(243 718)	(295 681)	-	-
over 85%	(139 346)	(120 620)	-	-
Total collective allowance for impairment	**(606 180)**	**(583 829)**	**-**	**-**
IBNR				
up to 0.10%	(5 589)	(3 659)	-	-
0.10%-0.30%	(13 056)	(20 951)	-	-
0.30%-0.65%	(34 290)	(18 869)	-	-
over 0.65%	(271 416)	(287 698)	-	-
Total IBNR	**(324 351)**	**(331 177)**	**-**	**-**
Total allowance for impairment	**(1 445 377)**	**(1 314 042)**	**-**	**-**

Credit risk concentration

Bank Zachodni WBK S.A. adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2012, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 1 880 332 k (25% of Bank's own funds).

The policy pursued by the Bank aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect, which are set out in the Large Exposures Policy. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.

The analysis of the Bank's exposures in terms of sector concentrations, carried out at the end of December 2012, proved that the Bank does not have any exposures in excess of the limits imposed by the regulator.

In thousands of PLN

A list of the 20 largest borrowers (or group of capital-related borrowers) of Bank Zachodni WBK S.A. (performing loans) as at 31.12.2012.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	FINANCIAL SERVICES	2 277 368	1 306 936	970 432
64	FINANCIAL SERVICES	1 614 090	971 080	643 010
64	FINANCIAL SERVICES	1 266 200	925 288	340 912
06	MINING	1 069 820	292 292	777 528
35	POWER INDUSTRY	854 731	1 707	853 024
27	MANUFACTURING	800 818	-	800 818
19	RAFINERY	735 046	321 694	413 352
68	REAL ESTATE SERVICES	732 325	730 035	2 290
35	POWER INDUSTRY	600 485	363	600 122
68	REAL ESTATE SERVICES	569 601	507 613	61 988
68	REAL ESTATE SERVICES	473 900	473 900	-
59	MULTIMEDIA	456 112	333 456	122 656
68	REAL ESTATE SERVICES	395 638	293 325	102 313
56	CATERING	370 689	6 461	364 228
07	MINING	356 708	4 726	351 982
41	CONSTRUCTION	339 034	333 214	5 820
68	REAL ESTATE SERVICES	337 971	292 764	45 207
64	FINANCIAL SERVICES	272 144	241 647	30 497
46	WHOLESALE	253 368	226 348	27 020
10	FOOD INDUSTRY	250 630	-	250 630
Total gross exposure		**14 026 678**	**7 262 849**	**6 763 829**

A list of the 20 largest borrowers (or group of capital-related borrowers) of Bank Zachodni WBK S.A. (performing loans) as at 31.12.2011.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	FINANCIAL SERVICES	2 045 507	1 087 774	957 733
64	FINANCIAL SERVICES	1 618 181	989 797	628 384
68	REAL ESTATE SERVICES	817 416	799 424	17 992
64	FINANCIAL SERVICES	806 200	403 820	402 380
68	REAL ESTATE SERVICES	710 567	643 705	66 862
19	RAFINERY	668 029	495 224	172 805
35	POWER INDUSTRY	616 500	289 588	326 912
46	WHOLESALE	535 000	535 000	-
68	REAL ESTATE SERVICES	510 582	510 582	-
41	CONSTRUCTION	398 178	377 178	21 000
07	MINING	377 198	13 526	363 672
68	REAL ESTATE SERVICES	377 147	328 306	48 841
23	CERAMICS PRODUCTION	367 254	356 029	11 225
59	MULTIMEDIA	356 808	170 613	186 196
41	CONSTRUCTION	317 600	177 081	140 518
61	TELECOMMUNICATION	325 000	294 503	30 497
68	REAL ESTATE SERVICES	315 175	314 683	492
35	POWER INDUSTRY	284 397	1 120	283 277
41	CONSTRUCTION	282 472	273 551	8 922
64	FINANCIAL SERVICES	257 575	164 943	92 632
Total gross exposure		**11 986 786**	**8 226 446**	**3 760 340**

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Industry concentration

The credit policy of Bank Zachodni WBK assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Bank provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2012, the highest concentration level was recorded in the “property” sector (22% of the BZ WBK exposure), “manufacturing” (11%) and “distribution” (11%).

Groups of PKD by industries:

	Industry	Gross exposure	
		31.12.2012	31.12.2011
	Property	9 030 948	9 889 188
	Manufacturing	4 411 474	4 241 664
	Distribution	4 673 067	4 072 327
	Financial sector	4 247 993	3 486 014
	Construction	937 304	873 820
	Energy	800 972	731 191
	Agriculture	626 958	586 012
	Transportation	479 746	372 937
	Other industries	1 900 209	1 865 850
A	**Total Business Loans**	**27 108 671**	**26 119 003**
B	**Retail (including mortgage loans)**	**13 696 652**	**12 538 621**
A+B	**BZWBK portfolio**	**40 805 323**	**38 657 624**
C	**Other receivables (commercial bonds, reverse repo)**	**104 755**	**78 614**
A+B+C	**Total BZ WBK**	**40 910 078**	**38 736 238**

Market risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).

BZ WBK is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally, the Bank undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are directly supervised by the Risk Management Forum.

General principles of market risk management

The key objective of the market risk policy pursued by the Bank is to reduce the impact of the volatile market environment on the Bank’s profitability and to grow income within strictly defined risk parameters while ensuring the Bank’s liquidity and market value.

The Bank’s market risk policies establish a number of limits and ratios for the purpose of risk assessment and mitigation. Risk limits are periodically reviewed to align them with the Bank’s strategy.

Interest rate and FX risks linked to the banking business is managed centrally by the Financial Management Division. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO. This activity is controlled by the measures and limits approved from time to time by the Risk Management Forum, the Bank’s Management Board and the Supervisory Board.

The debt securities and the interest rate derivatives portfolio is managed by ALCO, which takes all decisions on the portfolio’s value and structure.

The market risk on the trading portfolio is managed by the Global Banking and Markets Division, which is also responsible for the ownership supervision over Dom Maklerski BZ WBK S.A. The Bank’s trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. This limits are approved by the Risk Management Forum, the Bank’s Management Board and the Supervisory Board.

In thousands of PLN

The Financial Risk Department within the Risk Management Division is responsible for ongoing assessment of the current risk, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk assessment methodologies and ensuring consistency of the risk management process across the Bank. Owing to the fact that the Department is a part of the Risk Management Division, the risk assessment and monitoring processes are separate from the risk-taking units.

Assessment methods
Bank Zachodni WBK uses several methods to assess its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, while the methods used for the trading portfolio include: Value at Risk (VaR), stop loss, sensitivity measures (PV01) and stress tests. The risk assessment methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

In Bank Zachodni WBK, VaR is determined by means of a statistical modelling process as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Dom Maklerski WBK S.A.

Due to the limitations of the VaR methodology, the Bank augments it by stress tests and by sensitivity measurement that shows how position value changes in reaction to price/profitability movements.

Interest rate risk in the banking book

The interest rate risk in the banking book is the risk of adverse impact of interest rate changes on the Bank's income and the value of its assets and liabilities. The main source of interest rate risk are transactions entered in the Bank's branches and in the business and corporate centres, as well as the transactions made in the money market by the Financial Management Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/commercial bonds, or the Bank's borrowings from the interbank market. However, all positions that generate a repricing risk are transferred for management to the Financial Management Division, where the Bank's dealers enter into transactions in the interbank markets so as to manage the overall interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The interest rate risk in the banking book is managed based on the following limits:

- NII sensitivity limit (i.e. sensitivity of the net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (i.e. sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

The sensitivity measures for 2012 are presented in the table below.

	NII Sensitivity	MVE Sensitivity
1 day holding period	**31.12.2012**	**31.12.2012**
Maximum	90	140
Average	48	70
as at the end of the period	90	131
Limit	**75**	**150**

In Q4 2012, the NII limit was exceeded as a result of redevelopment of the investment portfolio structure. The excess was reported to the bank's Management Board and Supervisory Board.

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Banking and Markets Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss.

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The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR in the Bank is calculated for the open positions of the Global Banking and Markets by establishing the difference between the market valuation of the interest rate transactions based on the current yield curves, and the valuation based on the "worst case" yield curve, which is calculated based on the fluctuations in the interest rates.

The "stop-loss" mechanism is used for managing the risk of losses on the items covered by the rules of fair valuation through profit and loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The table below shows risk measures at the end of 2012 **for 1-day position holding period**. Due to the change in the rules of market risk management and the change of VaR calculation methodology these data are not comparable with the 2011 data.

Interest rate risk	VAR
1 day holding period	**31.12.2012**
Average	2 089
Maximum	5 261
Minimum	165
as at the end of the period	745
Limit	**7 749**

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in the Bank's trading portfolio. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

In accordance with its policy, the Bank does not maintain open positions on currency options. Transactions made with clients are immediately closed in the wholesale market thus limiting the Bank's exposure to the market risk on the currency options portfolio.

The table below illustrates the risk measures at the end of December 2012. Due to the change in the rules of market risk management and the change of VaR calculation methodology these data are not comparable with the 2011 data.

FX risk	VAR
1 day holding period	**31.12.2012**
Average	613
Maximum	1 542
Minimum	142
as at the end of the period	382
LIMIT	**1 550**

FX Balance Sheet

In 2012, the FX structure of the credit assets and deposit liabilities remained relatively unchanged. However, given the values expressed in original currencies, a net assets decrease was noted (6.7% for EUR and 11.0% for CHF). The FX gap was financed mainly by the FX swap transactions and cross-currency swaps.

In thousands of PLN

The tables below show the Bank's main FX items – as at 31 December 2012 and 2011.

31.12.2012	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	3 813 863	261 539	6 911	74 957	4 157 270
Loans and advances to banks	177 003	921 858	20 874	334 578	1 454 313
Loans and advances to customers	27 337 226	9 225 797	2 051 583	850 095	39 464 701
Investment securities	10 992 462	704 931	-	-	11 697 393
Selected assets	**42 320 554**	**11 114 125**	**2 079 368**	**1 259 630**	**56 773 677**
LIABILITIES					
Deposits from banks	683 759	580 328	2 771	24 797	1 291 655
Deposits from customers	40 874 129	4 940 650	60 663	1 286 727	47 162 169
Subordinated liabilities	-	409 110	-	-	409 110
Selected liabilities	**41 557 888**	**5 930 088**	**63 434**	**1 311 524**	**48 862 934**

31.12.2011	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	1 231 360	118 897	6 400	68 880	1 425 537
Loans and advances to banks	156 766	985 811	20 120	35 652	1 198 349
Loans and advances to customers	24 433 849	9 449 538	2 429 045	1 109 764	37 422 196
Investment securities	11 162 902	318 929	-	143 312	11 625 143
Selected assets	**36 984 877**	**10 873 175**	**2 455 565**	**1 357 608**	**51 671 225**
LIABILITIES					
Deposits from banks	2 297 867	60 669	42	2 855	2 361 433
Deposits from customers	41 441 888	4 395 955	55 340	1 098 896	46 992 079
Subordinated liabilities	-	441 234	-	-	441 234
Selected liabilities	**43 739 755**	**4 897 858**	**55 382**	**1 101 751**	**49 794 746**

Liquidity risk

Liquidity risk is the risk that the Bank fails to meet its contingent and non-contingent obligations towards customers and counterparties as a result of a mismatch of financial cash flows.

Liquidity Risk Management

The BZ WBK Liquidity Management Policy is designed to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organization of the liquidity management process in BZ WBK;
- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by the Bank in its liquidity management process is that all expected outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the Bank's operations. The QLA category includes: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.

In addition, the policy's aim is to ensure an adequate structure of funding the growing scale of the Bank's business by maintaining liquidity ratios at pre-defined levels. The Bank uses a number of other limits and observation ratios (including the loans to deposits ratio, the ratio of dependence on funding in the wholesale market, and the ratios required by Basel 3: LCR and NSFR). In terms of the long-term liquidity, in addition to the internal measures, the Bank uses a limit corresponding to the regulatory limit, which requires that the equity and the stable sources of funding should fully cover the credit portfolio and non-liquid assets (e.g. fixed assets).

Management Process

The responsibility for supervision over the liquidity risk management process rests on the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management.

Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

The 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 also contains stress test with system and idiosyncratic scenarios.

Risk Measurement and Reporting
The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department.

The role of the Department is to draft liquidity management policies, carry out stress tests and to measure and report on risk.

Liquidity is measured by means of the modified liquidity gap, which is designed separately for the PLN and currency positions. The reported contract positions are subject to modifications based on: statistical analyses of the deposit and credit base behaviour, evaluation of the possibility to liquidate State Treasury securities by selling or pledging them in repo transactions or the lombard loan with NBP, evaluation of transaction rolling in the interbank market. The actual liquidity gap is used to set liquidity ratios, i.e. the ratio of projected consolidated inflows to projected outflows in the particular period. Concurrently, liquidity is measured in accordance with KNF Resolution no. 386/2008 on setting liquidity standards for Banks, and with the requirements laid down in Basel 3.

As an addition, stress tests are used in order to assess the Bank’s exposure to liquidity risk and the maximum demand for the sources of funding if the particular scenarios materialise.

In thousands of PLN

Contractual Gap Analysis based on remaining time maturity as at 31.12.2012 and in comparable period:

31.12.2012	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	4 157 270	-	-	-	-	-	-	4 157 270
Loans and advances to banks	1 444 208	-	10 101	4	-	-	-	1 454 313
Financial assets held for trading	124 522	66 641	315 101	122 167	97 890	92 260	-	818 581
Loans and advances to customers	3 563 636	2 555 302	7 811 425	12 254 159	5 611 672	9 113 884	(1 445 377)	39 464 701
Investment securities	2 099 256	-	2 743 139	1 752 017	3 881 162	572 450	649 369	11 697 393
Other items	-	-	-	-	-	-	1 603 845	1 603 845
Long position	**11 388 892**	**2 621 943**	**10 879 766**	**14 128 347**	**9 590 724**	**9 778 594**	**807 837**	**59 196 103**
Deposits from banks	983 498	227 450	80 707	-	-	-	-	1 291 655
Financial liabilities held for trading	120 729	77 054	160 611	187 156	114 286	68 995	-	728 831
Deposits from customers	29 473 719	6 508 275	9 797 936	322 362	37 248	1 022 629	-	47 162 169
Subordinated liabilities	4 378	-	-	-	-	404 732	-	409 110
Other items	-	-	-	-	-	-	9 604 338	9 604 338
Short position	**30 582 324**	**6 812 779**	**10 039 254**	**509 518**	**151 534**	**1 496 356**	**9 604 338**	**59 196 103**
Gap-balance sheet	**(19 193 432)**	**(4 190 836)**	**840 512**	**13 618 829**	**9 439 190**	**8 282 238**	**(8 796 501)**	
Contingent liabilities- sanctioned								
Financing related	207 444	713 732	4 105 083	3 554 499	1 683 493	1 077 015	(16 960)	**11 324 306**
Guarantees	70 746	127 055	1 117 228	713 250	125 314	378 402	(659)	**2 531 336**
Derivatives settled in gross terms								
Inflows	3 762 151	2 108 001	2 515 756	5 732 097	3 578 758	1 958 704	-	**19 655 467**
Outflows	5 242 802	2 607 920	2 994 439	5 728 262	3 690 862	1 943 246	-	**22 207 531**
Gap – off-balance sheet	**(1 758 841)**	**(1 340 706)**	**(5 700 994)**	**(4 263 914)**	**(1 920 911)**	**(1 439 959)**	**17 619**	

In thousands of PLN

31.12.2011	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	1 425 537	-	-	-	-	-	-	1 425 537
Loans and advances to banks	1 198 349	-	-	-	-	-	-	1 198 349
Financial assets held for trading	4 661 829	140 562	301 759	461 552	112 062	101 545	-	5 779 309
Loans and advances to customers	3 823 141	1 650 089	6 969 700	11 270 020	6 051 042	8 972 246	(1 314 042)	37 422 196
Investment securities	444 775	139 372	2 101 636	3 510 893	1 725 321	3 049 565	653 581	11 625 143
Other items	-	-	-	-	-	-	1 566 313	1 566 313
Long position	**11 553 631**	**1 930 023**	**9 373 095**	**15 242 465**	**7 888 425**	**12 123 356**	**905 852**	**59 016 847**
Deposits from banks	1 850 687	510 746	-	-	-	-	-	2 361 433
Financial liabilities held for trading	203 130	124 926	219 964	277 887	70 549	41 526	-	937 982
Deposits from customers	32 562 771	8 457 404	4 332 003	729 658	25 451	884 792	-	46 992 079
Subordinated liabilities	3 971	-	-	-	-	437 263	-	441 234
Other items	-	-	-	-	-	-	8 284 119	8 284 119
Short position	**34 620 559**	**9 093 076**	**4 551 967**	**1 007 545**	**96 000**	**1 363 581**	**8 284 119**	**59 016 847**
Gap-balance sheet	**(23 066 928)**	**(7 163 053)**	**4 821 128**	**14 234 920**	**7 792 425**	**10 759 775**	**(7 378 267)**	
Contingent liabilities- sanctioned								
Financing related	314 800	819 629	3 780 331	3 096 805	850 262	426 859	(20 506)	**9 268 180**
Guarantees	52 755	125 522	370 584	1 075 597	83 882	90 229	(1 718)	**1 796 851**
Derivatives settled in gross terms								
Inflows	4 831 340	4 596 635	4 999 539	1 978 427	1 443 679	1 489 611	-	**19 339 231**
Outflows	4 950 048	4 572 971	5 033 291	2 133 793	1 693 035	1 676 614	-	**20 059 752**
Gap – off-balance sheet	**(486 263)**	**(921 487)**	**(4 184 667)**	**(4 327 768)**	**(1 183 500)**	**(704 091)**	**22 224**	

In thousands of PLN

Liquidity Policy Report – Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31.12.2012			
Qualifying Liquid Assets	11 625 907	22 316	2 557 625
Treasury inflows	1 601 209	4 227 328	10 623 160
Other inflows	2 923 994	436 793	37 197 905
Treasury outflows	(1 238 695)	(4 380 125)	(11 211 499)
Other outflows	(5 246 928)	(276 015)	(48 862 975)
GAP	**9 665 487**	**30 297**	**(9 695 784)**
Cumulative GAP	**9 665 487**	**9 695 784**	**-**

Liquidity risk	<1W	<1M	>1M
31.12.2011			
Qualifying Liquid Assets	12 401 619	1 040 043	500 000
Treasury inflows	1 510 347	1 996 766	13 323 359
Other inflows	257 777	362 208	39 998 386
Treasury outflows	(1 595 397)	(3 047 512)	(14 480 063)
Other outflows	(3 870 719)	(796 333)	(47 600 481)
GAP	**8 703 627**	**(444 828)**	**(8 258 799)**
Cumulative GAP	**8 703 627**	**8 258 799**	**-**

At the end of 2012, a change was observed in the profile of the contract maturity of the deposit base (an increase in the maturity of deposits up to 12 months) with a parallel fall in the value of deposits and an increase in the amounts due from customers compared with the end of 2011. As a result of these changes, investments in short-term liquid assets were reduced, but a sufficient buffer of liquid assets is maintained as required by the regulator and the Bank's internal regulations.

In 2012 and in the comparable period, all the key supervisory measures applicable to the Bank were maintained at the required levels.

Operating Risk

Bank Zachodni WBK adopted the definition of operational risk from the Basel Banking Supervision Committee which states that an operational risk is exposure to losses resulting from inadequate internal processes or systems, human errors or external factors.

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

In order to manage operational risk, Bank Zachodni WBK maintains an operational risk policy and operational risk framework, both of which are subject to regular review. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

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

BZ WBK Information Security Management System has been certified by ISO 27001:2005.

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

- Identification and estimation of operational risk

In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks for their likelihood and consequences, and describe the existing controls. As part of the self-assessment review, potential threats to the Bank's business are identified. The risks with high residual rating have proper action plans developed on which progress is reviewed quarterly by ORMCo.

- Reporting on operational incidents and lessons learned

Each organizational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are actioned. The lessons learned process is a tool aimed to reinforce and facilitate operational risk management; it ensures also that decisive steps are taken if operational incidents materialize.

- Analysis of risk indicators

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

- Business continuity management

Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption because of unavailability of systems, locations and staff. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.

- Regular reporting to the Risk Management Committee and Supervisory Board

Operational risk issues are reported to the Risk Management Committee and Supervisory Board, including: operational risk incidents and losses, risk indicators, operational risk self-assessment.

- Insurance

The Bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Officers & Directors.

Legal & compliance risk

Legal and regulatory (compliance) risk is defined – in line with the Basel Committee recommendation and the definition adopted by the strategic shareholder – as risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by 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.

Responsibilities of the Legal and Compliance Division relate to the "conduct of business" compliance obligations, including implementation of new products, protection of clients' rights, anti-money laundering, protection of sensitive information and protection of personal data.

The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. All issues regarding compliance with employment law are assigned to HR Management Division; compliance with taxation law and reporting requirements is the responsibility of Financial Accounting and Control Division, while compliance with prudential regulations is the responsibility of Risk Management Division.

Risk management and mitigation
The Bank's Management Board adopted a policy statement – consistent with the policy operated by the strategic shareholder – on compliance with legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area with the relevant mandate to support senior managers in effective management of compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area as part of monitoring of new products, regulatory activity, upcoming legislative initiatives and customers' complaints.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area.

The Compliance Area's major responsibilities include in particular (subject to the specific responsibility of Financial Accounting and Control Division, Risk Management Division and HR Management Division):

- independent identification, assessment and monitoring of compliance risk the Group is exposed to (with a particular focus on new or modified products and services and the issues connected with inside information, conflict of interest or private account shares dealing by employees);

- providing advice and reporting to the Risk Management Committee, Bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;

- providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;

- centralisation of contacts with market regulators (KNF, UOKiK, GIIF and GIODO).

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

Risk monitoring & reporting
The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures, regulatory requirements and codes of best practice. Monitoring is carried out by centralised units, Compliance Officers in dedicated units and subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).

Risk prioritised compliance monitoring plans are prepared based on the risk assessment process. Monitoring is particularly focused on the issues connected with MiFID compliance.

The annual monitoring plan, accepted by the Audit and Compliance Committee, is reviewed and updated on a regular basis. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Compliance Area, which is also responsible for monitoring the timeliness and quality of delivery of such action plans.

4. Capital Management

Introduction
It is the policy of the Bank Zachodni WBK to maintain equity at a level appropriate to the size and type of its business and the risk it is exposed to, in compliance with the Polish Banking Law and regulations issued by the Polish Financial Supervision Authority (KNF) which transpose the New Capital Accord of the Basel Committee (Basel II) into Polish law.

Basel II defines the approach to measurement of the minimum regulatory capital requirement (Pillar 1) and introduced measurement of internal capital (Pillar 2) where in-house models are applied by Banks in day-to-day risk management. Internal capital is more sensitive to risk and should be subject to prudent and detailed review to facilitate correct measurement. Calculation of internal capital is an integral part of the Bank management.

In addition, the level of capital maintained by the Bank is determined by ultimate external ratings and results of stress tests of individual material risks.

The Management Board is accountable for capital management, calculation and maintenance processes, including assessment of capital adequacy vis a vis different economic conditions and evaluations of stress tests results and their impact on internal capital and capital adequacy. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The Management Board delegated on-going capital management to ALCO Committee. This body is responsible for tracking the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The ALCO Committee is the first body in the Bank to define capital policy and rules for assessment of capital adequacy for the Bank. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the Bank in accordance with the applicable law and the Bank's Statutes.

Capital Policy
The Bank's capital management policy envisages the minimum level of solvency ratio at 10% (calculated according to the Banking Law and KNF Resolutions) both for the Bank and the Group (watch limit has been set at 12%).

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 9% both for the Bank and the Group.

BZ WBK S.A. for 2012 In thousands of PLN

Regulatory Capital

The risks under Pillar 1 and the minimum capital required for such risks are assessed in a quantitative method. The Bank uses regulatory approaches to the measurement of these risks, applying precisely defined rules and parameters to calculate the capital requirement needed to cover the risks. BZ WBK uses following methods with regard to particular risks:

- credit risk - the standardised approach;
- operational risk –the standardised approach;
- market risk - the basic measurement methods.

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

The tables below show capital requirement for the Bank as of 31 December 2012 and 31 December 2011.

		31.12.2012	31.12.2011
I	**Total Capital requirement**	**3 649 855**	**3 406 051**
II	**Own funds after reductions**	**7 521 327**	**6 218 062**
	CAD [II/(I*12.5)]	**16,49%**	**14,60%**

Internal Capital

The underlying aim of Pillar 2 of the New Capital Accord is to carry out assessment of the internal capital adequacy, both current and future (ICAAP), independent from the regulatory methods. Under the ICAAP process, the Bank estimates, allocates and maintains the required level of internal capital to ensure secure conduct of its banking business in accordance with the Bank's risk appetite statement.

In 2012, Bank Zachodni WBK finalised implementation of the new internal capital assessment methodology. The new internal capital assessment model based on the statistical loss estimation models for measurable risks, such as credit risk, operational risk and own assessment of capital requirements for other material risks not covered by the model, e.g. reputation risk, compliance risk or model risk.

The internal capital assessment process uses the bank’s internal risk assessment models, including rating and scoring systems, and the risk parameters coming from these models, showing the likelihood of default by the customers of BZ WBK and suffering potential losses arising from the default.

Results of the ICAAP process are an element of assessment of the current and future capital requirements, and are the basis for assessment of risk appetite and the Bank's strategy.

BZ WBK performs an internal assessment of capital requirements also in stressed conditions, taking into account different macroeconomic scenarios.

The internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the Bank’s business and to take account of any new risks and the management judgement.

The review and assessment is the responsibility of the Bank's risk management committees, including: ALCO and the Models and Methodology Panel, which is part of the Risk Management Forum.

Subordinated liabilities

Subordinated liabilities include the amount of issued subordinated debt securities with 10-year maturity term, floating interest rate, fully paid by European Bank of Reconstruction and Development on 5th August 2010.

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Bank’s supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 k have been included in the calculation of the Bank’s adequacy ratio.

Detailed information on subordinated liabilities is presented in Note 32.

In thousands of PLN

5. Net interest income

Interest income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Loans and advances to enterprises	1 558 181	1 365 023
Loans and advances to individuals, of which:	1 212 511	1 040 869
Home mortgage loans	*420 853*	*362 108*
Debt securities incl.:	676 362	754 238
Investment portfolio held to maturity	-	*287 123*
Investment portfolio available for sale	*567 980*	*342 104*
Trading portfolio	*108 382*	*125 011*
Loans and advances to banks	90 355	78 141
Public sector	23 254	22 180
Reverse repo transactions	11 611	5 932
Interest recorded on hedging IRS	177 191	25 335
Total	**3 749 465**	**3 291 718**
Interest expense	**01.01.2012 -31.12.2012**	**01.01.2011 -31.12.2011**
Deposits from individuals	(895 857)	(712 560)
Deposits from enterprises	(487 671)	(427 684)
Public sector	(92 795)	(61 503)
Repo transactions	(84 070)	(131 700)
Deposits from banks	(17 743)	(12 602)
Subordinated liabilities	(20 754)	(21 921)
Total	**(1 598 890)**	**(1 367 970)**
Net interest income	**2 150 575**	**1 923 748**

As at 31.12.2012 net interest income includes interest on impaired loans of PLN 73 491 k (as at 31.12.2011 - PLN 107 233 k).

In thousands of PLN

6. Net fee and commission income

Fee and commission income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
eBusiness & payments	440 433	391 599
Current accounts and money transfer	245 868	244 505
Foreign exchange commissions	233 782	224 263
Credit commissions	141 259	103 270
Insurance commissions	93 937	58 975
Distribution fees	80 844	87 012
Credit cards	73 537	63 040
Off-balance sheet guarantee commissions	16 455	14 246
Issue arrangement	5 007	15 174
Other commissions	6 687	6 835
Total	**1 337 809**	**1 208 919**
Fee and commission expense	**01.01.2012 -31.12.2012**	**01.01.2011 -31.12.2011**
eBusiness & payments	(93 892)	(77 905)
Commissions paid to credit agents	(11 745)	(12 041)
Credit cards	(10 014)	(7 169)
Other commissions	(26 374)	(21 055)
Total	**(142 025)**	**(118 170)**
Net fee and commission income	**1 195 784**	**1 090 749**

Included above is fee and commission income on credits, credit cards and off-balance sheet guarantee commissions of PLN 231 251 k (2011: PLN 180 556 k) and fee and commission expenses on credits cards and paid to credit agents of PLN (21 758) k (2011: PLN (19 210) k) other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

7. Dividend income

Dividend income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Dividends from subsidiaries and joint ventures	66 865	116 278
Dividends from investment portfolio entities	53 709	66 274
Total	**120 574**	**182 552**

8. Net trading income and revaluation

Net trading income and revaluation	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit on interbank FX transactions	18 083	96 773
Profit/(loss) on derivative instruments	134 104	138 280
Other FX related income	11 995	24 053
Profit on equity instruments	433	-
Profit on debt instruments	(610)	2 512
Total	**164 005**	**261 618**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 3 340 k for 2012 (2011: PLN 14 030 k).

In thousands of PLN

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit on debt securities	174 105	6 713
Profit on equity shares	2 836	4 841
Allowance for impairment	(1 328)	-
Total profit (losses) on financial instruments	**175 613**	**11 554**
Change in fair value of underlying hedged positions	61 413	(1 081)
Change in fair value of hedging instruments	(58 540)	2 079
Total profit (losses) on hedging and hedged instruments	**2 873**	**998**
Total	**178 486**	**12 552**

10. Other operating income

Other operating income	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Income on sale of services	23 886	22 162
Reimbursements of BGF charges	11 274	10 649
Release of provision for legal cases and other assets	5 645	6 025
Recovery of other receivables	3 292	3 320
Settlements of leasing agreements	1 626	1 642
Received compensations, penalties and fines	435	814
Insurance indemnity received	416	1 753
Other	4 360	3 829
Total	**50 934**	**50 194**

11. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Collective and individual impairment charge	(524 730)	(343 071)
Incurred but not reported losses charge	17 025	(6 233)
Recoveries of loans previously written off	12 652	6 564
Off balance sheet credit related items	4 580	(4 955)
Total	**(490 473)**	**(347 695)**

12. Employee costs

Employee costs	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Salaries and bonuses	(719 433)	(729 601)
Salary related costs	(112 826)	(106 418)
Staff benefits costs	(20 787)	(20 793)
Professional trainings	(15 662)	(16 465)
Retirement fund, holiday provisions and other employee-related costs	2 422	(3 550)
Total	**(866 286)**	**(876 827)**

In thousands of PLN

13. General and administrative expenses

General and administrative expenses	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Maintenance and rentals of premises	(222 373)	(212 029)
IT systems costs	(83 613)	(79 857)
Marketing and representation	(73 269)	(79 375)
Bank Guarantee Fund, Polish Financial Supervision Authority	(47 611)	(40 835)
Consulting fees	(40 076)	(18 876)
Postal and telecommunication costs	(36 416)	(42 416)
Car, transport expenses, carriage of cash	(34 796)	(34 276)
Other external services	(33 549)	(32 419)
Stationery, cards, cheques etc.	(18 082)	(25 277)
Sundry taxes	(16 573)	(16 764)
Data transmission	(13 420)	(15 242)
KIR, SWIFT settlements	(11 965)	(10 880)
Security costs	(10 597)	(12 435)
Costs of other repairs	(4 701)	(4 814)
Other	(13 357)	(11 441)
Total	**(660 398)**	**(636 936)**

14. Other operating expenses

Other operating expenses	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Donation paid	(4 610)	(1 960)
Charge of provisions for legal cases and other assets	(1 977)	(12 981)
Costs of purchased services	(1 757)	(2 205)
Paid compensations, penalties and fines	(1 345)	(1 819)
Other membership fees	(574)	(634)
Losses from past-due receivables	(270)	(252)
Liquidation of fixed assets, intangible assets and assets for disposal	-	(5 323)
Other	(2 756)	(4 898)
Total	**(13 289)**	**(30 072)**

In thousands of PLN

15. Corporate income tax

Corporate income tax	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Current tax charge	(419 205)	(219 976)
Deferred tax	82 799	(48 640)
Total	**(336 406)**	**(268 616)**

Corporate total tax charge information	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit before tax	1 703 995	1 427 118
Tax rate	19%	19%
Tax calculated at the tax rate	(323 759)	(271 152)
Non-deductible expenses	(9 575)	(8 199)
Sale of receivables	(12 587)	(13 968)
Non-taxable income (dividends)	22 448	34 676
Non-tax deductible bad debt provisions	(7 567)	(10 067)
Other	(5 366)	94
Total income tax expense	**(336 406)**	**(268 616)**

Deferred tax recognised directly in equity	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
The amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	(95 539)	(96 491)
Relating to debt securities available-for-sale	(94 445)	(20 965)
Relating to cash flow hedging activity	(15 784)	(12 183)
Total	**(205 768)**	**(129 639)**

16. Earnings per share

Net earnings per share (PLN/share)	01.01.2012 -31.12.2012	01.01.2011 -31.12.2011
Profit attributable to ordinary shares	1 367 589	1 158 502
Weighted average number of ordinary shares	73 835 488	73 076 013
Net earnings per share (PLN)	**18.52**	**15.85**
Profit attributable to ordinary shares	1 367 589	1 158 502
Weighted average number of ordinary shares	73 835 488	73 076 013
Weighted average number of potential ordinary shares *	302 683	274 273
Diluted earnings per share (PLN)	**18.45**	**15.79**

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in note 50.

17. Cash and balances with central banks

Cash and balances with central banks	31.12.2012	31.12.2011
Cash	1 084 104	932 596
Current accounts in central banks	3 073 166	290 908
Term deposits	-	202 033
Total	**4 157 270**	**1 425 537**

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as a fixed percentage of the monthly average balance of the customers' deposits. As at 31.12.2012 the rate was 3.5% and as at 31.12.2011 - 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

In thousands of PLN

18. Loans and advances to banks

Loans and advances to banks	31.12.2012	31.12.2011
Loans and advances	916 475	428 727
Current accounts, other	470 025	769 622
Buy-sell-back transactions	67 813	-
Total	**1 454 313**	**1 198 349**

Fair value of loans and advances to banks is presented in Note 39.

19. Financial assets and liabilities held for trading

The fair value of derivative financial instruments is determined using market quotations, discounted cash flow models and options valuation models, as appropriate.

Option contracts are stated at fair value using the market quotations or the option valuation models, as appropriate.

Financial assets and liabilities held for trading	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**643 094**	**711 669**	**700 269**	**878 809**
Interest rate operations	**365 998**	**371 136**	**314 070**	**308 634**
Options	564	564	132	132
IRS	357 116	358 516	304 438	300 255
FRA	8 318	12 056	9 500	8 247
FX operations	**277 096**	**340 533**	**386 199**	**570 175**
CIRS	77 480	152 711	42 149	126 852
Forward	27 050	22 343	97 509	32 182
FX Swap	142 466	135 140	150 924	316 003
Spot	901	1 140	2 015	1 536
Options	29 199	29 199	93 602	93 602
Debt and equity securities	**175 487**	**-**	**5 079 040**	**-**
Debt securities	**175 487**	**-**	**5 079 040**	**-**
Government securities:	175 487	-	431 084	-
- bonds	175 487	-	431 084	-
Central Bank securities:	-	-	4 647 956	-
- bills	-	-	4 647 956	-
Short sale	**-**	**17 162**	**-**	**59 173**
Total financial assets/liabilities	**818 581**	**728 831**	**5 779 309**	**937 982**

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (30) k as at 31.12.2012, PLN (396) k as at 31.12.2011.

Interest income from debt instruments and other fixed rate instruments is disclosed under “interest income”.

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the income statement.

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. As at 31.12.2012 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

In thousands of PLN

The table below presents off-balance sheet derivatives' nominal values.

	Derivatives' nominal values	31.12.2012	31.12.2011
1.	**Term derivatives (hedging)**	**14 675 607**	**10 702 996**
a)	Single-currency interest rate swaps	1 085 000	341 696
b)	Macro cash flow hedge -purchased (IRS)	2 213 144	2 269 914
c)	Macro cash flow hedge -purchased (CIRS)	5 585 823	3 768 628
d)	Macro cash flow hedge -sold (CIRS)	5 791 640	4 322 758
2.	**Term derivatives (trading)**	**67 179 957**	**82 685 738**
a)	Interest rate operations	35 419 700	49 447 691
	Single-currency interest rate swaps	28 068 156	31 483 908
	FRA - purchased amounts	6 850 000	17 900 000
	Options	501 544	63 783
b)	FX operations	31 760 257	33 238 047
	FX swap – purchased amounts	8 020 505	11 006 569
	FX swap – sold amounts	8 008 784	11 127 200
	Forward- purchased amounts	1 483 082	2 088 999
	Forward- sold amounts	1 482 429	2 041 784
	Cross-currency interest rate swaps – purchased amounts	4 965 537	1 320 069
	Cross-currency interest rate swaps – sold amounts	5 033 742	1 405 598
	FX options -purchased	1 383 089	2 123 914
	FX options -sold	1 383 089	2 123 914
3.	**Currency transactions- spot**	**1 889 992**	**2 343 838**
	Spot-purchased	944 898	1 172 159
	Spot-sold	945 094	1 171 679
	Total	**83 745 556**	**95 732 572**

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

20. Hedging derivatives

Hedging derivatives	31.12.2012		31.12.2011	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	-	60 214	5 052	3 723
IRS hedging cash flow	253 553	262 038	136 526	520 002
Total hedging derivatives	**253 553**	**322 252**	**141 578**	**523 725**

21. Loans and advances to customers

Loans and advances to customers	31.12.2012	31.12.2011
Loans and advances to enterprises	27 080 320	25 920 807
Loans and advances to individuals, of which:	13 697 343	12 553 314
Home mortgage loans	*8 080 532*	*7 605 063*
Loans and advances to public sector	105 366	259 057
Buy-sell-back transactions	15 234	100
Other	11 815	2 960
Gross receivables	**40 910 078**	**38 736 238**
Impairment write down	(1 445 377)	(1 314 042)
Total	**39 464 701**	**37 422 196**

As at 31.12.2012 the fair value adjustment due to hedged risk on corporate loans was PLN nil (as at 31.12.2011 – PLN nil). Fair value of "loans and advances to customers" is disclosed in Note 39.

In thousands of PLN

Movements on impairment losses on loans and advances to customers	31.12.2012	31.12.2011
Individual and collective impairment		
As at the beginning of the period	(982 865)	(987 527)
Charge/write back of current period	(524 730)	(343 071)
Write off/Sale of receivables	367 341	328 571
Transfer	16 215	24 829
F/X differences	3 014	(5 667)
Balance at the end of the period	**(1 121 025)**	**(982 865)**
IBNR		
As at the beginning of the period	(331 177)	(321 683)
Charge/write back of current period	17 025	(6 233)
Transfer	(13 018)	27
F/X differences	2 818	(3 288)
Balance at the end of the period	**(324 352)**	**(331 177)**
Allowance for impairment	**(1 445 377)**	**(1 314 042)**

22. Investment securities available for sale

Investment securities available for sale	31.12.2012	31.12.2011
Available for sale investments - measured at fair value		
Debt securities	**11 048 024**	**10 971 562**
Government securities:	7 711 424	10 893 773
- bonds	7 711 424	10 893 773
Central Bank securities:	2 099 256	-
- bills	2 099 256	-
Commercial securities:	1 237 344	77 789
- bonds	1 237 344	77 789
Equity securities	**610 353**	**608 719**
- listed	2 759	2 568
- unlisted	607 594	606 151
Investment certificates	**39 016**	**44 862**
Total	**11 697 393**	**11 625 143**

As at 31.12.2012 fixed interest rate debt securities measured at fair value amount to PLN 9 838 570 k, variable interest rate securities amount to PLN 1 209 454 k.
As at 31.12.2011 fixed interest rate debt securities measured at fair value amount to PLN 9 986 696 k, variable interest rate securities amount to PLN 984 866 k.

As at 31.12.2012 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 62 554 k (as at 31.12.2011 PLN 1 233 k)

Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The Bank performs the review of the fair value of its unlisted available-for-sale financial instruments at each balance sheet date. The review did not reveal any material changes in the disclosed carrying amounts of the instruments. Fair value of the investments into the companies from the Aviva Polska Group was determined for three key investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis.

Fair value of „Investment securities available for sale" is presented in Note 39.

In thousands of PLN

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2012	**10 971 561**	**653 582**	**11 625 143**
Additions	41 537 666	3 319	41 540 985
Disposals (sale and maturity)	(41 659 215)	(3 969)	(41 663 184)
Fair value adjustment	448 057	(2 167)	445 890
Movements on interest accrued	(226 281)	-	(226 281)
Allowance for impairment	-	(1 386)	(1 386)
F/X differences	(23 764)	(10)	(23 774)
As at 31 December 2012	**11 048 024**	**649 369**	**11 697 393**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2011	**6 958 333**	**648 117**	**7 606 450**
Additions	1 577 887	6 565	1 584 452
Disposals (sale and maturity)	(2 298 605)	(3 796)	(2 302 401)
Fair value adjustment	6 407	3 096	9 503
Movements on interest accrued	(16 259)	-	(16 259)
F/X differences	47 256	(400)	46 856
Reclassification*	4 627 410	-	4 627 410
Measurement at fair value of reclassified bonds	69 132	-	69 132
As at 31 December 2011	**10 971 561**	**653 582**	**11 625 143**

*On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity,' and reclassified them into the ‘investment financial assets available for sale' category as a result of adapting the Bank’s investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Bank.

23. Financial assets held to maturity

Financial assets held to maturity	31.12.2012	31.12.2011
Government securities:	-	-
- bonds	-	-
Total	-	-

Fair value of „Financial assets held to maturity” is presented in Note 39.

Movements on financial assets held to maturity	31.12.2012	31.12.2011
Balance as at 1 January	-	**5 749 408**
Reclassification*	-	(1 086 827)
Maturity	-	(4 627 410)
Fair value amortisation	-	10 206
Movements on interest accrued	-	(45 377)
As at end of reporting period	-	-

*On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity', and reclassified them into the ‘investment financial assets available for sale' category as a result of adapting the Bank’s investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Bank.

In thousands of PLN

24. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures	31.12.2012	31.12.2011
Subsidiaries	218 127	218 068
Associates	8 000	8 000
Joint ventures	38 531	38 531
Total	**264 658**	**264 599**

Fair value of “Investment in subsidiaries, associates and joint ventures” is presented in Note 39.

In thousands of PLN

Investments in subsidiaries, associates and joint ventures as at 31.12.2012

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Dom Maklerski BZ WBK S.A.	BZ WBK Nieruchomości S.A.	BZ WBK Asset Management S.A.	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.*	Total
Registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Joint venture	Joint venture	
% of holding**	100.00	100.00	99.99	99.99	50.00	50.00	50.00	50.00	
Balance sheet value	46 600	118 094	45 925	753	6 755	8 000	20 015	18 516	**264 658**
Total assets	56 886	118 080	1 116 806	809	155 680	89 088	1 012 477	273 876	**2 823 702**
Own funds of entity, of which:	56 844	118 071	188 029	802	151 726	83 466	53 047	51 183	**703 168**
Share capital	100	1 050	44 974	750	13 500	16 000	24 250	27 000	127 624
Other own funds, of which:	56 744	117 021	143 055	52	138 226	67 466	28 797	24 183	575 544
from previous years	-	-	-	-	-	*2 389*	-	-	*2 389*
net profit (loss)	*2 816*	*8*	*27 792*	*(41)*	*80 842*	*3 697*	*12 943*	*14 165*	*142 222*
Liabilities of entity	42	9	928 777	7	3 954	5 622	959 430	222 693	**2 120 534**
Revenue	2 431	63	136 812	278	102 396	10 316	594 262	103 242	**949 800**

*selected financial information as at end of November 2012

** states percentage share of associates or joint ventures profits

Name of entity	Business
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Finanse Sp. z o.o.	centralised managemet of the bank's subsidiaries: BZ WBK Finanse & Leasing S.A, BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o.
Dom Maklerski BZ WBK S.A.	offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market
BZ WBK Nieruchomości S.A.	organisation of various events, catering and hotel services, agency services
BZ WBK Asset Management S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance

In thousands of PLN

Investments in subsidiaries, associates and joint ventures as at 31.12.2011

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Dom Maklerski BZ WBK S.A.	BZ WBK Nieruchomości S.A.	BZ WBK Asset Management S.A.	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Total
Registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Joint venture	Joint venture	
% of holding**	100.00	100.00	99.99	99.99	50.00	50.00	50.00	50.00	
Balance sheet value	46 600	118 094	45 925	694	6 755	8 000	20 015	18 516	**264 599**
Total assets	51 707	118 073	914 177	865	204 035	83 982	688 412	210 051	**2 271 302**
Own funds of entity, of which:	51 567	118 063	160 176	842	196 550	76 929	40 204	45 455	**689 786**
Share capital	100	1 050	44 974	750	13 500	16 000	24 250	27 000	127 624
Other own funds, of which:	51 467	117 013	115 202	92	183 050	60 929	15 954	18 455	562 162
from previous years	-	-	*4 971*	*(30)*	-	*2 616*	*(4 222)*	-	*3 335*
net profit (loss)	*2 520*	*15*	*49 532*	*67*	*125 667*	*2 980*	*5 028*	*11 125*	*196 934*
Liabilities of entity	140	10	754 001	23	7 485	7 053	648 208	164 596	**1 581 516**
Revenue	27 209	302	193 298	541	152 205	8 096	497 348	94 075	**973 074**

*selected financial information as at end of November 2011

** states percentage share of associates or joint ventures profits

Name of entity	Business
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Finanse Sp. z o.o.	centralised managemet of the bank's subsidiaries: BZ WBK Finanse & Leasing S.A, BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o.
Dom Maklerski BZ WBK S.A.	offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market
BZ WBK Nieruchomości S.A.	organisation of various events, catering and hotel services, agency services
BZ WBK Asset Management S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance

In thousands of PLN

25. Intangible assets

Intangible assets Year 2012	Licences, patents etc.	Other (know-how)	Capital expenditures	Total
Gross value - beginning of the period	**657 832**	**6 019**	**71 864**	**735 715**
Additions from:				
- purchases	-	-	37 745	**37 745**
- intangible assets taken for use	70 120	-	-	**70 120**
Disposals from:				
- liquidation	(446)	-	(21)	**(467)**
- intangible assets taken for use	-	-	(70 120)	**(70 120)**
- transfers	(20 507)	-	(97)	**(20 604)**
Gross value - end of the period	**706 999**	**6 019**	**39 371**	**752 389**
Accumulated depreciation - beginning of the period	**(595 115)**	**(6 019)**	**-**	**(601 134)**
Additions/disposals from:				
- current year amortisation	(43 464)	-	-	**(43 464)**
- liquidation	326	-	-	**326**
- transfers	5 561	-	-	**5 561**
Accumulated depreciation- end of the period	**(632 692)**	**(6 019)**	**-**	**(638 711)**
Balance sheet value				
Purchase value	706 999	6 019	39 371	**752 389**
Accumulated depreciation	(632 692)	(6 019)	-	**(638 711)**
As at 31 December 2012	**74 307**	**-**	**39 371**	**113 678**

Intangible assets Year 2011	Licences, patents etc.	Other (know-how)	Capital expenditures	Total
Gross value - beginning of the period	**628 092**	**6 019**	**39 941**	**674 052**
Additions from:				
- purchases	-	-	67 816	**67 816**
- intangible assets taken for use	34 471	-	-	**34 471**
Disposals from:				
- liquidation	(4 728)	-	(1 005)	**(5 733)**
- intangible assets taken for use	-	-	(34 471)	**(34 471)**
- transfers	(3)	-	(417)	**(420)**
Gross value - end of the period	**657 832**	**6 019**	**71 864**	**735 715**
Accumulated depreciation - beginning of the period	**(512 978)**	**(6 019)**	**-**	**(518 997)**
Additions/disposals from:				
- current year amortisation	(86 867)	-	-	**(86 867)**
- liquidation	4 728	-	-	**4 728**
- transfers	2	-	-	**2**
Accumulated depreciation- end of the period	**(595 115)**	**(6 019)**	**-**	**(601 134)**
Balance sheet value				
Purchase value	657 832	6 019	71 864	**735 715**
Accumulated depreciation	(595 115)	(6 019)	-	**(601 134)**
As at 31 December 2011	**62 717**	**-**	**71 864**	**134 581**

In thousands of PLN

26. Property, plant and equipment

Property, plant & equipment Year 2012	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	**647 507**	**253 469**	**57 989**	**328 160**	**21 258**	**1 308 383**
Additions from:						
- purchases	-	-	-	-	38 347	**38 347**
- leasing	-	-	21 538	-	-	**21 538**
- fixed assets taken for use	1 102	21 516	-	8 731	-	**31 349**
- transfers	-	171 008	-	-	97	**171 105**
Disposals from:						
- sale, liquidation, donation	(4 486)	(16 414)	(696)	(5 920)	(104)	**(27 620)**
- fixed assets taken for use	-	-	-	-	(31 348)	**(31 348)**
- transfers	-	-	(25 513)	(150 501)	-	**(176 014)**
Gross value - end of the period	**644 123**	**429 579**	**53 318**	**180 470**	**28 250**	**1 335 740**
Accumulated depreciation - beginning of the period	**(342 719)**	**(208 198)**	**(22 608)**	**(248 546)**	**-**	**(822 071)**
Additions/disposals from:						
- current year amortisation	(24 694)	(37 317)	(8 264)	(12 178)	-	**(82 453)**
- sale, liquidation, donation	2 694	16 246	696	5 734	-	**25 370**
- transfers	-	(103 218)	17 003	97 657	-	**11 442**
Write down/Reversal of impairment write down	-	-	-	-	-	**-**
Accumulated depreciation- end of the period	**(364 719)**	**(332 487)**	**(13 173)**	**(157 333)**	**-**	**(867 712)**
Balance sheet value						
Purchase value	644 123	429 579	53 318	180 470	28 250	**1 335 740**
Accumulated depreciation	(364 719)	(332 487)	(13 173)	(157 333)	-	**(867 712)**
As at 31 December 2012	**279 404**	**97 092**	**40 145**	**23 137**	**28 250**	**468 028**

In thousands of PLN

Property, plant & equipment Year 2011	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	652 738	295 068	36 360	319 510	23 027	1 326 703
Additions from:						
- purchases	-	-	-	-	38 227	38 227
- leasing	-	-	15 733	-	-	15 733
- fixed assets taken for use	4 562	22 496	-	13 204	-	40 262
- transfers	-	16	18 553	19 282	417	38 268
Disposals from:						
- sale, liquidation, donation	(9 793)	(44 829)	(313)	(23 823)	(151)	(78 909)
- fixed assets taken for use	-	-	-	-	(40 262)	(40 262)
- transfers	-	(19 282)	(12 344)	(13)	-	(31 639)
Gross value - end of the period	647 507	253 469	57 989	328 160	21 258	1 308 383
Accumulated depreciation - beginning of the period	(294 971)	(242 948)	(26 169)	(229 172)	-	(793 260)
Additions/disposals from:						
- current year amortisation	(55 900)	(29 035)	(8 445)	(22 518)	-	(115 898)
- sale, liquidation, donation	8 152	44 522	313	22 409	-	75 396
- transfers	-	19 263	11 693	(19 265)	-	11 691
Accumulated depreciation- end of the period	(342 719)	(208 198)	(22 608)	(248 546)	-	(822 071)
Balance sheet value						
Purchase value	647 507	253 469	57 989	328 160	21 258	1 308 383
Accumulated depreciation	(342 719)	(208 198)	(22 608)	(248 546)	-	(822 071)
As at 31 December 2011	304 788	45 271	35 381	79 614	21 258	486 312

In thousands of PLN

27. Net deferred tax assets

Deferred tax asset	31.12.2012	31.12.2011
Provisions for loans	146 584	177 780
Unrealized liabilities due to derivatives	214 291	88 612
Other provisions which are not yet taxable costs	51 199	57 905
Deferred income	91 603	83 990
Unrealized interest on deposit and securities	115 553	41 891
Depreciation, amortisation - effects of a change in estimate	14 369	14 560
Other	2 247	422
Total	**635 846**	**465 160**
Deferred tax liability	**31.12.2012**	**31.12.2011**
Revaluation of financial instruments available for sale*	(189 984)	(117 456)
Unrealised receivables on derivatives	(170 197)	(97 920)
Unrealised interests from loans, securities and interbank deposits	(82 932)	(67 113)
Provision due to application of investment relief	(3 088)	(3 269)
Cash flow hedges valuation*	(15 784)	(12 183)
Other	(1 416)	(1 444)
Total	**(463 401)**	**(299 385)**
Net deferred tax assets	**172 445**	**165 775**

*Changes in deferred tax liabilities were recognised in the statement of comprehensive income.

As at 31 December 2012 the calculation of deferred tax asset did not include purchased receivables of PLN 14 728 k and loans that will not be realised of PLN 56 485 k.
As at 31 December 2011 the calculation of deferred tax asset did not include purchased receivables of PLN 14 757 k and loans that will not be realised of PLN 62 345 k.

Movements on net deferred tax	31.12.2012	31.12.2011
As at the beginning of the period	165 775	242 949
Changes recognised in income statement	82 799	(48 640)
Changes recognised in other net comprehensive income	(76 129)	(28 534)
As at end of the period	**172 445**	**165 775**

Temporary differences recognised in equity comprise deferred tax on available for sale securities and cash flow hedges. Temporary differences recognised in the income statement comprise provision for impairment of loans and receivables and assets in the course of business.

28. Assets classified as held for sale

Assets classified as held for sale	31.12.2012	31.12.2011
Land and buildings	-	82 511
Equipment	-	93
Total	**-**	**82 604**

As an effect of not meeting requirements described in IFRS 5, Bank decided to reclassify repossessed assets from line Assets classified as held for sale to Other assets.

In thousands of PLN

29. Other assets

Other assets	31.12.2012	31.12.2011
Sundry debtors	150 149	151 263
Interbank and interbranch settlements	76 800	85 414
Prepayments	29 718	29 680
Repossessed assets*	74 764	-
Other	52	52
Total	**331 483**	**266 409**

*As an effect of not meeting requirements described in IFRS 5, Bank decided to reclassify repossessed assets from line Assets classified as held for sale to Other assets.

30. Deposits from banks

Deposits from banks	31.12.2012	31.12.2011
Repo transactions	668 150	2 240 824
Term deposits	331 073	12 495
Current accounts	292 432	108 114
Total	**1 291 655**	**2 361 433**

Fair value of “Deposits from banks” is presented in Note 39.

31. Deposits from customers

Deposits from customers	31.12.2012	31.12.2011
Deposits from individuals	**28 073 106**	**26 590 029**
Term deposits	15 980 357	14 815 132
Current accounts	12 053 225	11 740 901
Other	39 524	33 996
Deposits from enterprises	**17 187 024**	**18 565 366**
Term deposits	9 424 385	12 041 716
Current accounts	6 239 902	5 295 101
Loans and advances	1 022 564	883 781
Sell-buy-back transactions	205 032	-
Other	295 141	344 768
Deposits from public sector	**1 902 039**	**1 836 684**
Term deposits	648 281	806 083
Current accounts	1 251 994	1 028 711
Other	1 764	1 890
Total	**47 162 169**	**46 992 079**

As at 31.12.2012 deposits held as collateral totalled PLN 235 536 k (as at 31.12.2011 – PLN 190 932 k).

Fair value of “Deposits from customers” is presented in Note 39.

In thousands of PLN

32. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Redemption date	As at the end of the period
Subordinated liabilities	100 000	EUR	05.08.2020	409 110
As at 31 December 2012				**409 110**

Movements in Subordinated Liabilities	31.12.2012	31.12.2011
As at the beginning of the period	**441 234**	**395 230**
Increase (due to):	**20 263**	**69 003**
- interest on subordinated loan	20 263	21 921
- foreign exchange differences	-	47 082
Decrease (due to):	**(52 387)**	**(22 999)**
- interest repayment	(19 560)	(22 999)
- foreign exchange differences	(32 827)	-
Subordinated liabilities as at the end of the period	**409 110**	**441 234**
Short-term	4 378	3 971
Long-term (over 1 year)	404 732	437 263

BZ WBK issued subordinated debt to mitigate FX rate sensitivity and increase efficiency of own funding. In line with the KNF decision subordinated liabilities have been recognised as the supplementary capital and since Q4 2010 are included in the solvency ratio calculations. Other details on these liabilities are disclosed in Note 4.

33. Other liabilities

Other liabilities	31.12.2012	31.12.2011
Provisions:	212 922	226 501
Employee provisions	*176 457*	*179 494*
Provisions for legal claims	*15 546*	*17 484*
Provisions for off balance sheet credit facilities	*17 619*	*22 223*
Other	*3 300*	*7 300*
Interbank and interbranch settlements	217 711	369 125
Other deferred and suspended income	96 350	112 911
Sundry creditors	225 775	153 342
Accrued liabilities	51 153	41 298
Public and law settlements	33 697	33 161
Total	**837 608**	**936 338**

The Bank raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated.
The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.

Employee related provisions and accruals consists of items outlined in Note 49.

In thousands of PLN

Change in provisions	31.12.2012	31.12.2011
As at the beginning of the period	**226 501**	**209 090**
Employee provisions	179 494	174 515
Provisions for legal claims	17 484	17 358
Provisions for off balance sheet credit facilities	22 223	17 217
Other	7 300	-
Provision charge	**214 357**	**215 796**
Employee provisions	171 094	171 218
Provisions for legal claims	355	1 786
Provisions for off balance sheet credit facilities	42 908	35 492
Other	-	7 300
Utilization	**(163 460)**	**(160 670)**
Employee provisions	(161 876)	(159 556)
Provisions for legal claims	(1 560)	(1 165)
Provisions for off balance sheet credit facilities	(24)	51
Other	-	-
Write back	**(64 476)**	**(37 715)**
Employee provisions	(12 255)	(6 683)
Provisions for legal claims	(733)	(495)
Provisions for off balance sheet credit facilities	(47 488)	(30 537)
Other	(4 000)	-
Balance at the end of the period	**212 922**	**226 501**
Employee provisions	**176 457**	**179 494**
Provisions for legal claims	**15 546**	**17 484**
Provisions for off balance sheet credit facilities	**17 619**	**22 223**
Other	**3 300**	**7 300**

In thousands of PLN

34. Share capital

31.12.2012

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
				74 637 631	**746 376**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 94.23%. The remaining shares are in free float.

Capital increase and admission of new shares to trading on the stock exchange

- On 6 July 2012, the bank completed a private subscription of ordinary bearer shares, series I, without pre-emptive rights. The 1 561 618 shares with a nominal value of PLN 10 were fully acquired by the European Bank for Reconstruction and Development (EBRD). The issue price was PLN 212.60 per share. The subscription took place under the resolution of the Annual General Meeting of Shareholders of Bank Zachodni WBK of 10 May 2012.

- On 9 August 2012, i.e. on the day of registration of the appropriate amendments to the Bank's Statutes in the National Court Register, the share capital of Bank Zachodni WBK was increased by PLN 15,616,180 to PLN 746,376,310. The increased capital was fully paid up.

- The Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) issued Resolution no. 846/2012 of 27 August 2012 confirming admission of the ordinary series I shares to trading on the main market.

- Under § 38 section 1 and section 3 of the Warsaw Stock Exchange Regulations, the Management of the Warsaw Stock Exchange decided that the shares would be admitted to the main market effective from 30 August 2012, following registration of the shares by the National Depository of Securities and marking them with code PLBZ00000044. After the shares were registered on 30 August 2012, the total number of shares of Bank Zachodni WBK increased to 74 637 631.

In thousands of PLN

31.12.2011

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
				73 076 013	**730 760**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Banco Santander S.A.. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 96.25%. The remaining shares are in free float.

35. Other reserve funds

Other reserve funds	31.12.2012	31.12.2011
General banking risk fund	649 810	649 810
Share premium	578 083	261 699
Other reserves of which:	4 064 982	3 470 616
Reserve capital	*3 953 310*	*3 358 944*
Supplementary capital	*111 672*	*111 672*
Total	**5 292 875**	**4 382 125**

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank’s supplementary capital.

Reserve capital as at 31.12.2012 includes share scheme charge of PLN 58 648 k, as at 31.12.2011 of PLN 38 177 k.

Other movements of other reserve funds are presented in "movements on equity" for 2012 and 2011.

Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the Bank’s statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit of the current year to reserve capital should amount to at least 8 % of profit after tax and are made until supplementary capital equals at least one third of the Bank’s share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

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36. Revaluation reserve

Revaluation reserve	31.12.2012	31.12.2011
As at 31 December	552 669	431 028
Net change in available for sale investments, of which:	555 831	29 875
Increase:	563 986	31 448
- related to debt investments purchased before current reporting period	*449 042*	*15 217*
- related to debt investments purchased/assigned in the period	*70 299*	-
- related to equity investments purchased before current reporting period	-	*6 447*
-net change in available for sale investments matured in the period	*44 645*	*9 784*
Decrease:	(8 155)	(1 573)
- related to equity investments purchased before current reporting period	*(6 979)*	-
-related to debt investmentspurchased/assigned in the period	*(1 176)*	-
-net change in available for sale investments matured in the period	-	*(1 573)*
Measurement at fair value of reclassified bonds*	-	*69 132*
Gross valuation related to cash flow hedge	18 955	61 631
Decrease in revaluation reserve related to sale of investments	(174 105)	(10 463)
Deferred tax adjustment	(76 129)	(28 534)
Total	**877 221**	**552 669**

* On the last business day of 2011, Bank Zachodni WBK changed its intention regarding a portfolio of government bonds, which so far had been classified as 'held-to-maturity,' and reclassified them into the ‘investment financial assets available for sale' category as a result of adapting the Bank’s investment policy to the strategy, investment rules and risk management rules of Santander Group. The change pertained to financial instruments of a total carrying value of PLN 4 696 542 k, of which PLN 69 132 k was a recognised fair value. The same amount of fair value less the deferred tax was referred to the equity of the Bank.

37. Hedge accounting

The Bank applies hedge accounting in line with the risk management assumptions described in note 3 of the annual financial statements.

Fair value hedge

Hedging transactions are arranged using interest rate swaps. Their purpose is to mitigate the risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. BZ WBK applies fair value hedge accounting (in current and in comparable period), in relation to the following classes of financial instruments:

- Fixed rate debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge,
- PLN deposits.

The hedging items are measured at fair value. Hedged items are measured at amortised cost including fair value adjustment due to hedged risk.

In thousands of PLN

The tables below contain details about individual groups of hedge transactions for 2012 and the comparative period:

31.12. 2012	Bonds
Nominal value of hedging position in PLN k	1 085 000
Fair value adjustment of hedging instrument in PLN k	(60 909)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	62 804
Hedged risk	Exchange rate risk
Period over which the instruments have an impact on the bank's results	up to 2022

31.12. 2011	Bonds	Deposits
Nominal value of hedged position in PLNk	211 696	130 000
'Fair value adjustment of hedging instrument in PLN k	2 678	(82)
Fair value adjustment of hedged instrument due to hedged risk in PLN k	(2 658)	93
Hedged risk	Exchange rate risk and interest rate risk	
Period over which the instruments have an impact on the bank's results	up to 2018	up to 2013

Cash flow hedging

Bank Zachodni WBK applies future cash flow hedge accounting. Hedge relationships are created using CIRS. The objective is to hedge against the risk of variability of future cash flow arising from fluctuations in exchange rates and market interest rates. A cash flow hedge is used in respect of foreign currency loans carrying variable interest rate.
Hedged items are measured at amortised cost. Hedging items are measured at fair value. Once effectiveness criteria of hedge accounting are met, a change in the fair value of hedging instruments is recognised in equity.

As of 31 December 2012, the nominal value of the hedging item was PLN 8 004 784 k (31 December 2011 – PLN 6 592 672 k). Adjustment to fair value of the hedging instrument is PLN 83 074 k (31 December 2011 – PLN 64 120 k); the same amount, less deferred tax, is recognised in the Bank's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2026.
The non-effective portion of measurement of the cash flow hedge was PLN 2 057 k as of 31.12.2012 and PLN 2 525 k as of 31.12.2011. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

38. Sell-buy-back and buy-sell-back transactions

Bank Zachodni WBK raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.

Repo and sell-buy back transactions may cover securities (notes and treasury bonds) from the Bank's balance sheet portfolio.

The foregoing items are not removed from the balance sheet, because the Bank retains all rewards (i.e. interest income on pledged securities) and risks (interest rate risk and the issuer's credit risk) attaching to these assets.

In thousands of PLN

	31.12.2012 Balance sheet value	31.12.2011 Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back):	873 183	2 240 824
Treasury bonds held on the assets side	872 727	2 240 101
Buy-sell-back transactions	82 947	100

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the Bank, as well as power to dispose them.

The Bank also effects reverse repo and buy-sell back transactions at the same price increased by the pre-determined amount of interest.

Financial instruments covered by reverse repo and buy-sell back transactions are not recognised in the balance sheet, because the Bank does not retain any rewards or risks attaching to these assets.

These instruments represent a security cover accepted by the Bank which may sell or pledge these assets.

Financial instruments held as security for (reverse repo) repurchase agreements may be sold or repledged under standard agreements, under the obligation to return these to the counterparty on maturity of the transaction.

As at 31.12.2012 and 31.12.2011, consolidated statements of financial position contained no financial instruments serving as collateral to repo transactions maturing within a period shorter or equal to that of the main transaction.

39. Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction other than in a forced or liquidation sale, and is best reflected by the market price, if available.

Below is a summary of the book values and fair values of the individual groups of assets and liabilities.

Assets	31.12.2012		31.12.2011	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	4 157 270	4 157 270	1 425 537	1 425 537
Loans and advances to banks	1 454 313	1 454 319	1 198 349	1 198 334
Financial assets held for trading	818 581	818 581	5 779 309	5 779 309
Hedging derivatives	253 553	253 553	141 578	141 578
Loans and advances to customers	39 464 701	39 547 083	37 422 196	37 754 970
Investment securities	11 697 393	11 697 393	11 625 143	11 625 143
Investments in subsidiaries, associates and joint ventures	264 658	264 658	264 599	264 599
Liabilities				
Deposits from central bank	-	-	-	-
Deposits from banks	1 291 655	1 291 574	2 361 433	2 361 433
Hedging derivatives	322 252	322 252	523 725	523 725
Financial liabilities held for trading	728 831	728 831	937 982	937 982
Subordinated liabilities	409 110	409 110	441 234	441 234
Deposits from customers	47 162 169	47 182 487	46 992 079	46 992 049

Below is a summary of the key methods and assumptions used in the estimation of fair values of the financial instruments shown in the table above.

Financial assets and liabilities not carried at fair value in the statement of financial position

The Bank has financial instruments which in accordance with the IFRS are not carried at fair value in the accounts. The fair value of such instruments is measured using the following methods and assumptions.

Loans and advances to banks: The fair value of deposits and placements is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency.

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates.

Financial assets not carried at fair value: The Bank does not use fair valuation for the State Treasury bonds classified as instruments held to maturity or as equity securities of unlisted companies for which the fair value cannot be reliably established. In the statement of financial position, equity instruments are presented at cost less impairment. Debt instruments are measured at amortised cost.
In the case of held-to-maturity securities, for the purpose of this disclosure fair value is established on the basis of market quotations.

Investments in associates and joint ventures: The financial assets representing investments in associates and joint ventures are measured using the equity method. The Management Board of the parent company believes that this is the most accurate estimation of fair value of these instruments.

Deposits from banks and deposits from customers: Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.

Debt securities in issue and subordinated liabilities: The securities are measured at amortised cost less adjustments in hedge accounting. Subordinated liabilities are measured at amortised cost.

Financial assets and liabilities carried at fair value in the statement of financial position

As at 31 December 2012 and in the comparable periods the Bank made the following classification of its financial instruments measured at fair value in the statement of financial position:

Level I (active market quotations): debt, equity and derivative financial instruments which at the balance sheet date were measured using the prices quoted in the active market. The Bank allocates to this level fixed-rate State Treasury bonds, treasury bills, Eurobonds of the German government, Eurobonds of the American government, shares of listed companies and WIG 20 futures.

Level II (the measurement methods based on market-derived parameters): This level includes derivative instruments except IRS, CIRS, FX forward and FX swap and options contracts with non-bank counterparties as well as debt securities measured using discounted cash flow models (except those securities for which the Bank independently estimates the credit spread for the counterparty risk).
Apart from these derivatives, level II also classifies variable-rate State Treasury bonds. These bonds were measured using discounted cash flow models based on the discount curve derived from the market of fixed-rate treasury bonds.

Level III (measurement methods using material non-market parameters): The level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund; debt securities (commercial and municipal bonds), derivative instruments excluded from the level I and II (i.e. IRS, CIRS, FX forward and FX swap and options contracts with non-bank counterparties for which the Bank independently estimates the credit spread for counterparty risk).

In thousands of PLN

As at 31 December 2012 and in the comparable period the Bank classified its financial instruments to the following fair value levels.

31.12.2012	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	174 922	463 509	180 150	818 581
Hedging derivatives	-	253 553	-	253 553
Financial investment assets - debt securities	6 501 969	3 308 711	1 237 344	11 048 024
Financial investment assets - equity securities	2 759	-	646 610	649 369
Total	**6 679 650**	**4 025 773**	**2 064 104**	**12 769 527**
Financial liabilities				
Financial liabilities held for trading	17 162	637 487	74 182	728 831
Hedging derivatives	-	322 252	-	322 252
Total	**17 162**	**959 739**	**74 182**	**1 051 083**

31.12.2011	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	430 282	5 172 157	176 870	5 779 309
Hedging derivatives	-	141 578	-	141 578
Financial investment assets - debt securities	9 921 220	972 552	77 789	10 971 561
Financial investment assets - equity securities	2 570	-	651 012	653 582
Total	**10 354 072**	**6 286 287**	**905 671**	**17 546 030**
Financial liabilities				
Financial liabilities held for trading	59 173	831 903	46 906	937 982
Hedging derivatives	-	523 725	-	523 725
Total	**59 173**	**1 355 628**	**46 906**	**1 461 707**

As at 31 December 2012 and in the comparable period there were no transfers between the first, the second and the third fair value level.

The tables below show reconciliation of changes in the balance of financial instruments whose fair value is established by means of the valuation methods using material non-market parameters.

Level III	Financial assets			Financial liabilities
31.12.2012	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	**176 870**	**77 789**	**651 012**	**(46 906)**
Profit or losses				
recognised in income statement	17 832	10 972	-	7 343
recognised in equity	-	83 703	(6 981)	-
Purchase	-	1 064 880	3 713	-
Sale	-	-	(1 134)	-
Matured	(14 552)	-	-	(34 619)
Impairment	-	-	-	-
At the period end	**180 150**	**1 237 344**	**646 610**	**(74 182)**

In thousands of PLN

Level III	Financial assets			Financial liabilities
31.12.2011	**Financial assets held for trading**	**Financial investment assets - debt securities**	**Financial investment assets - equity securities**	**Financial liabilities held for trading**
Beginning of the period	**201 158**	**77 475**	**640 745**	**(49 801)**
	-	-	-	-
Profit or losses	-	-	-	-
recognised in income statement	17 550	314	-	2 124
recognised in equity	-	-	7 626	-
Purchase	-	-	2 641	-
Sale	-	-	-	-
Matured	(41 838)	-	-	771
Impairment	-	-	-	-
At the period end	**176 870**	**77 789**	**651 012**	**(46 906)**

40. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK S.A

As at 31 December 2012, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 114 162 k, which is ca. 1.38 % of the Bank's equity. This amount includes PLN 36 096 k claimed by the Bank, PLN 77 957 k in claims against the Bank and PLN 109 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2012 the amount of significant court proceedings which had been completed amounted to PLN 77 997 k.

As at 31 December 2011, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 172 661 k, which is ca. 2.53 % of the Bank's equity. This amount includes PLN 36 158 k claimed by the Bank, PLN 131 163 k in claims against the Bank and PLN 5 340 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2011 the amount of significant court proceedings which had been completed amounted to PLN 23 029 k.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 33.

Off balance sheet liabilities

The break-down of contingent liabilities and off-balance transactions into categories are presented below. The values of guarantees and letters of credit as set out in the table below represent the maximum possible loss that would be disclosed as at the balance sheet day if the customers did not meet any of their obligations towards third parties.

Contingent liabilities - sanctioned	31.12.2012	31.12.2011
Liabilities sanctioned		
- financial	**11 324 306**	**9 268 180**
- credit lines	10 118 501	8 139 811
- credit cards debits	1 109 436	970 702
- import letters of credit	96 369	157 172
- term deposits with future commencement term	-	495
- guarantees	**2 531 336**	**1 796 851**
Total	**13 855 642**	**11 065 031**

In thousands of PLN

41. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the Bank Zachodni WBK S.A. is collateralized by the debt securities.

Under the Bank Guarantee Fund Act, the bank calculated this fund using 0.55% rate (in the year 2011 the bank calculated this fund using 0.4% rate) of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2012 Bank Zachodni WBK S.A. pledged as collateral PLN 247 176 k of debt securities (PLN 185 039 k as at 31.12.2011).

In 2012 a deposit for PLN 386 165 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2011 it was PLN 695 237 k).
In 2012 BZ WBK hold a deposit for PLN 185 514 k (in 2011 it was PLN 61 781 k) as a collateral for the day-to-day Treasury business.

Other assets pledged and liabilities accepted as collateral are disclosed in Notes 31 and 38.

42. Finance and operating leases

Finance leases

Bank Zachodni WBK S.A. acts as a lessee in finance lease agreements where the lessor side is represented by BZWBK leasing subsidiaries. The leasing contracts finance purchase of cars.

Finance leases gross liabilities - maturity	31.12.2012	31.12.2011
less than 1 year	8 894	13 381
between 1 and 5 years	28 076	18 313
Total	**36 970**	**31 694**

Present value of minimum lease payments - maturity	31.12.2012	31.12.2011
less than 1 year	1 653	9 053
between 1 and 5 years	31 265	19 967
Total	**32 918**	**29 020**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2012	31.12.2011
Finance leases gross liabilities	36 970	31 694
Unrealised financial costs	(4 052)	(2 674)
Present value of minimum lease payments	**32 918**	**29 020**

Operating leases

The BZWBK leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Bank. In 2012 and 2011 rentals totalled PLN 152 689 k and PLN 148 018 k, respectively. These payments are presented in the profit and loss account under “operating expenses”.

The table below shows the total obligations under irrevocable operating lease agreements concluded by the Bank (including the value of perpetual usufruct of land).

Payments - maturity	31.12.2012	31.12.2011
less than 1 year	157 480	153 865
between 1 and 5 years	490 823	518 363
over 5 years	245 694	211 316
Total	**893 997**	**883 544**

In thousands of PLN

43. Statement of cash flow- additional information

Table below specifies components of cash balances of Bank Zachodni WBK S.A.

Cash components	31.12.2012	31.12.2011
Cash and operations with central banks	4 157 270	1 425 537
Deposits in other banks, current account	1 444 206	1 178 161
Debt securities held for trading	-	4 647 956
Investment securities	2 099 256	-
Total	**7 700 732**	**7 251 654**

Bank Zachodni WBK holds restricted cash.

44. Related party disclosures

The tables below present intercompany transactions. They are effected between subsidiaries, associates, joint ventures and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.

Transactions with subsidiaries	31.12.2012	31.12.2011
ASSETS	**3 375 598**	**2 489 802**
Financial assets held for trading	2 043	19
Loans and advances to customers	3 362 687	2 482 165
Other assets	10 868	7 618
LIABILITIES	**938 660**	**1 009 466**
Financial liabilities held for trading	-	6 265
Deposits from customers	905 184	974 177
Other liabilities	33 476	29 024
INCOME	**233 117**	**213 058**
Interest income	133 466	106 390
Fee and commission income	84 422	91 692
Other operating income	11 106	10 710
Net trading income and revaluation	4 123	4 266
EXPENSES	**53 209**	**51 294**
Interest expense	51 916	50 295
Fee and commission expense	270	277
Operating expenses incl.:	1 023	722
Bank's staff, operating expenses and management costs	*997*	*603*
Other	*26*	*119*
CONTINGENT LIABILITIES	**1 492 670**	**1 874 462**
Sanctioned:	1 492 670	1 874 462
- financing-related	*1 182 426*	*1 551 333*
- guarantees	*310 244*	*323 129*
DERIVATIVES' NOMINAL VALUES	**336 992**	**326 873**
Cross-currency interest rate swaps – purchased amounts	83 600	125 400
Cross-currency interest rate swaps – sold amounts	81 764	132 504
Single-currency interest rate swaps	171 628	68 969

In thousands of PLN

Transactions with associates and joint ventures	31.12.2012	31.12.2011
ASSETS	**751**	**454**
Other assets	751	454
LIABILITIES	**480 361**	**392 664**
Deposits from customers	480 361	392 251
Other liabilities	-	413
INCOME	**114 138**	**64 536**
Interest income	24 262	8 396
Fee and commission income	89 571	55 396
Gains (losses) from other financial securities	21	(21)
Other operating income	284	765
EXPENSES	**24 182**	**19 473**
Interest expense	22 362	17 765
Fee and commission expense	44	64
Operating expenses incl.:	1 776	1 644
General and administrative expenses	*1 768*	*1 644*

Transactions with:	Santander Group 31.12.2012	Santander Group 31.12.2011
ASSETS	**335 686**	**117 976**
Loans and advances to banks, incl:	283 789	81 701
deposits	*197 009*	*70 557*
current accounts	*86 780*	*11 144*
Financial assets held for trading	48 729	35 230
Hedging derivatives	3 109	1 045
Loans and advances to customers	2	-
Other assets	57	-
LIABILITIES	**167 326**	**46 625**
Deposits from banks incl.:	36 328	178
current accounts	*36 328*	-
deposits	-	*178*
Financial liabilities held for trading	121 440	46 446
Deposits from customers	9 089	-
Other liabilities	469	1
INCOME	**(24 132)**	**(22 470)**
Interest income	14 964	1 010
Fee and commission income	306	158
Other operating income	591	230
Net trading income and revaluation	(39 993)	(23 868)
EXPENSES	**5 872**	**946**
Interest expense	318	946
Operating expenses incl.:	5 554	-
Bank's staff, operating expenses and management costs	*5 554*	-
CONTINGENT LIABILITIES	**259 418**	**63 648**
Sanctioned:	158 175	49 999
- guarantees	*158 175*	*49 999*
Received:	*101 243*	*13 649*
- guarantees	*101 243*	*13 649*
DERIVATIVES' NOMINAL VALUES	**11 079 645**	**3 415 369**
Cross-currency interest rate swaps – purchased amounts	1 872 728	-
Cross-currency interest rate swaps – sold amounts	1 909 243	-
Single-currency interest rate swaps	1 748 351	656 927
Options	468 004	45 542
FX swap – purchased amounts	1 808 349	564 471
FX swap – sold amounts	1 882 817	572 762
FX options -purchased	663 176	694 939
FX options -sold	719 912	877 099
Spot-purchased	3 508	1 813
Spot-sold	3 557	1 816

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK S.A. Management and Supervisory Board Members

31.12.2012

Remuneration of Bank Zachodni WBK S.A. Supervisory Board Members

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2012-31.12.2012	-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2012-31.12.2012	-
Witold Jurcewicz	Member of the Supervisory Board	01.01.2012-31.12.2012	176,0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2012-31.12.2012	-
Piotr Partyga	Member of the Supervisory Board	01.01.2012-10.05.2012	81,2
John Power	Member of the Supervisory Board	01.01.2012-31.12.2012	210,2
Jerzy Surma	Member of the Supervisory Board	10.05.2012-31.12.2012	95,1
Jose Manuel Varela	Member of the Supervisory Board	01.01.2012-31.12.2012	-

Mr John Power received remuneration of PLN 47 k from subsidiaries for his membership in their Supervisory Boards.

In 2012 Mr Gerald Byrne, Mr Jose Manuel Varela, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora decided not to receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 746 k.

Base remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Renumeration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 563,04	74,69
Andrzej Burliga	Member of the Managemet Board	01.01.2012-31.12.2012	951,83	86,50
Eamonn Crowley	Member of the Managemet Board	01.01.2012-31.12.2012	887,29	46,22
Justyn Konieczny	Member of the Managemet Board	01.01.2012-10.05.2012	409,31	30,60
Janusz Krawczyk	Member of the Managemet Board	01.01.2012-10.05.2012	2 586,33	0,00
Michael McCarthy	Member of the Managemet Board	01.01.2012-31.12.2012	1 069,63	331,63
Piotr Partyga	Member of the Managemet Board	10.05.2012-31.12.2012	599,10	30,13
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2012-31.12.2012	1 279,92	300,06
Marcin Prell	Member of the Managemet Board	01.01.2012-31.12.2012	891,88	71,73
Marco Antonio Silva Rojas*	Member of the Managemet Board	01.11.2012-31.12.2012	387,50	50,20
Mirosław Skiba	Member of the Managemet Board	01.01.2012-31.12.2012	951,71	82,06
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2012-31.12.2012	979,33	70,26

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012.

Additional benefits received by the Management Board members represent life insurance cover without pension option and, in case of Mr Michael McCarthy, Mr Juan de Porras Aguirre and Mr Marco Antonio Silva Rojas also medical cover, accommodation and travel expenses and school fees.

In the 2012, selected members of the Board were paid holiday equivalent in total amount of 927.05 k.

In 2012, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

In thousands of PLN

31.12.2011

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board:

First and last name	Position	Period	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2011-20.04.2011	88,8
Gerald Byrne	Chairman of the Supervisory Board	20.04.2011-31.12.2011	16,7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2011-20.04.2011	64,1
Aleksander Galos	Member of the Supervisory Board	01.01.2011-20.04.2011	57,1
Jacek Ślotała	Member of the Supervisory Board	01.01.2011-20.04.2011	59,1
Piotr Partyga	Member of the Supervisory Board	01.01.2011-31.12.2011	179,8
Witold Jurcewicz	Member of the Supervisory Board	20.04.2011-31.12.2011	115,7
John Power	Member of the Supervisory Board	01.01.2011-31.12.2011	210,9
Anne Maher	Member of the Supervisory Board	01.01.2011-20.04.2011	42,5
Maeliosa O'Hogartaigh	Member of the Supervisory Board	01.01.2011-20.04.2011	63,2

Mr John Power received remuneration of PLN 67 k from subsidiaries for his membership in their Supervisory Boards.

In 2011 Mr Jose Manuel Varela, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora decided not to receive remuneration for his membership in the Supervisory Board.

In addition, 2010 and 2011 was a period of substantial change for the bank. Mr Gerry Byrne provided services to the bank during this transition and was paid PLN 4 968 k.

Base remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Renumeration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2011-31.12.2011	1 563,02	74,06
Paul Barry	Member of the Managemet Board	01.01.2011-31.07.2011	385,06	413,16
Andrzej Burliga	Member of the Managemet Board	01.01.2011-31.12.2011	928,35	81,48
Eamonn Crowley	Member of the Managemet Board	01.09.2011-31.12.2011	288,02	5,34
Declan Flynn	Member of the Managemet Board	01.01.2011-13.04.2011	267,28	128,04
Justyn Konieczny	Member of the Managemet Board	01.01.2011-31.12.2011	1 127,88	73,19
Janusz Krawczyk	Member of the Managemet Board	01.01.2011-31.12.2011	961,00	63,35
Michael McCarthy	Member of the Managemet Board	01.01.2011-31.12.2011	1 054,25	585,91
Juan de Porras Aguirre	Member of the Managemet Board	01.10.2011-31.12.2011	325,54	21,30
Marcin Prell	Member of the Managemet Board	01.01.2011-31.12.2011	889,34	72,66
Mirosław Skiba	Member of the Managemet Board	01.01.2011-31.12.2011	928,27	80,70
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2011-31.12.2011	963,75	68,65

Additional benefits received by the Management Board members represent life insurance cover without pension option and, in case of Mr Paul Barry, Mr Declan Flynn, Mr Michael McCarthy and Mr Juan de Porras Aguirre, also medical cover, accommodation and travel expenses and school fees.

In 2011, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

Members of the Management Board have signed non-competition agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

31.12.2012

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives totalled PLN 9 797 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2012, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates totalled nil.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

In thousands of PLN

31.12.2011

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives totalled PLN 10 322 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2011, the total finance lease receivable provided to members of the Management Board of BZ WBK by the subsidiaries and associates totalled nil.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

Provisions for employee benefits disclosed in the note 49 include respectively amounts related to the Management Board of the Bank Zachodni WBK:

31.12.2012

Provisions for retirement benefits in the amount of PLN 5 k, provision for unused holidays in the amount of PLN 588 k.

31.12.2011

Provisions for retirement benefits in the amount of PLN 761 k, provision for unused holidays in the amount of PLN 812 k.

45. Information of number and value of banking writs of executions

In 2012 Bank issued 31 412 banking writs of execution with total amount of PLN 1 309 816 k.

In 2011 Bank issued 29 916 banking writs of execution with total amount of PLN 1 018 511 k.

46. Acquisitions and disposals of investments in subsidiaries

In 2012 and in 2011 BZ WBK did not engage in any transactions impacting its equity investment in the subsidiary.

47. Investment in joint ventures

BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A

In September 2011 BZ WBK made a capital contribution of PLN 5 000 k to BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. seated in Poznań. The raised capital was registered on 26.09.2011.
BZ WBK share of votes remained unchanged at 50%.

48. Events which occurred subsequently to the end of the period

Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

Transaction

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK and Kredyt Bank S.A. The transaction was settled through the issue of merger shares. As a result, eligible shareholders of Kredyt Bank S.A. were entitled to acquire shares in accordance with the agreed exchange ratio of 6.96 Merger Shares for every 100 shares of the Kredyt Bank. This represents a total of 18 907 458 ordinary shares with a nominal value of PLN 10 each, with a total nominal value of PLN 189 074 580. For the purposes of the settlement, the price of the new shares was determined in the amount of PLN 240.32. This price was calculated on the basis of the average BZ WBK share price over the thirty trading days between 21 November 2012 and 8 January 2013, excluding trading days without required turnover. The table below shows the total amount of the consideration transferred in a business combination and its effects on the equity of the combined entity.

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

The merger transaction is designed to implement the strategic objectives of the Bank and its major shareholder Banco Santander on the Polish market and will position the bank among the top three universal banks in Poland. As a result of the merger, there will be an increase of the geographical scope of banking distribution network and the complementary businesses of the two banks will be integrated. Bank will increase scope of the services offered and will expand the customer base. This will provide significant strengthening of the bank's market penetration potential and with the blended knowledge and experience of the two banks, the merged entity will be more effective and will achieve a higher quality of its solutions. With the economies of scale and harmonised risk management, the bank's profitability and effectiveness will increase. Cost synergies will be primarily achieved by improvement of processes, adoption of the most effective operational solutions, merger and optimisation of organisational structures and integration of IT systems. Revenue synergies will result from combination of the complementary offerings, cross-selling of the both banks' products, harmonisation of service styles and an increase in productivity.

Analysis of acquired assets and liabilities on a merger day

As at the date of issuance of the Annual Report of Bank Zachodni WBK for the year ended 31 December 2012 Bank Zachodni WBK Group performed a preliminary and provisional valuation related to the Kredyt Bank acquisition.
The financial information as of 4 January 2013 of Kredyt Bank which formed the basis of this provisional settlement is currently being audited by a qualified auditor, the process is in progress and audit of Kredyt Bank S.A. has not yet been finalized. Consequently, as a result of the audit of the financial statements, the data is still subject to change. Moreover, Bank Zachodni WBK has not completed the process of fair value estimation for the selected assets and liabilities of the Kredyt Bank S.A., in particular: loans and advances to customers, non-current assets, deposits from customers and contingent liabilities. Bank has not completed the fair value estimation of intangible assets that can be recognized in transaction. As a result, the total additional deferred tax asset and liabilities have been calculated based on the best estimates of the Management Board.
As an addition to the above, the auditor of Kredyt Bank has issued and audit opinion to Kredyt Bank Group consolidated financial statements for the year ended 31 December 2012 which contained the following qualification:

"As described in the note 4 to the attached consolidated financial statements the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012. Additionally, PLN 258 million out of the above increase in impairment allowances which relates to IBNR and collective impairment was presented in "Provisions" in the liabilities which is not compliant with the adopted accounting standards."

The final purchase price allocation may differ materially from the preliminary allocation described below due to further refinement of the allocation of purchase price to the fair values of assets and liabilities acquired, and for any impacts resulting from the resolution of the qualification reported by Kredyt Bank Group's independent auditors, described above. Additionally the above mentioned qualification impacts presented proforma revenue for continuing operations and proforma profit from continuing operations disclosed under "The impact of the acquisition on the results of the Bank" section further in this note.

In thousands of PLN

The following table shows the initial estimate of the fair value of acquired assets and liabilities.

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

During the merger Bank recognized PLN 207 756 k of additional assets that meet the conditions for recognition as intangible assets. These assets resulted from the revaluation of the acquired deposits of individual and business customers as well as customer relationships created in former Kredyt Bank. As at the release date of these financial statements, Bank has not completed the process of identification of intangible assets, which would be recognized in accordance with the principles set out in IFRS 3.

Non-controlling interest

Due to the fact that the business combination considered all of the operations of former Kredyt Bank S.A. and the exchange covered 100% of Kredyt Bank SA shares, any non-controlling interests were recognized in the consolidated financial statements of combined entity for the transaction.

Provisional calculation of goodwill

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

Goodwill arising on the date of the merger basically represents a premium for control, and results from a potential ability to achieve additional benefits resulting from expected synergies, revenue growth, gained market share, combining competences of employees and increase the efficiency of processes as compared to the fair value of the net assets acquired. These benefits were not recognized separate intangible assets as in this instance the conditions for their individual recognition have not been meet.

Bank does not expected tax deductibility of goodwill in future periods.

The impact of the acquisition on the results the Bank

If the combination of Bank Zachodni WBK and Kredyt Bank S.A. took place on 1 January 2012, the Bank's combined revenue for continuing operations for the year ended 31 December 2012 would amount to PLN 5 462 380 k (including net interest income, net fee and commission income, dividend income, sale of associates, net trading income and revaluation, gains (losses) from other financial securities, other operating income and share in net profits (loss) of entities accounted for by the equity method) and combined profit from continuing operations for the year would total 1 216 352 k (including net interest income, net fee and commission income, dividend income, sale of associates, net trading income and revaluation, gains (losses) from other financial securities, other operating income, operating losses on loans and advances, operating expenses and share in net profits (loss) of entities accounted for by the equity method less corporate income tax).

Management of the Bank considers these provisional values as representative and claims them to be an approximate measure of combined performance for the year ended 31 December 2012 assuming the acquisition as of the beginning of the annual reporting period.

In order to provisionally determine the revenues and profits of the Bank, assuming that the acquisition took place at the beginning of the current accounting period, the Management Board:

- calculated depreciation of acquired intangible and tangible fixed assets for the year 2012 based on depreciation rates applicable in the of Bank Zachodni WBK,
- took into account adjustments resulting from the harmonization of accounting policies, accounting estimates and internal regulations and respectively has calculated their impact for the year 2012,
- adjusted the combined profit for period of the Acquirer for costs that would not have occurred in 2012 if the business combination was already set at the beginning of 2012 (net amount of PLN 13.150 k) and for result of non-recurring transaction (net amount of PLN 11.535 k).

Fitch's rating action on Bank Zachodni WBK S.A.

On 10th January 2013 Fitch Ratings affirmed ratings for Bank Zachodni WBK and withdrew ratings for Kredyt Bank .

KBC Group NV and KBC Bank NV - notification

Bank Zachodni WBK released the notification received on 9th January 2013 from:
- KBC Group NV and
- KBC Bank NV

on the number of shares directly acquired by KBC Bank NV and indirectly acquired by KBC Group NV due to a merger of BZ WBK with Kredyt Bank S.A. and the percentage share in the total number of votes gained because of the merger, i.e. the notification on exceeding 15% of the total number of votes at the general meeting of BZ WBK shareholders.

Banco Santander S.A. – notification (Reduction of the percentage of the total number of votes)

Bank Zachodni WBK released the notification received on 9th January 2013 from Banco Santander S.A. on the reduction on a total number of votes by 19.04% due to the merger of BZ WBK with Kredyt Bank.

Until 4 January 2013 i.e. the date of the merger Santander held 70 334 512 shares of Bank Zachodni WBK which represented 94.23% of the share capital and the total number of votes at the general meeting of shareholders of Bank Zachodni WBK.
As a result of the merger, effective from 4 January 2013, its interest in the Bank Zachodni WBK share capital and voting rights at the GM of Shareholders was 75.19%.
Santander's subsidiaries do not hold shares of Bank Zachodni WBK.

Resolution of the National Depository for Securities (the "KDPW") on the registration of the series J shares in Bank Zachodni WBK S.A. and setting the reference date.

The Management Board of Bank Zachodni WBK announced that on 8 January 2013 it became aware that the management board of the KDPW adopted resolution No. 24/13 on the registration of 18,907,458 series J shares in the Bank, i.e. the shares in the Bank issued in connection with its merger with Kredyt Bank. Pursuant to the KDPW resolution, the registration of the series J shares under code PLBZ00000044 was conditional on the decision of the company operating the regulated market to introduce these shares to trading on the regulated market.

Furthermore, based on this resolution of the KDPW, the reference date was set at 9 January 2013. The information memorandum prepared by the Bank in connection with the merger defines the reference date as the date at which the number of shares in Kredyt Bank held by shareholders of Kredyt Bank will be determined in exchange for which the series J shares in the Bank will be allotted to such shareholders in accordance with an agreed exchange ratio.

Message from the Operations Department of the National Depository for Securities regarding the registration of J series shares in Bank Zachodni WBK S.A.

On 24 January 2013 the Management Board of Bank Zachodni WBK announced that it had received a message from the Operations Department of the National Depository for Securities (Dział Operacyjny Krajowego Depozytu Papierów Wartościowych S.A.)

In thousands of PLN

("KDPW") stating that on 25 January 2013 the KDPW would register 18,907,458 series J shares in the Bank with a nominal value of PLN 10 each, i.e. the merger shares in the Bank issued in connection with its merger with Kredyt Bank which were assigned the code: PLBZ00000044 in compliance with resolution No. 24/13 of the Management Board of the KDPW dated 8 January 2013.

Authorization for issue of Financial Statements of Bank Zachodni WBK S.A.

The financial statements of Bank Zachodni WBK S.A. were authorized for issue on the 7th of March 2013 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be presented for approve by the shareholders at their Annual General Meeting.

49. Staff benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits),
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided after the term of employment).

Within these categories, the BZ WBK creates the following types of provisions:

Provisions for unused holidays
Liabilities related to unused holidays are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses
Liabilities related to bonuses system are stated in the amount of the probable payment without discounting.

Provisions for retirement allowances
Liabilities related to retirement allowances are measured using actuarial methods (including discounting).

Other staff-related provisions
These are provisions for the National Fund of Rehabilitation of the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2012	31.12.2011
Provisions for unused holidays	21 003	19 194
Provisions for employee bonuses	115 930	116 459
Provisions for retirement allowances	37 135	41 367
Other staff-related provisions	2 389	2 474
Total	**176 457**	**179 494**

Detailed information about movements on staff-related provisions is available in Note 33.

Awards for the year 2011 granted in 2012 to the Members of the Management Board of Bank Zachodni WBK S.A.

First and last name	Position	Period	Awards for 2011
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 870,00
Andrzej Burliga	Member of the Management Board	01.01.2012-31.12.2012	850,00
Eamonn Crowley	Member of the Management Board	01.01.2012-31.12.2012	777,60
Justyn Konieczny	Member of the Management Board	01.01.2012-10.05.2012	1 026,00
Janusz Krawczyk	Member of the Management Board	01.01.2012-10.05.2012	925,00
Michael McCarthy	Member of the Management Board	01.01.2012-31.12.2012	1 004,40
Piotr Partyga	Member of the Management Board	10.05.2012-31.12.2012	0,00
Juan de Porras Aguirre	Member of the Management Board	01.01.2012-31.12.2012	0,00
Marcin Prell	Member of the Management Board	01.01.2012-31.12.2012	799,20
Marco Antonio Silva Rojas*	Member of the Management Board	01.11.2012-31.12.2012	0,00
Mirosław Skiba	Member of the Management Board	01.01.2012-31.12.2012	850,00
Feliks Szyszkowiak	Member of the Management Board	01.01.2012-31.12.2012	864,00

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012

In thousands of PLN

According to the approved remuneration system in the Bank, in case of fulfilling certain criteria, members of the Management Board of the Bank, can be entitled to receive an award for 2012 that would be paid in 2013. As at the date of preparation of these financial statements, the decision in this regard has not been made by the Supervisory Board of the Bank.
Awards for the year 2010 granted in 2011 to the Members of the Management Board of Bank Zachodni WBK S.A.

First and last name	Position	Period	Awards for 2010
Mateusz Morawiecki	President of the Management Board	01.01.2011-31.12.2011	1 404,00
Paul Barry	Member of the Management Board	01.01.2011-31.07.2011	479,76
Andrzej Burliga	Member of the Management Board	01.01.2011-31.12.2011	831,60
Declan Flynn	Member of the Management Board	01.01.2011-13.04.2011	635,07
Justyn Konieczny	Member of the Management Board	01.01.2011-31.12.2011	970,00
Janusz Krawczyk	Member of the Management Board	01.01.2011-31.12.2011	740,00
Michael McCarthy	Member of the Management Board	01.01.2011-31.12.2011	719,64
Marcin Prell	Member of the Management Board	01.01.2011-31.12.2011	700,00
Mirosław Skiba	Member of the Management Board	01.01.2011-31.12.2011	831,60
Feliks Szyszkowiak	Member of the Management Board	01.01.2011-31.12.2011	815,00

Additionally, in 2011 the Management Board of the Bank has received bonus in the total amount of PLN 6 725 k reflecting both the retention of Management Board members in the context of the change in ownership and the departure of a number of long-serving Management Board members (Declan Flynn and Paul Barry) on assignment from the previous majority shareholder.

50. Share based incentive scheme

Third edition expired as at 31 March 2011. The scheme did not vest as the condition were not met.

In 2011 4th edition of the BZWBK incentive scheme has been granted to no more than 500 individuals and is still in operation.

Vesting condition will be considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit before tax (PBT) growth. The range of the scale requires PBT growth between 8% and 15% in first year and between 15% and 22% in second and third year of duration of scheme.

Shares vested in any single year will be allocated to individual after maturity of the edition.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PBT compound annual growth rate in 3 years' time between 12.6% and 19.6%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility is based on an analysis of historical volatility based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

Share based payments granted in 2011:

	2011
Number of share based payments	312 755
Number of share based payments allocated after initial grant date	6 312
Share price in PLN	227,90
Excercise price (PLN)	10
Vesting period	2,75 years
Expected volatility	9,98%
Award life	3 years
Risk free rate	5,19%
Fair value per award	195,08 PLN
Dividend yield	3,51%

In thousands of PLN

Taking up the Bank's shares by the employees under the Incentive Scheme

The following table summarizes the share based payments activity:

	12 months of 2012 Number of share based payments	12 months of 2011 Number of share based payments
Outstanding at 1 January	317 971	268 020
Granted	4 523	319 067
Exercised	-	-
Forfeited	(6 577)	(4 713)
Expired	-	(264 403)
Outstanding at 31 December	315 917	317 971
Exercisable at 31 December	-	-

Exercise price for all share based payments amounts to 10 PLN.

For the share based payments outstanding as at 31 December 2012 and 31 December 2011 the average remaining contractual life is approximately 1 year and 2 years respectively

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2012, 2011 increase of equity amounted to PLN 19 380 k, PLN 19 785 k respectively. The cost of incentive program was recognized based on assumption that the vesting conditions were at the maximum level.

Taking up the Bank's share rights by the Management Board Members under the 2011 Incentive Scheme

On 25 March 2011, the Supervisory Board of Bank Zachodni WBK S.A. passed a resolution to launch the 4th Performance Share Incentive Plan. Under the Plan, a total of 321 399 entitlements to conditional share rights were allocated to 498 employees, including 44 852 conditional share rights taken up by the Members of the Bank Management Board. On 17 May 2011 the Supervisory Board of Bank Zachodni WBK S.A. passed a resolution stating that the condition of the Third Incentive Scheme from 2008 were not met.

The tables below show details of conditional share rights granted to the Members of the Management Board of BZ WBK.
The implementation of these rights depends on certain conditions, the fulfillment of which will be confirmed in future periods.

No. of awards		2012
Outstanding at 1 January		44 852
Granted		2 855
Termination of appointment		(9 137)
Expired		-
Outstanding at 31 December		38 570
Exercisable at 31 December		-

First and last name	Total as at 01.01.2012	Termination of appointment	Granted during 2012	Total as at 31.12.2012
Mateusz Morawiecki	10 120	-	-	10 120
Andrzej Burliga	4 282	-	-	4 282
Eamonn Crowley	4 003	-	-	4 003
Justyn Konieczny	5 283	(5 283)	-	-
Janusz Krawczyk	3 854	(3 854)	-	-
Michael McCarthy	4 875	-	-	4 875
Piotr Partyga	-	-	2 855	2 855
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	3 704	-	-	3 704
Marco Antonio Silva Rojas	-	-	-	-
Mirosław Skiba	4 282	-	-	4 282
Feliks Szyszkowiak	4 449	-	-	4 449
Total	**44 852**	**(9 137)**	**2 855**	**38 570**

In thousands of PLN

No. of awards	2011
Outstanding at 1 January	31 093
Granted	44 852
Expired	(31 093)
Outstanding at 31 December	44 852
Exercisable at 31 December	-

First and last name	Total as at 01.01.2011	Expired during 2011	Granted during 2011	Total as at 31.12.2011
Mateusz Morawiecki	7 403	(7 403)	10 120	10 120
Andrzej Burliga	3 332	(3 332)	4 282	4 282
Eamonn Crowley	-	-	4 003	4 003
Justyn Konieczny	5 182	(5 182)	5 283	5 283
Janusz Krawczyk	4 442	(4 442)	3 854	3 854
Michael McCarthy	-	-	4 875	4 875
Marcin Prell	4 442	(4 442)	3 704	3 704
Mirosław Skiba	1 850	(1 850)	4 282	4 282
Feliks Szyszkowiak	4 442	(4 442)	4 449	4 449
Total	**31 093**	**(31 093)**	**44 852**	**44 852**

51. Staff level

31.12.2012

As at 31 December 2012 the Bank employed 8 295 persons, i.e. 8 217 FTE's.
In 2012, the average staffing level in Bank Zachodni WBK was 8 386 FTE's.

31.12.2011

As at 31 December 2011 the Bank employed 8 802 persons, i.e. 8 726 FTE's.
In 2011, the average staffing level in Bank Zachodni WBK was 8 992 FTE's.

52. Dividend per share

The Management Board of the Bank will propose a dividend payment to the Shareholders in the amount of PLN 7,60 per share from the profit for 2012.

As disclosed in the note 48, after the balance sheet date, the Bank has issued 18 907 458 shares that are entitled to dividend from 2012 profit.

The final decision on dividend payment and amount shall be made by the Annual General Meeting of Bank Zachodni WBK S.A. Shareholders.

On 10 May 2012, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 584 608 k to dividend for shareholders, from the profit for 2011, which meant that the dividend was PLN 8 per share.

Signatures of Members of the Management Board			
Date	**Name**	**Function**	**Signature**
7.03.2013	Mateusz Morawiecki	President	
7.03.2013	Andrzej Burliga	Member	
7.03.2013	Eamonn Crowley	Member	
7.03.2013	Michael McCarthy	Member	
7.03.2013	Piotr Partyga	Member	
7.03.2013	Juan de Porras Aguirre	Member	
7.03.2013	Marcin Prell	Member	
7.03.2013	Marco Antonio Silva Rojas	Member	
7.03.2013	Mirosław Skiba	Member	
7.03.2013	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	**Name**	**Function**	**Signature**
7.03.2013	Wojciech Skalski	Financial Accounting Area Director	