2010 ANNUAL REPORT

Bank Zachodni WBK S.A.

Financial highlights

	for reporting period ended:	PLN k 31.12.2010	PLN k 31.12.2009	PLN k 31.12.2008	EUR k 31.12.2010	EUR k 31.12.2009	EUR k 31.12.2008
	Consolidated financial statements						
I	Net interest income	1 822 175	1 563 191	1 635 105	455 048	360 129	462 928
II	Net fee and commission income	1 344 661	1 314 312	1 373 815	335 799	302 792	388 952
III	Operating profit	1 352 729	1 162 170	1 211 357	337 814	267 742	342 957
IV	Profit before tax	1 357 181	1 161 836	1 210 580	338 926	267 665	342 737
V	Net profit attributable to owners of BZ WBK S.A.	974 223	885 258	855 446	243 291	203 946	242 192
VI	Total net cash flow	(1191 465)	239 341	300 322	(297 542)	55 140	85 027
VII	Total assets	53 153 871	54 065 025	57 433 069	13 421 678	13 160 271	13 764 996
VIII	Deposits from banks and central bank	2 526 082	5 349 984	5 338 051	637 851	1 302 270	1 279 372
IX	Deposits from customers	41 970 454	41 222 871	42 810 727	10 597 797	10 034 290	10 260 456
X	Total liabilities	46 380 296	48 028 555	52 220 628	11 711 309	11 690 900	12 515 729
XI	Total equity	6 773 575	6 036 470	5 212 441	1 710 369	1 469 371	1 249 267
XII	Non-controlling interests in equity	150 519	108 338	239 872	38 007	26 371	57 490
XIII	Profit of the period attributable to non-controlling interests	66 346	53 964	98 840	16 568	12 432	27 983
XIV	Number of shares	73 076 013	73 076 013	72 960 284			
XV	Net book value per share in PLN/EUR	92.69	82.61	71.44	23.41	20.11	17.12
XVI	Solvency ratio	15.77%	12.97%	10.74%			
XVII	Profit per share in PLN/EUR	13.33	12.11	11.72	3,33	2,79	3.32
XVIII	Diluted earnings per share in PLN/EUR	13.28	12.06	11.68	3.32	2.78	3.31
XIX	Declared or paid dividend per share in PLN/EUR	8.00	4.00	—	2.02	0.97	—

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

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

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

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Dear Colleagues,

The year 2010 brought with it many challenges. After the turbulence arising from the global crisis, the biggest economies within the European Union and the United States began their progress towards stabilisation and indeed growth. Poland, ranked 6th strongest economy in the EU, retuned to the growth path after deceleration in 2009. Our GDP increased by 3.7% last year, which is double the EU average. This outstanding performance puts Poland among the economic leaders of Europe, and positions our bank for further growth.

The situation in Greece and Ireland and the precarious position of Portugal show that the upheaval in financial markets may turn into a crisis of much greater magnitude. In this context, it is particularly worth noting that Bank Zachodni WBK successfully avoided all the troubles that beset AIB, our majority shareholder, and remained unshaken during these hard times.

Last year was remarkable in the history of Bank Zachodni WBK. We were the only Polish bank that was going through ownership changes while facing the economic crisis. It is with utmost satisfaction that I conclude that we rose to these challenges with success. The strong interest from the biggest financial groups in the shares of Bank Zachodni WBK and award of the title “Bank of the Year” by the prestigious “The Banker” magazine show best that this success is recognised by the banking experts in Europe.

Bank Zachodni WBK consistently operated its growth strategy based on diversification of income and sustainable development. This would not have been possible but for our Executive Team, professional management and staff – people whose hard work has

Last year was remarkable in the history of Bank Zachodni WBK. We were the only Polish bank that was going through ownership changes while facing the economic crisis.

allowed us to pronounce at the onset of 2011: we are moving forward dynamically, and still have a great potential for further growth. I would like to thank and wish continued success to all those who have contributed to the strong position of the Bank.

Bank Zachodni WBK has entered a new era, and I believe it will be the best in its history. I would like to reassure all Shareholders that our bank is resilient to crisis and both myself and the whole Supervisory Board elected for the term 2008-2011 are confident that despite the stress associated with the important ownership changes Bank Zachodni WBK will continue to develop fast and reinforce its market position.

Aleksander Szwarc
Chairman of the Supervisory Board
of Bank Zachodni WBK S.A.

Dear All,

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

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

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

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

Bank Zachodni WBK is a well-established financial institution boasting continuously satisfactory performance and strong potential. The major asset of Bank Zachodni WBK Group is, and will be, the staff potential.

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

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

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

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

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

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

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

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

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

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

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

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

M. Morawiecki

Mateusz Morawiecki
Management Board President
of Bank Zachodni WBK

Assessment of the Bank Zachodni WBK Group's Operations in 2010

Bank Zachodni WBK S.A.

2010 Macroeconomic Environment

Global situation

2010 saw the revival of global economy, which was driven in most countries by rebuilding activity in manufacturing and foreign trade. Asian economies (e.g. China, India) recorded the quickest growth rate. The high economic growth noted by Germany was very positive from the Polish economy's perspective. The financial markets focused on the debt problems of some eurozone countries and the risk of spreading the debt crisis over Europe.

Domestic economy

The Polish economy continued economic revival, based largely on the growth in manufacturing and exports, supported by growing foreign demand and still competitive level of the zloty.

GDP growth accelerated steadily from 3.0% in Q1 2010 to more than 4.5% in the last quarter of the year. Throughout 2010, the GDP growth reached 3.8% and was more than twice that of the previous year.

Over the year domestic demand grew by 3.9% against a fall of 1% recorded in 2009. It was largely fuelled by acceleration in private consumption growth – from 2.2% in Q1 to around 4% in Q4 2010 (3.2% on average in the entire year).

At the turn of the first and the second quarter of 2010, employment in the enterprise sector and in the entire economy started growing. Growth in the labour demand did not cause a strong pressure on salaries, due to increased labour activity of Poles. This is also why despite an increase in employment, there was a rise in unemployment rate (according to the Labour Force Survey, from 6.6% in Q3 2008 to 9.1% in Q3 2010).

Improving economic situation in 2010 was not accompanied by the revival in fixed investments. Despite growth in capacity utilization, quite a substantial increase in demand and good financial results, the private sector businesses delayed investments. Public investment continued to be supported by the EU funding. Overall, gross fixed capital formation decreased during the year by 2%, after declining by 1.1% in 2009.

Inflation

In H1 2010, inflation was in a downward trend, which brought the annual CPI growth rate to 2% y–o–y in the summer months. In the subsequent months, however, there was a clear rebound of inflation, driven primarily by strong growth in food, fuel, clothing and footwear prices. As a result, in the last quarter of the year the CPI growth rate returned above the NBP inflation target (2.5%), and in December it was at 3.1% y–o–y.

Interest rates

At the beginning of 2010 the Monetary Policy Council's term of office finished. In addition, Sławomir Skrzypek was replaced by Marek Belka as the Governor of the National Bank of Poland in Q2 2010. The main interest rates of the Central Bank remained unchanged throughout the year (main reference rate at 3.5%). In October 2010, the Monetary Policy Council decided to raise the reserve requirement rate from 3.0% to 3.5% with effect from January 2011.

Exchange rate

Despite the gradual increase in economic activity, 2010 saw considerable turbulences in financial markets, which were primarily caused by fiscal problems in some countries of the eurozone and concerns about the risk of spreading fiscal crisis. As a result, during the year there were significant fluctuations in exchange rates. The zloty remained in the medium–term appreciation trend, which however was interrupted by periods of clear corrections caused by growing concerns about debt problems in the eurozone.

Situation in the banking market

In 2010, banks were gradually relaxing their lending policies, among others, due to improved macroeconomic situation, the labour market recovery and the expected improvement in the economic outlook.

Household loans recorded a moderately high growth, mainly in home mortgage loans segment which increased by ca. 13% y–o–y on the constant currency basis, similar to 2009. A slowdown occurred in consumer loans (growth below 2% in 2010 compared with 13% rise in 2009).

The business lending market remained in stagnation – the total loan–book declined by about 2.5% y–o–y (on the constant currency basis). The increase in deposits from business customers stabilised at 10% y–o–y. The increase in household deposits slowed slightly compared with 2009 and amounted to ca. 10% y–o–y.

BZWBK Group's Financial Standing in 2010

In 2010, Bank Zachodni WBK Group continued its strategy for 2009–2011, trying to be distinctive in the market by its customer proposition and customer service quality.

The Group flexibly responded to the changing business environment with a focus on maintaining its deposit base, developing its loan–book and controlling risk in all aspects of its activity.

On September 10, 2010, it was announced that Allied Irish Banks p.l.c. agreed to sell the entire stake in Bank Zachodni WBK (70.4% of the share capital) to Banco Santander.

Profit & Loss Account

In 2010, Bank Zachodni WBK Group achieved a profit–before–tax of PLN 1 357.2 m, i.e. 16.8% more than in 2009. The profit–after–tax attributable to shareholders of Bank Zachodni WBK was PLN 974.2 m, and higher by 10% y–o–y. This performance reflects the Group's consistent efforts to diversify its income streams, align the product structure to the customer needs and market conditions, execute well–crafted marketing campaigns and deliver effective risk management.

Income

The total income earned by Bank Zachodni WBK Group in 2010 was PLN 3 539.8 m and up 7.7% y–o–y

Net interest income amounted to PLN 1 822.2 m and increased by 16.6% y–o–y as the situation in the Polish deposits market continued to improve. Under the impact of declining money market prices, improved liquidity position of Polish banks and slower credit delivery, the competition for customer deposits changed in nature and intensity, which is also reflected in the increase of annualized net interest margin of Bank Zachodni WBK Group from 3.40% for 2009 to 3.98% for 2010.
Over the last three quarters of 2010, the market interest rates remained in a relatively narrow volatility band, and the recovering deposit margins compensated for falling lending margins. Net interest income was also favourably impacted by changes in the Group's balance sheet structure, particularly an increase in current balances in the customer accounts (+6.2% y–o–y).

In 2010, net commission income amounted to PLN 1 344.7 m and increased by 2.3% y–o–y.
The income earned by the Group from its activities in the mutual funds and asset management market amounted to PLN 289.7 m, up 22.5% y–o–y. This is primarily due to the upward trend observed on the Warsaw Stock Exchange since February 2009.

Direct Banking services of BZ WBK Group generated net commission income of PLN 280.3 m, which was 2.6% higher year–on–year.

The 5% decline in the net income from credit fees to PLN 145.8 m can be attributed, among other things, to the prudential policy continued by the Group with regard to sanctioning credit cards limits, which constrained the portfolio of newly issued cards.
Net commission income of Dom Maklerski BZ WBK increased by 3.1% y–o–y to PLN 101.6 m on account of higher income from servicing mutual funds and primary market offerings. In 2010, the company arranged 8 IPOs and was acclaimed a market leader of the stock exchange debuts.

Dividend income decreased by 43.6% y–o–y to PLN 54.5 m due to lower dividend received from Aviva Towarzystwo Ubezpieczeń na Życie in 2010 compared with a the year before.

In 2010, the loan impairment charge to the profit and loss account was PLN 420.8 m compared with PLN 481 m in 2009. The impairment level is an effect of improved macroeconomic conditions in Poland compared with 2009. In 2010, the financial and market position of Polish companies was gradually improving, and so was their debt repayment capacity. Also, the property market was showing clear signals of recovery, favourably affecting investors, real estate developers, their business partners and contractors. The revised outlook for this and other sectors influenced the decision to write back the provisions of PLN 60 m in total for incurred but not reported losses (IBNR) in the Business and Corporate Banking portfolio.

The economic slowdown of 2009 and its after–effects most strongly impacted the SME sector and weakened the solvency of such representatives. Higher impairment was also recognized in BZ WBK Group's leasing portfolio as a result of lower prices of leased assets that collateralize receivables from customers.

Costs

Total costs of Bank Zachodni WBK Group amounted to PLN 1 766.3 m and were 7.4% higher y–o–y due to development of the Group's business. The C/I ratio remained at 50%.

In 2010, staff expenses increased by 7.8% y–o–y to PLN 959 m, mainly as a result of accruals for staff bonuses linked to the Group performance in 2010. Base salaries reflect the average 3.5% pay increase while the average employment was similar to the previous year's level.

The Group's other administrative expenses increased by 5.4% y–o–y to PLN 641.6 m driven by the cost of consultancy, maintenance and lease of buildings, advertising and marketing, and other third party services.

Assets & Liabilities

As at 31 December 2010, total assets of Bank Zachodni WBK Group amounted to PLN 53 153.9 m, down 1.7% on 31 December 2009.

Loans

As at 31 December 2010, gross loans and advances to customers amounted to PLN 34 205.1 m, down 4.2% on the end of December 2009.

In 2010, loans and advances to business and public sector customers decreased by 9.1% y–o–y to PLN 20 311.7 m. As at the end of December, property loans, which make up a large portion of this portfolio, decreased by 16.9% y–o–y to PLN 9 545.8 m in line with declining credit exposures to commercial property sector .

Loans to personal customers amounted to PLN 11 437.5 m, an increase of 7.6% compared with 2009. The main growth driver were mortgage loans, which went up by 14.3% y–o–y to PLN 6 926.6 m at the end of December 2010 due to the quality of the bank's mortgage proposition.

Deposits

Deposits from customers, which represent 79% of the Group's total equity and liabilities are the primary source of funding the Group's lending business. At the end of December 2010 they amounted to PLN 41 970.5 m, up 1.8% on 31 December 2009.

As at 31 December 2010, the Group's deposits from retail customers amounted to PLN 25 230.8 m, down 1.5% y–o–y. The structure of these deposits changed as customers were shifting funds from term deposits to current accounts, which is attributable to the increase in the number of personal and savings accounts and lower attractiveness of term deposits in the low interest rates environment. Deposits from business customers amounted to PLN 16 739.7 m and were by 7.2% higher y–o–y.

Bank Zachodni WBK Share Price

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

The price of Bank Zachodni WBK shares increased from PLN 190 on 31 December 2009 to PLN 214.9 on 31 December 2010. The minimum share price during the year was PLN 168.10 (5, 8 and 25 February 2010). The maximum share price was PLN 220.90 (14 April 2010).

From 10 September 2010 when AIB announced its intention to sell its Polish assets to Banco Santander till the end of the year, the share price of Bank Zachodni WBK traded in the region of PLN 210–214.

During the year, WIG grew by 18.8%, WIG20 by 14.9% and WIG–Banks by 17.9%.

As at 31 December 2010, capitalisation of the BZ WBK Group amounted to PLN 15 704 m compared to PLN 13 884.4 m a year before. P/E ratio totalled 17.13 times vs. 14.09 times as at the end of 2009 whereas P/BV amounted to 2.6 times vs. 2.5 times at the end of 2009.

Rating

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

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

In the announcement dated 12 May 2010, Fitch revised the bank's outlook (Long–term IDR) to stable from negative while the other ratings were affirmed. The revision reflected the resilience of BZ WBK's profitability in a deteriorating operating environment.

The recent change in rating reflected Allied Irish Banks p.l.c. decision to sell the BZ WBK stake (70.4%) to Banco Santander (AA'/Stable/'F1+') that was announced on 10 September 2010.

After the transaction is completed Fitch will resolve the RWP on BZ WBK's ratings. BZ WBK's support rating as well as short–term and long–term IDRs will be based on support from the bank's new parent – Banco Santander.

Assessment of the Internal Control System

As required by the Statutes, the bank operates an internal control system which supports the decision–making processes and contributes to the bank's efficient operation, reliability of financial reporting as well as compliance with the law and internal regulations.

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

Internal control and risk management systems are structured into three lines of defence. Control measures under the first line check compliance with procedures and ad hoc/on–going response to any identified deficiencies or shortcomings. It underlies reviews of procedures and effectiveness of controls across the organization.

The second line of defence is formed by specialist units performing control functions which support the bank's management in risk identification and management and serve assessment of the first line controls.

The third line of defence is the Internal Audit Area which provides independent and objective examination as well as assurance on the first and second tier controls as well as on the bank's management system, including the effectiveness of managing the risk related to the bank's business. The IAA performs a regular assessment of the present and future risk across the bank and BZ WBK Group in order to identify the demand for audits. When developing annual audit plans, priorities highlighted by the bank's management, the Audit Committee, the external auditor and banking supervision institutions are taken into account.

The Audit Committee of the Supervisory Board exercises oversight over the Internal Audit Area. The Audit Committee approves an annual audit plan and is regularly updated on audit results and progress in management actions.

As a result of the activities of the three lines of defence,the Management Board and the Supervisory Board receive current and accurate information on compliance with the law and internal regulations applicable in the bank, effectiveness of identifying errors and irregularities as part of the internal control system, efficient management actions, completeness and correctness of accounting procedures as well as adequacy, functionality and security of the IT system. The Risk Management Committee and the Audit Committee are updated on a regular basis on the operation of the internal control system from the units of the second and third lines of defence which facilitates the on–going monitoring of the system's effectiveness.
The findings of the control activities are taken into account and used to improve the existing processes and safety by making relevant changes to the internal processes and regulations.

Assessment of Risk Management System

Bank Zachodni WBK has an integrated risk management framework ensuring that all risks having material impact on the bank's operations are identified, measured, monitored and controlled. In the Supervisory Board's opinion, this framework is appropriately matched to the bank's size and risk profile. The bank optimizes the risk management framework on a regular basis, adapting it to the changing environment and risk profile associated with the executed strategy.

The responsibility for the management of individual risks was split between the bank's organizational units that are supported by relevant Committees. The risk management strategy is set by the Risk Management Committee (RMC) overseeing the activity of other Committees having risk management authority. The fact that Management Board Members and senior management sit on key Committees ensures high quality of management and consistent risk strategy.
To strengthen the credit risk management framework and ensure an adequate level of independence, in 2010 the bank set up the Credit Risk Measurement Committee responsible for the approval of credit risk measurement methods and tools. Moreover, in line with the idea to build value by setting common targets for the bank's business units (Risk&Reward), the committee responsible for the lending policy was restructured to meet the needs of the business segments.

One of the basic elements of the risk management framework of Bank Zachodni WBK is setting the levels of risk that the bank is ready to accept in its day–to–day business. The acceptable risk level is expressed in the form of limits set out in the "BZ WBK Group Risk Appetite Statement" approved by the Management Board and Supervisory Board. The bank conducted a detailed review of the limits for actual and potential risks, market conditions as well as the financial and capital plan. The analysis covered stress testing and scenario analyses whose purpose was to ensure that the bank has an adequate level of capital even in a stressed situation. The bank has methodologies and processes that identify and assess risks to set their potential impact on the bank's operations now and in the foreseeable future. Identified risks are managed using available policies and best practices to keep them at an acceptable level. The bank uses various risk assessment techniques depending on the risk type and materiality. The most important ones include:

- customer and/or transaction grading – for credit risk assessment purposes,
- VAR methodology – market risk,
- operational risk self–assessments.

In 2010, the bank took actions to further develop and adapt credit risk assessment tools to ensure appropriate portfolio quality.

It is worth noting that actions were taken to develop market risk measurement tools covering a number of VAR model validations.

The bank strives to keep the right risk/reward balance. That is why it is worth emphasizing that actions are taken by the bank to ensure appropriate risk rating and reflecting risk elements in the profitability measurement process and bonus schemes.

To assess risks at the Group–wide level, they are comprehensively reviewed as part of regular ICAAP material risk reviews and the reviews of key risks that identify major threats to the bank's business. In 2010, risk identification and assessment was performed in accordance with the policies implemented by the bank. The identified risks are closely managed in line with the risk mitigating action plans.

The comprehensive risk management framework is supported by a consistent and transparent system of reporting risk levels and types as well as risk limit excesses. The reporting process covers key management levels. The Supervisory Board gets regular reports presenting the identified risks and actions taken by the Management Board to mitigate them.

Report of the Management Board on Bank Zachodni WBK Group Performance in 2010

Bank Zachodni WBK S.A.

Contents

I. Overview of BZ WBK Group Performance in 2010

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

Financial Highlights

- **Total Income** increased by 7.7% y–o–y to PLN 3 539.8 m.
- **Total Costs** increased by 7.4% y–o–y to PLN 1 766.3 m, with staff and other administrative expenses up 6.8% y–o–y to PLN 1 600.6 m.
- **Profit–Before–Tax** was PLN 1 357.2 m and up 16.8% y–o–y.
- **Profit–After–Tax** attributable to the owners of Bank Zachodni WBK was PLN 974.2 m and 10% higher y–o–y.
- **Capital Adequacy Ratio** of 15.77% (12.97% as at 31 December 2009).
- **Return on Equity** of 17.3% (17.6% as at 31 December 2009).
- **Cost to Income Ratio** was 49.9% (50% for 2009).
- **Net Impairment Losses** on loans and advances amounted to PLN 420.8 m compared with PLN 481 m in 2009.
- **NPL Ratio** increased to 6.8% (5.5% as at 31 December 2009) while the ratio of impairment losses to the average credit volumes was 1.21% (1.31% as at 31 December 2009).
- **Loans to Deposits Ratio** of 78.2% as at 31 December 2010 versus 83.9% as at 31 December 2009.

Key Factors Affecting the Group's Profit and Activity in 2010

Business Factors:

- Higher customer deposits (+1.8% y–o–y) compared with the end of 2009, mainly due to an increase in personal current accounts (+9.1% y–o–y). Slight changes in the deposit structure in favour of business deposits and current accounts.
- Lower gross credit volumes (–4.2% y–o–y) compared with the end of 2009 as a result of the decrease in business loans (–9.1% y–o–y) and the concurrent increase in personal loans (+7.6% y–o–y), particularly home mortgages (+14.3% y–o–y).
- Improved financial standing of business borrowers amid more favourable economic climate.
- Close risk monitoring in all areas of the Group's activity and flexible approach to the changing macroeconomic conditions.
- Expansion of the personal accounts and current accounts base (+7% y–o–y) on the back of advertising campaigns and the Group's competitive offering.
- Increase in the average net value of assets of mutual funds and private portfolios (+15.7% y–o–y) amid favourable stock market.
- Strong increase in the number of BZWBK24 electronic banking users (+21% y–o–y) and Moja Firma Plus package (+16% y–o–y).
- Further expansion of the debit and charge cards base (+13% y–o–y), extension of the scope of additional services and intensive efforts to encourage increased activity of card holders.
- Wider use of relationship–based marketing in the CRM and sales campaigns with a particular focus on building relations with new retail and business customers.
- Constant monitoring of operating costs and continued improvement of cost–efficiency of processes.

Key Developments and Achievements:

- Announcement by AIB Bank of its decision to sell its entire shareholding in Bank Zachodni WBK (30 March 2010) and to select Banco Santander as the investor (10 September 2010).
- Changes in the composition of supervisory and senior management bodies: appointment of two new members of the BZ WBK Supervisory Board (Anne Maher and Piotr Partyga) and announcement of two Management Board members about their intention to step down from their roles in Bank Zachodni WBK (Jacek Marcinowski and Declan Flynn).
- Approval by the Annual General Meeting of Bank Zachodni WBK held on 21 April 2010 of the proposed dividend pay–out of PLN 4 per share.
- Issue of 10–year BZ WBK subordinated bonds of EUR 100 m and recognition of the respective subordinated debt as own funds with the consent of the Polish Financial Supervision Authority.
- Establishment of Arka BZ WBK FIO umbrella fund on 26 November 2010 by transforming seven previously independent funds into subfunds.
- Take–over of the transfer agent role by the bank effective from March 2010 and regular provision of services to the funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych.
- The biggest number of IPOs in 2010 arranged by Dom Maklerski BZ WBK S.A. in co–operation with the bank.
- The title "Bank of the Year 2010 in Poland" for Bank Zachodni WBK from the British "The Banker" magazine (member of "Financial Times" Group) in the competition that awards banks in individual countries and regions (2 December 2010).
- Placing of the following ratings of Bank Zachodni WBK on Rating Watch Positive list: long–term IDR rating (BBB+), short–term rating (F2) and support rating (3).

External Factors:

- Continued economic recovery and acceleration of the annual economic growth from 3.0% in the first quarter of 2010 to 4.5% in the fourth quarter.
- Double–digit growth in industrial production coupled with accelerating growth in construction output and retail sales. Improvement in the financial results and optimism of the enterprise sector.
- Decrease in fixed investment with further reduction of investments in the private enterprise sector.
- Improvement of situation in the labour market, reflected in the steady increase in demand for labour in the business and all other sectors of the economy starting from the second quarter of 2010. A strong increase in employment – despite the low pace of wage rises – which led to a notable improvement in the wage bill growth in the business sector.
- Considerable volatility in the foreign exchange and debt securities markets. Zloty remained in the appreciation trend, which was interrupted by clear corrections connected with the rising concerns about sovereign debt problems in the euro zone. In the domestic treasury bonds market a downward trend in yields prevailed with intermittent periods of the rise in bonds yields amid heightened risk aversion globally.
- Gradual improvement in functioning of the interbank market and drop in costs of funding the bank's assets.
- Slightly lower annual growth rate for total loan sales with stable annual growth of lending to households and a moderate decline of annual loan sales to enterprises.
- Lower annual growth rate in total deposits amid modest annual growth in household deposits and relatively stable growth of business deposits.
- Signs of recovery in the property market, both in supply and demand. A moderate growth in residential property prices in the main cities.
- Continued growth trend in the world and domestic stock markets with intermittent periods of increased volatility.
- Decrease of the CPI inflation in the first half of 2010 to 2% in July–August, and its notable increase at the year–end to 3.1% y–o–y, which is above the central bank's inflation target of 2.5%.
- Stabilisation of the main NBP interest rates with the reference rate unchanged at 3.5%.

II. Basic Information

1. History and Profile of Bank Zachodni WBK S.A.

Background

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

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

On 10 September 2010, the Board of AIB resolved to sell the entire stake in Bank Zachodni WBK and 50% of shares in BZ WBK AIB Asset Management S.A. to Banco Santander. Consequently, a tender offer for 100% of the share capital of Bank Zachodni WBK S.A. at the price of PLN 226.89 per share was launched by Banco Santander on 7 February 2011. On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

Scope of Activities

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

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

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

Distribution Network

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

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

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

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

Through its modern Telephone and Electronic Banking Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after–sales service. Bank Zachodni WBK offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to their accounts and products via the Internet, phone or mobile. The modern technology of the Bank ensures the highest security of electronic services.

Group Development in 2005–2010 and Position in the Sector

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

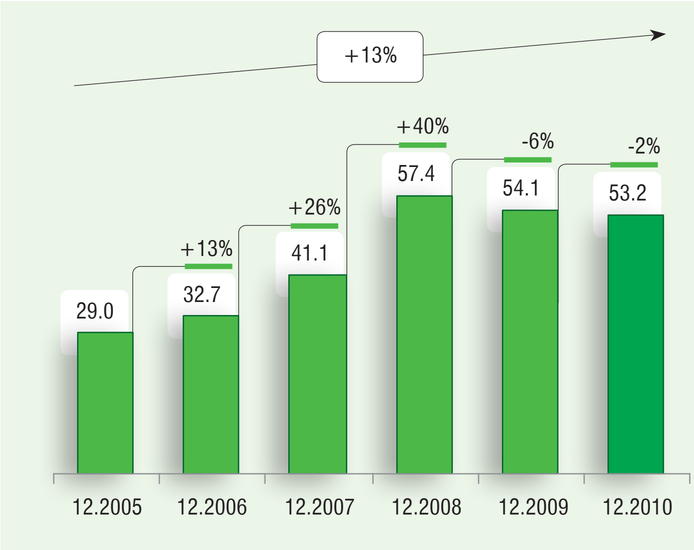
Through its specialised subsidiaries, the Group maintains its high position among leaders on the capital markets. It is the third largest institution in Poland both in terms of stock market trading volumes and net assets managed by mutual funds.

Selected data illustrating performance of BZ WBK Group in years 2005–2010

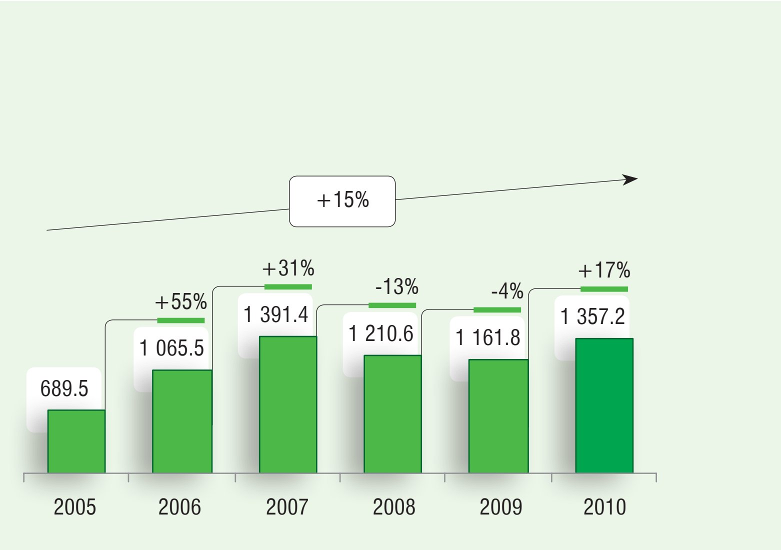
Selected Financial Data (PLN m)	2010	2009	2008	2007	2006	2005
Total Assets *	53 153.9	54 065.0	57 433.1	41 116.0	32 698.7	28 995.4
Loans and Advances to Customers	32 838.3	34 569.5	35 136.6	23 949.7	17 620.1	14 194.5
Deposits from Customers	41 970.5	41 222.9	42 810.7	29 765.7	24 222.1	20 839.0
Total Equity	6 773.6	6 036.5	5 212.4	4 576.7	4 076.7	3 436.5
Profit Before Tax	1 357.2	1 161.8	1 210.6	1 391.4	1 065.5	689.5
Profit Attributable to Owners of BZ WBK	974.2	885.3	855.4	954.7	758.2	516.3
Selected Ratios	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Cost to Income Ratio	49.9%	50.0%	51.6%	53.4%	55.1%	61.4%
Capital Adequacy Ratio	15.77%	12.97%	10.74%	13.27%	15.47%	16.05%
NPL Ratio	6.8%	5.5%	2.9%	2.8%	4.9%	6.9%
Earnings per Share (in PLN)	13.33	12.11	11.72	13.09	10.39	7.08
Net Book Value per Share (in PLN)	92.69	82.61	71.44	62.73	55.88	47.10
Selected Non-Financial Data	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Number of Branches	527	512	505	406	372	383
Number of FTEs	9 840	9 453	10 221	9 086	7 955	7 654
Dividend (in PLN)	8	4	-	3	6	6
Number of Shares at the Year-End	73 076 013	73 076 013	72 960 284	72 960 284	72 960 284	72 960 284
Closing Share Price at the Year-End (in PLN)	214.9	190.0	110.8	251.0	225.0	141.5

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

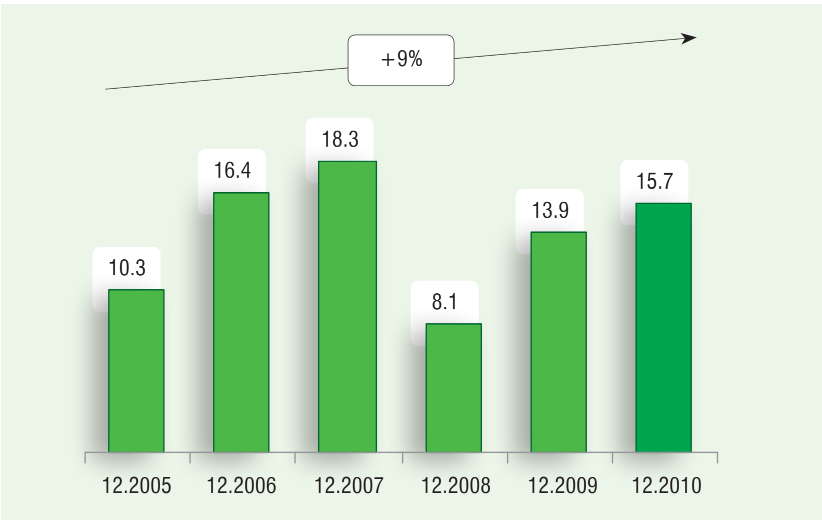
Total assets of BZ WBK Group as at 31 Dec.
in years 2005–2010 (PLN bn) and CAGR



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



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



2. Entities Connected with Bank Zachodni WBK

Subordinated Undertakings

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

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

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

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

Joint Ventures and Associates

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

Joint Ventures:

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

Associates:

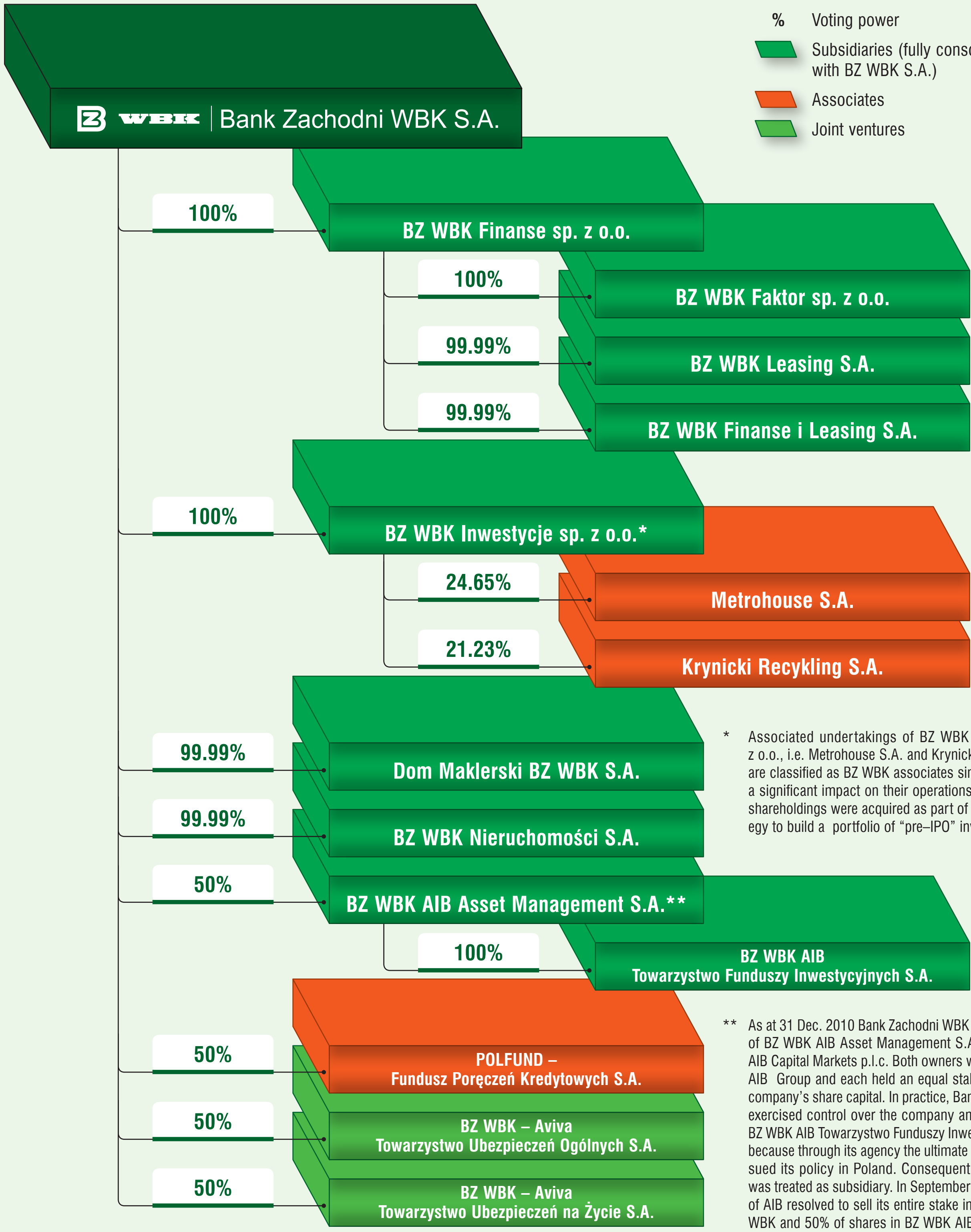
1. Krynicki Recykling S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Metrohouse S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

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

Organisational Chart of Bank Zachodni WBK Group

Legend

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



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

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

3. Other Equity Investments

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

Ref.	Company	% in the Share Capital	Voting Power at AGM	% in the Share Capital	Voting Power at AGM
		31.12.2010		31.12.2009	
1.	Kuźnia Polska	16.67%	16.67%	—	—
2.	Holicon Group S.A. *	14.21%	14.21%	—	—
3.	Krajowa Izba Rozliczeniowa S.A.	11.48%	11.48%	11.48%	11.48%
4.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.	10.00%	10.00%	10.00%	10.00%
5.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10.00%	10.00%	10.00%	10.00%
6.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10.00%	10.00%	10.00%	10.00%
7.	Centrum Klima S.A. *	9.41%	9.41%	9.91%	9.91%
8.	ARKA BZ WBK Fundusz Rynku Nieruchomości 2 Specjalistyczny FIZ	6.48%	—	6.48%	—
9.	Hortico S.A. *	6.71%	6.71%	—	—
10.	AWSA Holland II B.V.	5.44%	5.44%	5.44%	5.44%
11.	Biuro Informacji Kredytowej S.A.	5.14%	5.14%	5.14%	5.14%
12.	Gorzowski Rynek Hurtowy S.A.*	5.70%	5.70%	5.70%	5.70%
13.	NFI Magna Polonia S.A.	—	—	5.06%	5.06%

* companies from the equity investment portfolio of BZ WBK Inwestycje Sp. z o.o.

III. External Environment in 2010

Situation Abroad

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

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

Domestic Economy

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

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

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

Foreign Trade

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

Inflation

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

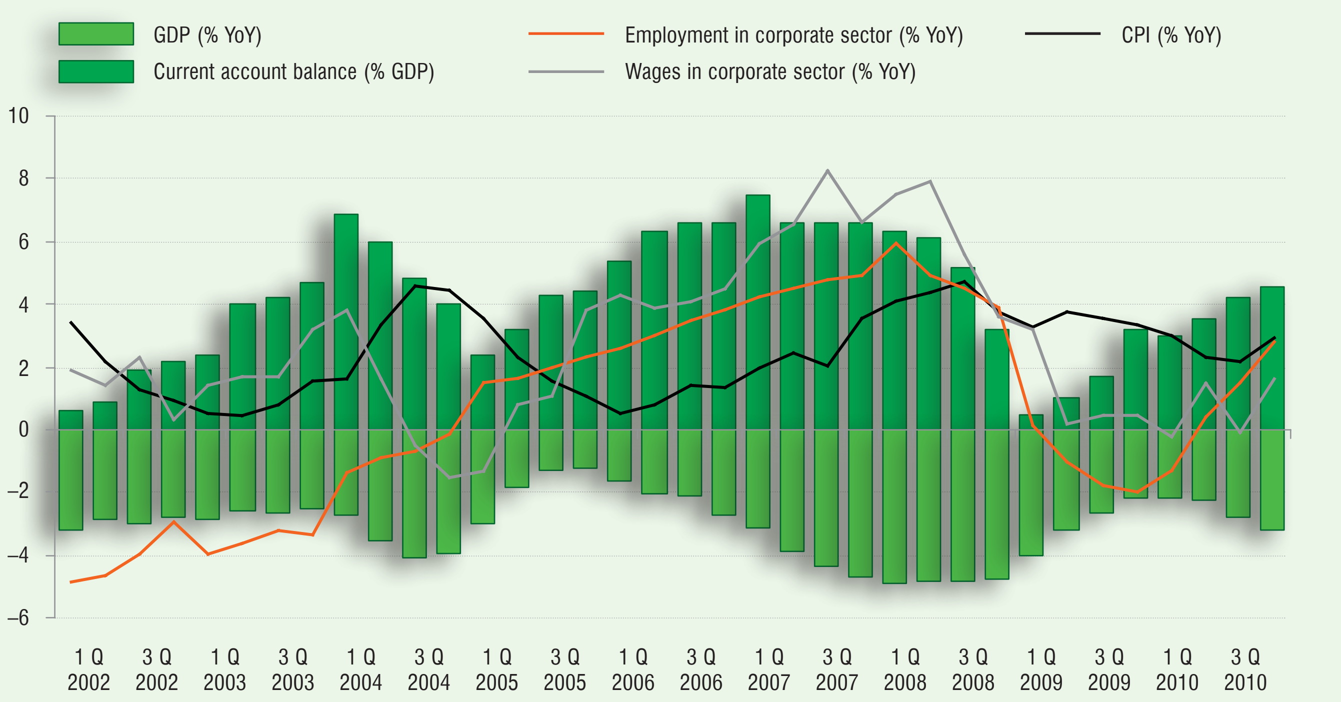
Interest Rates

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

Exchange Rates

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

Selected Macroeconomic Indicators



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

Situation in the Banking Market

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

Stock Exchange in 2010

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

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

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

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

Growth Prospects for 2011

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

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

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

IV. Business Development of Bank Zachodni WBK Group in 2010

1. Key Business Development Directions – Summary

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

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

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

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

Segmentation and Customer Relationship Management (CRM)

Service Models and Segmentation

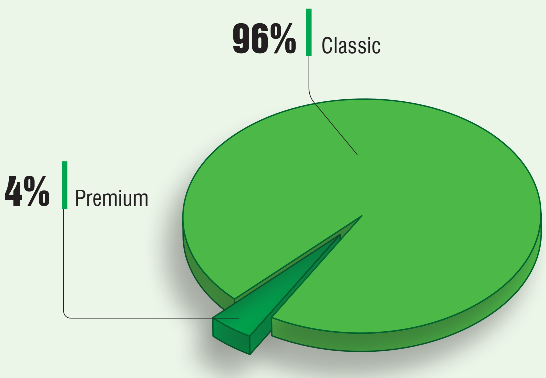
The bank's CRM system is based on segmentation of the customer base with two service models (Premium and Classic) responding to different customer requirements for banking products and services.

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

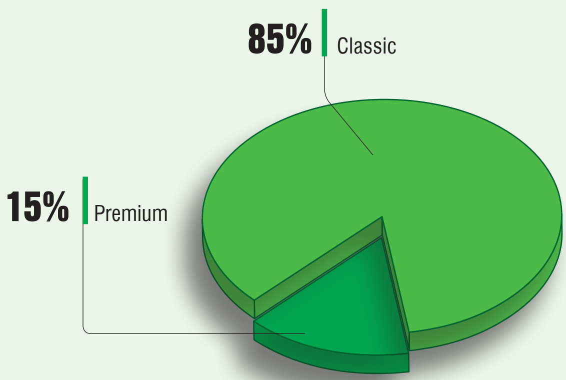
The customers who use standard products and appreciate speed and functionality of transactions are serviced through electronic channels or the branch network in accordance with the "Classic" service model. The bank proactively contacts such customers mainly as part of sales campaigns. This relationship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

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

Personal Customers
by Service Models as at 31 Dec 2010



Business Customers
by Service Models as at 31 Dec 2010



Business Development in CRM

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

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

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

2.2. Retail Banking

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

Personal Loans

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

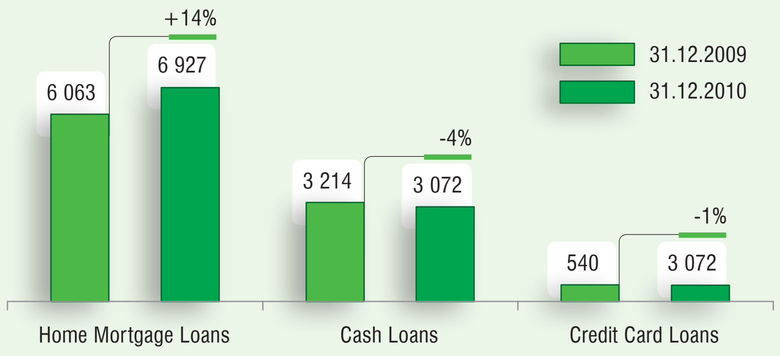
In 2010, the bank aligned its personal lending policy to the changing environment and adjusted its product range accordingly. In the second half of 2010, the bank was progressively implementing Recommendation T to complete the process on 29 November. Sales campaigns were targeted mainly at the existing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

Mortgage Loans

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

In line with the prevailing trends in the domestic mortgage market, the bank reduced its standard margins for PLN and currency (EUR) loans while maintaining its previously offered special promotional margin of 1.35 pp for PLN mortgages extended to its best customers. The customers borrowing in PLN were offered an option to accept a higher margin in return for a zero fee on the loan. Branch managers were equipped with additional discretions to negotiate fees with the customers

Key personal credit products (PLN m)



who actively use banking products and services. The bank also increased availability of its PLN housing loans by raising the maximum standard LTV ratio to 90%.

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

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

Cash Loans

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

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

Credit Cards

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

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

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

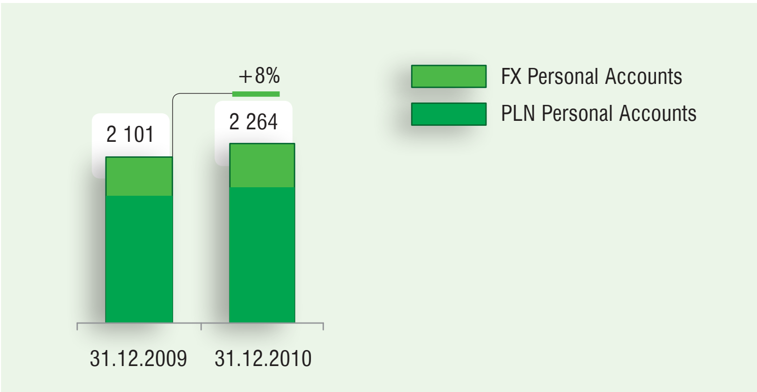
Personal Accounts

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

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

In 2010, Bank Zachodni WBK introduced more attractive pricing for servicing personal accounts, e.g. by waiving debit card and Internet transfer fees on Konto<30 Accounts and

Personal accounts (in k)



offering free–of–charge cash withdrawals from all ATMs in Poland for the holders of High Heels and Aktywni 50+ Accounts. Furthermore, holders of cards issued to the bank's PLN accounts could benefit from free–of–charge cash withdrawals from ATMs abroad during the holiday season (from 21.06.2010 to 30.09.2010).

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

Deposit and Investment Products

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

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

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

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

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

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

Structured Products
In 2010, Bank Zachodni WBK introduced new structured products for customers seeking investment instruments ensuring capital protection and potential profits.
In liaison with BZ WBK Brokerage House (acting as an issue agent), the bank carried out four subscriptions for issues of TOP5 DUO bonds and three subscriptions for issues of FlexInvest BRIC bonds and Market Giants bonds. All the instruments were 2–year investments with the minimum value of an investment of PLN 1k. They offered 100% or 90% capital protection on redemption and yield based on the strategy investments linked to the growth potential of stock indices and shares of the companies operating in Poland and in emerging markets.

The bank also completed 13 issues of structured deposits for customers from the VIP segment. The deposits are available in the Personal Banking network via the VIP Advisors. The products combine features of a traditional banking deposit with an FX investment. Their pricing is linked to the EUR/PLN rate, which allows one to choose between three investment strategies assuming the following developments: the strengthening of the zloty vs. euro (Złoty Plus), the weakening of the zloty vs. euro (Euro Plus) and the stabilisation of the zloty vs. euro (Złoty Stabilizacja).
Strong activity of Bank Zachodni WBK in the area of structured products for personal customers, which is reflected in the sales volumes and continuous introduction of new investment solutions, put the bank among the leaders in that market.

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

In November, the company launched a new fund – Arka Prestiż SFIO, which is to leverage on the growth potential of the CEE countries. The fund is addressed to HNW customers who seek diversified risk investments through subfunds offering different expected yields. To make the investment products more attractive, an umbrella fund Arka BZ WBK FIO was set up with subfunds created by transforming the former seven separate funds: BZ WBK Arka Equity Fund FIO, BZ WBK Arka Balanced Fund FIO, BZ WBK Stable Growth Fund FIO, BZ WBK Arka Capital Protection Fund FIO, BZ WBK Bonds Fund FIO, BZ WBK New Europe Development Fund FIO and BZ WBK Arka Energy Fund FIO. This solution is favourable for customers as it allows them to move their investments between subfunds without having to pay any capital gains tax.

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

Cards

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

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

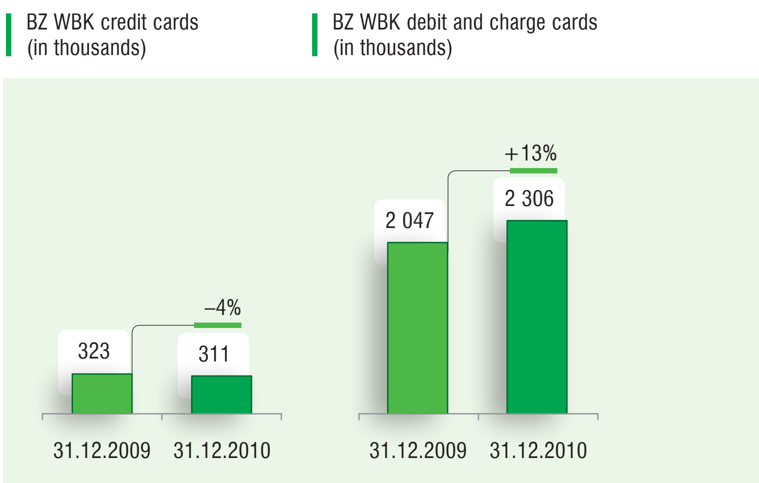
PAYBACK Cards

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

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

Pre–Paid Cards

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



Insurance

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

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

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

International Settlements

International Payment Orders

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

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

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

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

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

Loans for Micro and Small Companies

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

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

Development of Credit Offering for Micro and Small Companies

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

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

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

Current Accounts

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

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

Cards for Business Customers

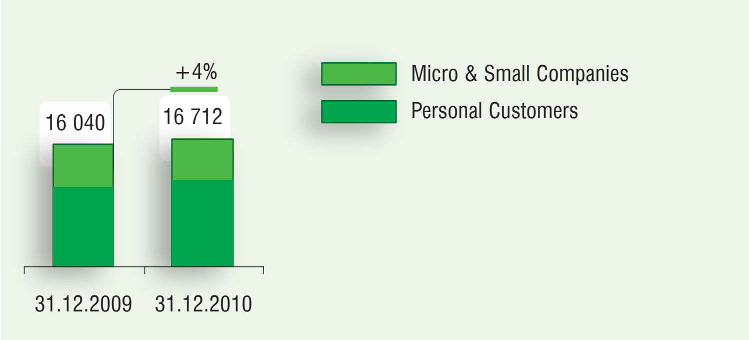
As the bank introduced three new business product packages, each of them was equipped with a separate debit card (Mini, Opti and Maxi). The cards carry different images and vary in terms of fees charged.

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

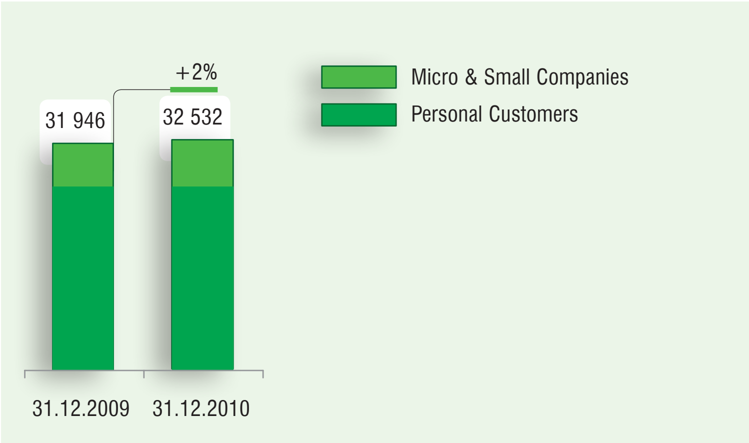
Business Volumes of BZ WBK Group Retail Banking

Compared with the end of 2009, BZ WBK Group Retail Banking increased its deposit base by 2% y–o–y. The internal structure of deposits changed in favour of current deposits, which confirms the effectiveness of the bank's strategy of becoming a distinctive market player with its personal and current accounts and account–related services. Gross loans and advances to customers of BZ WBK Group Retail Banking increased by 4% y–o–y, driven primarily by home mortgages.

Gross loans of Retail Banking,including lease finance and factoring (PLN m)



Deposits of Retail Banking (PLN m)



Business and Corporate Banking

Organisation structure

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

Products and services

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

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

Development directions

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

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

Business Volumes of BZ WBK Group Business & Corporate Banking

Total deposits gathered by Business and Corporate Banking (operating as part of Bank Zachodni WBK Group) increased by 2% while the gross credit portfolio decreased by 11% in line with declining credit exposures to commercial property sector as required under the Group's portfolio diversification strategy and as a result of low willingness of corporations to engage in major fixed investment projects.

Investment Banking

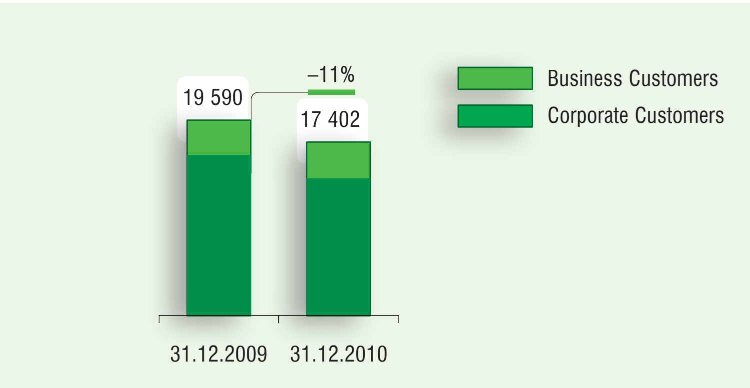
Advisory Services

In 2010, Bank Zachodni WBK Group established itself as a market leader in terms of the number of IPOs. Bank Zachodni WBK acted as an advisor in the following transactions effected together with Dom Maklerski BZ WBK:

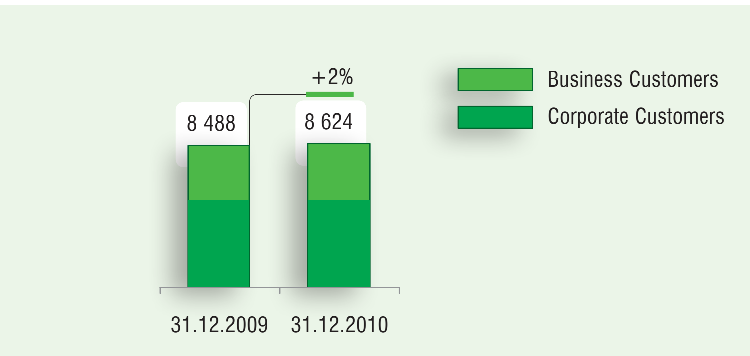
- initial public offering of Kulczyk Oil Ventures with a value of PLN 314 m;
- initial public offering of Agroton p.l.c. with a value of PLN 153 m;
- initial public offering of Eko S.A. with a value of PLN 95 m;
- initial public offering of Sadovaya Group with a value of PLN 93 m;
- initial public offering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

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

Gross loans of Business & Corporate Banking including leasing and factoring (PLN m)



Deposits of Business & Corporate Banking (PLN m)



Debt Securities Issues

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

Equity Portfolio Management

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

Pursuant to the co–operation agreement with Aviva Group, Bank Zachodni WBK took up PLN 10 m worth of shares of Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. The shareholding structure did not change, including the bank's ownership of 10% of the share capital.
In September 2010, the bank acquired 1 954 investment certificates of Private Bank Alternative Investment Fund SICAV–SIF based in Luxembourg for PLN 6.4 m in total.
In relation to the buyback of the first tranche of shares in PKM Duda S.A. from banks for the purpose of redemption (pursuant to the Sell–Buy–Back Agreement of 24 July 2009 as amended), in December 2010 Bank Zachodni WBK sold 664 734 shares in PKM Duda S.A. representing 0.22% of the company's share capital. The transaction brought PLN 86 k worth of profit. The shares had been acquired by the bank by way of debt conversion pursuant to the agreement dated 15 September 2009.

Treasury

The Treasury Services business, which delivers treasury solutions to the corporate and business customer market, experienced a strong surge in revenue momentum in the second half of the year. This revenue growth reflected more buoyant economic conditions and a more integrated customer relationship approach with Business Banking and Retail Banking implemented during the year. A more active marketing and customer visiting programme with a focus on ensuring a better understanding by customers of treasury products and services was also a key feature in rebuilding the momentum in this business.

The BZ WBK internet FX dealing platform attracted an increasing number of existing and new customers, and further development is underway to integrate it into an upgraded electronic business banking channel to be launched in 2011. 2010 also saw a recovery on fair valuation adjustments in respect of derivative transactions, which suggests that the difficulties that arose at the turn of 2008 and 2009 are now behind us. As a result of these trends, there was an increase in the total net revenue outturn from BZ WBK Treasury Services business in 2010 and the momentum evident in the second half of the year suggests continued strong growth in this business in 2011.

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

From a liquidity and funding perspective, the bank continues to maintain a conservatively structured balance sheet as is evident in a customer loan/deposit ratio of 78% at the year end and the holding of a large portfolio of high quality Polish Government Bonds. During the year the bank took additional actions to diversify its sources and the maturity of long term funding, particularly in foreign currencies and so further insulate the bank against the impact of future global and macro–economic shocks.

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

Services to Financial Institutions

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

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

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

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

Distribution Channels

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

Branch Network

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

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

Private Banking

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

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

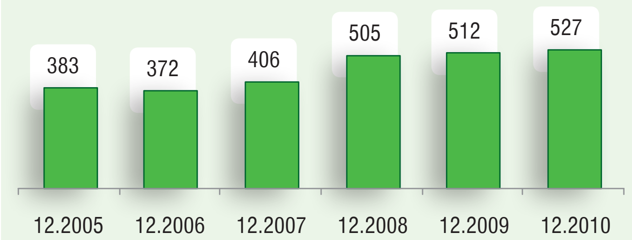
Personal Banking

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

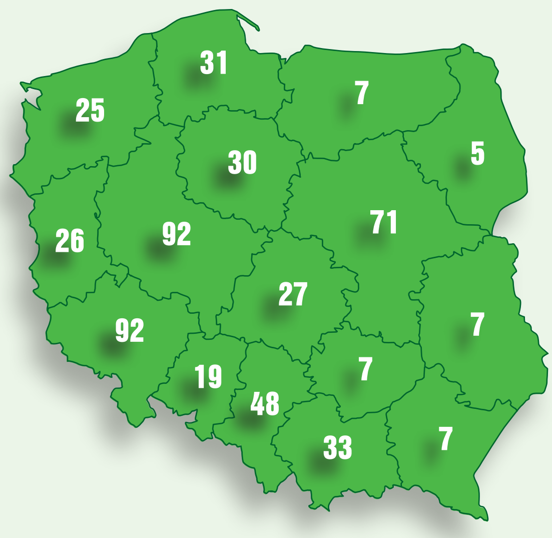
Mobile Sales

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

Expansion of the BZ WBK branches in years 2005-2010



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



BZ WBK Partner

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

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

Business and Corporate Banking

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

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

Direct Banking

BZWBK 24 Transaction System
February 2010 saw commencement of a mass migration of the bank's customers to a new BZWBK24 transaction system. The upgraded home banking application, available since October 2009, offers a new layout and more user–friendly solutions as well as improved instruction placement options. The application provides a "buy–by–click" functionality (no need to sign and return banking documents), facilitates personal data management and provides customers with vital information.

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

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

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

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

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

Telephone and Electronic Banking Centre (T&EBC)
In the third quarter of 2010, the bank launched Telephone and Electronic Banking Centre comprising former Telephone and Electronic Sales Centre and Call Centre. The new unit handles customer requests and instructions more effectively and explores the sales potential of internal customers to a larger extent.
In 2010, the range of products available via Internet and phone was expanded to include savings accounts (PLN and FX). To increase the accessibility of products and services to customers who are temporarily abroad, the bank launched sale of personal accounts via Internet and phone bundled with savings accounts (package offer).

In 2010, the bank added a number of functionalities to telephone sales, including:
- implementation of the production chat platform on www.bzwbk.pl (enabling online conversations between T&EBC staff and prospective customers);
- use of BZ WBK ATMs for customer acquisition (enabling a customer to leave T&EBC their contact phone number in an ATM);
- use of autodialer to support the relations campaign "Welcome Call" for new personal account holders and also for the credit cards sale campaign (higher successful call rate and increased capacity of T&EBC).

3. Business Development of Selected Subsidiaries

Dom Maklerski BZ WBK S.A.

In 2010, the stock trading of Dom Maklerski BZ WBK (BZ WBK Brokerage House) was at PLN 39.1 bn, which is similar to the level recorded the previous year. This performance gave the company a market share of 8.3% (–2.8 pp y–o–y) and the third position in the domestic market. The lower share in the equity market relates to business customers and is caused by stronger direct presence of global brokers who can transfer orders to the Polish stock exchange without the agency of domestic brokers. The company's share in the retail customers segment is stable at ca. 15%.

In the futures market, which is the second most important stock exchange market in Poland, BZ WBK Brokerage House acted as an agent for concluding 3 823.5 k transactions. This is a 14% increase y–o–y, which secures the company the third position in Poland and a market share of 13.7% (+1.2 pp y–o–y).

In 2010, BZ WBK Brokerage House became a market leader by arranging the highest number of IPOs in Poland. It completed 8 IPOs worth PLN 800 m in total, including three for foreign companies (Kulczyk Oil Ventures, Agroton, Sadovaya), earning its reputation as an expert in this area ("Parkiet" magazine, 10.01.2011). Other companies for which IPOs were arranged included EKO Holding, ABC Data, Tesgas and Europejskie Centrum Odszkodowań. BZ WBK Brokerage House was also actively engaged in the privatisation of PZU, Tauron and the Warsaw Stock Exchange, during which 40 k new customers were acquired, contributing to an increase of 40% y–o–y. In addition, the subsidiary arranged placements of shares of KGHM, Bogdanka, Jutrzenka and Mennica, totalling PLN 1.7 bn. The company also liaised with Bank Zachodni WBK in the distribution of several series of structured bonds: TOP5 DUO, FlexInvest BRIC and Market Giants (total amount of sales was PLN 375 m).

BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A.

The leasing companies of Bank Zachodni WBK offer products which finance a wide array of fixed assets, both movables and immovables. The offering comes with a range of insurance products offered in liaison with the leading insurers.

In 2010, the leasing companies continued to improve their customer service processes. They implemented an automatic phone service system for customers (IVR) and a system that supports the review of leasing applications, thus reducing the turnaround times. Based on the conclusions from the periodic customer satisfaction survey, the subsidiaries increased the quality of service provided by leasing advisors and Head Office functions.

2010 saw a substantial expansion of the product proposition of both companies:

- To enrich the proposal for selected professional groups, in June 2010, the products for doctors and vets were upgraded, with streamlined lease inception process and improved product parameters.
- In August 2010, a car loan became available for business customers. The product is an alternative to the standard leases, offering convenient finance for cars, motorcycles and quads.
- In October 2010, the Leasing Ekspres loan was introduced in the BZ WBK Branch Network. The product is mainly addressed to the SMEs, offering comprehensive finance for both new and used vehicles, and machines. It is characterised by a fast agreement–signing process.
- In October, vehicle lease was upgraded with an attractive complementary product – fuel card for cash–free purchase of fuel and car accessories in more than 1 700 Orlen and Bliska petrol stations.

As at 31 December 2010, the sales network of the leasing companies comprised 130 Leasing Advisors based in 71 Regional Offices. Geographically, the distribution network of the leasing companies covers the whole of Poland. Leasing products are also sold directly in the BZ WBK Branch Network.

In 2010, the leasing companies financed net assets of PLN 1 321.7 m, which is similar to the previous year. An 8% increase was observed in the sale of machines and equipment with stable sales of vehicles and a 43% decrease in property leasing. The company holds the first position in the leasing services market in terms of the number of lease transactions for farming machines and equipment. It is the seventh in the market in terms of the overall value of fixed assets finance.

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

The growth trend prevailing in the global and domestic market decelerated in 2010, and was interrupted by highly volatile periods, which tended to weaken customer interest in risk–bearing assets and reduced net inflows of cash from personal customers to share–based mutual funds. In the Polish mutual funds market the balance of investments and redemptions was positive, mainly due to the inflow of capital to money and debt securities market, and to non–public asset funds. In such conditions, the value of net assets under the company's management increased by 0.9% y–o–y. With total net assets of PLN 10 596.7 m, the subsidiary had 9.12% share in the mutual funds market as at the end of December 2010 (11.2% at the end of December 2009) and the third position in Poland. The highest asset growth, of 47% and 35% respectively, was recorded by two subfunds: Arka BZ WBK Ochrony Kapitału (Capital Protection Fund) and Arka BZ WBK Rozwoju Nowej Europy (New Europe Development Fund).

In 2010, the company established Arka Prestiż SFIO – a specialist open–ended mutual fund for affluent customers interested in investments with diversified risk and different rates of return. By the decision of 31 March 2010, the Polish Financial Supervision Authority approved formation of the fund, and on 5 November the fund was registered by the District Court in Warsaw, 7th Civil Registry Department. The fund relies on the investment potential of the CEE countries, and comprises the following subfunds: Arka Prestiż Akcji Polskich (Polish Equity subfund), Arka Prestiż Akcji Środkowej i Wschodniej Europy (CEE Equity subfund) and Arka Prestiż Obligacji (Bond subfund).

On 26 November 2010, the following funds: Arka BZ WBK Akcji FIO (Equity fund), Arka BZ WBK Zrównoważony FIO (Balanced fund), Arka BZ WBK Stabilnego Wzrostu FIO (Stable Growth fund), Arka BZ WBK Ochrony Kapitału FIO (Capital Protection fund), Arka BZ WBK Obligacji FIO (Bonds fund), Arka BZ WBK Rozwoju Nowej Europy FIO (New Europe Development fund) and Arka BZ WBK Energii FIO (Energy fund) were transformed into subfunds bearing the previous names and following the same investment strategy, and together forming one open–ended BZ WBK Arka FIO fund.

In 2010, the company changed its transfer agent. On 8 March 2010, the entity that had previously provided service to the funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych was replaced by the BZ WBK Transfer Services Office (for more details see chapter VI, part 3, section "Transfer Agent Services").

As in previous years, in 2010 the quality of the funds management was highly recognised by experts, which is confirmed by the mutual fund rankings published by "Analizy Online", "Gazeta Puls Biznesu", "Rzeczpospolita", "Gazeta Wyborcza" and others (for more details see Chapter VII "Awards, Recognitions, Position in Rankings").

BZ WBK AIB Asset Management S.A.

As at 31 December 2010, the value of assets in the private portfolios managed by BZ WBK AIB Asset Management was PLN 1 567.7 m, a decrease by 19.2% y–o–y. The lower value of assets is a result of the increased competitive pressure and customer concerns about developments in the stock market.

The structure of asset allocation to particular investment strategies reflects cautious approach of customers to the share market. In 2010, the share of assets managed in accordance with share and stable growth strategies declined, while the contribution of specialist strategies to total assets increased, in particular balanced strategies.

The rate of return on composite share portfolios: Portfel Akcji Fundamentalny (Fundamental Share Portfolio) and Portfel Akcji Rynkowy (Market Share Portfolioin 2010) amounted to 4.7% and 8.4%, respectively.

BZ WBK Inwestycje Sp. z o.o.

BZ WBK Inwestycje Sp. z o.o., a subsidiary of the bank, kept building its proprietary trading portfolio and searching for investors interested in buying its shareholdings. Among other transactions, the company:

- acquired 14.21% stake in Holicon Group S.A. (SPV holding 100% shares in Holicon Sp. z o.o.) for a price of ca. PLN 754 k, and for PLN 3.3 m purchased variable convertible bonds of Holicon Group S.A. Holicon Sp. z o.o. specialises in Business Process Outsourcing (including management of offices servicing business partners), and support of marketing and sales activities;
- acquired 6.7% stake in Hortico S.A. for PLN 1.8 m. The company is a distributor of horticulture products;
- acquired 2.8% stake in BioMaxima S.A for PLN 303 k. BioMaxima operates in the biotechnology sector, in the laboratory diagnostics market;
- purchased 10 464 zero–coupon, unsecured registered series F bonds with a tenor of 1 year, issued by BB Investment S.A. The total purchase price of PLN 9.6 m;
- as part of the disinvestment process, disposed of all its shareholdings in Tesgas S.A. and TIM S.A., generating a profit of PLN 2.2 m.

4. Service Quality Improvement

Customer Excellence

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

Barrier–Free Banking

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

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

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

High Customer Satisfaction Index

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

Position in Rankings

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

Customer Care Officer

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

V. Human Resources and Corporate Culture

1. Human Resources Management

Human Resources

As at 31 December 2010, the number of FTEs in Bank Zachodni WBK Group was 9 840, i.e. 387 higher y–o–y. Increase in employment stemmed from natural staff turnover and alignment of employment levels with the Group's business needs driven by the branch network development and positive changes in economic environment.

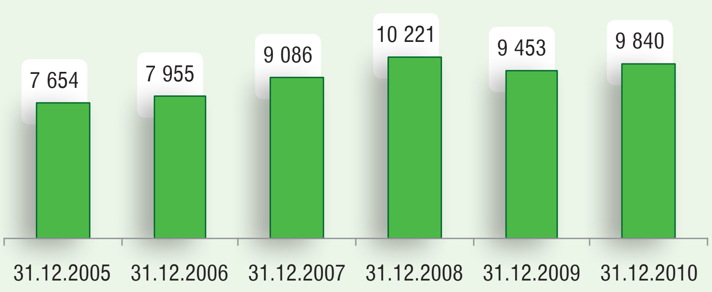
Despite higher headcount y–o–y, the average number of FTEs in the Group was 9 632, which was stable compared to the previous year. This is the effect of high staff levels in the first months of 2009, when the number of FTEs still exceeded 10 k despite the downward trend. During 2009, the headcount was gradually decreased in the wake of the Management Board decision to freeze employment and not to fill in natural vacancies given the sharp slowdown in economic environment. The lower employment was also related to the continued centralization of back–office functions. The downward trend in employment reversed in the fourth quarter of 2009.

HR Initiatives

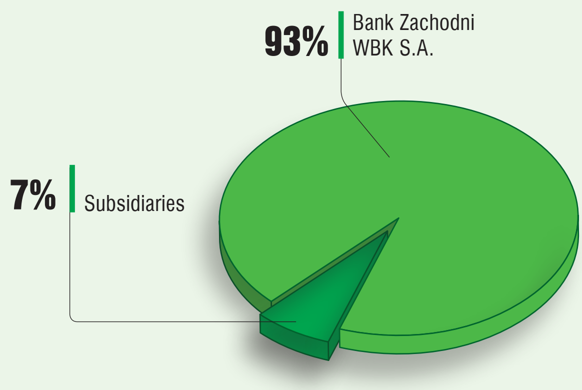
In 2010, Bank Zachodni WBK Group focused on maintaining high HR management standards and on fostering good staff relations and team spirit in line with corporate values.
As in 2009, the Group gave high priority to initiatives aimed to keep staff motivated and engaged, and to maintain top quality two–way communication to ensure a full understanding of the Group's situation and embed the sense of ownership and dedication among the staff.

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

Headcount in BZ WBK Group
as at 31 Dec. in years 2005-2010 (FTEs)



Employment structure in BZ WBK Group
as at 31 Dec. 2010



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

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

Training

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

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

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

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

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

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

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

Performance Share Programme

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

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

On 21 April 2009, the Supervisory Board of Bank Zachodni WBK passed a resolution stipulating that conditions for the first Incentive Scheme of 2006 were met. In May 2009, subscription of H series shares issued by the bank under resolution of the General Meeting of Shareholders of 4 April 2006 on the conditional increase of share capital was completed. In total, 115 729 shares were allocated to 86 employees. On 10 July 2009, the H series shares were registered with Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository for Securities).

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

The 3rd Incentive Scheme, under which the shares may be vested depending on the performance in 2008–2010, is still valid.
The long term programme is monitored to check if any of the employees might have lost their participant status. As of 31 December 2010, the number of shares vested under the Programme was 268 020 compared with 341 701 a year before.

2. Corporate Values

Code of Business Ethics

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

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

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

Corporate Culture

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

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

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

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

Social Responsibility

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

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

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

The Bank of Ambitious Youth was launched in 2010. As part of this program, the bank finances projects aimed to raise the young people’s awareness that their education, resourcefulness and personal involvement in community initiatives have a direct impact on their future both in the private and public sphere. This program also aims to develop community–oriented attitudes among the youth as well as promote the spirit of volunteerism among high school and university students.
The Foundation also finances charity projects initiated by the bank staff whose involvement in such initiatives has been growing steadily. In 2010, the Bank carried out ca. 20 initiatives across Poland, such as pre–Christmas events for hospitalised children (“Mikołajki”) as well as for kids in orphanages and day–care centres. The bank also organised public donations, aid for flood victims, an integration contest for deaf children (“Music painted by imagination”) as well as participated in the organisation of nativity plays, sports tournaments, events and concerts (mainly for children from dysfunctional families).

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

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

VI. Key Initiatives, Events and Other Information

1. Organisational Changes

Telephone and Electronic Banking Centre

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

2. Agreements with International Financial Institutions

Agreement with European Investment Bank (EIB)

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

Agreement with European Bank for Construction and Development (EBRD)

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

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

3. Other information

Compliance with the EU Directives

Markets in Financial Instruments Directive (MIFID)

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

The Third Anti–Money Laundering and Counter–Terrorism Financing Directive

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

Key Projects

Transfer Agent Service

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

Other Projects Delivered or Underway in 2010

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

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

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

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

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

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

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

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

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

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

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

Other Achievements

Compliance with ISO Standards

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

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

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

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

4. Capital Expenditure

In 2010, Bank Zachodni WBK Group spent PLN 69.5 m (compared with PLN 90.9 m in 2009) on the delivery of investment projects and initiatives.

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

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

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

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

VII. Awards, Recognitions, Position in Rankings

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

Awards, Recognitions, Position in Rankings	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych
1st position of Arka BZ WBK Akcji FIO in the ranking by Puls Biznesu	Puls Biznesu and StockWatch.pl reviewed the performance of the Polish equity funds against WIG for the last 10 years (September 2010). Only three mutual funds have outperformed the market with Arka BZ WBK Akcji FIO (open-ended equity fund) boasting the best yield (196.76% over a 10-year horizon).
Top position of ARKA funds in the quality ranking of mutual funds by Analizy Online	The two largest mutual funds in terms of assets managed by BZ WBK AIB TFI, i.e. Arka BZ WBK Akcji FIO (open-ended equity fund) and Arka BZ WBK Zrównoważony FIO (open-ended balanced fund) attained top 5-star score in the quality ranking of mutual funds conducted by Analizy Online, an independent research company (April 2010). They were assessed in the following categories: performance and stability of yields, investment risk, competence of asset managers, investment process and cost level.
Top position of Arka BZ WBK Obligacji FIO in the quality ranking by Analizy Online	Arka BZ WBK Obligacji FIO (open ended bond fund) attained a 4-star score in quality ranking by Analizy Online, a research company (September 2010).
2nd position of ARKA BZ WBK Akcji in the ranking of Polish mutual funds by "Gazeta Wyborcza" and "OpiekunInwestora.pl"	ARKA BZ WBK Akcji (equity fund) came second (both in a 5-year and 10-year horizon) in the ranking of Polish equity funds published by the "Gazeta Wyborcza" daily and "OpiekunInwestora.pl" (July 2010) based on dynamic performance analysis (comparison of investments against different transaction commencement dates over 3-, 5- and 10-year horizon).
3rd position in an annual ranking of mutual funds by Rzeczpospolita and Analizy Online	BZ WBK AIB TFI came third in the ranking by the Rzeczpospolita daily and Analizy Online (October 2010) which assessed mutual funds against investor focus areas (yields over a 5-year horizon, transaction risk, asset managers' rotation, information policy).
"Gold Portfolio" accolade for the highest yield in the balanced funds category	An asset manager with BZ WBK AIB TFI was awarded the "Gold Portfolio" accolade by "Parkiet" for the highest yield in the balanced funds category (performance of the Lukas Dynamiczny Polski Sub Fund in 2009).

Awards, Recognitions, Position in Rankings	BZ WBK AIB Asset Management
Top ranking position for the highest yields	Individual investor portfolios managed by BZ WBK AIB AM generated highest yields compared to peers both in 2009 and in a 5-year investment horizon, according to the ranking of asset management companies published by the stock newspaper "Parkiet" (30-31 January 2010).

Awards, Recognitions, Position in Rankings	Dom Maklerski BZ WBK
WSE Award for the highest share in the NewConnect market trading	On 17 February 2010, the Warsaw Stock Exchange awarded DM BZ WBK (BZ WBK Brokerage House) for its biggest share in the NewConnect market trading in 2009, exclusive of market-making activity.
Top positions in the ranking by "Forbes" 1st position in the category of public offerings 2nd position voted by individual investors 4th position voted by institutional investors	DM BZ WBK was awarded in the ranking by Forbes based on the feedback from investors (November 2010). It was voted second by individual investors in recognition of the usefulness of analytical materials, customer service level and quality of transaction platform. Institutional investors voted DM BZ WBK fourth. The Brokerage House led the ranking in terms of the number of public offerings.
3rd position in the ranking of brokerage houses by "Puls Biznesu"	DM BZ WBK came third in the ranking of brokerage houses published by Puls Biznesu on 27 April 2010 and based on the results of the mystery shopping exercise covering service quality. The score (90.2 of 100 points) points to effective practices, exceptional conduct and top quality of customer service.
3rd position in the summary ranking by "Parkiet" analysts	A staff member of DM BZ WBK was awarded by the analysts of the stock newspaper "Parkiet" as the best technical analyst. Two more staff members were ranked third and sixth in the fundamental analysis category.

VIII. Financial Performance of BZ WBK Group in 2010

1. Profit and Loss Account

Summary

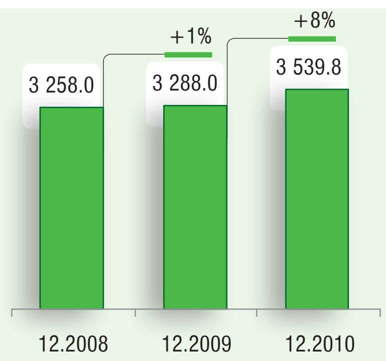
The table below shows year–on–year changes in key items of the Group's consolidated profit and loss account in 2010 compared with the previous year

PLN m

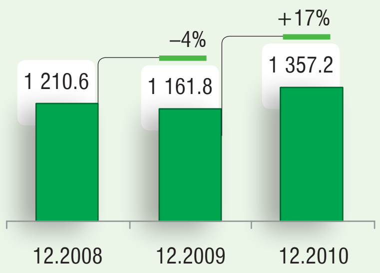
Condensed Profit & Loss Account	2010 1	2009 2	2008 3	Change 1/2	Change 2/3
Total income	3 539.8	3 288.0	3 258.0	7.7%	0.9%
Total costs	(1 766.3)	(1 644.8)	(1 682.1)	7.4%	–2.2%
Impairment losses on loans and advances	(420.8)	(481.0)	(364.6)	–12.5%	31.9%
Profit/loss attributable to the entities accounted for using equity method	4.5	(0.4)	(0.7)	—	–42.9%
Profit–before–tax	**1 357.2**	**1 161.8**	**1 210.6**	**16.8%**	**–4.0%**
Charges	(316.6)	(222.6)	(256.3)	42.2%	–13.1%
Net profit for the period	**1 040.6**	**939.2**	**954.3**	**10.8%**	**–1.6%**
— Net profit attributable to owners of BZ WBK	**974.2**	**885.3**	**855.4**	**10.0%**	**3.5%**
— Net profit attributable to non–controlling shareholders	66.3	54.0	98.8	22.8%	–45.3%

In 2010, Bank Zachodni WBK Group achieved a profit–before–tax of PLN 1 357.2 m, i.e. 16.8% more than in 2009. The profit–after–tax attributable to owners of Bank Zachodni WBK was PLN 974.2 m, and higher by 10% y–o–y. This performance reflects the Group's consistent efforts to diversify its income streams, align the product structure to the customer needs and market conditions, execute well–crafted marketing campaigns and deliver effective risk management. It was achieved amid continued economic growth, gradual stabilisation of the customer deposits market, improved situation in the property market and rising indexes on the Warsaw Stock Exchange. These positive developments were accompanied, however, by uncertainty about prospects for the world economy, volatility in the stock and FX markets, sustained aversion to investments into risk–bearing assets, weak fixed investment activity of Polish companies, higher unemployment and slow growth of salaries.

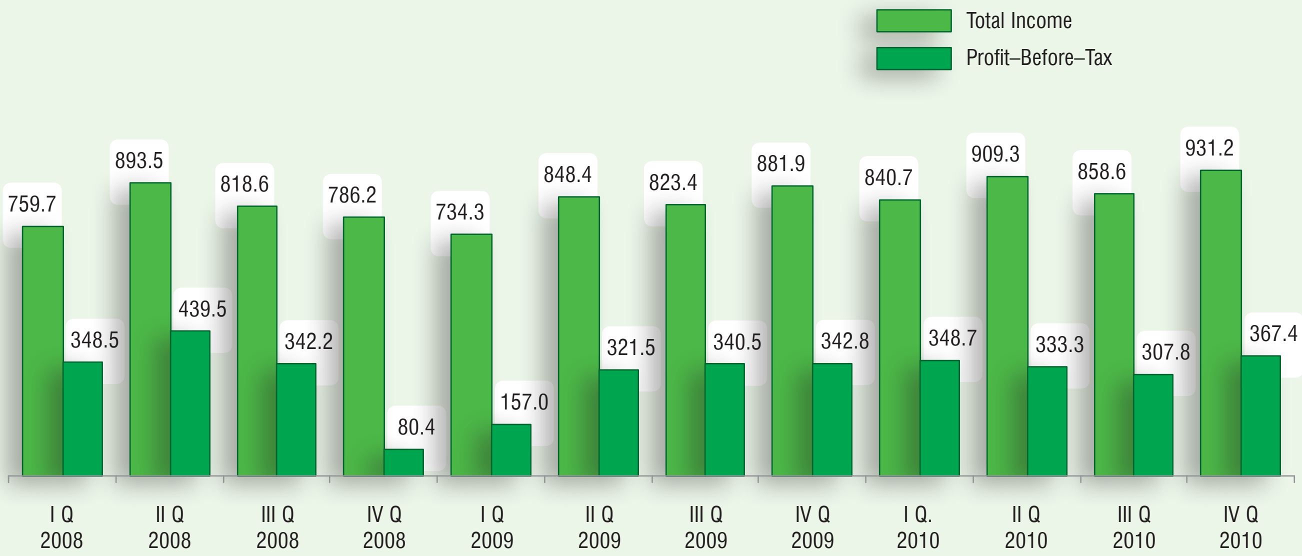
Total income of BZ WBK Group in years 2008–2010 (PLN m)



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



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



In 2010, leasing companies from Bank Zachodni WBK Group recognised additional impairment charges that substantially reduced their operating profit. This outcome was induced by falling prices of leased assets that collateralize receivables from customers. The lower profit achieved by Dom Maklerski BZ WBK results from the decline in brokerage fee revenue from the secondary market amid strong pressure on margins.

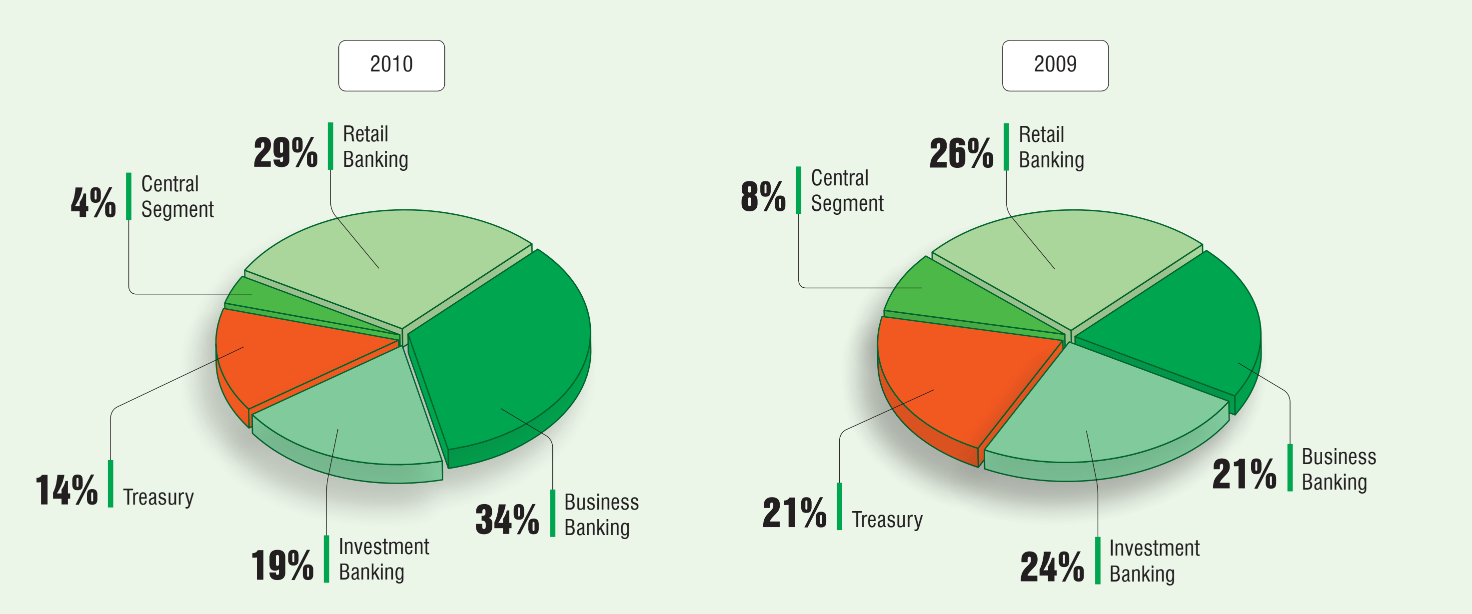
BZ WBK AIB Asset Management achieved higher income from its assets management activity, but also recognised lower revenues from dividends. Other Group members recorded increases in their profit– before–tax. In 2010, the Business Banking segment made a higher contribution to the Group's profit structure on account of, among others, high growth in net interest income as credit funding costs decreased.

Profit–before–tax of BZ WBK Group in 2008–2010 (PLN m) – by Group entities

PLN m

	2010	2009	2008
Bank	**1 182.3**	**1 157.7**	**987.4**
Subsidiaries, of which:	**345.4**	**394.6**	**593.0**
Dom Maklerski BZ WBK S.A.	59.4	65.7	74.7
Leasing S.A. and Finanse & Leasing S.A.	14.6	40.9	44.2
BZ WBK AIB Asset Management S.A. and BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	258.8	281.7	466.4
Other subsidiaries	12.6	6.3	7.7
Mutual transactions & consolidation adjustments	(170.5)	(390.5)	(369.8)
Total	**1 357.2**	**1 161.8**	**1 210.6**

Profit–before–tax of BZ BK Group in 2009 and 2010
– by segments (PLN m)



PLN m

Total Income	2010 1	2009 2	2008 3	Change 1/2	Change 2/3
Net interest income	1 822.2	1 563.2	1 635.1	16.6%	–4.4%
Net fee and commission income	1 344.7	1 314.3	1 373.8	2.3%	–4.3%
Net trading income and revaluation	258.7	270.3	52.8	–4.3%	411.9%
Dividend income	54.5	96.6	70.3	–43.6%	37.4%
Gains (losses) from financial securities *	12.4	(6.1)	58.0	—	—
Other operating income	47.3	49.7	68.0	–4.8%	–26.9%
Total	**3 539.8**	**3 288.0**	**3 258.0**	**7.7%**	**0.9%**

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

Income

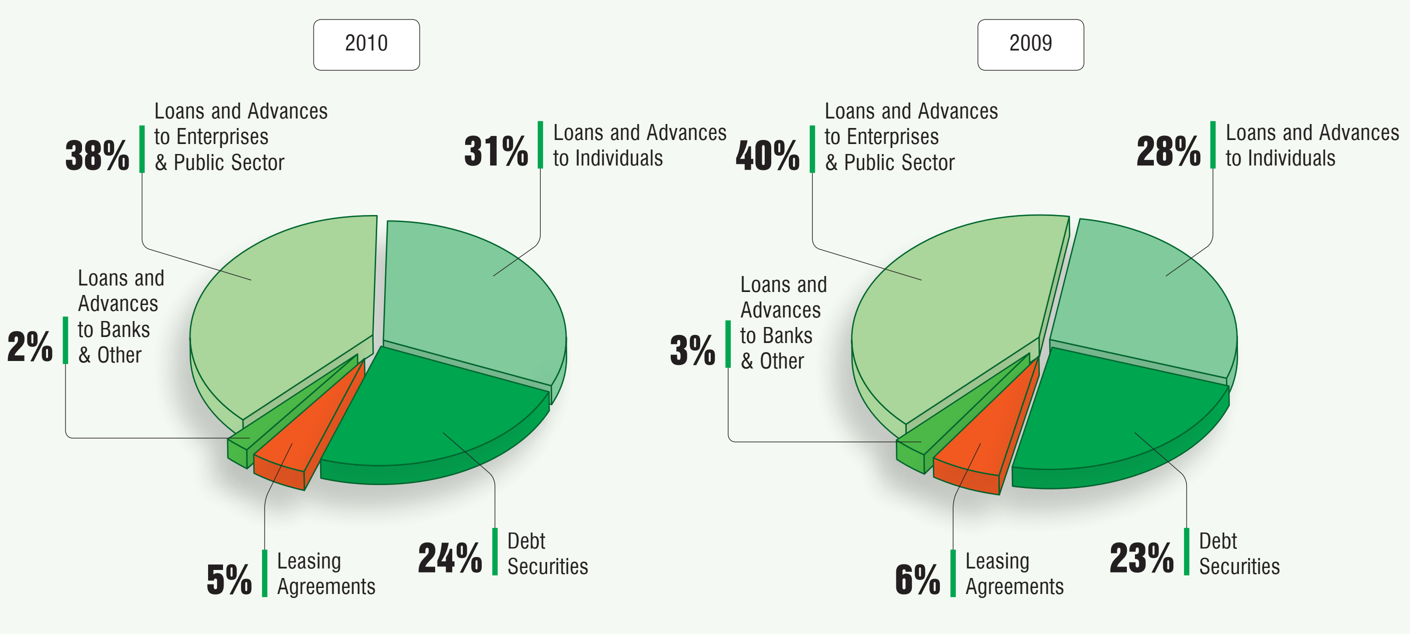
The total income earned by Bank Zachodni WBK Group in 2010 was PLN 3 539.8 m and up 7.7% y–o–y

Net Interest Income

Net interest income amounted to PLN 1 822.2 m and increased by 16.6% y–o–y as the situation in the Polish deposits market continued to improve. The price war for deposits that last escalated in the first quarter of 2009 led to a material erosion of margins. Under the impact of declining money market prices, improved liquidity position of Polish banks and slower credit delivery, the competition for customer deposits changed in nature and intensity, which is also reflected in the increase of annualized (on a cumulative basis) net interest margin of Bank Zachodni WBK Group from 3.40% for 2009 to 3.98% for 2010. Over the last three quarters of 2010, the market interest rates remained in a relatively narrow volatility band, and the recovering deposit margins compensated for falling lending margins. Net interest income was also favourably impacted by changes in the Group's balance sheet structure, particularly an increase in current balances in the customer accounts (+6.2% y–o–y).

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

Structure of BZ WBK Group interest revenue in 2009 and 2010



Taking into account other interest–related income from FX Swaps and Basis Swaps (PLN 192.1 m in 2010 and PLN 215.4 m in 2009), which are recognised under "trading income and revaluation", the net interest income increased by 13.3% y–o–y.

Net Commission Income

In 2010, net commission income amounted to PLN 1 344.7 m and increased by 2.3% y–o–y. Details of the changes in the value of the constituent items are presented below:

- The income earned by the Group from its activities in the mutual funds and asset management market amounted to PLN 289.7 m, showing the highest growth year–on–year (+22.5%) and the largest contribution to the net fee and commission income (22%). The direction and extent of movement under this line was determined by asset management fees, which were growing along with the average net value of the assets held in mutual funds and private portfolios (+15.7%). This is primarily due to the upward trend observed on Warsaw Stock Exchange since February 2009 despite intermittences of increased price volatility.

PLN m

Net Fee and Commission Income	2010 1	2009 2	2008 3	Change 1/2	Change 2/3
Mutual fund distribution and asset management *	289.7	236.5	366.0	22.5%	–35.4%
Direct banking **	280.3	273.1	236.7	2.6%	15.4%
Account maintenance and cash transactions	251.2	250.7	232.5	0.2%	7.8%
FX fees	201.7	226.5	235.0	–10.9%	–3.6%
Credit fees ***	145.8	153.5	108.3	–5.0%	41.7%
Brokerage fees	101.6	98.5	106.2	3.1%	–7.3%
Insurance fees	70.3	74.4	72.1	–5.5%	3.2%
Other *	4.1	1.1	17.0	272.7%	–93.5%
Total	**1 344.7**	**1 314.3**	**1 373.8**	**2.3%**	**–4.3%**

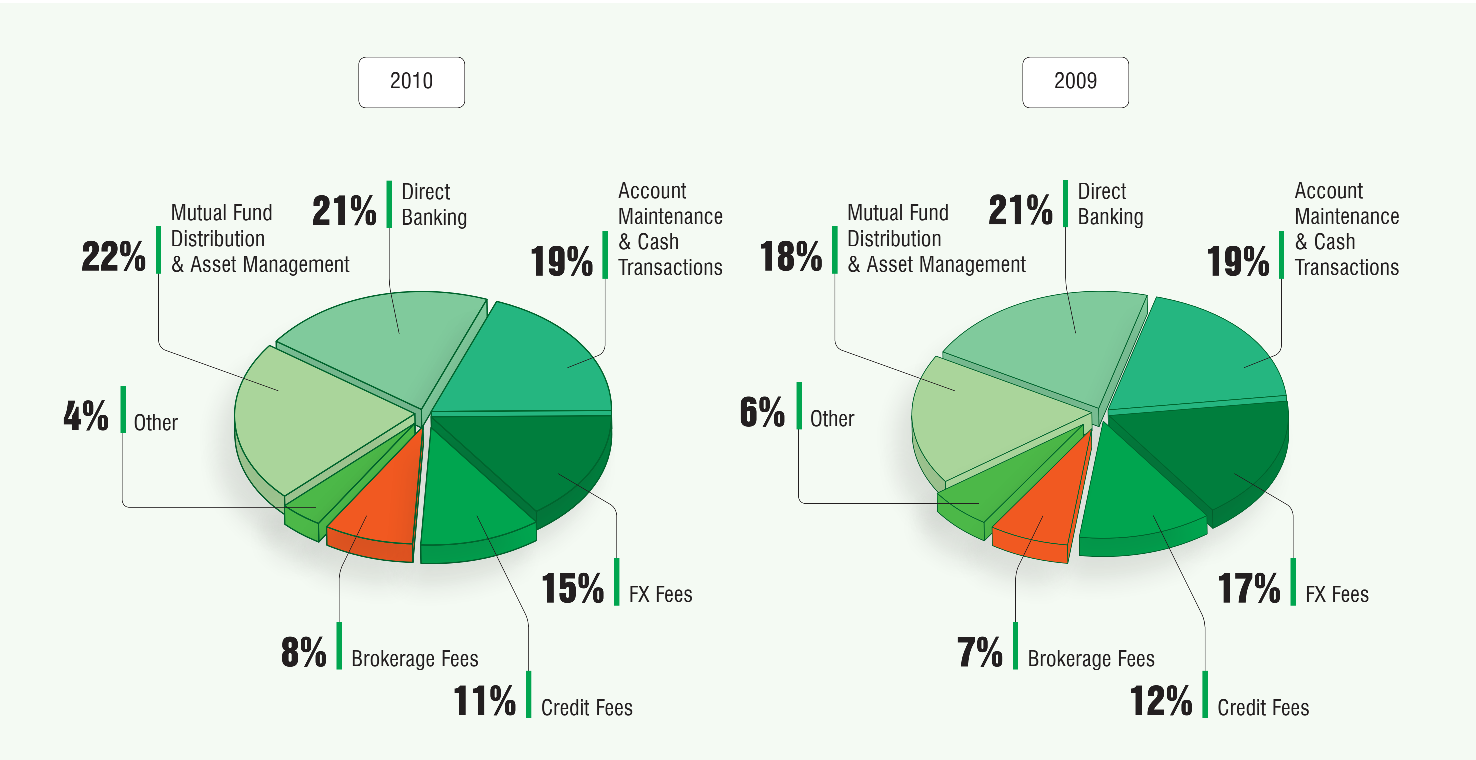
* other net income includes, among others, fees for distribution of structured products (PLN 7.4 m in 2010 against PLN 10.3 m in 2009 and 20.2 m in 2008) which in Note 7 of the "Consolidated Financial Statement of BZ WBK Group for 2010" are recognized as "distribution fees"

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

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

- Broadly understood Direct Banking services of BZ WBK Group generated net commission income of PLN 280.3 m, which was 2.6% higher year–on–year. The significant increase in debit card income, driven by the expanding base of these instruments (+13% y–o–y) and the growing number and value of related non–cash transactions, was partly offset by the decline in interchange rates earned by the bank as well as lower fees charged on third party banks for card services.
- Although the number of personal and current accounts increased by 7% y–o–y, the fee and commission income from account maintenance and cash transactions remained at the previous year's level (PLN 251.2 m), which results from

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



more favourable pricing offered to customers in respect of selected accounts and payment services.

- Income from FX fees decreased by 10.9% to PLN 201.7 m amid lower value of customer FX trading processed via the branch network and Treasury service units.
- The 5% decline in the net income from credit fees to PLN 145.8 m can be attributed, among other things, to the prudential policy continued by the Group with regard to sanctioning credit cards limits, which constrained the portfolio of newly issued cards.
- Net commission income of Dom Maklerski BZ WBK increased by 3.1% y–o–y to PLN 101.6 m on account of higher income from servicing mutual funds and primary market offerings. In 2010, the company arranged 8 IPOs and was acclaimed a market leader of the stock exchange debuts.
- Income from insurance fell by 5.5% to PLN 70.3 m due to slower sales of the cash loans insurance offered in co–operation with the joint ventures.

Dividend Income

Dividend income decreased by 43.6% y–o–y to PLN 54.5 m due to lower dividend received from Aviva Towarzystwo Ubezpieczeń na Życie in 2010 compared with a year before (PLN 28 m in 2010 vs. PLN 70.3 m in 2009).

Net Trading Income and Revaluation

Net trading income and revaluation amounted to PLN 258.7 m, down 4.3% y–o–y. A significant portion of this figure is the interest income from FX Swap and Basis Swap transactions, which totalled PLN 192.1 m in 2010, compared with PLN 215.4 m in 2009. Net trading income and revaluation also includes a fair value adjustment of derivatives resulting from counterparty risk which in 2010 was positive and amounted to PLN 6 m (reversal of adjustment) compared with negative value of PLN (28.8) m recorded a year before. In 2010, Bank Zachodni WBK S.A. revised the spreads used for mark–to–market valuation of CIRS transactions with a view to making fair value of these instruments more accurate. The total fair value adjustment of these derivatives amounted to PLN (14.5) m at the end of December 2010. These transactions are a source of funding net FX assets and it is the bank's intention to hold them until maturity. Their mark–to–market valuation will revert to zero on a case by case basis over their remaining life.

Impairment

In 2010, the loan impairment charge to the profit and loss account was PLN 420.8 m compared with PLN 481 m in 2009.

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

The economic slowdown of 2009 and its after–effects most strongly impacted the SME sector and weakened the solvency of such companies. Higher impairment was also recognized in BZ WBK Group's leasing portfolio as a result of lower prices of leased assets that collateralize receivables from customers.

Also, a number of personal customers experienced difficulties with timely debt service as a result of a delayed effect of the economic crisis, relatively high unemployment and slow salary growth.

Costs

Total costs of Bank Zachodni WBK Group amounted to PLN 1 766.3 m and were 7.4% higher y–o–y due to the requirements of the Group's business, staff and organisation development. The C/I ratio stabilised close to 50% as costs and income were growing at a similar pace on a year–on–year basis.

In 2010, staff expenses increased by 7.8% y–o–y to PLN 959 m, mainly as a result of accruals for staff bonuses linked to the Group performance in 2010. Base salaries reflect the average 3.5% pay increase (effected in April 2010 as part of the annual performance review) while the average employment was similar to the previous year's level.

PLN m

Impairment Losses on Loans and Advances	2010	2009	2008
Collective and individual impairment charge	(474.8)	(438.7)	(192.3)
Impaired but not reported losses (IBNR)	35.3	(56.3)	(176.1)
Recoveries of loans previously written off	20.4	17.5	10.2
Off–balance sheet credit related items	(1.7)	(3.5)	(6.4)
Total	**(420.8)**	**(481.0)**	**(364.6)**

PLN m

Total Costs	2010 1	2009 2	2008 3	Change 1/2	Change 2/3
Staff and other administrative expenses, including	(1 600.6)	(1 498.3)	(1 547.2)	6.8%	–3.2%
— staff expenses	(959.0)	(889.3)	(896.4)	7.8%	–0.8%
— other administrative expenses	(641.6)	(609.0)	(650.8)	5.4%	–6.4%
Depreciation/amortisation	(128.8)	(123.5)	(107.3)	4.3%	15.1%
Other operating expenses	(36.9)	(23.0)	(27.6)	60.4%	–16.7%
Total	**(1 766.3)**	**(1 644.8)**	**(1 682.1)**	**7.4%**	**–2.2%**

The Group's other administrative expenses increased by 5.4% y–o–y to PLN 641.6 m driven by the cost of advertising, marketing, maintenance and lease of buildings, consultancy and other third party services. The higher consultancy costs (+49.2%) are connected with Group's large projects that required legal advice, research work and expert knowledge. A significant year–on–year growth was also noted in "Other external services" (+42.2% y–o–y), which is a combined effect of a number of factors, including the higher cost of outsourcing of multi–purpose print machines and debt recovery. An increase in marketing costs (+7.4% y–o–y) is a result of the Group's wider mass media advertising campaigns. In 2010, the Group focused its marketing efforts on promotion of the Moneyback Personal Current Account. Advertising campaigns were also held to promote the High–Heels Account, e–Konto<30 Account, Aktywni 50+ Account, Business Packages and mutual funds. The cost of maintenance and lease of buildings increased (+6.6% y–o–y), mainly due to increased office space, rental rates and higher price of electricity and heating.

The Group places an ongoing focus on cost control and continues administrative, technological and enablement efforts to reduce its cost base. In 2010, cost reductions were achieved in postal/telecommunication fees (–11.7% y–o–y) and data transmission (–8.8% y–o–y), which is an effect of reviewing the key contracts and renegotiating rates with service providers.

In 2010, depreciation amounted to PLN 128.8 m and was 4.3% higher year–on–year.

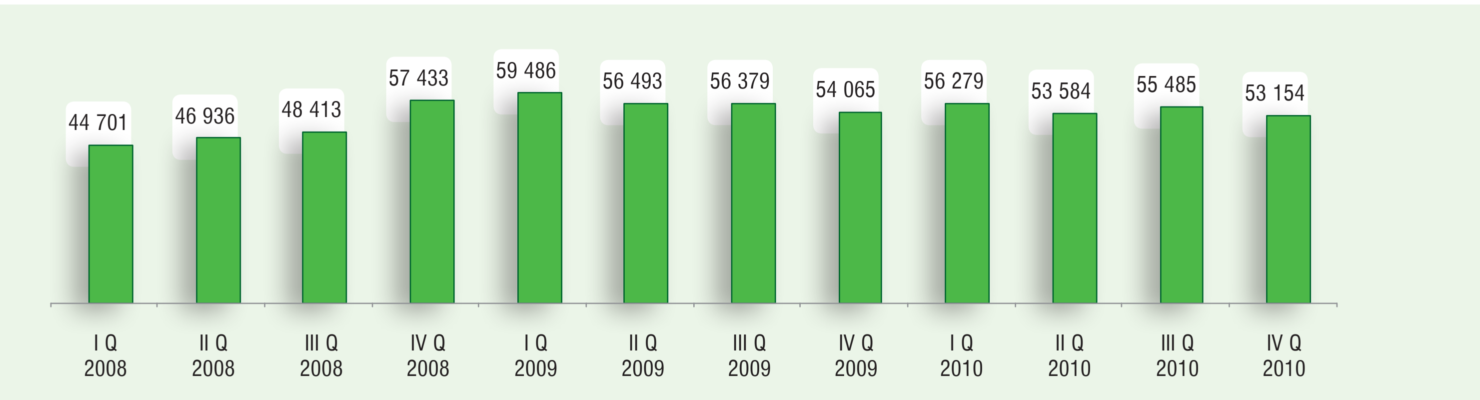
Other operating expenses increased by 60.4% y–o–y to PLN 36.9 m as a result of write–offs made in respect of operational and legal risks.

2. Financial Position

Assets

As at 31 December 2010, total assets of Bank Zachodni WBK Group amounted to PLN 53 153.9 m, down 1.7% on 31 December 2009. The value and structure of the Group's financial position is determined by the bank (parent), which accounts for 97.9% of the total consolidated assets.

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



The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 31 December 2010 versus 2009 and 2008.
The most prominent change in the consolidated statement of financial position as at 31 December 2010 was noted in the line “financial assets held for trading”, which grew by 66.5% y–o–y along with expansion of the Group’s portfolio of NBP bills. Investment securities remained close to the previous year’s level as a combined effect of redemption at maturity of Treasury securities from the available–for–sale and held–to–maturity portfolios, and also the sale and purchase transactions made as part of the balance sheet structural risk management. “Cash and operations with the central bank” decreased by 4.7% y–o–y due to implementation of the procedure for monitoring of the cash holding risk in the bank’s branch network. A decrease was also observed in loans and advances to banks (–6.7% y–o–y) and net loans and advances to customers (–5% y–o–y).

PLN m

Assets	31.12.2010	Structure 31.12.2010	31.12.2009	Structure 31.12.2009	31.12.2008	Structure 31.12.2008	Change	Change
	1	2	3	4	5	6	1/3	3/5
Loans and advances to customers *	32 838.3	61.8%	34 569.5	63.9%	35 136.6	61.2%	–5.0%	–1.6%
Investment securities	13 395.4	25.2%	13 292.6	24.6%	12 916.0	22.5%	0.8%	2.9%
Cash and operations with central banks	2 534.5	4.8%	2 660.7	4.9%	3 178.1	5.5%	–4.7%	–16.3%
Financial assets held for trading	2 239.1	4.2%	1 344.8	2.5%	3 224.9	5.6%	66.5%	–58.3%
Loans and advances to banks	619.7	1.2%	664.2	1.2%	1 365.1	2.4%	–6.7%	–51.3%
Fixed and intangible assets	720.1	1.3%	777.8	1.5%	811.4	1.4%	–7.4%	–4.1%
Other assets	806.8	1.5%	755.4	1.4%	800.9	1.4%	6.8%	–5.7%
Total	**53 153.9**	**100.0%**	**54 065.0**	**100.0%**	**57 433.0**	**100.0%**	**–1.7%**	**–5.9%**

* including impairment write-down

Credit Portfolio

PLN m

Gross Loans and Advances to Customers	31.12.2010	31.12.2009	31.12.2008	Change	Change
	1	2	3	1/2	2/3
Loans and advances to business and public sector customers	20 311.7	22 348.6	23 374.2	–9.1%	–4.4%
Loans and advances to personal customers	11 437.5	10 632.4	9 240.1	7.6%	15.1%
Finance lease receivables	2 435.8	2 706.5	2 959.0	–10.0%	–8.5%
Other *	20.1	21.7	452.6	–7.4%	–95.2%
Total	**34 205.1**	**35 709.2**	**36 025.9**	**–4.2%**	**–0.9%**

* other receivables include repo and other transactions

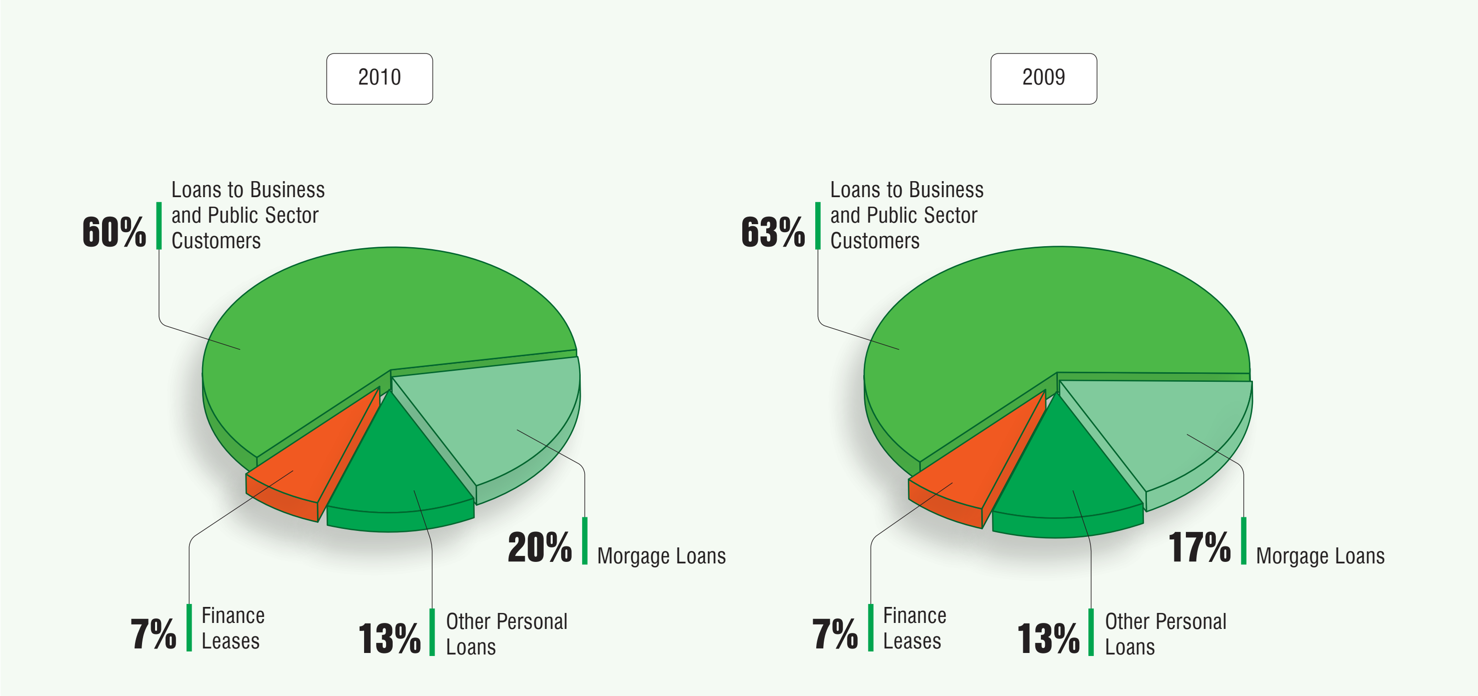
As at 31 December 2010, gross loans and advances to customers amounted to PLN 34 205.1 m, down 4.2% on the end of December 2009.

In 2010, loans and advances to business and public sector customers decreased by 9.1% y–o–y to PLN 20 311.7 m. As at the end of December, property loans, which make up a large portion of this portfolio, decreased by 16.9% y–o–y to PLN 9 545.8 m in line with declining credit exposures to commercial property sector required under the Group’s credit portfolio diversification strategy and due to stagnant fixed investment.

Continually low investment activity of businesses had also an adverse impact on finance lease portfolio, which declined by 10% y–o–y to PLN 2 435.8 m.

Loans to personal customers amounted to PLN 11 437.5 m, an increase of 7.6% compared with 2009. The main growth driver were mortgage loans, which went up by 14.3% y–o–y to PLN 6 926.6 m at the end of December 2010 due to the quality of the bank’s mortgage proposition with its competitive prices, efficient credit delivery processes and insurance packages. The cash loan portfolio decreased by 4.4% y–o–y to PLN 3 071.9 m.

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

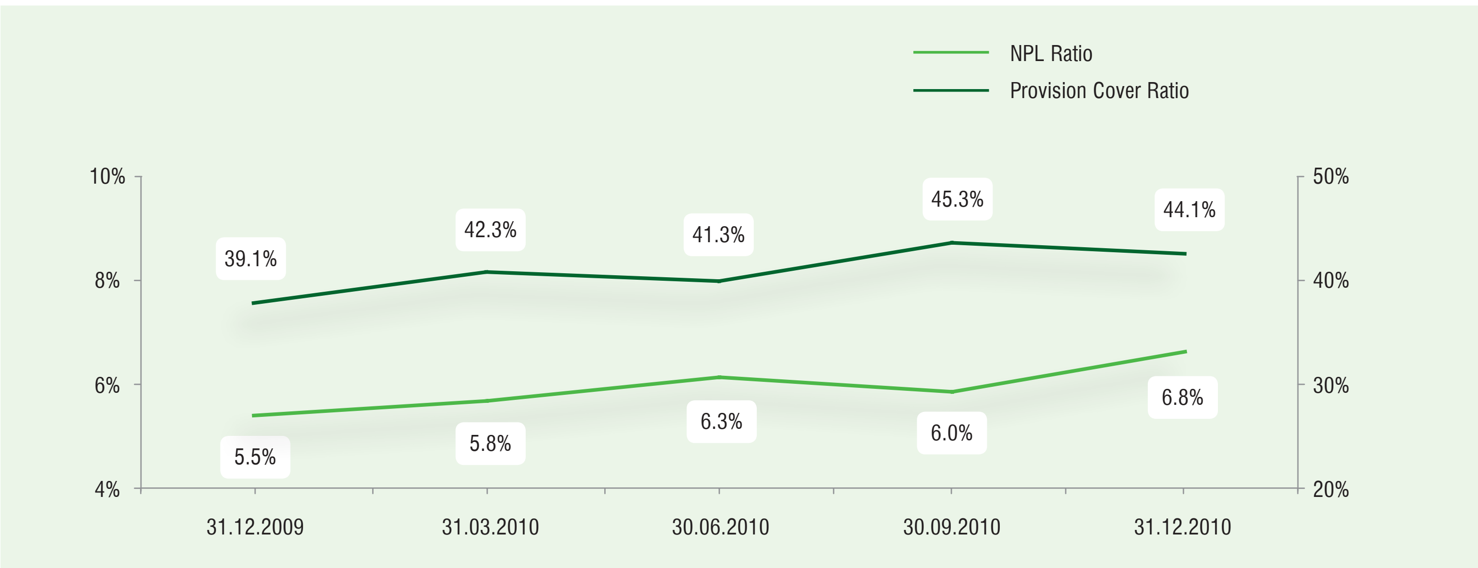


At the end of December 2010, the impaired loans accounted for 6.8% of the gross portfolio versus 5.5% recorded 12 months before. The provision cover ratio for the impaired loans was 44.1% compared with 39.1% as at 31 December 2009.

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

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

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



Equity and Liabilities

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

PLN m

Equity & Liabilities	31.12.2010	Structure 31.12.2010	31.12.2009	Structure 31.12.2009	31.12.2008	Structure 31.12.2008	Change	Change
	1	2	3	4	5	6	1/3	3/5
Deposits from customers	41.970.5	79.0%	41.222.9	76.2%	42.810.7	74.5%	1.8%	–3.7%
Deposits from banks	2.526.1	4.8%	3.830.8	7.1%	4.095.5	7.1%	–34.1%	–6.5%
Financial liabilities held for trading	578.6	1.1%	736.1	1.4%	3.153.9	5.5%	–21.4%	–76.7%
Subordinated liabilities	395.2	0.7%	—	—	—	—	—	—
Debt securities in issue	—	—	—	—	153.9	0.3%	—	–100%
Amounts owed to the central bank	—	—	1.519.2	2.8%	1.242.6	2.2%	–100%	22.3%
Other liabilities	909.9	1.7%	719.5	1.3%	764.0	1.3%	26.5%	–5.8%
Total equity	6.773.6	12.7%	6.036.5	11.2%	5.212.5	9.1%	12.2%	15.8%
Total	**53.153.9**	**100.0%**	**54.065.0**	**100.0%**	**57.433.1**	**100.0%**	**–1.7%**	**–5.9%**

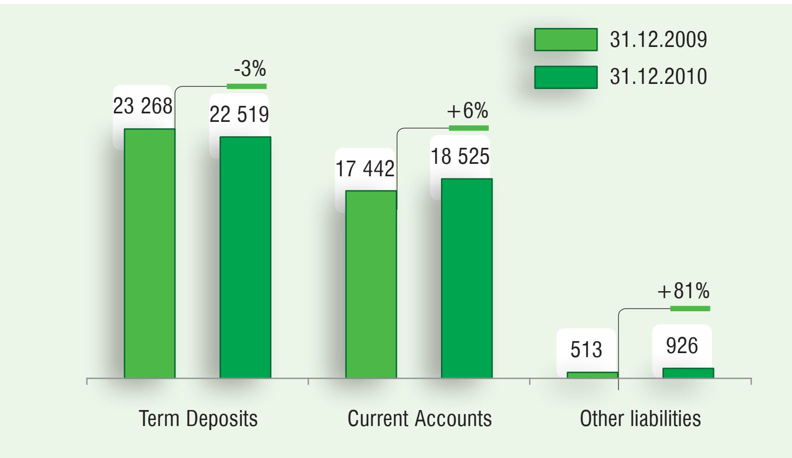
The statement of financial position does not show any "amounts due to the central bank" as NBP ceased to enter into open market funding operations with banks. A significant decrease was also witnessed in deposits from banks (–34.1% y–o–y). Financial liabilities held for trading decreased by 21.4% y–o–y on account of derivative transactions. "Other liabilities" increased markedly (+26.5% y–o–y) due to the higher volume of settlements arising at the turn of 2010 and 2011 in the ordinary course of the bank's and subsidiaries' business. Subordinated liabilities of PLN 395.2 m represent 10–year bonds issued by the bank.

Deposit Base

PLN m

Deposits from Customers	31.12.2010	31.12.2009	31.12.2008	Change	Change
	1	2	3	1/2	2/3
Deposits from personal customers	25 230.8	25 613.7	24 239.1	–1.5%	5.7%
Deposits from business and public sector customers	16 739.7	15 609.2	18 571.6	7.2%	–16.0%
Total	**41 970.5**	**41 222.9**	**42 810.7**	**1.8%**	**–3.7%**

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

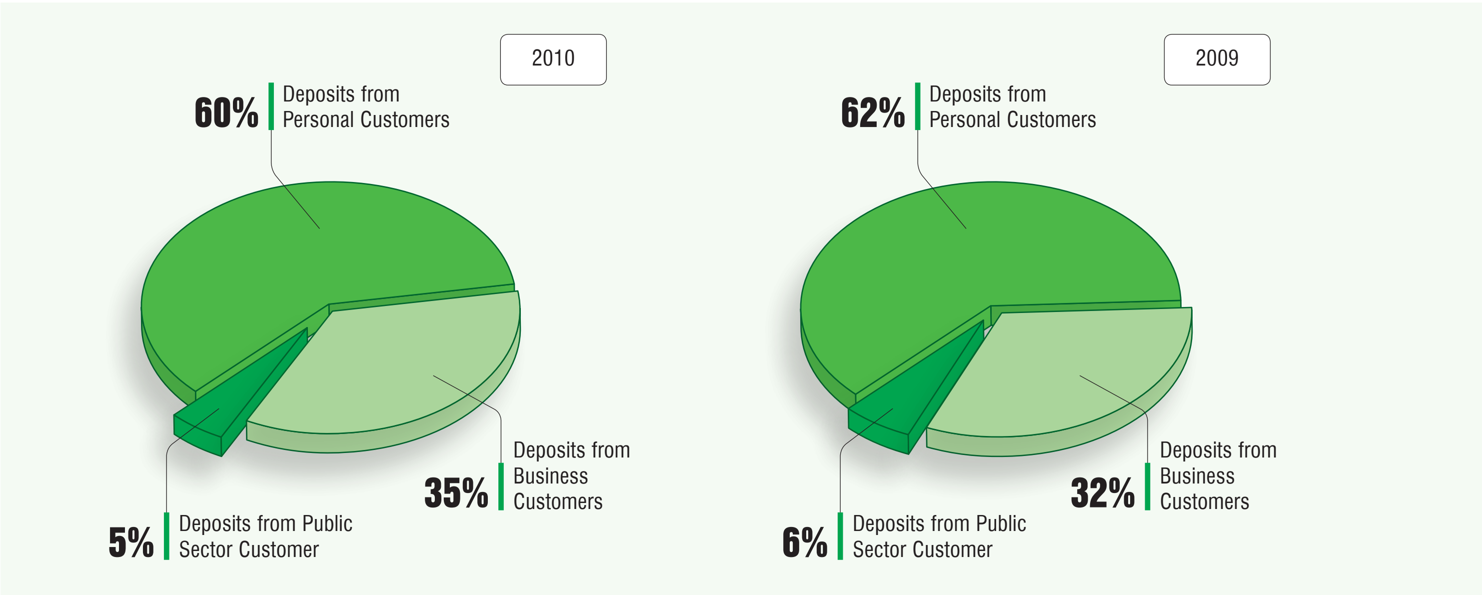


Deposits from customers, which represent 79% of the Group's total equity and liabilities are the primary source of funding the Group's lending business. At the end of December 2010 they amounted to PLN 41 970.5 m, up 1.8% on 31 December 2009. This figure is comprised of term deposits of PLN 22 519.1 m

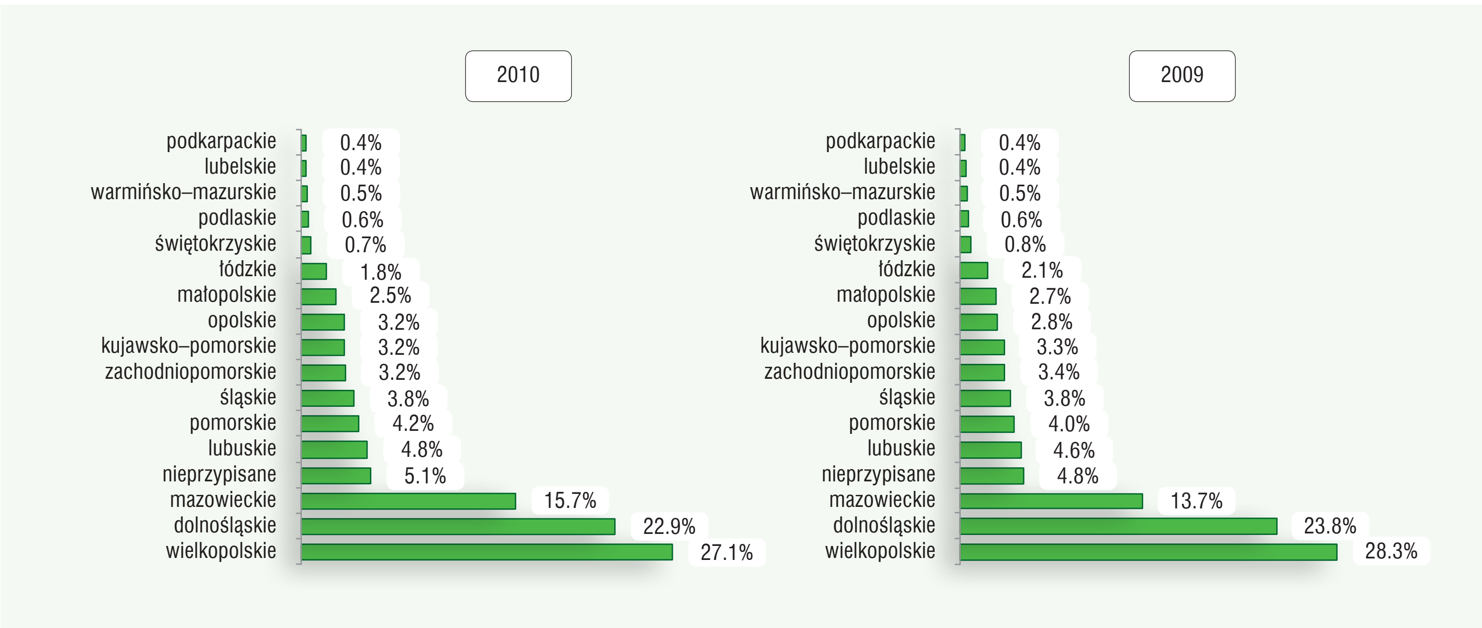
(–3.2% y–o–y), balances in current accounts of PLN 18 525.3 m (+6.2% y–o–y) and other liabilities, including a credit line of EUR 100 m from the European Investment Bank intended for SME funding.

As at 31 December 2010, the Group's deposits from retail customers amounted to PLN 25 230.8 m, down 1.5% y–o–y. The structure of these deposits changed as customers were shifting funds from term deposits to current accounts, which is attributable to the increase in the number of personal and savings accounts and lower attractiveness of term deposits in the low interest rates environment. Deposits from business customers amounted to PLN 16 739.7 m and were by 7.2% higher y–o–y.

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



Geographical structure of deposits from customers of BZ WBK Group
(by provinces) as at the end of 2009 and 2010



Liquidity Position

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

The liquidity profile of the Group as well as gap analysis is presented in "Consolidated Financial Statements of Bank Zachodni WBK Group for 2010", Note 4 "Risk Management", section "Liquidity Risk".

Interest Rates on Loans and Deposits

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

Despite the low market rates, the interest rates offered to the credit customers of Bank Zachodni WBK were similar to those available in 2009 due to the high cost of credit risk and funding.
The limited availability of wholesale funding observed since 2008 (e.g. in the interbank market) increased the attractiveness of deposits from non–banking customers. The increase in demand for customer deposits prompted banks to adopt aggressive deposit pricing policies that continued through 2009. However, the tighter lending criteria and sustained interest rates on loans led to a gradual easing of the market pressure on deposit pricing in 2010.

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

Key Financial Ratios

Selected Financial Ratios	31.12.2010	31.12.2009	31.12.2008
Total costs/Total income	49.9%	50.0%	51.6%
Net interest income/Total income	51.5%	47.5%	50.2%
Net interest margin *	3.98%	3.40%	3.96%
Net commission income/Total income	38.0%	40.0%	42.2%
Customer loans/Customer deposits	78.2%	83.9%	82.1%
NPL ratio	6.8%	5.5%	2.9%
NPL coverage ratio	44.1%	39.1%	55.0%
IBNR coverage ratio	1.06%	1.11%	0.92%
Impairment losses on loans and advances / Average loans and advances	1.21%	1.31%	1.23%
ROE **	17.3%	17.6%	20.8%
ROA ***	1.8%	1.6%	1.7%
Capital adequacy ratio	15.77%	12.97%	10.74%
Book value per share (in PLN)	92.69	82.61	71.44
Earnings per share (PLN) ****	13.33	12.11	11.72

* interest margin includes interest-related income on FX Swaps and Basis Swaps
** net profit attributable to the shareholders of Bank Zachodni WBK for the 12-month period to equity as at the end of the reporting period, net of current year's profit and non-controlling interests in equity
*** net profit attributable to the shareholders of Bank Zachodni WBK for the 12-month period to average assets derived from the two comparative reporting periods
**** net profit attributable to the shareholders of Bank Zachodni WBK for the reporting period divided by the number of ordinary shares

3. Additional Financial Information

Selected Transactions with Connected Entities

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

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

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

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

These intercompany items have been eliminated from the consolidated accounts.

The Group's receivables from the parent entity (AIB Group) amounted to PLN 93.4 m compared with PLN 376.2 m as at 31 December 2009, while the obligations towards AIB Group amounted to PLN 326.1 m compared with PLN 1 631.6 m as at 31 December 2009. The decrease in obligations results from repayment of the loans provided by AIB to the bank's subsidiaries (PLN 819.8 m as at 31 December 2009).

Selected Off–Balance Sheet Items

Commitments and Derivatives

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

PLN m

Derivatives by Nominals	31.12.2010	31.12.2009	31.12.2008
Derivatives – Forward (hedging)	1 669.9	1 773.7	2 704.7
Derivatives – Forward (trading)	55 583.1	50 171.0	139 222.6
Current FX transactions	935.4	1 119.6	957.3
Trading in equities	1.0	47.9	0.9
Total	**58 189.4**	**53 112.2**	**142 885.5**

PLN m

Guarantees and Commitments	31.12.2010	31.12.2009	31.12.2008
Financial commitments:	**5 623.7**	**6 345.1**	**9 528.8**
— credit lines	4 745.2	5 442.5	8 406.9
— credit cards debits	819.0	845.5	879.9
— import letters of credit	55.1	29.2	60.0
— term deposits with future commencement term	4.4	27.9	182.0
Guarantees	**1 185.5**	**876.2**	**901.7**
Total	**6 809.2**	**7 221.3**	**10 430.5**

Description of Guarantees Issued

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

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

Operating Lease

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

PLN m

Payments – maturity	31.12.2010	31.12.2009	31.12.2008
less than 1 year	146.2	142.3	119.3
between 1 and 5 years	446.4	456.5	374.4
over 5 years	306.3	325.9	311.1
Total	**898.9**	**924.7**	**804.8**

Garnishee Orders and Value of Collateral

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

As at 31 December 2009, the value of collateral on customer's accounts or assets across the Group amounted to PLN 29 069.1 m compared with PLN 30 520.2 m as at 31 December 2009.

PLN m

Facility	31.12.2010		31.12.2009	
	Number	Value	Number	Value
Personal loans	40 781	331.3	36 825	251.9
— Cash loans and overdrafts	26 796	248.5	24 073	188.9
— Credit cards	13 885	54.1	12 699	44.7
— Mortgage loans	100	28.7	53	18.3
Business loans	1 696	397.6	476	394.0
Total	**42 477**	**728.9**	**37 301**	**645.9**

4. Factors Which May Affect Financial Results in 2011

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

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

IX. Investor Relations

1. Investor Relations in Bank Zachodni WBK

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

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

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

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

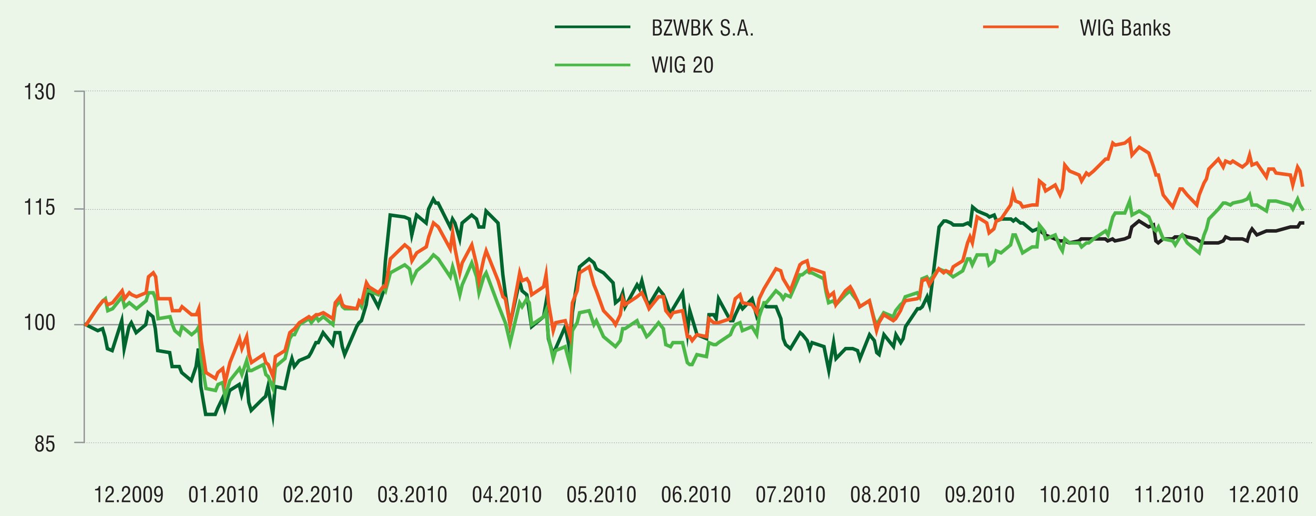
Up–to–date information on the key developments regarding Bank Zachodni WBK is published on www.inwestor.bzwbk.pl.

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

2. Share Price of Bank Zachodni WBK vs. Indices

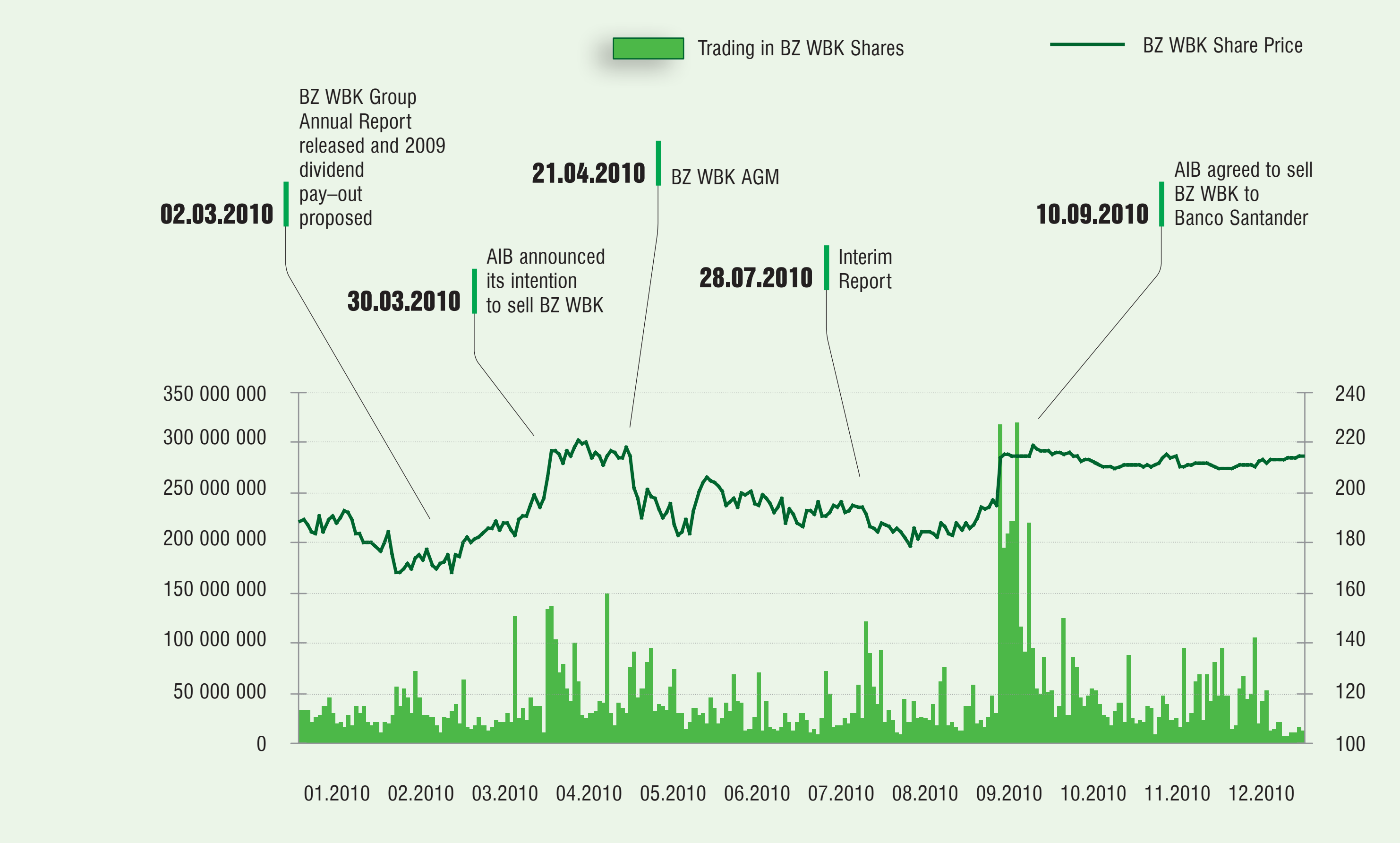
An upward trend in the Warsaw stock indices observed from February 2009 levelled off in the second quarter of 2010 as a consequence of the adjustments related to the profits generated by investors. The beginning of summer saw another dynamic upward shift which lost its momentum as late as early December.
During the year, WIG grew by 18.8%, WIG20 by 14.9% and WIG–Banks by 17.9%. The price of Bank Zachodni WBK

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



shares, which is a part of these indices, increased from PLN 190 on 31 December 2009 to PLN 214.9 on 31 December 2010. The minimum share price during the year was PLN 168.10 (5, 8 and 25 February 2010).
The maximum share price was PLN 220.90 (14 April 2010). From 10 September 2010 when AIB announced its intention to sell its Polish assets to Banco Santander till the end of the year, the share price of Bank Zachodni WBK traded in the region of PLN 210–214.
As at 31 December 2010, capitalisation of the BZ WBK Group amounted to PLN 15 704 m compared to PLN 13 884.4 m a year before. P/E ratio totalled 17.13 times vs. 14.09 times as at the end of 2009 whereas P/BV amounted to 2.57 times vs. 2.54 times at the end of 2009.

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



3. Dividend Per Share

Bank Zachodni WBK S.A. will propose an allocation to dividends of 63.76% of the 2010 profit, which is PLN 584.6 m in total and PLN 8.00 per share. Outstanding profit of PLN 332.2 m will be allocated to other capital. The final decision on dividend payment and amount will be made by the Annual General Meeting of Bank Zachodni WBK Shareholders.

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

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

4. Bank Zachodni WBK Rating

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

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

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

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

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

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

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

The Support Rating Floor was affirmed at 'BB'. These rating actions did not affect Individual rating for Bank Zachodni WBK. The above rating actions followed the announcement on 10 September 2010 that Allied Irish Banks p.l.c. agreed to sell its stake in Bank Zachodni WBK (70.4% of the share capital) to Banco Santander (rated 'AA'/Stable/'F1+'). After the transaction is completed Fitch will resolve the RWP on BZ WBK's ratings. BZ WBK's support rating as well as short–term and long–term IDRs will be based on support from the bank's new parent – Banco Santander.

X. Risk Management

1. Risk Management Principles

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

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

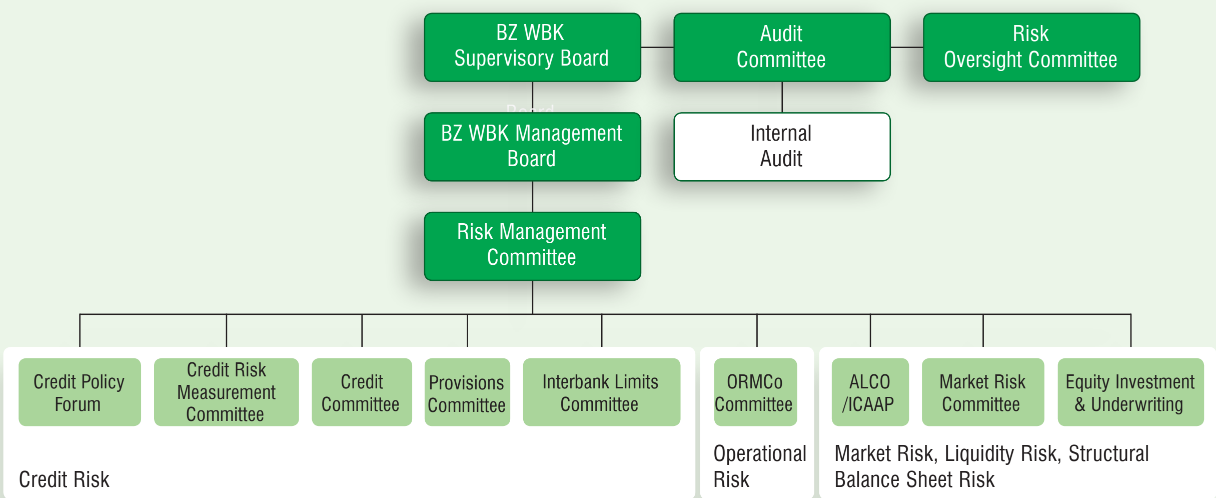
The applicable risk management policies govern the process of identifying, measuring and reporting the risk level and the process of setting limits for individual risks on a regular basis. The Group modifies and expands its risk management procedures on a regular basis, taking into account evolving good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

2. Risk Management Structure in Bank Zachodni WBK Group

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

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

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



3. Credit Risk Management

Credit Risk

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

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

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

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

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

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

Credit Policy

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

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

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

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

The lending activity of the leasing subsidiaries, i.e. BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A., is modelled on the bank's lending policies. The leasing companies use the bank's scoring/ rating tools and carry out portfolio monitoring in accordance with the bank's regulations. BZ WBK Faktor Sp. z o.o., a factoring company, has its internal regulations, which take into account the specific nature of the credit risk and correspond to the bank's standards and policies.

Credit Decision Making Process

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

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

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

Credit Grading

Intensive work has been undertaken by the Group for further development of the credit risk assessment tools to conform with the Basel requirements and IAS/IFRS. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, income–producing real estates, cash loans, credit cards and personal overdrafts.In 2010, the Group implemented new models supporting and enhancing collections and recovery. In addition, an innovative and pioneering Fraud Detection model was implemented to enable automated fraud detection and prevention.
The Group runs regular monitoring of credit grading pursuant to the rules described in the lending manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or behavioural factors analysis. Credit grade is also verified at subsequent sanctions.

Credit Reviews

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

Collateral

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

Credit Risk Stress Testing

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

Calculation of Impairment

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

The impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses).
Each year, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, amendments to the Group's credit policies and recovery process. The process provides assurance that impairment charges are recognized correctly. The responsibility for ensuring an adequate level of charges rests with the Provisions Committee.

Advances to customers by impaired & non–impaired loan portfolios

PLN m

	Loans and Advances to Customers		
	31.12.2010	31.12.2009	31.12.2008
Individually impaired (gross amount)	1 001.0	943.4	598.6
Charge due to impairment losses	(352.6)	(307.4)	(299.3)
Net amount (individually impaired)	**648.4**	**636.0**	**299.3**
Collecively impaired (gross amount)	1 331.8	1 014.1	438.6
Charge due to impairment losses	(676.2)	(458.7)	(271.8)
Net amount (collectively impaired)	**655.6**	**555.4**	**166.8**
Non–impaired portfolio (past–due and non–past due)	31 788.8	33 671.0	34 482.5
Charge due to impairment losses	(338.0)	(373.6)	(318.2)
Net amount (non–impaired)	**31 450.8**	**33 297.4**	**34 164.3**
Other receivables	83.5	80.7	506.2
Total	**32 838.3**	**34 569.5**	**35 136.6**

4. Market Risk and Liquidity Risk Management

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

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

Market Risk

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

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

The direct market risk management is centralised within the Treasury Division, except for the risk arising from changes in the price of equity instruments, which is managed by the staff of Dom Maklerski BZ WBK (BZ WBK Brokerage House).

Identification and Assessment of Market Risk

At the bank level, interest rate and FX risks associated with the banking book are transferred to the Treasury Division and managed centrally. Open interest rate and FX positions of the Group subsidiaries are closed together with the bank's ones, except for BZ WBK Brokerage House, which applies limits for respective risk types due to the scale and profile of business. Market risk management policies adopted by the Group define risk measurement and mitigation parameters, including regulatory and watch limits and indicators. Risk limits are periodically reviewed to align them with the bank's strategy and current objectives.

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

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

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

Risk levels at the end of 2010, 2009 and 2008

PLN m

Interest Rate Risk	31.12.2010	31.12.2009	31.12.2008
VaR (1M period)	27.8	36.5	20.1
Stress Scenario (1M period)	144.4	142.9	102.7
Sensitivity of securities portfolio (parallel increase of yield curves by 1 bp)	(3.2)	(3.0)	(2.5)
FX Risk	**31.12.2010**	**31.12.2009**	**31.12.2008**
VaR (1M period)	1.8	2.2	0.9
Stress Scenario (1M period)	**15.0**	**14.7**	**6.2**

market parameters. The Group applies the VaR methodology both to the trading and banking portfolio.

VaR and sensitivities measures provide estimates of probable maximum loss in normal market conditions. Stress tests are used to supplement these measures by estimating possible losses that may occur under extreme market conditions.

Liquidity Risk

Liquidity Risk

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

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

In 2010, as in the previous year, the Group focused on keeping its loan–to–deposit ratio at a comfortable level, which totalled 78.2% as at 31 December 2010. The Group also maintained a stable level of deposits which constituted the main source of financing for Bank Zachodni WBK.

Liquidity Risk Management

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

Day–to–day management of current (up to 7 days) and short–term liquidity (up to 30 days) is delegated to the Treasury Division. The responsibility for mid– (above 1 month) and long–term (above 1 year) liquidity management rests jointly with the Head of Finance Division and the Head of Treasury Division. Assets and Liabilities Management Department in the Finance Division is responsible for developing and maintaining appropriate strategies and also for liquidity risk measurement and reporting.
Independent review of liquidity management in the bank and its subsidiaries is exercised by Internal Audit Area of Bank Zachodni WBK Group.

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

Identification and Assessment of Liquidity Risk

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

According to the Group's policy, the bank should have sufficient funds to cover in full outflows expected over a one–month horizon. The liquidity position over a longer time horizon and the level of qualified liquid assets are monitored as well. In 2010, the bank's funds significantly exceeded the level required to cover the expected outflows.

At the same time, the bank complies with Resolution no. 386/2008 of the Polish Financial Supervision Authority (KNF) on liquidity management, in respect of, inter alia, liquidity monitoring, measurement and reporting.
In 2010, the bank met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non–liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

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

PLN m

Liquidity Risk	31.12.2010 *		31.12.2009		31.12.2008	
	Gap	Cumulative Gap	Gap	Cumulative Gap	Gap	Cumulative Gap
<1W	10 622.4	10 622.4	7 885.1	7 885.1	6 940.7	6 940.7
<1M	43.2	10 665.6	291.8	8 176.9	(303.1)	6 637.6
>1M	(10 665.6)	—	(8 176.9)	—	(6 637.6)	—

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

5. Operational Risk Management

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

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

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

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

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

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

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

- Reporting on operational incidents and lessons learned
  Each organisational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root–cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are actioned. The lessons learned process reinforces and facilitates operational risk management. It also ensures that decisive steps are taken if any operational incidents materialise and cause or might cause losses.

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

- Business continuity management (BCM)
  Each organisational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur. IT continuity management conforms to ISO 20000 and ITIL best practice. IT support is

provided by two data centres linked by high–capacity and interference– resistant connections. IT support covers mainly payment, clearing and end–user applications.

- Regular reporting to the Risk Management Committee and Supervisory Board
  Operational risk reports include, inter alia: operational risk incidents, risk indicators, operational risk self–assessment (Review & Challenge).
- Insurance
  The bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Professional Indemnity.

6. Legal and Regulatory Risk Management

Legal and Regulatory (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 losses or damage to reputation that may be incurred by Bank Zachodni WBK Group as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk Identification and Assessment

Within Bank Zachodni WBK Group several bodies have been assigned to manage legal and regulatory (compliance) risk. The scope of the Legal and Compliance Division responsibilities relates to "conduct of business'" compliance obligations, including protection of the clients' rights, anti–money laundering, protection of sensitive information and personal data.

The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. All issues regarding compliance with employment law is assigned to HR Management Division, taxation law and reporting requirements to Finance Division and prudential regulation to Finance Division and Risk Management Division in respective aspects.

Every six months, the Bank Zachodni WBK Compliance Area coordinates assessment process of the key legal and compliance risks. During the process, risks and their potential impact on the business are assessed, and the effectiveness of appropriate controls that may be applied to mitigate these risks is evaluated. Legal and regulatory (compliance) risk reviews take into account any risks the Group may be exposed to within the following three years, including upstream risks in the form of new regulations, increased regulatory scrutiny and increasing demand of the stakeholders.

Risk Management and Mitigation

The Bank Management Board adopted a policy statement on compliance with legal and regulatory obligations which was then approved by the Supervisory Board. The policy provides the Compliance Area with the relevant mandate and ensures it is sufficiently independent to support management in effective compliance risk management. Every six months, the Audit Committee reviews key compliance risks to assess the extent to which they are being managed effectively.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area. The compliance unit major responsibilities include in particular (subject to the specific responsibility of Finance Division, Risk Management Division and HR Management Division):
- independent identification, assessment and monitoring of compliance risk the Group is exposed to,
- providing advice and reporting to the Risk Management Committee, Bank's Management Board and Audit Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope,
- providing advice and guidance to management and staff on compliance risks and on appropriate policies and procedures to mitigate them.

Legal and regulatory (compliance) risk management is coordinated by the Legal and Compliance Division reporting to the Management Board Member. The Area coordinates and supervises the process of compliance risk management with subsidiary compliance units pursuant to the applicable law.

Risk Monitoring & Reporting

The Compliance Area undertakes risk–based monitoring of compliance with relevant policies, procedures, regulatory obligations and best practices.
Monitoring can be undertaken by dedicated Risk and Compliance Monitoring Office, the AML Office and Compliance Officers in indicated units and capital market subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network). Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. The monitoring is focused particularly on processes but may also refer to particular organizational units.
The annual monitoring plan, accepted by the Audit Committee, is reviewed on a regular basis and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Legal and Compliance Division.
The implementation of these action plans is monitored by the Legal and Compliance Division.

7. Capital Management

Introduction

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

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

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

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

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

Capital Policy

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

Under the Group's capital management policy, the target minimum solvency ratio is 10% at both the bank and Group level. At the same time, the Tier 1 capital ratio (which is the ratio of core equity capital to risk–weighted assets for credit, market and operational risks) may not be lower than 8% within both the bank and the Group (an additional requirement may be introduced as part of the Supervisory Review and Evaluation Process depending on the regulatory assessment of capital adequacy).

Regulatory Capital

Pillar 1 risks and capital required to cover such risks are assessed quantitatively. The bank uses regulatory approaches

to the measurement of these risks. The Group applies the following approaches with respect to individual risks:
- credit risk – the standardised approach,
- operational risk – the standardised approach,
- market risk – the foundation approach.

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

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

PLN k

		31.12.2010	31.12.2009	31.12.2008
I	**Total Capital requirement (Ia+Ib+Ic+Id), of which:**	**3 169 381**	**3 332 447**	**3 532 896**
Ia	— due to credit risk	2 668 664	2 834 737	3 001 689
Ib	— due to market risk	34 779	17 720	20 830
Ic	— due to settlement / counterparty risk	27 931	41 983	116 691
Id	— due to operational risk	438 007	438 007	393 686
II	Total own funds	6 490 555	5 652 078	4 886 845
III	Reductions	242 469	249 895	143 276
IV	**Own funds after reductions (II–III)**	**6 248 086**	**5 402 183**	**4 743 569**
V	**CAD [IV/(I*12.5)]**	**15.77%**	**12.97%**	**10.74%**

Internal Capital

The Group defines internal capital as the capital required to safeguard the Group against the impact of major unexpected losses which may jeopardise its solvency.

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

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

The current approach is to aggregate the capital for Pillar 1 risks and the estimated capital for actual and potential Pillar 2 risks. Quantitative risk measurement methods are applied where practical and feasible. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

XI. Statement on Corporate Governance Compliance in 2010

1. Introduction

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

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

2. Code of Best Practice

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

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

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

3. Management Board's Statement on Corporate Governance Compliance

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

4. Equity Securities Issued by the Bank

Ownership Structure of the Share Capital

According to the information held by the bank's Management Board as at 23 February 2011 (i.e. the date of BZ WBK Group 2010 Annual Report approval for release), the shareholder having minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin–based AIB European Investments Ltd., a fully–owned subsidiary of Allied Irish Bank p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK is 70.4%. The remaining shares are in free float.

Shareholder	Number of Shares Held		% in the Share Capital		Number of Votes at AGM		Voting Power at AGM	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
AIB European Investments Ltd.	51 413 790	51 413 790	70.4%	70.4%	51 413 790	51 413 790	70.4%	70.4%
Other	21 662 223	21 662 223	29.6%	29.6%	21 662 223	21 662 223	29.6%	29.6%
Total	**73 076 013**	**73 076 013**	**100.0%**	**100.0%**	**73 076 013**	**73 076 013**	**100.0%**	**100.0%**

Change of the Majority Shareholder

On 10 September 2010, the Board of Allied Irish Banks decided to sell the Polish assets of AIB to Banco Santander for a total amount of approx. EUR 3.1 billion. The transaction included the sale of AIB's entire shareholding in Bank Zachodni WBK, i.e. 51 413 790 shares representing 70.4% of the bank's share capital (for a price of ca. EUR 2 938 m) and 50% shareholding in BZ WBK AIB Asset Management (for a price of ca. EUR 150 m). Banco Santander will acquire the shares in Bank Zachodni WBK through a public tender offer for 100% of the capital of the bank, addressed to all shareholders, in which AIB will tender all of its shares. The proposed disposal is part of AIB's capital raising initiatives as announced on 30 March 2010.

On 7 February 2011, Banco Santander announced that it had launched a tender offer for 100% of the share capital of Bank Zachodni WBK offering PLN 226.89 per share. Under the tender offer Santander intends to buy 73 076 013 shares in Bank Zachodni WBK that will give it 73 076 013 votes at the General Meeting of Shareholders, i.e. 100% of the share capital and votes. The consummation of the tender offer is subject to the acceptance of at least 51 153 210 shares or 70% of the outstanding shares of Bank Zachodni WBK. As required by the law, the Management Board of Bank Zachodni WBK and Banco Santander advised their employees and employee associations of the tender offer as well as of the text of the announcement.

On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

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

Rights and Restrictions Attaching to the Issuer's Securities

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

5. Governing Bodies

General Meeting of Shareholders

The Last General Meeting of Shareholders of Bank Zachodni WBK

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

Organisation and Powers of the General Meeting of Shareholders

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

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

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

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

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

Shareholders' Rights

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

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

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

- Shareholders may attend GM and vote personally or through proxies.

Method of Changing the Statutes

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

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

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

Supervisory Board

Composition of the Supervisory Board

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

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

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

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

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

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

Role of the Supervisory Board

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

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

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

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

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. The role of the committees is to facilitate the work of the Supervisory Board, i.e. prepare draft resolutions of the Supervisory Board with respect to own requests or requests submitted by the Management Board for approval.
The following Supervisory Board committees operate in Bank Zachodni WBK: Audit Committee, Risk Oversight Committee, Remuneration and Nominations Committee and Social Responsibility Committee.
The Audit Committee oversees the financial reporting in the bank, ensuring top quality of financial reports and disclosure practice and its compliance with the accounting policies. Furthermore, the Committee assesses the effectiveness of internal control system and financial and non–financial risk management frameworks and ensures that the chartered auditor and the entity authorised to audit the financial statements are independent. The Committee members receive reports from an external auditor and participate in regular meetings with the representatives of Internal and External Audit, which are not attended by the bank's Management Board members. The Audit Committee is composed mostly of independent Supervisory Board members.

Composition of Supervisory Board Committees
as at 31.12.2010

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

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

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

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

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

The Remuneration and Nominations Committee and the Social Responsibility Committee convene at least three times a year. Additional meetings are held at the request of the Chairperson. The quorum is two.
The annual reports on activities of the Supervisory Board and its Committees as well as the Supervisory Board's reports on examination of the bank's and the Group's annual report along with the assessment of their operations are published in current reports which conveyed the resolutions passed by the AGM of Bank Zachodni WBK. As of the approval date of this report, such information was last published in the current report no. 8/2010 which referred to AGM held on 21 April 2010 and operations of the bank, Bank Zachodni WBK Group as well as the Supervisory Board in 2009.

Management Board

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

The persons listed above were appointed by the Supervisory Board on 21 April 2009 for a joint 3–year term of office. Compared with 31 December 2009, the composition of the Management Board of Bank Zachodni WBK did not change. On 16 December, Jacek Marcinowski tendered his resignation from the Management Board effective from 31 December 2010 in connection with his appointment as President of the Management Board of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych, effective from 1 January 2011. Jacek Marcinowski was in charge of the Private Banking Department, Bancassurance Office and Partner Outlet Development Office which, following his resignation, were incorporated into other organisational structures within Bank Zachodni WBK Group.
On 6 December 2010, Mr. Declan Flynn submitted his decision to step down from his position of the Management Board member for personal reasons (effective as of 13 April 2011).

Appointment and Removal of Executives

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

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

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all powers

Composition of the Management Board and Role of MB Members as at 31.12.2010

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

that are not restricted by law or Statutes to the remit of other governing bodies of the bank. The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank.

The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long–term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board. Permanent committees operative in the bank include: Risk Management Committee, Credit Committee, Provisions Committee, Credit Policy Forum, Assets and Liabilities Management Committee, Operational Risk Management Committee, Market Risk Committee, Interbank Limits Committee, Value Management Committee, Deposit Working Group (DWG), Equity Investment and Underwriting Committee, CRM Committee, Technology Committee and Settlement Committee.

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

Role of the Management Board

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

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

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

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

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

Other Information on the Management and Supervisory Boards

Remuneration of the Supervisory and Management Board Members

Information on the remuneration of the BZWBK Supervisory and Management Board members for 2010 and the comparable period is presented in Note 47 to the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2010".

Agreements between Bank Zachodni WBK and its Executive Directors

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

Shares in Possession of the Supervisory and Management Board Members

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

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

6. Control System of Financial Statements

Internal Control System and Risk Management

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

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

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

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

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

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

The bank follows any legal and regulatory changes related to reporting in the law and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

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

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

Internal Control Compliant with the Sarbanes–Oxley Act

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

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

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

Selection of Auditor

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

Remuneration of Auditor

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

PLN k

Remuneration of KPMG Audyt	Reporting Year ended on 31.12.2010	Reporting Year ended on 31.12.2009
Audit fees in respect of the parent bank	* 1070	1 019
Audit fees in respect of the subsidiaries	437	451
Audit fees related to the assurance services, including the review of the parent bank	** 432	360
Audit fees related to the assurance services, including the review of the subsidiaries	93	0

* based on the Agreement on Audit of Financial Statement and Group Report of 27 September 2010
** based on the Agreement on Review of Interim Financial Statement and Group Report of 14 June 2010

7. Pending Court Proceedings

As at 31 December 2010, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity. The value of all litigations totalled PLN 238.6 m, which is 3.5% of the Group's equity (vs. PLN 247.9 m, i.e. 4.1% of the Group's equity in 2009). It includes PLN 103.4 m claimed by the Group, PLN 130.9 m in claims against the Group and PLN 4.3 m of the Group's receivables in the arrangement or bankruptcy proceedings.

XII. Future Growth Prospects

Strategic Directions for 2009–2011

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

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

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

The Bank Zachodni WBK image should combine advantages of a large and secure financial organization with the distinguishing features of young dynamic banks which fight for their market share by presenting attractive offers. Thanks to expansion of the branch network and brand communication, the bank will be recognised Poland–wide as a national brand. Customers will see Bank Zachodni WBK Group as a large nationwide organization which:
- provides more value to the customer compared to other financial institutions and strives to outperform its market competitors;
- guarantees financial stability and protection of funds;
- offers products which are easy to understand and use;
- stands out in the market, with its modern and innovative solutions.

Corporate Culture: In keeping with the brand values

Bank Zachodni WBK Group focuses on providing value to its customers through increased focus on:
- building the relationship based on trust and ethical values;
- performance focus;
- professional and timely delivery of tasks;
- readiness to learn;
- demonstrating respect for work and sense of ownership for the actions taken;
- ethical conduct, compliance with law, internal regulations and best practice.

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

Customer Acquisition and Retention

Retail Banking: Distinctive customer service

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

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

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

Retail customers are serviced by a nationwide network of BZ WBK branches. Supplementary service is available from Partner outlets, a call centre, Internet, mobile agents and other distribution channels.
The priority of the Group is to integrate the distribution channels so that customers can choose and fully avail of such method of contact with the bank that works best for them. The integration means wider access to products and processes as well as standardized customer information in all distribution channels.

Business and Corporate Banking: Diversified business and development of Business and Corporate Banking Centres
Business customers of Bank Zachodni WBK Group are serviced by a nationwide network of Business Banking Centres operating in all major cities. Strategic corporate customers are serviced by dedicated units in Warsaw, Poznań and Wrocław. All business customers are serviced by professional advisors, on an individual basis. In this segment, BZ WBK Group pursues the two strategic goals: business diversification and support for business advisors who are charged with full ownership of the customer relationship management. Business diversification is delivered at three levels:
- diversification of the loan portfolio by sectors;
- diversification of income streams by geographical locations;
- diversification of income streams by products, through increasing revenues from non–credit products.

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

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

Operational and Cost Efficiency: A leaner organisation and faster changes
Bank Zachodni WBK Group continues its cost optimisation initiatives, in particular it:
- streamlines the operating processes and customer service processes;
- centralizes and automates control and back–office processes in the branches;
- seizes any opportunity to reduce costs, through the implementation of savings programmes, more efficient management, monitoring of contracts with key suppliers, utilization of advanced IT technologies, etc.

Development and Use of IT systems

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

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

Strategic Priorities for 2011

The top priority of Bank Zachodni WBK Group is a dynamic growth of efficiency and reduction of C/I ratio to 47% in 2011 and 41% in 2013. The Group will implement further cost optimisation initiatives and maintain the cost discipline introduced in 2008. Nevertheless, the revenue growth will be the key factor contributing to the reduction of C/I ratio.
These ambitious goals need to be supported by relevant systemic solutions which were already developed and piloted in 2010. The first one is the New Branch Energy project (NEO) aimed to introduce changes to sales management at the branch level, including daily and weekly agenda, regular coaching sessions, sales activity planning and introduction of a suite of tools as an aid to advisors and branch directors in their day–to–day business.

The second key project involves implementation of a new service model for corporate customers, which will significantly relieve relationship managers of operational and analytical tasks. Local units will provide support for relationship managers with respect to loans, transactional banking, leasing, factoring and treasury products on an ongoing basis.

Central to the model is the Customer Service Centre (COB) and a web–based transaction platform. Both structures will be launched in early 2011 and will assume a number of back–office functions, which used to be handled at the local level (branch network). Consequently, they will add to operational efficiency of corporate banking. The principal goal of the project is to improve the quality of customer service and boost the sales performance of relationship managers, particularly in the area of non–credit products.

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

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

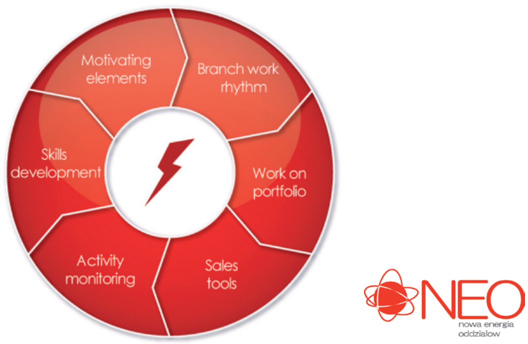
- retain the new customer base at the record high level of 2010;
- maintain the Group's share in the deposit market;
- keep the dynamic sales of mortgage loans, which in 2010 approached the record high level of 2008.

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

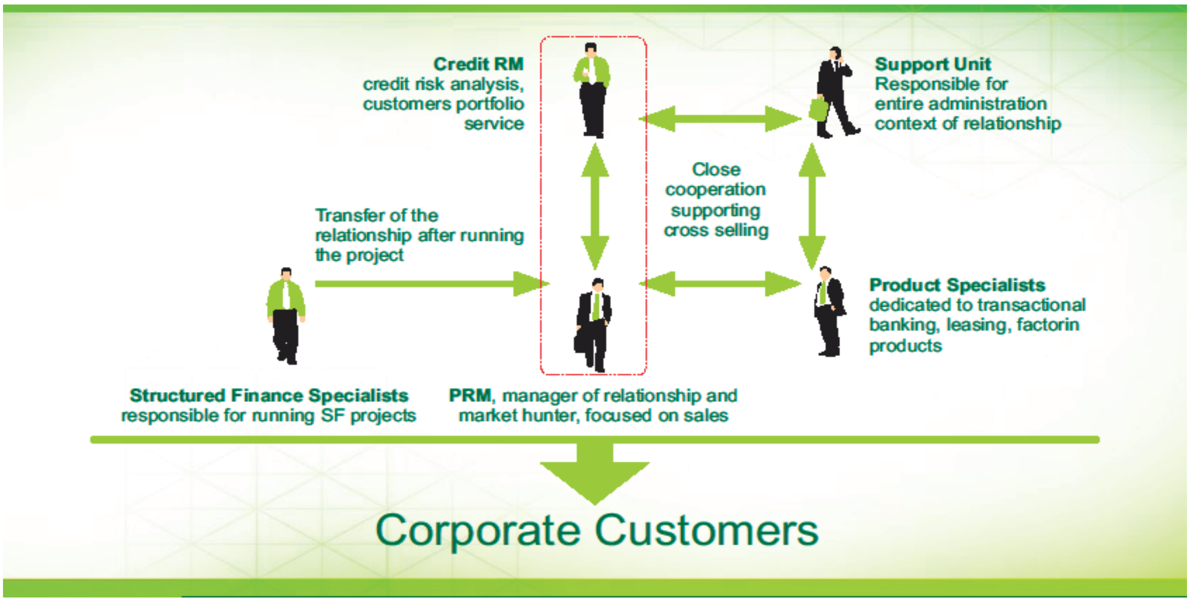
- enhancement of sales and credit skills in the branch network;
- streamlining of credit processes and procedures;
- close liaison with leasing and factoring companies;
- strong support for advisors who sell treasury products.

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

New Branch Energy Project



New Energy of Corporate Banking – New Customer Service Model



XIII. Representations of the Management Board

True and Fair Presentation of the Financial Statements.

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

Selection of Auditor

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

Signatures of the Management Board Members

Date	Name and Surname	Function	Signature
23.02.2011	Mateusz Morawiecki	President of the Board	M. Morawiecki
23.02.2011	Paul Barry	Member of the Board	Paul Barry
23.02.2011	Andrzej Burliga	Member of the Board	
23.02.2011	Declan Flynn	Member of the Board	
23.02.2011	Justyn Konieczny	Member of the Board	
23.02.2011	Janusz Krawczyk	Member of the Board	
23.02.2011	Michael McCarthy	Member of the Board	
23.02.2011	Marcin Prell	Member of the Board	
23.02.2011	Mirosław Skiba	Member of the Board	
23.02.2011	Feliks Szyszkowiak	Member of the Board	

Consolidated Financial Statements of Bank Zachodni WBK Group for 2010

Bank Zachodni WBK S.A.

TRANSLATION

Bank Zachodni WBK Group

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2010

The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 11 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the consolidated financial statements
for the finacial year ended
31 December 2010

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This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Bank Zachodni WBK S.A.

We have audited the accompanying consolidated financial statements of Bank Zachodni WBK Group seated in Wrocław, Rynek 9/11, 50-950 Wrocław ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the movements on consolidated equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations and preparation of the Report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., a Polish limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG Cooperative ("KPMG International"), a Swiss entity.

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. jest polską spółką komandytową i członkiem sieci KPMG składającej się z niezależnych spółek członkowskich stowarzyszonych z KPMG International Cooperative ("KPMG International"), podmiotem prawa szwajcarskiego.

Spółka zarejestrowana w Sądzie Rejonowym dla m.st. Warszawy w Warszawie, XII Wydział Gospodarczy Krajowego Rejestru Sądowego.

KRS 0000339379
NIP 527-261-53-62
REGON 142078130

TRANSLATION

internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Bank Zachodni WBK Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

....
Certified Auditor No. 12032
Magdalena Grzesik

Signed on the Polish original

....
Limited Liability Partner with power of attorney
Stacy Ligas

1 March 2011
Warsaw

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Bank Zachodni WBK Group

Report supplementing the auditor's opinion on the consolidated financial statements
Financial Year ended
31 December 2010

The report supplementing the auditor's opinion
contains 11 pages
Report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2010

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Bank Zachodni WBK Group
Report supplementing the opinion on the consolidated financial statements for the financial year ended 31 December 2010

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Contents

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Bank Zachodni WBK Group
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for the financial year ended 31 December 2010
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1. General

1.1 Identification of the Group

1.1.1 Name of the Group

Bank Zachodni WBK Group

1.1.2 Registered office of the Parent Company of the Group

Rynek 9/11
50-950 Wrocław

1.1.3 Registration of the Parent Company in the National Court Register

Registration court:	District Court in Wrocław, VI Commercial Department of the National Court Register
Date:	27 April 2001
Registration number:	KRS 0000008723
Initial capital as at balance sheet date:	730,760,130 PLN

1.1.4. Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2010, the Management Board of the Company was comprised of the following members:

- Mateusz Morawiecki - President of the Management Board
- Paul Barry - Member of the Management Board
- Andrzej Burliga - Member of the Management Board
- Declan Flynn - Member of the Management Board
- Justyn Konieczny - Member of the Management Board
- Janusz Krawczyk - Member of the Management Board
- Jacek Marcinowski - Member of the Management Board
- Michael McCarthy - Member of the Management Board
- Marcin Prell - Member of the Management Board
- Mirosław Skiba - Member of the Management Board
- Feliks Szyszkowiak - Member of the Management Board

On 6th December 2010 Mr. Declan Flynn submitted his decision to stand down from his position of the Management Board of the Bank effective from the 13th April 2011 because of personal reasons.

On 16 December 2010 Mr. Jacek Marcinowski tendered his resignation from the Management Board effective from 31 December 2010 in connection with his appointment as President of the Management Board of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. effective from 1 January 2011.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2010, the following companies were consolidated by the Group:

Parent Company:

- Bank Zachodni WBK S.A

Subsidiaries consolidated on the full consolidation basis:

- Dom Maklerski BZ WBK S.A.,
- BZ WBK Finanse Sp. z o.o.,
- BZ WBK Finanse & Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ WBK Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ Faktor Sp. z o.o. – subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ WBK AIB Asset Management S.A.,
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.,
- BZ WBK Inwestycje Sp. z o.o.,
- BZ WBK Nieruchomości S.A.

Joint ventures consolidated on the equity method basis:

- BZWBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.,
- BZWBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

Associates consolidated on the equity method basis:

- POLFUND – Fundusz Poręczeń Kredytowych S.A.,
- Metrohouse S.A.,
- Krynicki Recykling S.A.

1.3 Auditor information

1.3.1 Key certified auditor information

Name and surname:	Magdalena Grzesik
Registration number:	Certified auditor no.12032

1.3.2 Authorized auditor information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG

Bank Zachodni WBK Group
Report supplementing the opinion on the consolidated financial statements
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KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of entities authorised to audit financial statements under number 3546.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2009 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 21 April 2010.

The consolidated financial statements were submitted to the Registry Court on 22 April 2010 and were published in Monitor Polski B No. 992 on 21 June 2010.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Bank Zachodni WBK S.A. seated in Wrocław, Rynek 9/11, 50-950 Wrocław and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the movements on consolidated equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Meeting dated 17 December 2004.

The consolidated financial statements have been audited in accordance with the contract dated 27 September 2010 concluded on the basis of the resolution of Supervisory Board of Bank Zachodni WBK S.A. dated 22 September 2010 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office during the period from 28 September 2010 to 1 March 2011.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the Report on the Company's activities.

Our responsibility is to express an opinion and to prepare a supplementing report on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

Key certified auditor and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., fulfill independence requirements from the companies included in the Group as described in Art. 56 points 3 and 4 of the Act on certified auditors and their government, audit firms and public oversight dated 7 May 2009 (Official Journal No. 77, item 649). The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2010 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., certified auditor number 3546, and received an unqualified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Dom Maklerski BZ WBK S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 Decmber 2010	Unqualified
BZ WBK Finanse & Leasing S.A	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 Decmber 2010	Unqualified
BZ WBK Leasing S.A	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 Decmber 2010	Unqualified
BZ WBK Faktor Sp. z o.o	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 Decmber 2010	Unqualified
BZ WBK AIB Asset Management S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 Decmber 2010	Unqualified
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 Decmber 2010	Unqualified
BZ WBK Inwestycje Sp.z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 Decmber 2010	The opinion has not yet been issued until this report date
BZ WBK Finanse Sp. z o.o.	DGA Audyt Sp. z o.o.	31 Decmber 2010	The opinion has not yet been issued until this report date
BZ WBK Nieruchomości S.A.	DGA Audyt Sp. z o.o.	31 December 2010	The opinion has not yet been issued until this report date

KPMG

Bank Zachodni WBK Group
Report supplementing the opinion on the consolidated financial statements
for the financial year ended 31 December 2010
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2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2010 PLN '000	% of total assets	31.12.2009 PLN '000	% of assets	31.12.2008 PLN '000	% of assets
Cash and balances with central banks	2,534,463	4.8	2,660,658	4.9	3,178,107	5.5
Loans and advances to banks	619,655	1.2	664,211	1.2	1,365,132	2.4
Financial assets held for trading	2,239,055	4.2	1,344,809	2.5	3,224,867	5.6
Hedging derivatives	14,768	0.0	10,801	-	347	0.0
Loans and advances to customers	32,838,296	61.8	34,569,513	64.0	35,136,613	61.2
Investment securities	13,395,355	25.2	13,292,572	24.6	12,916,041	22.5
Investments in associates and joint ventures	87,360	0.2	81,887	0.2	72,221	0.1
Intangible assets	172,561	0.3	181,620	0.3	173,934	0.3
Property, plant and equipment	547,536	1.0	596,154	1.1	637,486	1.1
Net deferred tax assets	309,164	0.6	278,227	0.5	210,495	0.4
Current income tax due	-	-	43,373	0.1	-	-
Other assets	395,658	0.7	341,200	0.6	517,826	0.9
TOTAL ASSETS	**53,153,871**	**100.0**	**54,065,025**	**100.0**	**57,433,069**	**100.0**

EQUITY AND LIABILITIES	31.12.2010 PLN '000	% of total equity and liabilities	31.12.2009 PLN '000	% of equity and liabilities	31.12.2008 PLN '000	% of equity and liabilities
Liabilities						
Deposits from central bank	-	-	1,519,208	2.8	1,242,574	2.2
Deposits from banks	2,526,082	4.8	3,830,776	7.1	4,095,477	7.1
Hedging derivatives	16,441	0.0	32,933	0.1	68,562	0.1
Financial liabilities held for trading	578,611	1.1	736,050	1.4	3,153,932	5.5
Deposits from customers	41,970,454	79.0	41,222,871	76.1	42,810,727	74.5
Debt securities in issue	-	-	-	-	153,918	0.3
Subordinated liabilities	395,230	0.7	-	-	-	-
Current income tax liabilities	82,858	0.2	-	-	13,638	0.0
Other liabilities	810,620	1.5	686,717	1.3	681,800	1.2
Total liabilities	**46,380,296**	**87.3**	**48,028,555**	**88.8**	**52,220,628**	**90.9**
Equity						
Share capital	730,760	1.4	730,760	1.4	729,603	1.3
Other reserve funds	4,344,640	8.1	3,566,999	6.6	2,716,687	4.7
Revaluation reserve	433,134	0.8	422,005	0.8	335,507	0.6
Retained earnings	140,299	0.3	323,110	0.6	335,326	0.6
Profit of the current period	974,223	1.8	885,258	1.6	855,446	1.5
Equity attributable for owners of BZ WBK S.A.	**6,623,056**	**12.4**	**5,928,132**	**11.0**	**4,972,569**	**8.7**
Non-controlling interests in equity	**150,519**	**0.3**	**108,338**	**0.2**	**239,872**	**0.4**
Total equity	**6,773,575**	**12.7**	**6,036,470**	**11.2**	**5,212,441**	**9.1**
TOTAL EQUITY AND LIABILITIES	**53,153,871**	**100.0**	**54,065,025**	**100.0**	**57,433,069**	**100.0**

KPMG

Bank Zachodni WBK Group
Report supplementing the opinion on the consolidated financial statements
for the financial year ended 31 December 2010
TRANSLATION

2.1.2. Consolidated income statement

	1.01.2010 - 31.12.2010 PLN '000	1.01.2009 - 31.12.2009 PLN '000	1.01.2008 - 31.12.2008 PLN '000
Interest income	3,130,301	3,226,088	3,232,124
Interest expense	(1,308,126)	(1,662,897)	(1,597,019)
Net interest income	**1,822,175**	**1,563,191**	**1,635,105**
Fee and commission income	1,555,258	1,534,413	1,606,669
Fee and commission expense	(210,597)	(220,101)	(232,854)
Net fee and commission income	**1,344,661**	**1,314,312**	**1,373,815**
Dividend income	54,514	96,592	70,306
Net trading income and revaluation	258,731	270,256	52,802
Gains (losses) from other financial securities	12,408	(6,085)	58,152
Net gain/(loss) on sale of subsidiaries and associates	-	-	(196)
Other operating income	47,339	49,702	67,999
Impairment losses on loans and advances	(420,754)	(481,034)	(364,551)
Operating expenses incl.	(1,766,345)	(1,644,764)	(1,682,075)
Bank's staff, operating expenses and management costs	*(1,600,592)*	*(1,498,316)*	*(1,547,174)*
Depreciation and amortisation	*(128,767)*	*(123,473)*	*(107,331)*
Other operating expenses	*(36,986)*	*(22,975)*	*(27,570)*
	1,352,729	**1,162,170**	**1,211,357**
Share in net profits (loss) of entities accounted for by the equity method	4,452	(334)	(777)
Profit before income tax	**1,357,181**	**1,161,836**	**1,210,580**
Corporate income tax	(316,612)	(222,614)	(256,294)
Profit for the period	**1,040,569**	**939,222**	**954,286**
of which:			
attributable to owners of BZ WBK S.A.	974,223	885,258	855,446
attributable to non-controlling interests	66,346	53,964	98,840
Net earnings per share			
Basic earnings per share (PLN)	13.33	12.11	11.72
Diluted earnings per share (PLN)	13.28	12.06	11.68

KPMG

Bank Zachodni WBK Group
Report supplementing the opinion on the consolidated financial statements
for the financial year ended 31 December 2010
TRANSLATION

2.1.3. Consolidated statement of comprehensive income

	1.01.2010 - 31.12.2010 PLN '000	1.01.2009 - 31.12.2009 PLN '000	1.01.2008 - 31.12.2008 PLN '000
Profit for the period	**1,040,569**	**939,222**	**954,286**
Other comprehensive income:			
Available for sale financial assets valuation	11,867	61,681	(5,313)
Cash flow hedges valuation	97	26,590	(24,673)
Other comprehensive income for the period net of income tax	**11,964**	**88,271**	**(29,986)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,052,533**	**1,027,493**	**924,300**
Attributable to:			
owners of BZ WBK S.A.	985,352	971,756	829,000
non-controlling interests	67,181	55,737	95,300

2.2 Selected financial ratios

	2010	2009	2008
Total assets (PLN '000)	53,153,871	54,065,025	57,433,069
Profit before income tax (PLN '000)	1,357,181	1,161,836	1,210,580
Profit for the period (PLN '000)	1,040,569	939,222	954,286
Shareholders' equity (PLN '000)*	5,799,352	5,151,212	4,356,995
Return on equity	17.9%	18.2%	21.9%
Receivables to total assets	62.9%	65.2%	63.6%
Income generating assets to total assets	97.3%	97.3%	97.3%
Interest bearing liabilities to total liabilities	85.6%	87.6%	89.6%

** excluding current-year net profit*

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Zachodni WBK Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3 Method of consolidation

The method of consolidation is described in note 2 of the notes to the consolidated financial statements.

3.4 Consolidation of equity and calculation of minority interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Zachodni WBK S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

3.6 Compliance with banking regulations

Base on our audit we have not identified any significant deviations in the Parent Company's compliance with the banking regulatory norm pertaining among others to loan concentration, obligatory reserve and capital adequacy ratio.

3.7 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. The notes to the consolidated financial statements should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the consolidated financial statements.

3.9 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2010, we have issued an unqualified opinion.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

....
Certified Auditor No. 12032
Magdalena Grzesik

Signed on the Polish original

....
Limited Liability Partner with power of attorney
Stacy Ligas

1 March 2011
Warsaw

Contents

In thousands of PLN

Consolidated Income Statement

for reporting period:		1.01.2010 – 31.12.2010	1.01.2009 – 31.12.2009	1.01.2008 – 31.12.2008
Interest income		3 130 301	3 226 088	3 232 124
Interest expense		(1 308 126)	(1 662 897)	(1 597 019)
Net interest income	**Note 6**	**1 822 175**	**1 563 191**	**1 635 105**
Fee and commission income		1 555 258	1 534 413	1 606 669
Fee and commission expense		(210 597)	(220 101)	(232 854)
Net fee and commission income	**Note 7**	**1 344 661**	**1 314 312**	**1 373 815**
Dividend income	Note 8	54 514	96 592	70 306
Net trading income and revaluation	Note 9	258 731	270 256	52 802
Gains (losses) from other financial securities	Note 10	12 408	(6 085)	58 152
Net gain/(loss) on sale of subsidiaries and associates	Note 11	—	—	(196)
Other operating income	Note 12	47 339	49 702	67 999
Impairment losses on loans and advances	Note 13	(420 754)	(481 034)	(364 551)
Operating expenses incl.:		(1 766 345)	(1 644 764)	(1 682 075)
Bank's staff, operating expenses and management costs	Notes 14, 15	(1 600 592)	(1 498 316)	(1 547 174)
Depreciation/amortisation		(128 767)	(123 473)	(107 331)
Other operating expenses	Note 16	(36 986)	(22 975)	(27 570)
Operating profit		**1 352 729**	**1 162 170**	**1 211 357**
Share in net profits (loss) of entities accounted for by the equity method		4 452	(334)	(777)
Profit before tax		**1 357 181**	**1 161 836**	**1 210 580**
Corporate income tax	Note 17	(316 612)	(222 614)	(256 294)
Profit for the period		**1 040 569**	**939 222**	**954 286**
of which:				
attributable to owners of BZ WBK S.A.		974 223	885 258	855 446
attributable to non–controlling interests		66 346	53 964	98 840
Net earnings per share (PLN/share)	Note 18			
Basic earnings per share		13.33	12.11	11.72
Diluted earnings per share		13.28	12.06	11.68

Consolidated statement of comprehensive income

for reporting period:	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit for the period	**1 040 569**	**939 222**	**954 286**
Other comprehensive income:			
Available–for sale financial assets valuation	11 867	61 681	(5 313)
Cash flow hedges valuation	97	26 590	(24 673)
Other comprehensive income for the period, net of income tax	**11 964**	**88 271**	**(29 986)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 052 533**	**1 027 493**	**924 300**
Attributable to:			
owners of BZ WBK S.A.	*985 352*	*971 756*	*829 000*
non–controlling interests	*67 181*	*55 737*	*95 300*

Notes presented on pages 112–201 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated Statement of Financial Position

as at:		31.12.2010	31.12.2009	31.12.2008
ASSETS				
Cash and balances with central banks	Note 19	2 534 463	2 660 658	3 178 107
Loans and advances to banks	Note 20	619 655	664 211	1 365 132
Financial assets held for trading	Note 21	2 239 055	1 344 809	3 224 867
Hedging derivatives	Note 22	14 768	10 801	347
Loans and advances to customers	Note 23	32 838 296	34 569 513	35 136 613
Investment securities	Note 24, 25	13 395 355	13 292 572	12 916 041
Investments in associates and joint ventures	Note 26	87 360	81 887	72 221
Intangible assets	Note 27	172 561	181 620	173 934
Property, plant and equipment	Note 28	547 536	596 154	637 486
Current income tax due		—	43 373	——
Net deferred tax assets	Note 29	309 164	278 227	210 495
Other assets	Note 30	395 658	341 200	517 826
Total assets		**53 153 871**	**54 065 025**	**57 433 069**
LIABILITIES				
Deposits from central bank	Note 31	—	1 519 208	1 242 574
Deposits from banks	Note 32	2 526 082	3 830 776	4 095 477
Hedging derivatives	Note 22	16 441	32 933	68 562
Financial liabilities held for trading	Note 21	578 611	736 050	3 153 932
Deposits from customers	Note 33	41 970 454	41 222 871	42 810 727
Debt securities in issue	Note 34	—	—	153 918
Subordinated liabilities	Note 35	395 230	—	——
Current income tax liabilities		82 858	—	13 638
Other liabilities	Note 36	810 620	686 717	681 800
Total liabilities		**46 380 296**	**48 028 555**	**52 220 628**
Equity				
Equity attributable to owners of BZ WBK S.A.		**6 623 056**	**5 928 132**	**4 972 569**
Share capital	Note 37	730 760	730 760	729 603
Other reserve funds	Note 38	4 344 640	3 566 999	2 716 687
Revaluation reserve	Note 39	433 134	422 005	335 507
Retained earnings		140 299	323 110	335 326
Profit of the current period		974 223	885 258	855 446
Non–controlling interests in equity		**150 519**	**108 338**	**239 872**
Total equity		**6 773 575**	**6 036 470**	**5 212 441**
Total equity and liabilities		**53 153 871**	**54 065 025**	**57 433 069**

Notes presented on pages 112–201 constitute an integral part of these Financial Statements.

In thousands of PLN

Movements on Consolidated Equity

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non–controlling interests in equity	Total
Opening balance as at 31.12.2009	**730 760**	**3 566 999**	**422 005**	**1 208 368**	**108 338**	6 036 470
Total comprehensive income	—	—	11 129	974 223	67 181	1 052 533
Transfer to other capital	—	775 765	—	(775 765)	—	—
Dividend relating to 2009	—	—	—	(292 304)	(25 000)	(317 304)
Other	—	1 876	—	—	—	1 876
As at 31.12.2010	**730 760**	**4 344 640**	**433 134**	**1 114 522**	**150 519**	**6 773 575**

As at the end of the period revaluation reserve in the amount of PLN 433 134 k comprises of debt securities and equity shares classified as available for sale of PLN 19 839 k and PLN 411 280 k respectively and additionally cash flow hedge activities of PLN 2 015 k. The revaluation reserve relates to the securities designated as available–for–sale.

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non–controlling interests in equity	Total
Opening balance as at 31.12.2008	729 603	2 716 687	335 507	1 190 772	239 872	**5 212 441**
Adjustment due to changes in accounting policies	—	—	—	(18 149)	—	(18 149)
Adjusted balance as at 01.01.2009	**729 603**	**2 716 687**	**335 507**	**1 172 623**	**239 872**	**5 194 292**
Total comprehensive income	—	—	86 498	885 258	55 737	1 027 493
Share issue related to vesting the share incentive scheme	1 157	—	—	—	—	1 157
Share scheme charge	—	1 547	—	—	—	1 547
Dividend relating to 2008	—	—	—	—	(187 271)	(187 271)
Transfer to other capital	—	848 765	—	(848 765)	—	—
Other	—	—	—	(748)	—	(748)
As at 31.12.2009	**730 760**	**3 566 999**	**422 005**	**1 208 368**	**108 338**	**6 036 470**

As at the end of the period revaluation reserve in the amount of PLN 422 005 k comprises of debt securities and equity shares classified as available for sale of PLN 4 962 k and PLN 415 125 k respectively and additionally cash flow hedge activities of PLN 1 918 k. The revaluation reserve relates to the securities designated as available–for–sale.

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non–controlling interests in equity	Total
Opening balance as at 31.12.2007	**729 603**	**2 061 578**	**362 963**	**1 206 622**	**235 174**	**4 595 940**
Total comprehensive income	—	—	(27 456)	856 456	95 300	924 300
Share scheme charge	—	1 734	—	—	—	1 734
Dividend relating to 2007	—	—	—	(218 881)	(90 155)	(309 036)
Transfer to other capital	—	653 816	—	(653 816)	—	—
Other	—	(441)	—	391	(447)	(497)
As at 31.12.2008	**729 603**	**2 716 687**	**335 507**	**1 190 772**	**239 872**	**5 212 441**

As at the end of the period revaluation reserve in the amount of PLN 335 507 k comprises of debt securities and equity shares classified as available for sale of PLN (49 638) k and PLN 409 818 k respectively and additionally cash flow hedge activities of PLN (24 673) k. The revaluation reserve relates to the securities designated as available–for–sale.

Notes presented on pages 112–201 constitute an integral part of these Financial Statements.

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Consolidated Statement of Cash Flows

for reporting period:	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit before tax	**1 357 181**	**1 161 836**	**1 210 580**
Total adjustments:	**4 209**	**(951 053)**	**1 647 976**
Share in net profits (losses) of entities accounted for by the equity method	(4 452)	334	777
Depreciation/amortisation	128 767	123 473	107 331
Impairment losses	(186)	(233)	3 465
Gains (losses) on exchange differences	(99 467)	(6 339)	60 420
Interests and similar charges	(5 739)	74 090	23 338
Dividend received	(54 514)	(96 592)	(70 306)
(Profit) loss from investing activities	(11 691)	4 147	(60 229)
Change in provisions	43 834	24 078	(66 804)
Change in trading portfolio financial instruments	(217 087)	(284 798)	311 834
Change in loans and advances to banks	(1 058)	(553)	18 920
Change in loans and advances to customers	1 731 217	573 424	(11 300 361)
Change in deposits from banks	(1 676 441)	578 396	362 219
Change in deposits from customers	367 259	(1 792 608)	13 094 802
Change in liabilities arising from debt securities in issue	—	(3 736)	(99 510)
Change in other assets and liabilities	28 310	236 162	(405 323)
Paid income tax	(224 849)	(381 098)	(333 749)
Other adjustments	306	800	1 152
Net cash flow from operating activities	**1 361 390**	**210 783**	**2 858 556**
Inflows	**1 768 129**	**4 674 429**	**2 441 177**
Sale of shares or interests in subsidiaries, associates and joint ventures	—	—	3 021
Sale/maturity of investment securities	1 711 548	4 575 394	2 350 787
Sale of intangible assets and property, plant and equipment	2 057	2 433	17 053
Dividend received	54 514	96 592	70 306
Proceeds from other investments	10	10	10
Outflows	**(3 575 518)**	**(3 825 266)**	**(5 040 584)**
Purchase of subsidiaries, associates and joint ventures	(41)	(10 000)	(38 131)
Purchase of investment securities	(3 504 194)	(3 722 853)	(4 745 050)
Purchase of intangible assets and property, plant and equipment	(69 535)	(90 849)	(255 758)
Other investments	(1 748)	(1 564)	(1 645)
Net cash flow from investing activities	**(1 807 389)**	**849 163**	**(2 599 407)**
Inflows	**806 230**	**442 447**	**974 792**
Drawing of long–term loans	414 160	441 290	974 792
Proceeds from issuing bonds / shares	—	1 157	—
Increase of subordinated liabilities	392 070	—	—
Outflows	**(1 551 696)**	**(1 263 052)**	**(933 619)**
Repayment of long–term loans	(1 163 213)	(821 359)	(384 445)
Debt securities buy out	—	(150 182)	(99 533)
Dividends and other payments to shareholders	(317 304)	(187 271)	(309 036)
Other financing outflows	(71 179)	(104 240)	(140 605)
Net cash flow from financing activities	**(745 466)**	**(820 605)**	**41 173**
Total net cash flow	**(1 191 465)**	**239 341**	**300 322**
Cash at the beginning of the accounting period	**5 558 274**	**5 318 933**	**5 018 611**
Cash at the end of the accounting period*	**4 366 809**	**5 558 274**	**5 318 933**

* Cash components are presented in Note 46.

Notes presented on pages 112–201 constitute an integral part of these Financial Statements.

In thousands of PLN

Additional Notes to Consolidated Financial Statements

1. General information about issuer

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

The consolidated financial statements of Bank Zachodni WBK S.A. include the bank's stand alone financial statements as well as financial statements of its subsidiaries, share of net assets of associated entities and joint ventures (all entities together called Group).

The direct parent of Bank Zachodni WBK S.A. is AIB European Investments Ltd. from Dublin (a subsidiary of Allied Irish Banks plc). The bank's ultimate parent company is Allied Irish Banks plc.

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

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

Bank Zachodni WBK Group consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2010	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100	100	—
2.	BZ WBK Faktor Sp. z o.o.	Warsaw	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o	100
3.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100	100
4.	Dom Maklerski BZ WBK S.A.	Poznań	99.99	99.99	99.99
5.	BZ WBK Finanse & Leasing S.A.	Poznań	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99
6.	BZ WBK Leasing S.A.	Poznań	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99
7.	BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99	99.99
8.	BZ WBK AIB Asset Management S.A.*	Poznań	50	50	50
9.	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.

* In case of BZ WBK AIB Asset Management S.A., the Bank is a co–owner of the company together with AIB Capital Markets plc. Both owners of BZ WBK AIB Asset Management S.A. are members of Allied Irish Banks Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., because through its agency the ultimate parent (Allied Irish Banks) pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

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Associates:

	Associates	Registered office	% of votes on AGM 31.12.2010	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	POLFUND – Fundusz Poręczeń Kredytowych S.A.	Szczecin	50	50	50
2.	Metrohouse & Partnerzy S.A.*	Warsaw	21.23	35.38	35.38
3.	Krynicki Recykling S.A.*	Warsaw	24.65	30.37	—

* Metrohouse & Partnerzy S.A. and Krynicki Recycling S.A are the associates of BZ WBK Inwestycje Sp. z o.o – bank's subsidiary. They are accounted for using the equity method. Purchase of shares was a part of building a portfolio of pre–IPO type own investment.

Joint ventures:

	Joint ventures	Registered office	% of votes on AGM 31.12.2010	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1.	BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	50	50	50
2.	BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	50	50	50

2. Basis of preparation of the financial statements

Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2010 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the BZ WBK Group.

Changes in accounting policies

Adjustment of prior periods

As at 30 June 2010 Group conducted analysis of an insurance premium recognition policy for income gained together with joint ventures entities. As a result of this analysis, the Group assured consistency of recognition of the income across the Group. Aiming accurate presentation of the insurance product proceeds disclosed in the prior years, the Group adjusted previously reported financial data in line with requirements of IAS 8. The potential adjustment was deemed to have an immaterial impact on the previous reporting periods. The table below presents reconciliation of adjustments applied to the consolidated statement of comprehensive income and consolidated statement of financial position:

		Fee and commission income	Profit before tax	Corporate income tax	Profit after tax	Deferred tax asset	Other liabilities	Equity
01.01.2009 – 31.12.2009	prior adjustment	1 535 565	1 162 988	(222 832)	940 156	—	—	—
	adjustment	(1 152)	(1 152)	218	(934)	—	—	—
	after adjustment	1 534 413	1 161 836	(222 614)	939 222	—	—	—
31.12.2009	prior adjustment	—	—	—	—	273 751	663 158	5 947 215
	adjustment	—	—	—	—	4 476	23 559	(19 083)
	after adjustment	—	—	—	—	278 227	686 717	5 928 132

of Bank Zachodni WBK Group for 2010 In thousands of PLN

Comparability with results of previous periods

To ensure comparability, the following substantial changes were made to the presentation of financial data:

(a) in consolidated statement of financial position:
As a result of changes in the Group's policy concerning presentation of derivative instruments, as at 31.12.2009 the items 'Financial assets held for trading' and 'Financial liabilities held for trading' have been increased by the amount of PLN 2 189 k.

(b) in segmental reporting, consolidated income statement – comparative information:
In the profit and loss account for 2009 and for 2008, recovery of provisions for centrally written down loans was shown in the central segment, with appropriate adjustments made to the net balance of provisions (net impairment charges for loans) in the Retail Banking and Business Banking segments. Changes were made in accordance with the Bank's segment reporting policy.

Changes in judgments and estimates

In 2010, Bank Zachodni WBK S.A. revised the spreads adopted for mark–to–market valuation of CIRS with a view to making fair value of these derivatives more accurate. The total fair value adjustment to these derivatives was PLN (14 469) k at the end of the reporting period. These instruments are a source of funding net FX assets and it is the Bank's intention to hold them until maturity. Their mark–to–market valuation will revert to zero on a case by case basis over their remaining life. Other significant judgment and key sources of estimation uncertainty have not been changed.

New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZWBK Group and are not yet effective or have not been implemented earlier

IFRS	Description of changes	Effective from	Impact on the Group
IFRS 9 Financial Instruments	Changes in classification and measurement - the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value.	1 January 2013	The Group has not completed its analysis of changes
IAS 32 Financial Instruments: Presentation	The amendment pertains to the classification of rights issue.	1 January 2011	Amendments will not have material impact over financial statement
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with IAS 39.41. The above described equity instruments shall be measured at the fair value and the difference between the carrying amount of the financial liability extinguished and the initial measurement of the equity instruments issued should be recognized in profit or loss.	1 January 2011	Amendments will not have material impact over financial statement
IAS 24 Related Party Disclosures	Change relating to simplified definition of a related party and removal of certain internal inconsistencies.	1 January 2011	Amendments will not have material impact over financial statement
IFRS 7 Financial instruments: disclosures	The change requires disclosure of information so that the readers of the financial statements may: understand the relation between the transferred financial asset which has not been fully excluded from the financial statements and the underlying financial obligations; assess the nature of the asset, associated risks and exposure towards the excluded asset. The change includes definition of "continous engagement" to ensure compliance with disclosure requirements.	1 July 2011	Amendments will not have material impact over financial statement

In thousands of PLN Annual Report 2010 115

IFRS 7 Financial instruments: disclosures "Changes to International Financial Reporting Standards 2010"	Amended requirements of quantitative credit risk disclosures.	1 January 2011	Amendments will not have material impact over financial statement
IAS1 Presentation of financial reporting "Changes to International Financial Reporting Standards 2010"	Amended method of presenting components of movements in equity.	1 January 2011	Amendments will not have material impact over financial statement
IAS 34 Interim financial statements "Changes to International Financial Reporting Standards 2010"	Guidelines to disclosing the following information: –circumstances that may affect fair value of financial instruments and their classification, –transfer of financial instruments in fair value hierarchy, –changes in asset and financial liabilities classification.	1 January 2011	Amendments will not have material impact over financial statement
IFRIC 13 "Changes to International Financial Reporting Standards 2010"	Fair value of loyalty points.	1 January 2011	Amendments will not have material impact over financial statement

Basis of preparation

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

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

The accounting policies have been applied consistently by the Group entities.

Accounting principles

Use of judgements and estimates

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

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

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

Main estimates and judgments made by the Group

Loan impairment
The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZ WBK Group is exposed and other external factors such as legal and regulatory requirements. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision made in BZ WBK Group's consolidated financial statements is intended to cover the difference between the assets'

carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in BZ WBK Group; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability. IBNR (Incurred But Not Reported) provisions are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio.

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

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

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

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

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

Asset held for sale are recorded at the lower of its carrying amount and estimated fair value less estimated costs to sell.

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

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

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

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

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises which are controlled by BZ WBK S.A.. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is presumed to exist when the bank, directly or indirectly through subsidiaries, has more than half of the voting power of an entity.

Control also exists when the parent owns half or less of the voting power of an entity when there is:
(a) power over more than half of the voting rights by virtue of an agreement with other investors;
(b) power to govern the financial and operating policies of the entity under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Purchase method of accounting

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. However, during the reporting period there was no such acquisition as mentioned above.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.
The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

Associates

Associates are those entities in which the Group has significant influence, but are not subsidiaries, neither joint ventures.

They are accounted for in accordance with the equity method in consolidated financial statements.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.
When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statements.

Foreign currency

Foreign currency transactions

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

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories:
- financial assets or financial liabilities at fair value through profit or loss;
- held–to–maturity investments;
- loans and receivables;
- available–for–sale financial assets;
- other financial liabilities.

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

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

Held–to–maturity investments

These are non–derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the intention and ability to hold to maturity. If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be tainted and reclassified as available for sale and for a two year period the Group would not utilise the held to maturity classification.

Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity upon initial recognition designates as available for sale; or
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables comprise loans and advances to banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market and receivables due to reverse repo transactions. Loans and receivables also include finance lease receivables of Leasing Companies and factoring receivables of Faktor Companies.

Available–for–sale financial assets

Available–for–sale financial assets are those non–derivative financial assets that are designated as available for sale or are not classified as:
(a) loans and receivables,
(b) held–to–maturity investments or
(c) financial assets at fair value through profit or loss.

Other financial liabilities

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

Recognition

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

Lease receivables of leasing companies are accounted for as of the date from which the lessee is entitled to exercise its rights to use the leased asset. Other agreements where the leased assets have not yet been made available to the lessee are recognised as contingent liabilities.

A regular way purchase or sale of a financial asset is recognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.
Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off–balance sheet commitments.

Derecognition

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

A regular way purchase or sale of a financial asset is derecognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.

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

Measurement

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

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:
(a) loans and receivables which shall be measured at amortised cost using the effective interest method;
(b) held–to–maturity investments, which are measured at amortised cost using the effective interest rate;
(c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The fair values of quoted financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the Group establishes fair value by using valuation techniques which include recent arms length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.
Where a fair value cannot be reliably estimated, unquoted instruments that do not have a quoted market price in an active market are measured at cost and periodically reviewed for impairment.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for:
(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value,
(b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

Lease payment receivables of Leasing Companies are accounted for the statement of financial position at an amount equal to the net investment in the lease. Receivables are measured at amortised cost using the effective interest rate.

A calculation based on the effective interest rate is made monthly on the basis of inflows and expenses arising from the lease agreement.

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

Reclassification

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

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

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows:
- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available–for–sale financial asset, except for impairment losses, is recognised directly in other comprehensive income, until the financial asset is derecognised, at which time the comprehensive income previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available–for–sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

Offsetting financial instruments

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

Repurchase transactions

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

Securities sold subject to repurchase agreements ("repo transaction") are not derecognised at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements ("reverse repo transaction") are not recognised at the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal.
The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the profit and loss account.

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

Hedge accounting

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

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

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

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

Fair value hedge

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

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

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:
(a) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and
(b) could affect profit or loss.

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

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

Impairment of financial assets

Assets carried at amortised cost – loans and receivables

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

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

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

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

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

The analysis of impairment is carried out:

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

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

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

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

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.
The amount of the reversal is recognised in profit or loss.
When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non–recoverable is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of costs associated with provisions for loan impairment.

Impairment calculation methods are standardised across the Group.

Available–for–sale financial assets

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

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

Held–to–maturity investments

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

Contingent liabilities

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

Property, plant and equipment

Owned assets

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

Leased assets

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

Subsequent expenditure

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

Depreciation

Depreciation is charged to the income statement on a straight–line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- buldings 40 years
- strutures 22 years
- plant and equipment 3–14 years
- vehicles 4 years

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

Fixed assets held for sale

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

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

Intangible assets

Computer software

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

Amortisation is charged to the income statement on a straight–line basis over the estimated useful lives of particular intangible assets. The estimated useful lives are from 3 to 5 years.

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

Other items of the statement of financial position

Other trade and other receivables

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

Other liabilities

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

Equity

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

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

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

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

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

The revaluation reserve is comprised of adjustments relating to the valuation of available–for–sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax.
Revaluation reserve is not distributable. Non–controlling interests are also recognised in Group capital.

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

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

Dividends

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

Employee benefits

Short–term service benefits

The Group's short–term employment benefits which include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

Long–term service benefits

The Group's net obligation in respect of long–term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods The accrual for disability pension bonus is estimated using actuarial valuation method. The valuation of those accruals is updated at least once a year.

Profit Sharing Scheme

BZWBK Group has recognized in the consolidated statement of financial position a liability resulting from a profit sharing scheme granted to employees of selected subsidiaries in accordance with other long term employee benefits as described in IAS 19. The scheme, formally based on issue of shares that are purchased by entitled employees of subsidiaries, has characteristics of a long term profit sharing scheme (not share based payments), as all shares issued under the scheme are subjected to conditional obligation to dispose shares at a price different from the fair value of shares. Resulting from the classification of the scheme BZWBK Group recognized a liability in its statement of financial position in an amount of estimated present value of expected future pay–outs considering a relevant service period corresponding with employee related expenses.

Share based payments

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

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

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

Provisions

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

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

Net interest income

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net value of the financial asset or financial liability.

When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses.

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

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

Net commission income

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

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

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

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

Net trading income and revaluation

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

Dividend income

Dividends are taken to the profit and loss account at the moment of acquiring rights to them.

Profit on disposal of subsidiaries, associates and joint ventures

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

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity of the Group. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

Operating lease payments are recognised as an expense in the income statement on a straight–line basis over the lease term.

Finance lease payments

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

Corporate income tax

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

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

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

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

3. Segmental reporting

Operational activity of the BZ WBK S.A. Group has been divided into five segments: Retail Banking, Business Banking, Investment Banking, Treasury and Centre. They were identified based on customers and product types.

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

Settlements among business segments apply to payments for delivered services and include:
- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are regulated by segments on a mutual basis, according to single rates for specific services or agreements concerning the breakdown of total income and/or cost.

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

The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes are consistent with the accounting policy applied in Bank Zachodni WBK Group. Thereby there are no discrepancies between the valuation of segments' profit or loss, assets or liabilities, presented to the Management Board and the valuation of these components for the Group, included in the consolidated financial statement.

Retail Banking

Retail Banking segment includes products and services targeted at individual customers as well as small and micro companies. In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top–ups, foreign payments and Western Union and private–banking services. For small and micro companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees.

In thousands of PLN

Business Banking

Business Banking segment covers products and activities targeted at business entities, local governments and the public sector. In addition to banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees.

Investment Banking

Investment Banking segment includes such activities as underwriting financing via issue of securities, financial advisory services, brokerage services provided by Brokerage House and asset management services within investment funds and private portfolios.

Treasury

Treasury is responsible for the management of the bank's liquidity, interest rate risk and foreign exchange rate risks. It also provides interest rate and fx risk management products to the bank's customer base. Through its presence in the wholesale markets, it also generates revenues from interest rate and fx risk positioning activity.

Centre

The segment covers central operations, financing of other Groups' segments activity as well as other income and/or costs that cannot be reasonably assigned to one of the defined segments.

Consolidated income statement (by business segment)

31.12.2010	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest income	**1 203 493**	**638 803**	**24 459**	**(93 806)**	**49 226**	**1 822 175**
incl. internal transactions	—	(65 900)	46 228	—	19 672	—
Other income	**849 737**	**95 385**	**343 796**	**326 300**	**47 921**	**1 663 139**
incl. internal transactions	120 625	41 087	(86 609)	(85 699)	10 596	—
Dividend income	**—**	**—**	**54 514**	**—**	**—**	**54 514**
Operating costs	**(1 192 024)**	**(198 411)**	**(151 948)**	**(40 830)**	**(54 365)**	**(1 637 578)**
incl. internal transactions	5 123	(42 626)	(5 563)	22 939	20 127	—
Depreciation/amortisation	**(102 489)**	**(12 564)**	**(9 275)**	**(3 161)**	**(1 278)**	**(128 767)**
Impairment losses on loans and advances	**(373 583)**	**(67 181)**	**—**	**—**	**20 010**	**(420 754)**
Share in net profits (loss) of entities accounted for by the equity method	**2 555**	**—**	**1 897**	**—**	**—**	**4 452**
Profit before tax	**387 689**	**456 032**	**263 443**	**188 503**	**61 514**	**1 357 181**
Corporate income tax						(316 612)
Non—controlling interests						(66 346)
Profit for the period						**974 223**

In thousands of PLN

Consolidated statement of financial position (by business segment)

31.12.2010	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	15 868 881	16 888 035	61 182	—	20 198	32 838 296
Investments in associates and joint ventures	32 496	—	54 864	—	—	87 360
Other assets	7 116 426	4 430 708	1 160 592	6 348 032	1 172 457	20 228 215
Total assets	**23 017 803**	**21 318 743**	**1 276 638**	**6 348 032**	**1 192 655**	**53 153 871**
Deposits from customers	32 532 318	8 624 360	781 201	32 575	—	41 970 454
Other liabilities and equity	2 312 899	4 640 248	333 969	2 557 595	1 338 706	11 183 417
Total equity and liabilities	**34 845 217**	**13 264 608**	**1 115 170**	**2 590 170**	**1 338 706**	**53 153 871**

* includes individual customers and small & micro companies

Consolidated income statement (by business segment)

Data converted as described note 2 'Comparability with results of previous periods'

31.12.2009	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest income	**1 037 130**	**521 536**	**26 444**	**(63 028)**	**41 109**	**1 563 191**
incl. internal transactions	—	(49 121)	48 521	—	600	—
Other income	**831 070**	**86 309**	**302 374**	**344 016**	**64 416**	**1 628 185**
incl. internal transactions	103 714	33 442	(65 764)	(74 350)	2 958	—
Dividend income	**—**	**—**	**96 592**	**—**	**—**	**96 592**
Operating costs	**(1 121 479)**	**(185 678)**	**(141 331)**	**(39 056)**	**(33 747)**	**(1 521 291)**
incl. internal transactions	7 161	(46 148)	(5 254)	23 262	29 979	—
Depreciation/amortisation	**(98 837)**	**(11 612)**	**(9 001)**	**(2 933)**	**(1 090)**	**(123 473)**
Impairment losses on loans and advances	**(338 811)**	**(162 012)**	**2 331**	**—**	**17 458**	**(481 034)**
Share in net profits (loss) of entities accounted for by the equity method	**(837)**	**—**	**503**	**—**	**—**	**(334)**
Profit before tax	**308 236**	**248 543**	**277 912**	**238 999**	**88 146**	**1 161 836**
Corporate income tax						(222 614)
Non–controlling interests						(53 964)
Profit for the period						**885 258**

* includes individual customers and small & micro companies

Consolidated statement of financial position (by business segment)

Data converted as described in note 2 'Comparability with results of previous periods'

31.12.2009	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	15 420 209	19 070 131	67 467	—	11 706	34 569 513
Investments in associates and joint ventures	31 277	—	50 610	—	—	81 887
Other assets	7 006 518	4 355 138	1 102 630	5 829 725	1 119 614	19 413 625
Total assets	**22 458 004**	**23 425 269**	**1 220 707**	**5 829 725**	**1 131 320**	**54 065 025**
Deposits from customers	31 919 150	8 514 438	765 983	23 300	—	41 222 871
Other liabilities and equity	1 967 091	5 301 295	335 914	4 688 601	549 253	12 842 154
Total equity and liabilities	**33 886 241**	**13 815 733**	**1 101 897**	**4 711 901**	**549 253**	**54 065 025**

*includes individual customers and small & micro companies

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Consolidated income statement (by business segments)

Data converted as described note 2 'Comparability with results of previous periods'

31.12.2008	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Net interest income	**1 019 453**	**468 912**	**26 237**	**70 742**	**49 761**	**1 635 105**
incl. internal transactions	—	(48 401)	74 632	—	(26 231)	—
Other income	**827 077**	**82 811**	**485 088**	**121 647**	**35 949**	**1 552 572**
incl. internal transactions	139 020	28 179	(96 280)	(73 298)	2 379	—
Dividend income	**—**	**—**	**70 306**	**—**	**—**	**70 306**
Operating costs	**(1 177 224)**	**(188 741)**	**(164 057)**	**(35 851)**	**(8 871)**	**(1 574 744)**
incl. internal transactions	13 742	(53 038)	(5 321)	21 766	22 851	—
Depreciation/amortisation	**(86 271)**	**(9 099)**	**(8 338)**	**(2 960)**	**(663)**	**(107 331)**
Impairment losses on loans and advances	**(147 761)**	**(227 011)**	**15**	**—**	**10 206**	**(364 551)**
Share in net profits (loss) of entities accounted for by the equity method	**(1 417)**	**—**	**640**	**—**	**—**	**(777)**
Profit before tax	**433 857**	**126 872**	**409 891**	**153 578**	**86 382**	**1 210 580**
Corporate income tax						(256 294)
Non–controlling interests						(98 840)
Profit for the period						**855 446**

Consolidated statement of financial position (by business segment)

Data converted as described note 2 'Comparability with results of previous periods'

31.12.2008	Retail Banking*	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	14 290 054	20 341 916	66 294	427 572	10 777	35 136 613
Investments in associates and joint ventures	32 114	—	40 107	—	—	72 221
Other assets	7 044 761	3 933 785	999 896	8 938 084	1 307 709	22 224 235
Total assets	21 366 929	24 275 701	1 106 297	9 365 656	1 318 486	57 433 069
Deposits from customers	32 349 169	9 921 340	505 609	34 609	—	42 810 727
Other liabilities and equity	1 851 389	5 318 425	282 319	5 967 034	1 203 175	14 622 342
Total equity and liabilities	34 200 558	15 239 765	787 928	6 001 643	1 203 175	57 433 069

*includes individual customers and small & micro companies

4. Risk management

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

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

Risk management in BZ WBK Group is governed by the "tone at the top" rule. This means that the Management Board and Supervisory Board set the business direction and actively support the risk management strategies. It is executed by the approval of the key risk management policies, risk committee membership of the Management Board Members, review and acceptance of the risks and reports on the risk level.

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

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

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

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

Risk Management Committee sets the direction of the risk management strategy in BZ WBK Group. The Risk Management Committee supervises the committees responsible for management of different risks. The Committee allows for integration of risks present in several areas, which supports a comprehensive and concise view of those risks and systematises the top management reporting on risk management across BZ WBK Group.

Credit Policy Forum undertakes key decisions on credit risk, approves credit policies, classification systems, credit risk limits and system of credit discretions.

Credit Risk Measurement Committee is responsible for direct oversight of the independent development and validation of credit risk models in BZ WBK Group.

Credit Committee approves credit transactions exceeding the credit discretions allocated in BZ WBK Group.

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

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

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

Equity Investment and Underwriting Committee accepts transactions on commercial equity investments and underwriting transaction and approves the policies on management and oversight of investment risk in BZ WBK Group.

Interbank Limits Committee formulates and recommends to the Management Board the policies on the credit risk arising from interbank activity. The Committee approves the maximum tenors and maximum exposure limits for the interbank market.

ALCO/ICAAP Forum supervises the policies on capital management and liquidity risk. The tasks related to capital strategy are executed by the ALCO sub–committee. When complemented with other representatives, the ALCO plays the role of ICAAP Forum. As ICAAP Forum the Committee is responsible for the internal capital adequacy assessment process (ICAAP) and supervision of the ICAAP process across BZ WBK Group. The below picture presents the corporate governance in relation to the risk management process.

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

In BZ WBK Group the level of acceptable risk has been defined in the form of quantitative limits constituting the "Risk Appetite Statement", approved by the Management Board and accepted by the Supervisory Board. Based on the global limits, adequate watch limits are defined as well as the risk management policies.

BZ WBK Group is exposed to a variety of risks impacting the strategic goals. The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the BZ WBK Group are the following:

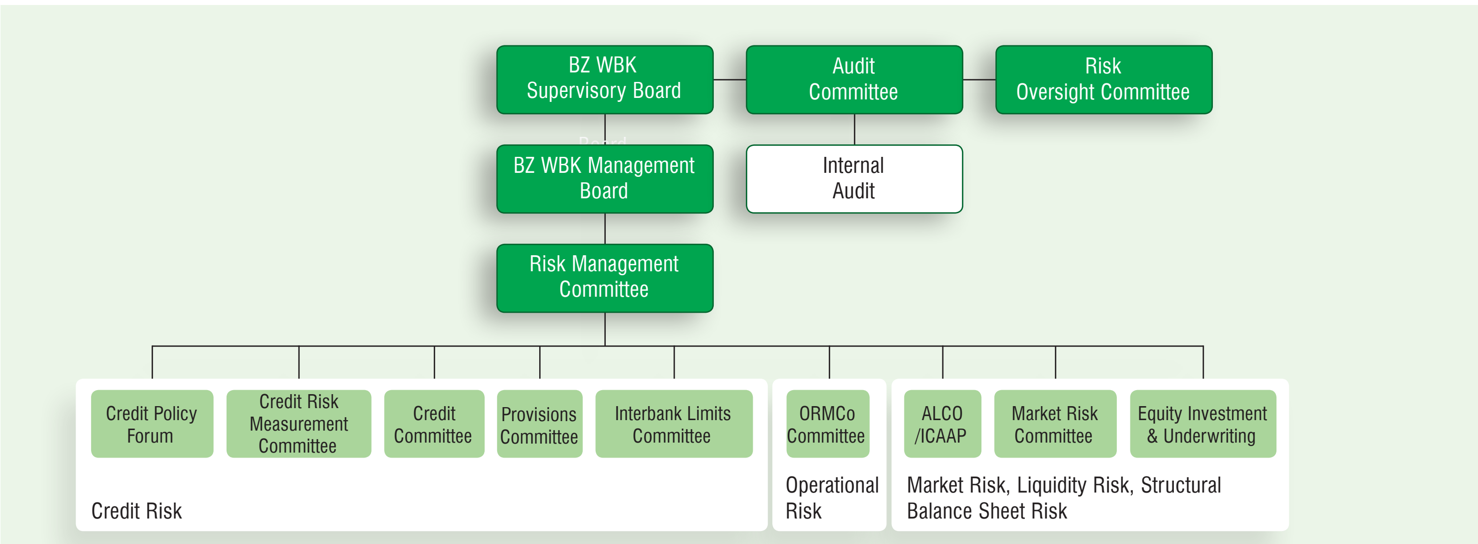
- credit risk,
- concentration risk,
- market risk,
- liquidity risk,
- operational risk,
- compliance risk.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

Credit risk

BZ WBK Group's credit activities focus on growing a high quality loan book with a good yield and customer satisfaction. Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.



Credit risk in BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non–financial) and specific credit provisions and clauses (covenants).

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

Continued pro–active credit risk management is recognised as key to the Group's performance in the volatile markets and deteriorating economic growth conditions. During 2010 the Group has taken the following actions:

- the credit risk management structure has been reviewed resulting in implementation of the relevant changes enhancing the process and providing the better effectiveness of the risk oversight. The outcome of the review is the document „Responsible Lending" – governing the rules of the credit process and credit risk management in BZ WBK Group,
- continuously verifying its approach to credit risk management by adopting methods of risk assessments to new parameters and adjusting existing credit policies,
- the Group implemented new and refitted application models for credit risk assessment and models supporting collection and monitoring processes for cash loans,
- the Group reviewed the requirements of the Recommendation T (issued by the Polish Financial Supervision Authority to improve the quality of retail credit risk management in Poland) and implemented necessary changes to the credit risk processes and credit risk assessment to provide solutions that optimally address the regulatory recommendations,
- the prudential management of the property loan portfolio has been continued, orientated at strict monitoring of credit risk limits and appropriate credit quality of the portfolio.

Credit Policy Forum

The credit risk oversight in BZ WBK Group is performed by Credit Policy Forum (CPF). Its key responsibilities comprise development and approval of the best sectoral practice, analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. Based on the current strategic goals of the Bank and the need to enhance the management processes, three sub–committees were established to be responsible for key customer segments: retail segment, Small–and Medium Entities segment and business and corporate segment.

Credit Risk Measurement Committee

The oversight of the credit risk models has been discharged to the newly created Credit Risk Measurement Committee. The Committee is responsible for the approval of the methodology of setting the credit risk limits, development of the rating systems, approval of the methodology and results of the credit risk stress tests and the approval of the EVA (Economic Value Added) methodology.

Credit Division

The main goal of the Credit Division is the effective management of the credit risk, aimed at providing robust and efficient credit process and the highest quality and growth of the loan portfolio. Within the Credit Division there are separate units responsible for creation and implementation of credit risk policies, ongoing monitoring and reporting of the loan portfolio quality, units responsible for credit grading and high–risk loans units.

Risk Management Division

Risk Management Division actively drives the Group's risk management strategy. The main goal of the Risk Management Division in relation to credit risk is to propose optimal solutions supporting realisation of the Group's goals through delivery of improved analyses, internal models and decision tools.

Credit Policies

Credit policies refer to particular business segments, loan portfolios, banking products and contain guidelines for the identification and assessment of areas where specific types of risks manifest themselves and also provide the methods of limiting those risks to the level acceptable to the Group (e.g. "Loan–to–Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates the credit policies on a regular basis, aiming to bring these guidelines up to date with the Group's strategy, current macroeconomic situation, changes in legal framework and regulatory requirements.

Credit Decision Making Process

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

Committee composed of senior management and top executives of Bank Zachodni WBK.

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

Credit Decision Making Process

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Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the Basel Committee requirements, International Accounting Standards/ International Financial Reporting Standards, and best market practices.

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, mortgage loans, property, cash loans, credit cards and retail overdrafts.

The Group runs a systematic verification of credit grading pursuant to the rules described in the Credit Manuals. Additionally, for selected models automated process of credit grade verification is carried out based on the number of overdue days or behavioural features analysis. Credit grade may also be verified at subsequent credit assessments.

Credit Reviews

The Group performs regular reviews to the quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and Quality Assurance Department, which are a function independent of risk–taking units.

Collateral

The BZ WBK Group is operating the collateral process that appoints the Securities Centre as the unit responsible for proper functioning of the collateral management processes.

The Securities Centre is responsible for providing and monitoring of the collateral that is accurate and compliant with the credit policy for each business segment, for assuring that BZ WBK Group has consistent internal procedures on collateral management and efficient processes on collateral providing, monitoring and release in BZ WBK Group.

Additionally, the Securities Centre supports the credit units – in terms of collateral management – in the credit decisioning process and creation of the credit policies. The Securities Centre collects data on collateral and provides the relevant management information.

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

Individual customers

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

Business customers

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

Collateral management process

Before credit decision is approved, the Securities Centre is responsible for assessment of the collateral quality:

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Securities Centre actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- registering and verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

In managing its receivables, BZ WBK Group carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle the Group aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Group's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on BZ WBK Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Calculation of Impairment

In Bank Zachodni WBK S.A. and its subsidiaries, charges updating impairment are recognised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The charges reflect credit impairment, which is recognised if the Bank presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39), which were described in the section on accounting policies concerning valuation of assets carried at amortised cost.

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

The Group systematically compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to Group's credit policies and recovery process. The process provides assurance that impairments are recognized correctly. The responsibility for adequate level of charges rests with the Provisions Committee.

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

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31.12.2010	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	740 716	—	—	—
	50% – 70%	122 328	—	—	—
	70% – 85%	67 486	—	—	—
	over 85%	70 445	—	—	—
Gross amount		**1 000 975**	**—**	**—**	**—**
Allowance for impairment		(352 554)	—	—	—
Net amount		**648 421**	**—**	**—**	**—**
Collectively impaired					
	up to 50%	566 455	—	—	—
	50% – 70%	243 799	—	—	—
	70% – 85%	413 125	—	—	—
	over 85%	108 458	—	—	—
Gross amount		**1 331 837**	**—**	**—**	**—**
Allowance for impairment		(676 262)	—	—	—
Net amount		**655 575**	**—**	**—**	**—**
IBNR portfolio					
	up to 0.10%	12 519 938	619 655	13 395 355	2 239 055
	0.10% – 0.30%	6 173 343	—	—	—
	0.30% – 0.65%	3 623 313	—	—	—
	over 0.65%	9 472 201	—	—	—
Gross amount		**31 788 795**	**619 655**	**13 395 355**	**2 239 055**
Allowance for impairment		(337 976)	—	—	—
Net amount		**31 450 819**	**619 655**	**13 395 355**	**2 239 055**
Other receivables		**83 481**	**—**	**—**	**—**
Off–balance sheet exposures					
Financing granted		5 639 854	—	—	—
Guarantees		1 186 607	—	—	—
Nominal value of derivatives – purchased		—	—	—	42 291 542
Allowance for impairment		(17 217)	—	—	—
Off–balance sheet exposures – total		**6 809 244**	**—**	**—**	**42 291 542**

* the value of financial assets held for trading includes adjustment of the fair value as described in Note 21

In thousands of PLN

31.12.2009	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	709 928	—	—	—
	50% – 70%	133 609	—	—	—
	70% – 85%	15 903	—	—	—
	over 85%	83 929	—	—	—
Gross amount		**943 369**	**—**	**—**	**—**
Charge due to impairment losses		(307 410)	—	—	—
Net amount		**635 959**	**—**	**—**	**—**
Collectively impaired					
	up to 50%	563 703	—	—	—
	50% – 70%	120 197	—	—	—
	70% – 85%	212 527	—	—	—
	over 85%	117 627	—	—	—
Gross amount		**1 014 054**	**—**	**—**	**—**
Charge due to impairment losses		(458 700)	—	—	—
Net amount		**555 354**	**—**	**—**	**—**
IBNR portfolio					
	up to 0.10%	8 379 136	664 211	13 292 572	1 344 809
	0.10% – 0.30%	8 365 331	—	—	—
	0.30% – 0.65%	5 163 227	—	—	—
	over 0.65%	11 763 337	—	—	—
Gross amount		**33 671 031**	**664 211**	**13 292 572**	**1 344 809**
Charge due to impairment losses		(373 566)	—	—	—
Net amount		**33 297 465**	**664 211**	**13 292 572**	**1 344 809**
Other receivables		**80 735**	**—**	**—**	**—**
Off–balance sheet exposures					
Financing granted		6 359 012	—	—	—
Guarantees		877 841	—	—	—
Nominal value of derivatives – purchased		—	—	—	36 882 698
Allowance for impairment		(15 553)	—	—	—
Off–balance sheet exposures – total		**7 221 300**	**—**	**—**	**36 882 698**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 21

In thousands of PLN

31.12.2008	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	305 165	—	—	—
	50% – 70%	96 352	—	—	—
	70% – 85%	26 284	—	—	—
	over 85%	170 799	5 969	—	—
Gross amount		**598 600**	**5 969**	**—**	**—**
Charge due to impairment losses		(299 339)	(5 969)	—	—
Net amount		**299 261**	**—**	**—**	**—**
Collectively impaired					
	up to 50%	147 395	—	—	—
	50% – 70%	73 444	—	—	—
	70% – 85%	109 216	—	—	—
	over 85%	108 522	—	—	—
Gross amount		**438 577**	**—**	**—**	**—**
Charge due to impairment losses		(271 774)	—	—	—
Net amount		**166 803**	**—**	**—**	**—**
IBNR portfolio					
	up to 0.10%	7 873 787	1 365 132	12 916 041	3 224 867
	0.10% – 0.30%	9 678 028	—	—	—
	0.30% – 0.65%	6 999 737	—	—	—
	over 0.65%	9 930 962	—	—	—
Gross amount		**34 482 514**	**1 365 132**	**12 916 041**	**3 224 867**
Charge due to impairment losses		(318 170)	—	—	—
Net amount		**34 164 344**	**1 365 132**	**12 916 041**	**3 224 867**
Other receivables		**506 205**	**—**	**—**	**—**
Off–balance sheet exposures					
Financing granted		9 538 323	—	—	—
Guarantees		904 124	—	—	—
Nominal value of derivatives – purchased		—	—	—	115 462 834
Allowance for impairment		(11 976)	—	—	—
Off–balance sheet exposures – total		**10 430 471**	**—**	**—**	**115 462 834**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 21

of Bank Zachodni WBK Group for 2010 In thousands of PLN

IBNR portfolio

	Loans and advances to customers		
	31.12.2010	31.12.2009	31.12.2008
Non–past due	30 590 223	32 294 289	33 175 381
Past–due	1 198 572	1 376 742	1 307 133
1–30 days	875 444	1 048 180	1 068 200
31–60 days	252 541	243 283	180 260
61–90 days	65 678	81 813	55 101
> 90 days	4 908	3 466	3 572
Gross amount	31 788 795	33 671 031	34 482 514

Portfolio of loans with incurred but not reported losses (IBNR) included loans that in the past had renegotiated terms of agreements. For the current reporting period it was PLN 2 079 271 k , as at 31.12.2009 it was PLN 568 055 k and PLN 104 019 k as at 31.12.2008.

Allowances for impairment by classes

Provision cover		Loans and advances to customers			Loans and advances to banks		
		31.12.2010	31.12.2009	31.12.2008	31.12.2010	31.12.2009	31.12.2008
Individual allowance for impairment							
	up to 50%	(160 538)	(132 917)	(51 924)	—	—	—
	50% – 70%	(69 707)	(79 295)	(56 840)	—	—	—
	70% – 85%	(52 562)	(12 692)	(20 942)	—	—	—
	over 85%	(69 747)	(82 506)	(169 633)	—	—	(5 969)
Total individual allowance for impairment		**(352 554)**	**(307 410)**	**(299 339)**	**—**	**—**	**(5 969)**
Collective allowance for impairment							
	up to 50%	(102 986)	(112 501)	(33 345)	—	—	—
	50% – 70%	(147 244)	(70 547)	(44 336)	—	—	—
	70% – 85%	(318 422)	(163 156)	(87 211)	—	—	—
	over 85%	(107 610)	(112 496)	(106 882)	—	—	—
Total collective allowances for impairment		**(676 262)**	**(458 700)**	**(271 774)**	**—**	**—**	**—**
IBNR							
	up to 0.10%	(5 959)	(5 643)	(4 346)	—	—	—
	0.10% – 0.30%	(12 084)	(14 177)	(19 795)	—	—	—
	0.30% – 0.65%	(16 035)	(22 274)	(32 718)	—	—	—
	over 0.65%	(303 898)	(331 472)	(261 311)	—	—	—
Total IBNR		**(337 976)**	**(373 566)**	**(318 170)**	**—**	**—**	**—**
Total allowance for impairment		**(1 366 792)**	**(1 139 676)**	**(889 283)**	**—**	**—**	**(5 969)**

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Credit risk concentration

Bank Zachodni WBK Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2010, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 1 249 617 k (20% of Group's own funds) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 1 562 021 k (25% of Group's own funds) in other cases.

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

The analysis of the Group's exposures in terms of sector concentrations, carried out at the end of December 2010, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

As at 31 December 2010, the Group had credit exposures (balance sheet and off–balance sheet) exceeding 10% of its own funds attributable to 2 entities which accounted for 23.7% of own funds (against the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2010 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
68	REAL ESTATE SERVICES	822 567	806 239	16 328
68	REAL ESTATE SERVICES	658 703	592 676	66 027
64	FINANCIAL SERVICES	377 810	316 646	61 164
41	CONSTRUCTION	344 273	300 480	43 793
68	REAL ESTATE SERVICES	297 815	297 815	—
68	REAL ESTATE SERVICES	278 828	228 903	49 925
41	CONSTRUCTION	262 800	250 800	12 000
68	REAL ESTATE SERVICES	248 380	232 880	15 500
41	CONSTRUCTION	241 578	241 578	—
68	REAL ESTATE SERVICES	238 363	238 363	—
68	REAL ESTATE SERVICES	225 097	225 097	—
71	INDUSTRIAL CONSTRUCTION	223 917	47 515	176 402
68	REAL ESTATE SERVICES	222 554	211 445	11 109
68	REAL ESTATE SERVICES	218 393	105 770	112 623
41	CONSTRUCTION	207 487	200 479	7 008
68	REAL ESTATE SERVICES	204 571	204 571	—
68	REAL ESTATE SERVICES	183 197	166 768	16 429
41	CONSTRUCTION	176 885	133 338	43 547
16	MANUFACTURING	174 096	162 215	11 881
68	REAL ESTATE SERVICES	173 462	88 830	84 632
Total gross exposure		**5 780 776**	**5 052 408**	**728 368**

of Bank Zachodni WBK Group for 2010 In thousands of PLN

A list of the 20 largest borrowers of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2009 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
68	REAL ESTATE SERVICES	861 629	840 677	20 952
68	REAL ESTATE SERVICES	708 252	639 764	68 488
41	CONSTRUCTION	421 171	238 261	182 910
68	REAL ESTATE SERVICES	360 892	315 464	45 428
68	REAL ESTATE SERVICES	358 652	279 780	78 872
41	CONSTRUCTION	357 888	301 617	56 271
68	REAL ESTATE SERVICES	335 301	307 938	27 363
41	CONSTRUCTION	313 954	311 915	2 039
68	REAL ESTATE SERVICES	309 509	231 893	77 616
68	REAL ESTATE SERVICES	303 746	229 323	74 423
68	REAL ESTATE SERVICES	276 241	260 741	15 500
68	REAL ESTATE SERVICES	275 335	241 254	34 081
41	CONSTRUCTION	264 952	230 384	34 568
68	REAL ESTATE SERVICES	255 881	225 842	30 039
41	CONSTRUCTION	233 742	233 742	–
16	PRODUCTION	210 108	112 755	97 353
43	SPECIALISED CONSTRUCTION	207 160	67 433	139 727
41	CONSTRUCTION	203 038	202 781	257
63	INFORMATION	201 129	174 026	27 103
84	ADMINISTRATION	200 000	–	200 000
Total gross exposure		**6 658 580**	**5 445 590**	**1 212 990**

A list of the 20 largest borrowers of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2008 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
68	REAL ESTATE SERVICES	778 558	730 891	47 667
68	REAL ESTATE SERVICES	739 376	664 461	74 915
68	REAL ESTATE SERVICES	704 508	293 348	411 160
68	REAL ESTATE SERVICES	485 726	266 084	219 642
41	CONSTRUCTION	367 666	181 266	186 400
41	CONSTRUCTION	363 697	286 947	76 750
68	REAL ESTATE SERVICES	325 527	212 679	112 848
68	REAL ESTATE SERVICES	313 764	169 548	144 216
11	BEVERAGE PRODUCTION	310 000	213 586	96 414
68	REAL ESTATE SERVICES	305 127	289 627	15 500
68	REAL ESTATE SERVICES	301 923	—	301 923
16	PRODUCTION	281 050	121 837	159 213
41	CONSTRUCTION	271 206	158 247	112 959
68	REAL ESTATE SERVICES	270 792	194 217	76 575
68	REAL ESTATE SERVICES	262 785	166 189	96 596
41	CONSTRUCTION	237 153	237 153	—
43	SPECIALISED CONSTRUCTION	220 944	166 085	54 859
41	CONSTRUCTION	211 950	189 467	22 483
68	REAL ESTATE SERVICES	209 049	147 268	61 781
70	MANAGEMENT SERVICES	197 517	174 214	23 303
Total gross exposure		**7 158 318**	**4 863 114**	**2 295 204**

In thousands of PLN

Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2010, the highest concentration level was recorded in the "property" sector (21% of the BZ WBK Group exposure), "manufacturing" (12%) and "distribution" (11%).

Market risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).
BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally the Group undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).
The activity and strategies on market risk management are supervised by Market Risk Committee except for structured risk positions managed by ALCO.

General principles of market risk management

The key objective of the market risk policy pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group.

Interest rate and FX risks incurred in other Divisions of the Bank are transferred on to Treasury Division and managed centrally. Open positions exposed to interest rate risk and foreign exchange risk of BZ WBK Group subsidiaries are closed with the Bank, with the exception of the BZ WBK Brokerage House, which has been granted risk limits due to the scale and character of its activity. In order to reduce the structural balance sheet risk and ensure a stable income stream for the BZ WBK Group, a special debt securities portfolio was established funded by a pool of net interest rate insensitive liabilities. Any decisions relating to the value or structure of this portfolio are taken by ALCO. Treasury Division as a unit managing Bank's centralized market risk exposure has the responsibility for the funding and liquidity management as well as executing deals on behalf of ALCO. For the above reason the market risk policies delegate market risk limits to the bank director in charge of Treasury Division. This limit is established in accordance with Treasury business strategy and approved at Market Risk Committee.
Additionally, in order to curtail losses on the trading portfolio, a stop–loss limit is in place, which allows trading positions to be closed in the event of losses exceeding the stated limit.

Within the Treasury Division, there is a dedicated market risk control unit responsible to ensure that the risk measurement

Groups of PKD by industries:

	Industry	Exposure		
		31.12.2010	31.12.2009	31.12.2008
	Property	7 165 978	7 235 227	6 912 714
	Manufacturing	4 270 302	4 689 363	5 366 549
	Distribution	3 904 839	4 811 392	4 937 385
	Construction	3 278 765	3 833 393	4 122 842
	Agriculture	880 718	777 504	1 084 463
	Transportation	659 358	811 084	933 419
	Financial sector	530 198	649 046	877 210
	Energy	304 168	382 949	358 023
	Other industries	1 678 263	1 760 346	1 612 444
A	**Total Business Loans**	**22 672 589**	**24 950 304**	**26 205 049**
B	**Retail (including mortgage loans)**	**11 449 018**	**10 678 150**	**9 314 642**
A+B	**BZ WBK GROUP PORTFOLIO**	**34 121 607**	**35 628 454**	**35 519 691**
C	**Other receivables (commercial bonds, reverse repo)**	**83 481**	**80 735**	**506 205**
A+B+C	**TOTAL BZ WBK GROUP**	**34 205 088**	**35 709 189**	**36 025 896**

methodologies used are appropriate for the risk being taken and that risk monitoring and control procedures are in place. The structure of oversight of the market risk management in BZ WBK Group is supplemented by the independent monitoring performed by the Market Risk Monitoring Team in Risk Management Division. The Team is responsible for setting the market risk policy, proposing the methodology for risk measurement and stress testing, validation of market risk models and consistency of risk management process across BZ WBK Group.

Market risk generated by equity instruments, which exists in Brokerage House' portfolio (shares, stock exchange indices) is managed by the BZ WBK Brokerage House and supervised by Market Risk Committee.

Measurement methods

BZWBK Group uses several risk measures to assets market risk exposure : Value at Risk (VaR), sensitivity measures and stress testing.

VaR is determined by means of a statistical modelling process. VaR is a difference between the market value of positions calculated using the current market prices/rates and the market values based on the most severe movements in market rates during the historic observation period. VaR is calculated separately for interest rate, FX and price risk of equity instruments portfolio.

The limitations of VaR measurements are well known (among others VaR does not provide prediction of the maximum worst case losses, predicts future based on historical data, assumes static exposure over holding period). They stem from the need to make assumptions about the spread of likely future price and rate movements. BZ WBK supplements its VaR methodology with sensitivity measures, which present how much the value of position could change for a given change in rates/prices. The sensitivity is measured at product, currency, desk and economic intent (trading, banking, hedging) levels. These measures can also be used to decide on hedging activities. A decision can be taken to close out positions when the level of sensitivity combined with the likelihood of a rate or price change exposes BZWBK to too high a potential loss in value. VaR and sensitivities measures provide estimates of probable maximum loss in normal market conditions. Stress tests are used to supplement these measures by estimating possible losses that may occur under extreme market conditions.

Interest rate risk

The risk is that changes in interest rate will have adverse effects on earnings and on the value of BZ WBK's assets and liabilities. The main source of interest rate risk are transactions entered in the bank's corporate centres or branches and transactions entered in the money market by the Treasury Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/commercial bonds, or the bank's borrowings in the interbank market. However all positions which generate a repricing risk are transferred by way of a system of internal contracts to the Treasury Division. Then the bank's dealers are responsible for entering into transactions in the Wholesale markets so as to manage the overall interest rate risk profile according to the desired risk strategy and in compliance with allocated risk limits.

The bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the repriced assets and liabilities the companies enter into standard placements or derivative transactions with the bank, which –from the transaction date – manages this risk under a global limit of BZ WBK Group.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of Treasury. VaR is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst–case profitability curve, which is based on a volatility of interest rates at a 99% confidence level for a three–year interest rate history. Volatility is based on a one–month holding period. VaR is set both for the trading portfolio and the banking portfolio. The measurement excludes the securities portfolio managed by ALCO and used to hedge against the structural balance sheet risk. A stop–loss limit framework is also used to manage the risk of loss from positions that are subject to mark–to–market accounting. Stress tests are used to supplement above measures by estimating possible losses that may occur under extreme market conditions. These are based on current sensitivity reports and sets of assumed extreme 1 day and 1 month rates movements

In managing interest rate risk, a distinction is made between trading and banking/investment activity. The trading book includes securities and derivatives that are held for trading purposes in Treasury. These are revalued daily at market prices and any changes in value are recognised in the profit and loss account. BZ WBK's banking book consists of branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

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The table below presents risk levels in 2010, 2009 and as at end 2008. (both measures assume 1 month holding time horizon):

Interest rate risk	VaR			Stress scenario		
1 month holding period	**31.12.2010**	**31.12.2009**	**31.12.2008**	**31.12.2010**	**31.12.2009**	**31.12.2008**
Average	31 098	30 520	20 995	145 635	137 162	142 177
High	40 360	39 996	28 596	188 689	185 874	177 608
Low	23 066	17 563	12 698	96 026	82 710	101 898
as at end of the period	**27 777**	**36 458**	**20 059**	**144 413**	**142 906**	**102 707**

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 59 405 k (EUR 15 000 k) at the end of 2010.

The tables below present the sensitivity of trading and banking portfolios at the end of December 2010 and comparable periods:

Interest Rate Risk (PLN k)	Sensitivity 31–12–2010		
parallel increase of yield curves by 1 bp	**Trading book**	**Banking book**	**Total**
0–3m	11	(80)	(69)
3m–1Y	(71)	82	11
1Y–5Y	(3)	(363)	(366)
over 5Y	(6)	(33)	(39)
Total	**(69)**	**(394)**	**(463)**

Interest Rate Risk (PLN k)	Sensitivity 31–12–2009		
parallel increase of yield curves by 1 bp	**Trading book**	**Banking book**	**Total**
0–3m	(10)	(53)	(63)
3m–1Y	(3)	77	74
1Y–5Y	(28)	(501)	(529)
over 5Y	5	(24)	(19)
Total	**(36)**	**(501)**	**(537)**

Interest Rate Risk (PLN k)	Sensitivity 31–12–2008		
parallel increase of yield curves by 1 bp	**Trading book**	**Banking book**	**Total**
0–3m	12	30	42
3m–1Y	5	(71)	(66)
1Y–5Y	(25)	(280)	(305)
over 5Y	2	(15)	(13)
Total	**(6)**	**(336)**	**(342)**

Structural balance sheet risk

The structural balance sheet risk is defined as the bank's sensitivity to income volatility in its non–trading activity arising from movements in interest rates. Interest rate volatility affects the bank's income from the investment of capital and from free current account balances (net interest rate insensitive liabilities (NIRIL)). The key objective of such approach is to smooth level of Net Interest Income over time.

The supervisory role over that risk is an ALCO responsibility. The level of such risk is closely monitored and actively managed through separate assets portfolios (NIRIL Portfolios): capital NIRIL (funding of capital over the fixed assets), business NIRIL (funding of non interest bearing liabilities). The NIRIL Portfolios consists of safe and liquid assets (also treated as liquidity reserve) and interest rate derivatives. The decision maker role in relation to those portfolios is taken by ALCO and Treasury executes such decisions.

In thousands of PLN

The following tables present interest rate sensitivities of each NIRIL portfolios at the end of December 2010, 2009 and 2008:

Interest Rate Risk (PLN k)	Sensitivity 31–12–2010		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0–3m	14	—	14
3m–1Y	(48)	(43)	(91)
1Y–5Y	(873)	(821)	(1 694)
over 5Y	(120)	(805)	(925)
Total	**(1 027)**	**(1 669)**	**(2 696)**

Interest Rate Risk (PLN k)	Sensitivity 31–12–2009		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0–3m	(9)	(7)	(16)
3m–1Y	(42)	(29)	(71)
1Y–5Y	(911)	(557)	(1 468)
over 5Y	—	(871)	(871)
Total	**(962)**	**(1 464)**	**(2 426)**

Interest Rate Risk (PLN k)	Sensitivity 31–12–2008		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0–3m	—	—	—
3m–1Y	(52)	(26)	(78)
1Y–5Y	(1 036)	(590)	(1 626)
over 5Y	—	(471)	(471)
Total	**(1 088)**	**(1 087)**	**(2 175)**

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the Value at Risk based on the total open FX position of the bank. VaR is determined by means of a statistical modelling process. VAR is the potential loss on open FX positions at a 99% confidence level where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3–year history of exchange rates. Stress tests are used to supplement the above measure by estimating possible losses that may occur under extreme market conditions. These are based on current FX exposure and assumed extreme rates movements scenarios over the last 3 years (calculations are provided for 1 day and 10 days holding periods). A stop–loss limit framework is also used to manage the risk of loss from trading position.

According to it's policy the Group does not maintain open positions in FX options. Transactions concluded with clients are at the same time closed in the interbank market, thus the Group is not exposed to market risk on its FX options portfolio.

Open positions of subsidiaries – excluding BZ WBK Brokerage House – are negligible and are not included in the daily risk assessment. Brokerage House has been granted an FX VaR limit, used for managing the open position linked to the market maker activity.

The table below presents risk levels in December 2010 and 2009 and December 2008 (data for both measures are scaled to 1 month holding period to make it comparable):

FX risk	VaR			Stress scenario		
1 month holding period	31.12.2010	31.12.2009	31.12.2008	31.12.2010	31.12.2009	31.12.2008
Average	1 807	2 030	897	12 936	13 186	4 370
High	5 076	4 440	3 240	23 409	27 182	14 706
Low	426	435	160	2 938	3 388	842
as at end of the period	1 842	2 163	886	15 048	14 725	6 228

In thousands of PLN

Fx Balance Sheet

In 2010, the profile BZ WBK Group's FX loan assets and deposit liabilities remained relatively static. The FX gap is funded by the Treasury Division through the use of foreign exchange swaps and cross currency swaps. Additionally during 2010, the bank sourced term euro funding through a subordinated debt issue and through a financing facility designed to support lending to the SME sector. A key objective that was achieved during 2010 was to extend the maturity profile of the Group's fx funding transactions. Additional limits were approved at ALCO to monitor the impact of this change in funding strategy.

The tables below present currency breakdown of selected items of consolidated statement of financial position at the end of December 2010, 2009 and 2008.

The tables below present currency breakdown of selected items of consolidated statement of financial position at the end of December 2010, 2009 and 2008.

31.12.2010	PLN	EUR	CHF	OTHER	TOTAL
ASSETS					
Cash and balances with central banks	2 383 892	87 140	5 222	58 209	2 534 463
Loans and advances to banks	62 685	471 401	22 125	63 444	619 655
Loans and advances to customers	21 749 472	8 144 237	2 346 853	597 734	32 838 296
Investment securities	12 825 870	417 693	—	151 792	13 395 355
Selected assets	**37 021 919**	**9 120 471**	**2 374 200**	**871 179**	**49 387 769**
LIABILITIES					
Deposits from banks	1 989 506	377 202	48 495	110 879	2 526 082
Deposits from customers	37 187 256	3 689 682	30 330	1 063 186	41 970 454
Subordinated liabilities	—	395 230	—	—	395 230
Selected liabilities	**39 176 762**	**4 462 114**	**78 825**	**1 174 065**	**44 891 766**

31.12.2009	PLN	EUR	CHF	OTHER	TOTAL
ASSETS					
Cash and balances with central banks	2 486 441	101 876	4 785	67 556	2 660 658
Loans and advances to banks	179 505	372 346	26 909	85 451	664 211
Loans and advances to customers	22 437 267	9 245 367	2 282 271	604 608	34 569 513
Investment securities	12 695 810	442 185	—	154 577	13 292 572
Selected assets	**37 799 023**	**10 161 774**	**2 313 965**	**912 192**	**51 186 954**
LIABILITIES					
Deposits from central bank	1 519 208	—	—	—	1 519 208
Deposits from banks	1 990 851	1 494 813	34 828	310 284	3 830 776
Deposits from customers	37 162 348	3 001 781	31 295	1 027 447	41 222 871
Selected liabilities	**40 672 407**	**4 496 594**	**66 123**	**1 337 731**	**46 572 855**

31.12.2008	PLN	EUR	CHF	OTHER	TOTAL
ASSETS					
Cash and balances with central banks	2 798 697	256 638	7 954	114 818	3 178 107
Loans and advances to banks	1 086 897	135 771	2 982	139 482	1 365 132
Loans and advances to customers	22 834 239	9 086 764	2 425 021	790 589	35 136 613
Investment securities	12 177 768	655 240	—	83 033	12 916 041
Selected assets	**38 897 601**	**10 134 413**	**2 435 957**	**1 127 922**	**52 595 893**
LIABILITIES					
Deposits from central bank	1 242 574	—	—	—	1 242 574
Deposits from banks	1 928 298	1 949 447	56 040	161 692	4 095 477
Deposits from customers	38 608 995	2 945 022	41 642	1 215 068	42 810 727
Debt securities in issue	153 918	—	—	—	153 918
Selected liabilities	**41 933 785**	**4 894 469**	**97 682**	**1 376 760**	**48 302 696**

In thousands of PLN

Equity investment risk

The entity responsible for equity price risk management is BZ WBK Brokerage House (BH). The source of this risk are transactions conducted on BH own account via stock exchanges and MS CTO (shares, futures).
This risk is measured using a Value at Risk model based on the historical method. The method uses a distribution of 250 changes in the current portfolio value. Variability is defined as a respective percentile of the distribution. The historical method is supplemented by the stress tests.
The process of managing the market risk in BH is supervised by the BZ WBK Group Market Risk Committee. The Committee's responsibilities include allocation of the VaR limit to BH and approval of changes in the risk measurement methodology and in the risk management process.
The table below presents risk levels in year 2010 and comparable periods:

Equity risk	VaR			Stress scenario		
1 day holding period	**31.12.2010**	**31.12.2009**	**31.12.2008**	**31.12.2010**	**31.12.2009**	**31.12.2008**
Average	508	1 030	1 172	794	2 144	2 076
High	2 614	5 168	3 217	4 459	12 282	6 784
Low	31	49	43	50	63	55
as at end of the period	556	630	143	850	696	544

Brokerage House operates within an operational limit PLN 6 000 k. During the reporting period no excesses above the VaR limit were observed.

Liquidity risk

Liquidity risk is defined as a risk of failure to meet all conditional and unconditional obligations towards customers and counter parties.

Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

- ensure availability of funds to meet claims arising from asset commitments and liability demands, both current and future, at an economic price;
- manage the structural mismatch on the balance sheet;
- set a scale of liquidity risk appetite in the form of various internal limits;
- ensure proper organization of the liquidity management process across BZ WBK Group;
- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by BZ WBK Group in the liquidity management process is that all outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments, settlements of transactions should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the Bank's operations. The key categories of Qualified Liquid Assets (QLA) recognized in BZ WBK are: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.
In addition, the Policy's aim is to ensure an adequate structure of funding the growing scale of BZ WBK Group business by maintaining the medium–term and long–term liquidity ratios at a pre–defined level. Therefore, apart from the limits defined above, a set of observation ratios is monitored on a daily basis (i.e. loan/deposit ratio, wholesale dependency ratio). As for long–term liquidity, internal controls are supported by a regulatory limit, pursuant to which the capital and stable sources of financing must fully cover the value of the credit portfolio and non–liquid assets (e.g. fixed assets).

Management and Reporting

ALCO has overall responsibility for the supervision of liquidity risk and advises the Management Board on appropriate strategies and policies for strategic liquidity management.

Day–to–day management of current (up to 7 days) and short–term liquidity (up to 30 days) is delegated to the Treasury Division. The responsibility for mid– (above 1 month) and long–term (above 1 year) liquidity management rests jointly with the Head of Finance Division and the Head of Treasury Division. Assets and Liabilities Management Department in the Finance Division are responsible for developing and maintaining appropriate strategies and also for liquidity risk measurement and reporting.

Each subsidiary is fully responsible for the process of maintaining liquidity. However, in order to manage their short and long term liquidity, subsidiaries use current and term accounts (if required) opened at the parent. This means that the companies' entire cash flow is routed through the bank. Short and long–term financing of the companies' operations (particularly in case of leasing companies) is closely supervised by the parent company. BZ WBK supports the subsidiaries in long–term transactions.

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The Group has a scenario–based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

Risk Assessment

Liquidity is calculated by a modified liquidity gap, which is determined separately for PLN and FX positions. According to the Liquidity Policy, the reported contractual positions are subject to various modifications based on statistical behaviour of deposit and credit base, possibility of selling or establishing pledge over State Treasury securities under repo transactions or NBP Lombard loan, possibility of rolling over transactions on the inter–bank market. The actual liquidity gap is used to determine liquidity ratios, i.e. relationship between the projected consolidated outflows and inflows in a given period. The Liquidity Policy sets minimum values of ratios for periods of up to one week and one month. The ratios are set both for PLN & FX. In case of shortage of PLN or FX, PLN or FX surplus may be converted accordingly to cover the shortages. However, the value of such conversion is limited by the assessed current capacity of the wholesale market.
Independently, parallel to own quantative methods, liquidity is measured in accordance with Resolution no. 386/2008 of KNF (Polish Financial Supervision Authority) on liquidity standards applying to banks.

Liquidity measurement is supplemented with liquidity stress tests, which are used to assess the exposure to liquidity risk and maximum funding requirement if the assumed scenarios materialise over a medium and longer term.

Contractual gap analysis based on remaining time maturity as at 31.12.2010, 31.12.2009 and 31.12.2008:

31.12.2010	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	2 534 463	—	—	—	—	—	—	2 534 463
Loans and advances to banks	609 318	—	1 557	8 780	—	—	—	619 655
Financial assets held for trading	1 237 429	65 950	422 283	294 879	82 013	88 176	48 325	2 239 055
Loans and advances to customers	2 975 063	2 512 312	6 987 588	7 922 135	5 392 082	8 415 908	(1 366 792)	32 838 296
Investment securities	—	—	2 663 934	5 040 335	2 506 002	2 505 004	680 080	13 395 355
Other items	—	—	—	—	—	—	1 527 047	1 527 047
Long position	**7 356 273**	**2 578 262**	**10 075 362**	**13 266 129**	**7 980 097**	**11 009 088**	**888 660**	**53 153 871**
Deposits from central bank and banks	2 167 937	49 366	213 001	95 778	—	—	—	2 526 082
Financial liabilities held for trading	35 197	64 532	95 007	188 412	92 036	103 427	—	578 611
Deposits from customers	28 498 162	5 399 918	6 719 536	907 123	49 667	396 048	—	41 970 454
Subordinated liabilities	3 160	—	—	—	—	392 070	—	395 230
Other items	—	—	—	—	—	—	7 683 494	7 683 494
Short position	**30 704 456**	**5 513 816**	**7 027 544**	**1 191 313**	**141 703**	**891 545**	**7 683 494**	**53 153 871**
Gap–balance sheet	**(23 348 183)**	**(2 935 554)**	**3 047 818**	**12 074 816**	**7 838 394**	**10 117 543**	**(6 794 834)**	
Contingent liabilities–sanctioned								
Financing related	196 052	576 473	3 271 659	784 196	234 340	577 134	(16 151)	5 623 703
Guarantees	17 900	110 042	227 385	710 670	81 650	38 960	(1 066)	1 185 541
Derivatives settled in gross terms								
Inflows	2 371 246	3 876 195	2 965 534	1 297 145	1 549 361	1 287 992	—	13 347 473
Outflows	2 382 221	3 861 964	2 953 582	1 311 178	1 573 684	1 379 910	—	13 462 539
Gap – off–balance sheet	**(224 927)**	**(672 284)**	**(3 487 092)**	**(1 508 899)**	**(340 313)**	**(708 012)**	**17 217**	

In thousands of PLN

31.12.2009	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	2 660 658	—	—	—	—	—	—	2 660 658
Loans and advances to banks	654 932	—	—	9 279	—	—	—	664 211
Financial assets held for trading	487 904	138 818	282 993	182 229	115 203	90 995	46 667	1 344 809
Loans and advances to customers	2 464 581	2 259 389	8 203 478	9 083 657	5 159 576	8 538 508	(1 139 676)	34 569 513
Investment securities	49 876	1 743 454	1 589 738	4 479 935	2 771 513	1 992 640	665 416	13 292 572
Other items	—	—	—	—	—	—	1 533 262	1 533 262
Long position	**6 317 951**	**4 141 661**	**10 076 209**	**13 755 100**	**8 046 292**	**10 622 143**	**1 105 669**	**54 065 025**
Deposits from central bank and banks	2 268 025	1 108 071	1 594 365	357 253	12 286	9 984	—	5 349 984
Financial liabilities held for trading	52 811	111 817	341 767	110 481	60 952	58 222	—	736 050
Deposits from customers	27 157 382	8 182 487	4 732 946	1 033 820	113 948	2 288	—	41 222 871
Other items	—	—	—	—	—	—	6 756 120	6 756 120
Short position	**29 478 218**	**9 402 375**	**6 669 078**	**1 501 554**	**187 186**	**70 494**	**6 756 120**	**54 065 025**
Gap–balance sheet	**(23 160 267)**	**(5 260 714)**	**3 407 131**	**12 253 546**	**7 859 106**	**10 551 649**	**(5 650 451)**	
Contingent liabilities–sanctioned								
Financing related	475 089	633 233	3 740 387	863 509	123 898	522 896	(13 909)	6 345 103
Guarantees	38 468	102 024	224 127	463 236	45 178	4 808	(1 644)	876 197
Derivatives settled in gross terms								
Inflows	4 857 751	2 001 095	3 168 144	572 313	702 425	902 592	—	12 204 320
Outflows	4 807 501	2 012 709	3 267 617	572 498	658 082	902 350	—	12 220 757
Gap – off–balance sheet	**(463 307)**	**(746 871)**	**(4 063 987)**	**(1 326 930)**	**(124 733)**	**(527 462)**	**15 553**	

In thousands of PLN

31.12.2008	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	3 178 107	—	—	—	—	—	—	3 178 107
Loans and advances to banks	1 215 222	141 342	—	8 568	—	—	—	1 365 132
Financial liabilities held for trading	396 879	580 752	1 589 727	408 857	106 242	139 768	2 642	3 224 867
Loans and advances to customers	2 021 597	2 369 861	7 818 786	9 408 624	5 037 030	9 369 998	(889 283)	35 136 613
Investment securities	15 956	599 846	2 604 010	3 441 705	4 080 804	1 518 129	655 591	12 916 041
Other items	—	—	—	—	—		1 612 309	1 612 309
Long position	**6 827 761**	**3 691 801**	**12 012 523**	**13 267 754**	**9 224 076**	**11 027 895**	**1 381 259**	**57 433 069**
Deposits from central bank and banks	2 036 229	1 318 739	526 526	1 338 669	107 914	9 974	—	5 338 051
Financial liabilities held for trading	739 379	569 451	1 153 673	515 704	92 033	83 692	—	3 153 932
Deposits from customers	30 705 400	8 841 754	2 682 976	433 786	146 799	12	—	42 810 727
Debt securities in issue	—	69 142	84 974	—	—	—	(198)	153 918
Other items	—	—	—	—	—	—	5 976 441	5 976 441
Short position	**33 481 008**	**10 799 086**	**4 448 149**	**2 288 159**	**346 746**	**93 678**	**5 976 243**	**57 433 069**
Gap–balance sheet	**(26 653 247)**	**(7 107 285)**	**7 564 374**	**10 979 595**	**8 877 330**	**10 934 217**	**(4 594 984)**	
Contingent liabilities–sanctioned								
Financing related	286 633	665 912	3 736 052	2 870 291	649 283	1 330 152	(9 569)	9 528 754
Guarantees	62 889	120 909	264 372	312 785	137 475	5 694	(2 407)	901 717
Derivatives settled in gross terms								
Inflows	6 825 726	3 473 051	5 673 685	1 254 096	44 325	215 983	—	17 486 866
Outflows	7 076 843	3 601 837	5 783 481	1 411 690	38 059	191 366	—	18 103 276
Gap – off–balance sheet	**(600 639)**	**(915 607)**	**(4 110 220)**	**(3 340 670)**	**(780 492)**	**(1 311 229)**	**11 976**	

Liquidity Policy Report – Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31–12–2010			
Qualifying Liquid Assets	12 958 174	998 000	271 281
Treasury inflows	1 094 198	1 162 154	9 770 282
Other inflows	1 789 452	276 636	32 802 281
Treasury outflows	(1 417 403)	(2 122 502)	(10 205 075)
Other outflows	(3 802 040)	(271 089)	(43 304 349)
Gap	**10 622 381**	**43 199**	**(10 665 580)**
Cumulative Gap	**10 622 381**	**10 665 580**	—

of Bank Zachodni WBK Group for 2010 In thousands of PLN

Liquidity risk	<1W	<1M	>1M
31–12–2009			
Qualifying Liquid Assets	11 023 232	—	1 931 412
Treasury inflows	2 098 604	3 797 865	7 163 425
Other inflows	1 451 558	593 711	33 840 436
Treasury outflows	(3 247 340)	(3 782 486)	(9 292 350)
Other outflows	(3 441 017)	(317 267)	(41 819 783)
Gap	**7 885 037**	**291 823**	**(8 176 860)**
Cumulative Gap	**7 885 037**	**8 176 860**	—

Liquidity risk	<1W	<1M	>1M
31–12–2008			
Qualifying Liquid Assets	11 382 962	566 552	1 300 540
Treasury inflows	2 476 074	6 961 845	12 223 334
Other inflows	629 768	249 314	36 286 296
Treasury outflows	(2 263 818)	(7 564 051)	(14 016 408)
Other outflows	(5 284 242)	(516 776)	(42 431 390)
Gap	**6 940 744**	**(303 116)**	**(6 637 628)**
Cumulative Gap	**6 940 744**	**6 637 628**	—

At the end of 2010 there was an increase in the duration of retail deposits, which was reflected in the contractual gap. Level of liquid assets was not significantly changed y/y.
In 2010 and in comparable periods all the regulatory measures have been kept at the required levels.

Operating risk

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

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

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

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

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

To ensure adequate risk management and identification of the key threats, the following processes are employed:
- Identification and estimation of operational risk
  In their self–assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks for their likelihood and consequences, and describe the existing controls. As part of the self–assessment review, potential threats to the bank's business are identified. The risks with high residual rating have proper action plans developed on which progress is reviewed quarterly by ORMCo.

- Reporting on operational incidents and lessons learned
  Each organizational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root–cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive

and corrective measures are actioned. The lessons learned process is a tool aimed to reinforce and facilitate operational risk management; it ensures also that decisive steps are taken if operational incidents materialize.

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

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

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

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

Legal & compliance risk

Legal and regulatory (compliance) risk is defined – in line with the Basel Committee recommendation and the definition adopted by the strategic shareholder – as risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by BZ WBK Group as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk identification and assessment

Within BZ WBK Group several bodies have been assigned to manage legal and regulatory (compliance) risk.

The scope of the Legal and Compliance Division responsibilities relates to "conduct of business'" compliance obligations, including protection of the clients' rights, anti–money laundering, protection of sensitive information and personal data. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas.

All issues regarding compliance with employment law is assigned to HR Management Division, taxation law and reporting requirements to Financial Division and prudential regulation to Financial Division and Risk Management Division in respective aspects.

Every six months, the BZ WBK Compliance Area coordinates assessment process of the key legal and compliance risks. During the process, risks and their potential impact on the business are assessed, and effectiveness of appropriate controls that may be applied to mitigate these risks is evaluated. Legal and regulatory (compliance) risk reviews take into account any risks the Group may be exposed to within the following three years, including upstream risks in the form of new regulations, increased regulatory scrutiny and increasing demand of the stakeholders.

Risk management and mitigation

The Bank Management Board adopted a policy statement on compliance with legal and regulatory obligations which was then approved by the Supervisory Board. The policy mandates the Compliance Area and ensures it's sufficient independence to support management in effective compliance risk management. Every six months, the Audit Committee reviews key compliance risks to assess the extent to which they are being managed effectively.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence & sufficient resources of the Compliance Area. In particular, the compliance unit major responsibilities include (with the provision of the specific responsibility of Finance Division, Risk Management Division and HR Division):
- independent identification, assessment and monitoring of compliance risk the Group is exposed to,
- providing advice and reporting to the Risk Management Committee, the bank's Management Board and Audit Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope,
- providing advice and guidance to management and staff on compliance risks and on appropriate policies and procedures to mitigate this risk.

Legal and regulatory (compliance) risk management is coordinated by the Legal and Compliance Division reporting to the Management Board Member. The Area coordinates and supervises the process of compliance risk management with subsidiary compliance units pursuant to the applicable law.

Risk monitoring & reporting

The Compliance Area undertakes risk–based monitoring of compliance with relevant policies, procedures, regulatory obligations and best practices. Monitoring can be undertaken by dedicated Risk and Compliance Monitoring Office, the AML Office and Compliance Officers in indicated units and capital market subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. The monitoring is focused particularly on processes but may also refer to particular organizational units. The annual monitoring plan, accepted by the Audit Committee, is reviewed on a regular basis and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Legal and Compliance Division. The implementation of these action plans is monitored by the Legal and Compliance Division.r

5. Capital management

Introduction

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

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

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

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

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

Capital Policy

The solvency ratio which shows the relation between capital requirement for particular risks to the bank's total capital, after mandatory deductions, recognised in keeping with the Banking Law and the requirements of the Polish Financial Supervision Authority, is one of the basic measures used for capital management in Bank Zachodni WBK. Under the Banking Law, solvency ratio may not be lower than 8%, both at the bank and the Group level.

The Group's capital management policy envisages the target solvency ratio at 10% both for the bank and the Group.

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 8% both for the bank and the Group (the regulator may apply an additional requirement, as part of SREP process of Pillar 2).

Regulatory Capital

The risks under Pillar 1 and the minimum capital required for such risks are assessed in a quantitative method. The bank uses regulatory approaches to the measurement of these risks, applying precisely defined rules and parameters to calculate the capital requirement needed to cover the risks. BZ WBK uses following methods with regard to particular risks:
- credit risk – the standardised approach;
- operational risk –the standardised approach;
- market risk – the basic measurement methods.

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The table below shows capital requirement for the Group as of 31 December 2010, 31 December 2009 and 31 December 2008:

		31.12.2010	31.12.2009	31.12.2008
I	Total Capital requirement	3 169 381	3 332 447	3 532 896
II	Own funds after reductions	6 248 086	5 402 183	4 743 569
	CAD [II/(I*12.5)]	15.77%	12.97%	10.74%

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

Internal Capital

The bank defines internal capital as the capital required to safeguard the Group against the impact of major unexpected losses which may jeopardise the bank's solvency.

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

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

The current approach is to aggregate the capital for Pillar 1 risks and then to add the estimated capital for all the other Pillar 2 risks that the bank is or may be exposed to. Quantitative risk measurement methods are applied where feasible and practicable. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

Subordinated liabilities

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

On 13th October 2010, the bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group's supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 000 k have been included in the calculation of the Group's adequacy ratio.

Detailed information on subordinated liabilities is presented in Note 35.

In thousands of PLN

6. Net interest income

Interest income	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Loans and advances to enterprises	1 173 137	1 286 163	1 403 175
Loans and advances to individuals, of which:	961 258	919 215	745 966
Home mortgage loans	*299 295*	*285 682*	*302 790*
Debt securities incl.:	750 253	739 254	602 740
Investment portfolio held to maturity	*362 229*	*376 940*	*90 252*
Investment portfolio available for sale	*302 158*	*316 303*	*487 932*
Trading portfolio	*85 866*	*46 011*	*24 556*
Leasing agreements	172 702	192 085	226 053
Loans and advances to banks	60 383	71 880	174 861
Other from public sector	17 129	18 860	32 296
Reverse repo transactions	7 373	14 951	42 907
Interest recorded on hedging IRS	(11 934)	(16 320)	4 126
Total	**3 130 301**	**3 226 088**	**3 232 124**
Interest expense	**01.01.2010 – 31.12.2010**	**01.01.2009 – 31.12.2009**	**01.01.2008 – 31.12.2008**
Deposits from individuals	(779 571)	(976 496)	(798 347)
Deposits from enterprises	(321 955)	(375 410)	(401 981)
Repo transactions	(95 976)	(131 037)	(107 823)
Public sector	(56 836)	(94 693)	(98 338)
Deposits from banks	(45 608)	(82 433)	(174 809)
Debt securities in issue	(8 180)	(2 828)	(15 721)
Total	**(1 308 126)**	**(1 662 897)**	**(1 597 019)**
Net interest income	**1 822 175**	**1 563 191**	**1 635 105**

As at 31.12.2010 net interest income includes interest on impaired loans of PLN 110 944 k (as at 31.12.2009 – PLN 92_356 k, as at 31.12.2008 – PLN 58 117 k)

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7. Net fee and commission income

Fee and commission income	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
eBusiness & payments	357 483	370 585	313 145
Asset management fees	336 064	277 283	429 135
Current accounts and money transfer	251 214	250 732	232 504
Foreign exchange commissions	201 745	226 534	235 014
Brokerage commissions	125 993	123 076	126 932
Credit commissions (including factoring)	104 764	101 429	80 643
Insurance commissions	70 339	74 434	74 737
Credit cards	63 626	68 250	54 733
Distribution fees	14 463	18 958	36 036
Off—balance sheet guarantee commissions	11 258	11 767	12 550
Issue arrangement	11 220	6 147	8 557
Finance lease commissions	3 841	3 729	800
Other commissions	3 248	1 489	1 883
Total	**1 555 258**	**1 534 413**	**1 606 669**
Fee and commission expense	**01.01.2010 – 31.12.2010**	**01.01.2009 – 31.12.2009**	**01.01.2008 – 31.12.2008**
eBusiness & payments	(77 197)	(97 450)	(76 470)
Distribution fees	(42 939)	(32 423)	(53 147)
Brokerage commissions	(24 362)	(24 558)	(20 704)
Commissions paid to credit agents	(23 217)	(17 708)	(25 829)
Asset management fees and other costs	(10 447)	(17 048)	(25 816)
Credit cards	(7 597)	(7 084)	(8 054)
Finance lease commissions	(6 848)	(6 860)	(6 593)
Insurance commissions	—	—	(2 640)
Other	(17 990)	(16 970)	(13 601)
Total	**(210 597)**	**(220 101)**	**(232 854)**
Net fee and commission income	**1 344 661**	**1 314 312**	**1 373 815**

Included above is fee and commission income on credits, credits cards, off—balance sheet guarantees and finance leases of PLN 183_488 k (31.12.2009: PLN 185 175 k, 31.12.2008: PLN 148 726 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (37 662) k (31.12.2009: PLN (31 652) k, 31.12.2008: PLN (40 476) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

8. Dividend income

Dividend income	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Dividends from investment portfolio entities	53 293	94 271	68 249
Dividends from trading portfolio entities	1 221	2 321	2 057
Total	**54 514**	**96 592**	**70 306**

In thousands of PLN

9. Net trading income and revaluation

Net trading income and revaluation	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit on interbank FX transactions	111 398	151 481	59 177
Profit/(loss) on derivative instruments	109 221	73 951	(40 875)
Other FX related income	27 275	31 274	22 993
Profit on market maker activity	9 736	11 046	9 298
Profit on debt instruments	1 101	2 504	2 209
Total	**258 731**	**270 256**	**52 802**

Net trading income and revaluation includes the write—back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 5 994_k for 2010 and adjustments of derivatives resulting from counterparty risk in the amount of PLN (28_843) k for 2009 and PLN (80 996) k for 2008.

In 2010, Bank Zachodni WBK S.A. revised the spreads adopted for mark–to–market valuation of CIRS with a view to making fair value of these derivatives more accurate. The total fair value adjustment to these derivatives was PLN (14 469) k at the end of the reporting period. These instruments are a source of funding net FX assets and it is the Bank's intention to hold them until maturity. Their mark–to–market valuation will revert to zero on a case by case basis over their remaining life. Other significant estimated values did not change

10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit on equity shares	6 516	3 561	67 196
Profit on debt securities	5 657	(7 223)	(11 735)
Charge due to impairment losses	(48)	—	(110)
Total profit (losses) on financial instruments	**12 125**	**(3 662)**	**55 351**
Change in fair value of hedging instruments	(192)	17 443	(34 388)
Change in fair value of underlying hedged positions	475	(19 866)	37 189
Total profit (losses) on hedging and hedged instruments	**283**	**(2 423)**	**2 801**
Total	**12 408**	**(6 085)**	**58 152**

11. Net gain/(loss) on sale of subsidiaries and associates

Net gain/(loss) on sale of subsidiaries and associates	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Sale of subsidiaries	—	—	520
Sale of associates	—	—	(716)
Total	**—**	**—**	**(196)**

Additional information about acquisitions and disposals of investments is available in note 49.

In thousands of PLN

12. Other operating income

Other operating income	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Income on sale of services	12 072	13 425	32 926
Insurance indemnity received	8 499	2 280	1 957
Reimbursements of BGF charges	5 678	5 826	1 657
Release of provision for legal cases and other assets	4 051	12 959	9 440
Settlements of leasing agreements	1 340	1 070	470
Recovery of other receivables	1 149	3 981	2 610
Settlements of stock– exchange dealings	895	1 315	1 366
Bailiff reimbursement	702	825	860
Financing premium from EBRD	387	960	1 351
Other	12 566	7 061	15 362
Total	**47 339**	**49 702**	**67 999**

13. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Collective and individual impairment charge	(474 770)	(438 698)	(192 276)
Incurred but not reported losses charge	35 317	(56 297)	(176 061)
Recoveries of loans previously written off	20 370	17 458	10 205
Off balance sheet credit related items	(1 671)	(3 497)	(6 419)
Total	**(420 754)**	**(481 034)**	**(364 551)**

14. Employee costs

Employee costs	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Salaries and bonuses	(801 719)	(747 164)	(735 771)
Salary related costs	(117 524)	(113 200)	(104 310)
Staff benefits costs	(20 620)	(20 782)	(21 208)
Professional trainings	(14 176)	(9 474)	(24 062)
Retirement fund, holiday provisions and other employee– related costs	(4 955)	1 282	(11 041)
Total	**(958 994)**	**(889 338)**	**(896 392)**

In thousands of PLN

15. General and administrative expenses

General and administrative expenses	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Maintenance and rentals of premises	(212 295)	(199 243)	(159 423)
IT systems costs	(87 113)	(88 395)	(89 943)
Marketing and representation	(79 083)	(73 618)	(105 275)
Postal and telecommunication costs	(47 104)	(53 349)	(54 402)
Other external services	(36 433)	(25 625)	(33 848)
Car, transport expenses, carriage of cash	(31 712)	(30 782)	(31 922)
Consulting fees	(27 949)	(18 734)	(37 617)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(24 548)	(26 369)	(16 429)
Stationery, cards, cheques etc.	(18 842)	(19 192)	(24 841)
Sundry taxes	(17 138)	(16 171)	(18 069)
Data transmission	(15 288)	(16 760)	(16 825)
Security costs	(13 677)	(12 324)	(12 511)
KIR, SWIFT settlements	(12 187)	(12 583)	(11 776)
Costs of repairs	(6 011)	(5 672)	(18 095)
Other	(12 218)	(10 161)	(19 806)
Total	**(641 598)**	**(608 978)**	**(650 782)**

16. Other operating expenses

Other operating expenses	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Charge of provisions for legal cases and other assets	(19 049)	(5 156)	(5 482)
Debt recovery costs	(3 726)	(2 739)	(1 540)
Donation paid	(1 748)	(1 564)	(1 645)
Costs of legal proceedings	(1 702)	(1 443)	(1 066)
Costs of purchased services	(1 567)	(1 255)	(283)
Paid compensations, penalties and fines	(358)	(999)	(1 536)
Losses from past– due receivables	(116)	(1 156)	(1 106)
Other	(8 720)	(8 663)	(14 912)
Total	**(36 986)**	**(22 975)**	**(27 570)**

17. Corporate income tax

Corporate income tax	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Current tax charge	(350 356)	(306 791)	(298 358)
Deferred tax	33 744	84 177	42 064
Total	**(316 612)**	**(222 614)**	**(256 294)**

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Corporate total tax charge information	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit before tax	1 357 181	1 161 836	1 210 580
Tax rate	19%	19%	19%
Tax calculated at the tax rate	(257 864)	(220 749)	(230 010)
Non– deductible expenses	(6 798)	(6 392)	(12 464)
Sale of receivables	(31 294)	(11 872)	(6 958)
Non– taxable income (dividends)	10 090	17 867	397
Non– tax deductible bad debt provisions	(13 849)	(1 468)	(7 259)
Adjustment of deferred tax asset on interest on debt securities	(16 897)	—	—
Total income tax expense	**(316 612)**	**(222 614)**	**(256 294)**

Deferred tax recognised directly in equity	31.12.2010	31.12.2009	31.12.2008
The amount of deferred tax recognised directly in equity totaled:			
Relating to equity securities available– for– sale	(96 292)	(96 995)	(97 298)
Relating to debt securities available– for– sale	(4 653)	(1 166)	13 604
Relating to cash flow hedging activity	(473)	(450)	5 787
Total	**(101 418)**	**(98 611)**	**(77 907)**

18. Earnings per share

Net earnings per share (PLN/share)	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Profit attributable to ordinary shares	974 223	885 258	855 446
Weighted average number of ordinary shares	73 076 013	73 076 013	72 960 284
Net earnings per share (PLN)	**13.33**	**12.11**	**11.72**
Profit attributable to ordinary shares	974 223	885 258	855 446
Weighted average number of ordinary shares	73 076 013	73 076 013	72 960 284
Weighted average number of potential ordinary shares	272 003	311 397	298 400
Diluted earnings per share (PLN)	**13.28**	**12.06**	**11.68**

19. Cash and balances with central banks

Cash and balances with central banks	31.12.2010	31.12.2009	31.12.2008
Current accounts in central banks	1 712 907	1 697 190	2 004 861
Cash	821 556	963 465	1 173 243
Equivalents of cash	—	3	3
Total	**2 534 463**	**2 660 658**	**3 178 107**

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as a fixed percentage of the monthly average balance of the customers' deposits. As at 31.12.2010 the rate was 3.5%, as at 31.12.2009 – 3%, as at 31.12.2008 – 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

In thousands of PLN

20. Loans and advances to banks

Loans and advances to banks	31.12.2010	31.12.2009	31.12.2008
Loans and advances	304 313	356 835	648 936
Sell– buy– back transaction	—	—	518 826
Current accounts	315 342	307 376	203 339
Gross receivables	**619 655**	**664 211**	**1 371 101**
Impairment write down	—	—	(5 969)
Total	**619 655**	**664 211**	**1 365 132**

Fair value of loans and advances to banks is presented in note 42.

Movements in impairment losses on receivables from banks	31.12.2010	31.12.2009	31.12.2008
Balance at 1 January	—	(5 969)	(5 969)
Write off	—	5 969	—
Balance at the end of the period	**—**	**—**	**(5 969)**

21. Financial assets and liabilities held for trading

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

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

Financial assets and liabilities held for trading	31.12.2010		31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**464 531**	**568 153**	**709 984**	**736 050**	**2 353 619**	**3 153 932**
Interest rate operations	**238 659**	**236 968**	**291 686**	**306 888**	**906 590**	**884 101**
Options	68	68	—	—	8	8
IRS	236 209	235 422	283 294	297 410	664 182	637 919
FRA	2 382	1 478	8 392	9 478	242 400	246 174
FX operations	**225 331**	**331 185**	**418 298**	**429 162**	**1 447 029**	**2 269 831**
CIRS	65 543	171 730	128 700	289 168	63 259	410 610
Forward	25 765	9 937	58 527	29 198	352 024	210 347
FX Swap	90 193	105 658	165 554	46 239	683 470	1 259 958
Spot	1 363	1 393	1 003	1 325	4 182	3 787
Options	42 467	42 467	64 514	63 232	344 094	385 129
Other	**541**	**—**	**—**	**—**	**—**	**—**
Stock options	541	—	—	—	—	—
Debt and equity securities	**1 774 524**	**—**	**634 825**	**—**	**871 248**	**—**
Debt securities	**1 726 289**	**—**	**587 097**	**—**	**868 605**	**—**
Government securities:	526 989	—	187 369	—	868 583	—
– bills	206 799	—	71 808	—	549 120	—
– bonds	320 190	—	115 561	—	319 463	—
Central bank securities:	1 199 300	—	399 728	—	—	—
– bills	1 199 300	—	399 728	—	—	—
Other securities:	**—**	**—**	**—**	**—**	**22**	**—**
– bonds	—	—	—	—	22	—
Equity securities:	48 235	—	47 728	—	2 643	—
– listed	48 235	—	47 728	—	2 643	—
Short sale	**—**	**10 458**	**—**	**—**	**—**	**—**
Total financial assets/liabilities	**2 239 055**	**578 611**	**1 344 809**	**736 050**	**3 224 867**	**3 153 932**

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In 2010, Bank Zachodni WBK S.A. revised the spreads adopted for mark–to–market valuation of CIRS with a view to making fair value of these derivatives more accurate. The total fair value adjustment to these derivatives was PLN (14 469) k at the end of the reporting period. These instruments are a source of funding net FX assets and it is the bank's intention to hold them until maturity. Their mark–to–market valuation will revert to zero on a case by case basis over their remaining life. Other significant judgment and key sources of estimation uncertainty have not been changed.

Financial assets and liabilities held for trading – trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (42 773) k as at 31.12.2010, PLN (95 915) k as at 31.12.2009 and PLN (80 996) k as at 31.12.2008. Interest income from debt instruments and other fixed rate instruments is disclosed under "interest income". Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the consolidated income statement. All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. As at 31.12.2010 and in comparable periods there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

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

	Derivatives' nominal values	31.12.2010	31.12.2009	31.12.2008
1.	**Term derivatives (hedging)**	**1 669 876**	**1 773 682**	**2 704 674**
a)	Single– currency interest rate swaps	975 320	573 682	1 854 674
b)	Macro cash flow hedge	694 556	1 200 000	850 000
2.	**Term derivatives (trading)**	**55 583 100**	**50 171 003**	**139 222 595**
a)	Interest rate operations	28 179 598	22 490 837	91 494 888
	Single– currency interest rate swaps	22 753 982	18 480 996	47 134 667
	FRA – purchased amounts	5 400 000	4 000 000	44 350 000
	Options	25 616	9 841	10 221
b)	FX operations	27 403 502	27 680 166	47 727 707
	FX swap – purchased amounts	7 840 597	7 219 044	14 425 872
	FX swap – sold amounts	7 839 580	7 094 264	14 983 627
	Forward – purchased amounts	1 008 250	1 345 501	3 696 166
	Forward – sold amounts	993 640	1 309 044	3 538 979
	Cross– currency interest rate swaps – purchased amounts	4 030 917	4 216 324	2 500 262
	Cross– currency interest rate swaps – sold amounts	4 161 578	4 393 303	2 849 197
	FX options – purchased	764 470	1 051 343	2 866 802
	FX options – sold	764 470	1 051 343	2 866 802
3.	**Currency transactions– spot**	**935 449**	**1 119 621**	**957 290**
	spot– purchased	467 710	559 649	478 844
	spot– sold	467 739	559 972	478 446
4.	**Transactions on equity instruments**	**993**	**47 938**	**928**
	Futures	993	47 938	928
	Total	**58 189 418**	**53 112 244**	**142 885 487**

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

22. Hedging derivatives

Hedging derivatives	31.12.2010		31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	579	12 848	1 325	6 982	347	31 700
IRS hedging cash flow	14 189	3 593	9 476	25 951	—	36 862
Total hedging derivatives	**14 768**	**16 441**	**10 801**	**32 933**	**347**	**68 562**

In thousands of PLN

23. Loans and advances to customers

Loans and advances to customers	31.12.2010	31.12.2009	31.12.2008
Loans and advances to enterprises	20 210 571	22 265 448	23 288 549
Loans and advances to individuals, of which:	11 437 508	10 632 415	9 240 106
Home mortgage loans	*6 926 647*	*6 062 546*	*5 450 515*
Finance lease receivables	2 435 755	2 706 516	2 959 037
Loans and advances to public sector	101 089	83 106	85 653
Sell– buy– back transaction	10 118	10 083	441 783
Other	10 047	11 621	10 768
Gross receivables	34 205 088	35 709 189	36 025 896
Impairment write down	(1 366 792)	(1 139 676)	(889 283)
Total	**32 838 296**	**34 569 513**	**35 136 613**

As at 31.12.2010 the fair value adjustment due to hedged risk on corporate loans was PLN 887 k (as at 31.12.2009: PLN 1 565 k, 31.12.2008: PLN 1 607 k). Finance lease receivables are presented in additional note 46. Fair value of loans and advances to customers is presented in note 42.

Movements on impairment losses on loans and advances to customers	31.12.2010	31.12.2009	31.12.2008
Individual and collective impairment			
As at the beginning of the period	(766 110)	(571 113)	(439 545)
Charge/write back of current period	(474 770)	(438 698)	(192 276)
Write off/Sale of receivables	206 912	250 992	65 646
Transfer	1 871	(10 866)	480
F/X differences	3 280	3 575	(5 418)
Balance at the end of the period	**(1 028 817)**	**(766 110)**	**(571 113)**
IBNR			
As at the beginning of the period	(373 566)	(318 170)	(145 423)
Charge/write back of current period	35 317	(56 297)	(176 061)
Transfer	10	—	3 723
F/X differences	264	901	(409)
Balance at the end of the period	**(337 975)**	**(373 566)**	**(318 170)**
Impairment write down	**(1 366 792)**	**(1 139 676)**	**(889 283)**

24. Investment securities available for sale

Investment securities available for sale	31.12.2010	31.12.2009	31.12.2008
Available for sale investments – measured at fair value			
Debt securities	**6 965 866**	**5 957 601**	**5 872 173**
Government securities:	6 885 095	5 873 630	5 092 878
– bills	—	1 105 854	1 369 842
– bonds	6 885 095	4 767 776	3 723 036
Central bank securities:	—	—	599 731
– bonds	—	—	599 731
Commercial securities:	80 771	83 971	179 564
– bonds	80 771	83 971	179 564
Equity securities	**623 456**	**613 011**	**606 319**
– listed	20 688	24 151	22 014
– unlisted	602 768	588 860	584 305
Investment certificates	**56 625**	**52 405**	**49 272**
Total	**7 645 947**	**6 623 017**	**6 527 764**

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As at 31.12.2010 fixed interest rate debt securities measured at fair value amount to PLN 5 540 017 k, variable interest rate securities amount to PLN 1 425 849 k.
As at 31.12.2009 fixed interest rate debt securities measured at fair value amount to PLN 5 208 458 k, variable interest rate securities amount to PLN 749 143 k.
As at 31.12.2008 fixed interest rate debt securities measured at fair value amount to PLN 4 244 739 k, variable interest rate securities amount to PLN 1 627 434 k.
As at 31.12.2010 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 1 336 k (as at 31.12.2009: PLN (1 510) k and 31.12.2008: PLN 27 300 k).
Unlisted equity investments classified as available– for– sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The Bank performs the review of the fair value of its unlisted available– for– sale financial instruments at each balance sheet date. The review did not reveal any material changes in the disclosed carrying amounts of the instruments. Fair value of the investments into the companies from the Aviva Polska Group was determined for two key investments. Valuation was conducted using the multiplier valuation method (Price/Book Value, P/E) as well as dividend discount model.
Over the past several months the Polish government has been considering changes to the pension system, specifically reduction of the contributions to the open– ended pension funds.
Implementation of the changes might have an adverse impact on the price of PTE Aviva shares held by the bank. At present, it is not possible to determine if and in what shape the changes will be implemented. The bank's stake in PTE was valued as at 31 December 2010 based on the legal conditions and the system solutions existing at that date and its carrying value amounts to PLN 199 999 k.
Fair value of "Investment securities available for sale" is presented in note 42.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2010	**5 957 601**	**665 416**	**6 623 017**
Additions	3 477 634	26 560	3 504 194
Disposals (sale and maturity)	(2 527 512)	(9 814)	(2 537 326)
Fair value adjustment (AFS)	8 876	(1 558)	7 318
Movements on interest accrued	58 777	—	58 777
Provision for impairment	—	(48)	(48)
F/X differences	(9 510)	(475)	(9 985)
As at 31 December 2010	**6 965 866**	**680 081**	**7 645 947**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2009	**5 872 173**	**655 591**	**6 527 764**
Additions	4 341 806	6 457	4 348 263
Disposals (sale and maturity)	(4 275 978)	(6 105)	(4 282 083)
Fair value adjustment (AFS)	28 313	8 684	36 997
Movements on interest accrued	17 178	—	17 178
F/X differences	(25 891)	789	(25 102)
As at 31 December 2009	**5 957 601**	**665 416**	**6 623 017**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2008	**9 052 095**	**711 574**	**9 763 669**
Additions	5 127 467	32 649	5 160 116
Transfers	—	975	975
Disposals (sale and maturity)	(2 261 845)	(85 413)	(2 347 258)
Fair value adjustment (AFS)	78 801	(4 915)	73 886
Movements on interest accrued	134 149	—	134 149
Provision for impairment	—	(125)	(125)
F/X differences	148 079	846	148 925
Reclassification*	(6 406 573)	—	(6 406 573)
As at 31 December 2008	**5 872 173**	**655 591**	**6 527 764**

* In October 2008 the bank has changed the classification of State Treasury bonds from the Available For Sale category into the Held To Maturity category. The carrying value of reclassified financial instruments amounted to PLN 6 406 573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the statement of financial position, in particular equity and non—interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

In thousands of PLN

25. Financial assets held to maturity

Financial assets held to maturity	31.12.2010	31.12.2009	31.12.2008
Government securities:	5 749 408	6 669 555	6 388 277
– bonds	5 749 408	6 669 555	6 388 277
Total	**5 749 408**	**6 669 555**	**6 388 277**

Fair value of „Financial assets held to maturity" is presented in note 42.

Movements on financial assets held to maturity	31.12.2010	31.12.2009	31.12.2008
Balance at 1 January	**6 669 555**	**6 388 277**	**—**
Additions	—	553 616	—
Maturity	(955 378)	(300 361)	—
Reclassification*	—	—	6 406 573
Fair value amortisation	12 190	13 498	3 049
Movements on interest accrued	23 041	14 525	(21 345)
Balance at 31 December	**5 749 408**	**6 669 555**	**6 388 277**

* In October 2008 the bank has changed the classification of State Treasury bonds from the Available For Sale category into the Held To Maturity category. The carrying value of reclassified financial instruments amounted to PLN 6 406 573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the statement of financial position, in particular equity and non– interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

26. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2010	31.12.2009	31.12.2008
Associates	54 864	50 610	40 107
Joint ventures	32 496	31 277	32 114
Total	**87 360**	**81 887**	**72 221**

Movements on investments in associates and joint ventures	31.12.2010	31.12.2009	31.12.2008
Balance at 1 January	81 887	72 221	37 128
Share of profits/(losses)	4 452	(334)	(777)
Transfer	—	—	2 225
Sale/acquisition	41	10 000	33 645
Other/dividend	980	—	—
Balance at the end of the period	**87 360**	**81 887**	**72 221**

Fair value of "Investment in associates and joint ventures" is presented in note 42. Details of sale/acquisition of associates and joint ventures are disclosed in note 49.

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2010

Name of entity	POLFUND – Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Metrohouse & Partnerzy S.A.**	Krynicki Recykling S.A.***	Total
Registered office	Szczecin	Poznań	Poznań	Warsaw	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding****	50.00	50.00	50.00	21.23	24.65	
Balance sheet value	36 786	12 395	20 101	4 305	13 773	87 360
Total assets	82 255	434 886	163 610	3 632	50 274	734 657
Own funds of entity, of which:	73 573	24 791	40 201	2 016	22 628	163 209
Share capital	16 000	21 750	27 000	650	1 013	66 413
Other own funds, of which:	57 573	3 041	13 201	1 366	21 615	96 796
from previous years	603	(2 656)	—	(587)	5 479	2 839
net profit (loss)	1 636	(1 951)	6 364	374	869	7 292
Liabilities of entity	8 682	410 095	123 409	1 616	27 646	571 448
Revenue	6 922	231 605	82 248	8 682	15 043	344 500
Costs	**4 415**	**233 871**	**74 135**	**8 199**	**14 020**	**334 640**

* selected financial information as at end of November 2010
** selected financial information as at end of October 2010
*** selected financial information as at end of September 2010
**** states percentage share of associates or joint venture profits

Name of entity	Business
POLFUND – Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Metrohouse & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2009

Name of entity	POLFUND – Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Metrohouse S.A.*	Krynicki Recykling S.A.**	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding***	50.00	50.00	50.00	35.38	30.37	
Balance sheet value	36 373	12 872	18 405	4 084	10 153	81 887
Total assets	79 575	239 349	145 609	3 495	n/a	468 028
Own funds of entity, of which:	72 746	25 744	36 809	1 662	18 514	155 475
Share capital	16 000	21 750	27 000	650	n/a	65 400
Other own funds, of which:	56 746	3 994	9 809	1 012	n/a	71 561
from previous years	—	(1 014)	(2 414)	(756)	n/a	(4 184)
net profit (loss)	1 827	(2 641)	3 205	188	836	3 415
Liabilities of entity	6 829	213 605	108 800	1 833	n/a	331 067
Revenue	7 893	176 768	62 213	5 838	n/a	252 712
Costs	**5 438**	**179 770**	**58 240**	**5 652**	**n/a**	**249 100**

* selected financial information as at end of November 2009
** selected financial information as at end of September 2009
*** states percentage share of associates or joint venture profits

Name of entity	Business
POLFUND – Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Metrohouse S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2008

Name of entity	POLFUND –Fundusz Poręczeń Kredytowych S.A.*	BZ WBK CU Towarzystwo Ubezpieczeń na Życie S.A.*	BZ WBK CU Towarzystwo Ubezpieczeń Ogólnych S.A.*	Metrohouse S.A.*	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	
Type of connection	Associate	Joint venture	Joint venture	Associate	
% of holding**	50.00	50.00	50.00	35.38	
Balance sheet value	35 964	17 082	15 032	4 143	72 221
Total assets	75 781	104 209	61 354	3 362	244 706
Own funds of entity, of which:	21 929	30 064	34 164	2 285	88 442
Share capital	16 000	21 750	27 000	500	65 250
Other own funds, of which:	5 929	8 314	7 164	1 785	23 192
from previous years	2 638	—	—	(756)	1 882
net profit (loss)	2 817	1 049	(1 854)	(460)	1 552
Liabilities of entity	53 852	74 145	27 190	1 077	156 264
Revenue	5 961	58 090	42 428	4 342	110 821
Costs	**2 163**	**57 041**	**44 283**	**4 802**	**108 289**

* selected financial information as at end of November 2008
** states percentage share of associates or joint ventures profits

Name of entity	Business
POLFUND — Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK CU Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK CU Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Metrohouse S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy

of Bank Zachodni WBK Group for 2010 In thousands of PLN

27. Intangible assets

Intangible assets Year 2010	Licences, patents etc.	Other (incl. know–how)	Capital expenditures	Total
Gross value – beginning of the period	**607 301**	**8 032**	**73 758**	**689 091**
Additions from:				
– purchases	—	—	32 488	32 488
– intangible assets taken for use	61 256	15	—	61 271
– transfers	11	—	—	11
Disposals from:				
– liquidation	(1 087)	(2 002)	(194)	(3 283)
– intangible assets taken for use	—	—	(61 271)	(61 271)
– transfers	—	—	(187)	(187)
Gross value – end of the period	**667 481**	**6 045**	**44 594**	**718 120**
Accumulated depreciation – beginning of the period	**(499 488)**	**(7 983)**	**—**	**(507 471)**
Additions/disposals from:				
– current year	(40 999)	(51)	—	(41 050)
– liquidation	971	2 002	—	2 973
– transfers	11)	—	—	(11)
Accumulated depreciation– end of the period	**(539 527)**	**(6 032)**	**—**	**(545 559)**
Balance sheet value				
Purchase value	667 481	6 045	44 594	718 120
Accumulated depreciation	(539 527)	(6 032)	—	(545 559)
As at 31 December 2010	**127 954**	**13**	**44 594**	**172 561**

In thousands of PLN

Intangible assets Year 2009	Licences, patents etc.	Other (incl. know–how)	Capital expenditures	Total
Gross value – beginning of the period	**551 999**	**8 032**	**93 634**	**653 665**
Additions from:				
– purchases	—	—	41 016	41 016
– intangible assets taken for use	60 725	—	—	60 725
Disposals from:				
– liquidation	(5 423)	—	—	(5 423)
– intangible assets taken for use	—	—	(60 725)	(60 725)
– transfers	—	—	(167)	(167)
Gross value – end of the period	**607 301**	**8 032**	**73 758**	**689 091**
Accumulated depreciation – beginning of the period	**(468 051)**	**(7 853)**	**(3 827)**	**(479 731)**
Additions/disposals from:				
– current year	(33 033)	(130)	—	(33 163)
– liquidation	1 596	—	3 827	5 423
Accumulated depreciation– end of the period	**(499 488)**	**(7 983)**	**—**	**(507 471)**
Balance sheet value				
Purchase value	607 301	8 032	73 758	689 091
Accumulated depreciation	(499 488)	(7 983)	—	(507 471)
As at 31 December 2009	**107 813**	**49**	**73 758**	**181 620**

Intangible assets Year 2008	Licences, patents etc.	Other (incl. know–how)	Capital expenditures	Total
Gross value – beginning of the period	**508 575**	**8 030**	**56 399**	**573 004**
Additions from:				
– purchases	—	—	87 182	87 182
– intangible assets taken for use	49 580	2	—	49 582
Disposals from:				
– liquidation	(6 153)	—	—	(6 153)
– intangible assets taken for use	—	—	(49 582)	(49 582)
– transfers	—	—	(365)	(365)
– other	(3)	—	—	(3)
Gross value – end of the period	**551 999**	**8 032**	**93 634**	**653 665**
Accumulated depreciation – beginning of the period	**(450 003)**	**(7 721)**	**—**	**(457 724)**
Additions/disposals from:				
– current year	(22 438)	(132)	—	(22 570)
– liquidation	4 389	—	—	4 389
– other	1	—	—	1
Write down/Reversal of impairment write down	—	—	(3 827)	(3 827)
Accumulated depreciation– end of the period	**(468 051)**	**(7 853)**	**(3 827)**	**(479 731)**
Balance sheet value				
Purchase value	551 999	8 032	93 634	653 665
Accumulated depreciation	(468 051)	(7 853)	(3 827)	(479 731)
As at 31 December 2008	**83 948**	**179**	**89 807**	**173 934**

In thousands of PLN

28. Property, plant and equipment

Property, plant & equipment Year 2010	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value – beginning of the period	**652 548**	**325 273**	**43 563**	**312 419**	**28 566**	**1 362 369**
Additions from:						
– purchases	—	—	—	—	37 047	37 047
– leasing	—	—	4 121	—	—	4 121
– fixed assets taken for use	7 155	15 432	9	19 011	—	41 607
– transfers	—	130	(200)	—	59	(11)
Disposals from:						
– sale, liquidation, donation	(1 769)	(28 585)	(2 912)	(4 264)	(144)	(37 674)
– fixed assets taken for use	—	—	—	—	(41 607)	(41 607)
– transfers	—	(21)	205	(26)	—	158
Gross value – end of the period	**657 934**	**312 229**	**44 786**	**327 140**	**23 921**	**1 366 010**
Accumulated depreciation – beginning of the period	**(269 972)**	**(260 304)**	**(22 822)**	**(213 117)**	**—**	**(766 215)**
Additions/disposals from:						
– current year	(27 597)	(24 554)	(10 184)	(25 382)	—	(87 717)
– sale, liquidation, donation	780	28 388	2 339	3 936	—	35 443
– transfers	(6)	4	15	2	—	15
Accumulated depreciation – end of the period	**(296 795)**	**(256 466)**	**(30 652)**	**(234 561)**	**—**	**(818 474)**
Balance sheet value						
Purchase value	657 934	312 229	44 786	327 140	23 921	1 366 010
Accumulated depreciation	(296 795)	(256 466)	(30 652)	(234 561)	—	(818 474)
As at 31 December 2010	**361 139**	**55 763**	**14 134**	**92 579**	**23 921**	**547 536**

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Property, plant & equipment Year 2009	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value – beginning of the period	**612 534**	**311 930**	**48 279**	**291 540**	**80 141**	**1 344 424**
Additions from:						
– purchases	—	—	—	—	49 833	49 833
– leasing	—	—	2 188	—	—	2 188
– donation	—	1	—	—	—	1
– fixed assets taken for use	45 789	30 357	—	25 092	—	101 238
– transfers	—	—	756	—	74	830
Disposals from:						
– sale, liquidation, donation	(5 775)	(17 015)	(7 378)	(4 213)	(244)	(34 625)
– fixed assets taken for use	—	—	—	—	(101 238)	(101 238)
– transfers	—	—	(282)	—	—	(282)
Gross value – end of the period	**652 548**	**325 273**	**43 563**	**312 419**	**28 566**	**1 362 369**
Accumulated depreciation – beginning of the period	**(246 028)**	**(252 007)**	**(18 279)**	**(190 624)**	**—**	**(706 938)**
Additions/disposals from:						
– current year	(27 967)	(25 180)	(10 706)	(26 457)	—	(90 310)
– sale, liquidation, donation	4 016	16 890	6 870	3 933	—	31 709
– transfers	7	(7)	(707)	—	—	(707)
Write down/Reversal of impairment write down	—	—	—	31	—	31
Accumulated depreciation– end of the period	**(269 972)**	**(260 304)**	**(22 822)**	**(213 117)**	**—**	**(766 215)**
Balance sheet value						
Purchase value	652 548	325 273	43 563	312 419	28 566	1 362 369
Accumulated depreciation	(269 972)	(260 304)	(22 822)	(213 117)	—	(766 215)
As at 31 December 2009	**382 576**	**64 969**	**20 741**	**99 302**	**28 566**	**596 154**

In thousands of PLN

Property, plant & equipment Year 2008	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value – beginning of the period	**572 424**	**291 697**	**37 337**	**254 089**	**55 556**	**1 211 103**
Additions from:						
– purchases	—	—	—	—	168 576	168 576
– leasing	—	—	20 998	—	—	20 998
– fixed assets taken for use	52 961	44 866	480	45 945	—	144 252
– transfers	—	21	219	267	371	878
Disposals from:						
– sale, liquidation, donation	(12 805)	(24 638)	(10 686)	(8 671)	(110)	(56 910)
– fixed assets taken for use	—	—	—	—	(144 252)	(144 252)
– transfers	—	(8)	—	—	—	(8)
– other	(46)	(8)	(69)	(90)	—	(213)
Gross value – end of the period	**612 534**	**311 930**	**48 279**	**291 540**	**80 141**	**1 344 424**
Accumulated depreciation – beginning of the period	**(225 716)**	**(250 493)**	**(17 194)**	**(174 474)**	**—**	**(667 877)**
Additions/disposals from:						
– current year	(24 323)	(25 640)	(9 936)	(24 862)	—	(84 761)
– sale, liquidation, donation	4 008	24 116	10 217	8 322	—	46 663
– transfers	—	4	(1 421)	(80)	—	(1 497)
– other	3	6	55	75	—	139
Write down/Reversal of impairment write down	—	—	—	395	—	395
Accumulated depreciation – end of the period	**(246 028)**	**(252 007)**	**(18 279)**	**(190 624)**	**—**	**(706 938)**
Balance sheet value						
Purchase value	612 534	311 930	48 279	291 540	80 141	1 344 424
Accumulated depreciation	(246 028)	(252 007)	(18 279)	(190 624)	—	(706 938)
As at 31 December 2008	**366 506**	**59 923**	**30 000**	**100 916**	**80 141**	**637 486**

In thousands of PLN

29. Net deferred tax assets

Deferred tax assets	31.12.2010	31.12.2009	31.12.2008
Provisions for loans	225 470	212 069	157 375
Unrealized liabilities due to derivatives	80 231	100 051	283 261
Other provisions which are not yet taxable costs	64 766	56 470	56 588
Deferred income	72 894	67 052	47 178
Difference between balance sheet and taxable value of leasing portfolio	52 092	39 206	34 863
Unrealized interest on credits, loans and securities	48 803	32 051	33 105
Unrealised FX translation differences from b/s valuation of receivables and liabilities	—	12 799	16 251
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	—	—	7 399
Other	807	1 592	4 479
Total	**545 063**	**521 290**	**640 499**

Deferred tax liabilities	31.12.2010	31.12.2009	31.12.2008
Revaluation of financial instruments available for sale*	(100 946)	(98 161)	(83 694)
Unrealised receivables on derivatives	(60 750)	(83 946)	(279 546)
Unrealised interests from loans, securities and interbank deposits	(53 261)	(46 343)	(56 577)
Provision due to application of investment relief	(2 647)	(2 778)	(2 967)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(6 862)	—	—
Cash flow hedges valuation*	(473)	(450)	5 787
Other	(10 960)	(11 385)	(13 007)
Total	**(235 899)**	**(243 063)**	**(430 004)**

Net deferred tax assets	**309 164**	**278 227**	**210 495**

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

As at 31 December 2010 the calculation of deferred tax asset did not include purchased receivables of PLN 15 625 k and loans that will not be realised of PLN 65 478 k.
As at 31 December 2009 the calculation of deferred tax asset did not include purchased receivables of PLN 19_982 k and loans that will not be realised of PLN 39 833 k.
As at 31 December 2008 the calculation of deferred tax asset did not include purchased receivables of PLN 20 216 k and loans that will not be realised of PLN 41 698 k.

Movements on net deferred tax	31.12.2010	31.12.2009	31.12.2008
As at the beginning of the period	278 227	210 495	161 160
Changes in accounting policies	—	4 259	—
Changes recognised in income statement	33 744	84 177	42 064
Changes recognised in other net comprehensive income	(2 807)	(20 704)	7 271
Balance at the end of the period	**309 164**	**278 227**	**210 495**

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

30. Other assets

Other assets	31.12.2010	31.12.2009	31.12.2008
Sundry debtors	236 133	198 290	261 583
Settlements of stock exchange transactions	73 797	62 642	40 994
Interbank and interbranch settlements	42 844	41 998	175 679
Prepayments	39 929	35 168	36 108
Assets held for sale	2 502	2 502	2 502
Other	453	600	960
Total	**395 658**	**341 200**	**517 826**

of Bank Zachodni WBK Group for 2010 In thousands of PLN

Assets held for sale — BZ WBK Group

31 December 2010	Gross amount	Amortisation	Net amount
Land and buildings	4 224	(1 815)	2 409
Equipment	436	(343)	93
Total	**4 660**	**(2 158)**	**2 502**

In comparable periods there were no changes in the amount of assets held for sale.

31. Deposits from central bank

Deposits from central bank	31.12.2010	31.12.2009	31.12.2008
Repo transactions	—	1 519 208	1 242 574
Total	**—**	**1 519 208**	**1 242 574**

Fair value of "Deposits from central bank" is presented in note 42.

32. Deposits from banks

Deposits from banks	31.12.2010	31.12.2009	31.12.2008
Loans from other banks	380 791	1 518 901	2 127 825
Repo transactions	1 927 368	1 531 795	1 358 084
Term deposits	119 663	740 954	568 972
Current accounts	98 260	39 126	40 596
Total	**2 526 082**	**3 830 776**	**4 095 477**

As at 31.12.2010 fair value adjustment for hedged deposit totaled nill (as at 31.12.2009 – PLN (1 850) k, as at 31.12.2008 – PLN 5 289 k). Fair value of "Deposits from banks" is presented in note 42.

33. Deposits from customers

Deposits from customers	31.12.2010	31.12.2009	31.12.2008
Deposits from individuals	25 230 799	25 613 714	24 239 092
Term deposits	*12 745 658*	*14 166 157*	*13 135 776*
Current accounts	*12 449 476*	*11 414 712*	*11 029 970*
Repo transactions	*—*	*—*	*1 927*
Other	*35 665*	*32 845*	*71 419*
Deposits from enterprises	14 605 812	13 284 728	15 066 460
Term deposits	*8 757 801*	*8 319 717*	*10 608 820*
Current accounts	*4 958 514*	*4 484 720*	*4 146 018*
Credits	*600 805*	*227 614*	*26 352*
Repo transactions	*—*	*—*	*1 827*
Other	*288 692*	*252 677*	*283 443*
Deposits from public sector	2 133 843	2 324 429	3 505 175
Term deposits	*1 015 651*	*781 613*	*1 958 735*
Current accounts	*1 117 309*	*1 542 259*	*1 545 909*
Other	*883*	*557*	*531*
Total	**41 970 454**	**41 222 871**	**42 810 727**

As at 31.12.2010 deposits held as collateral totaled PLN 205 954 k (as at 31.12.2009 – PLN 165 796 k, as at 31.12.2008 – PLN 232 239 k).Fair value of "Deposits from customers" is presented in note 42.

In thousands of PLN

34. Debt securities in issue

Debt securities in issue	Average coupon			Nominal value		
	31.12.2010	31.12.2009	31.12.2008	31.12.2010	31.12.2009	31.12.2008
Bond 3 Y–3Z0209	—	—	WIBOR 1M+0.44%	—	—	35 000
Bond 3 Y–3S0809	—	—	fixed; 4.9%	—	—	58 244
Bond 2–Y–2S0209	—	—	fixed; 5.0%	—	—	32 296
Bond 2–Y–2S0409	—	—	fixed; 5.0%	—	—	10 169
Bond 2–Y–2Z0809	—	—	WIBOR 6M	—	—	14 296
Nominal value	—			—	—	150 005
Total carrying value	**—**			**—**	**—**	**153 918**

As at 31.12.2008 the nominal value was increased by interest of PLN 4 111 k, bond valuation of PLN (198) k related to hedging activities.

35. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Redemption date	As at the end of the period
Subordinated liabilities	100 000	EUR	05.08.2020	395 230
As at 31 December 2010				**395 230**

Movements in Subordinated Liabilities	31.12.2010	31.12.2009	31.12.2008
As at the beginning of the period	**—**	**—**	**—**
Increase (due to:)	**403 965**	**—**	**—**
— subordinated loan raised	396 030	—	—
— interest on subordinated loan	7 935	—	—
— FX differences	—	—	—
Decrease (due to):	**(8 735)**	**—**	**—**
— capital repayment	—	—	—
— interest repayment	(4 756)	—	—
— FX differences	(19)	—	—
— subscription price	(3 960)	—	—
Subordinated liabilities — as at the end of the period	**395 230**	**—**	**—**
Short–term	3 160	—	—
Long—term (over 1 year)	392 070	—	—

BZ WBK Group issued subordinated debt to mitigate FX rate sensitivity and increase efficiency of own funding. In line with the KNF decision subordinated liabilities have been recognised as the supplementary capital and since Q4 2010 are included in the solvency ratio calculations. Other details on these liabilities are disclosed in Note 5.

In thousands of PLN

36. Other liabilities

Other liabilities	31.12.2010	31.12.2009	31.12.2008
Provisions:	247 275	203 440	179 363
Employee provisions	*212 540*	*170 163*	*140 745*
Provisions for legal claims	*17 518*	*17 725*	*26 642*
Provisions for off balance sheet credit facilities	*17 217*	*15 552*	*11 976*
Interbank and interbranch settlements	165 690	133 380	131 255
Other deferred and suspended income	95 104	94 053	43 112
Accrued liabilities	57 621	70 471	85 218
Sundry creditors	125 019	67 260	148 637
Settlements of stock exchange transactions	67 936	65 408	41 056
Public and law settlements	35 270	40 446	35 880
Financial lease related settlements	16 571	12 251	16 431
Other	134	8	848
Total	**810 620**	**686 717**	**681 800**

The Group raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.Employee related provisions and accruals consists of items outlined in note 52.

Change in provisions	31.12.2010	31.12.2009	31.12.2008
As at the beginning of the period	**203 440**	**179 363**	**246 167**
Employee provisions	170 163	140 745	215 849
Provisions for legal claims	17 725	26 642	29 202
Provisions for off balance sheet credit facilities	15 552	11 976	1 116
Provision charge	**250 851**	**208 711**	**172 429**
Employee provisions	204 527	151 959	141 687
Provisions for legal claims	2 457	2 070	1 793
Provisions for off balance sheet credit facilities	43 867	54 682	28 949
Utilization	**(149 217)**	**(116 270)**	**(212 785)**
Employee provisions	(146 945)	(115 880)	(212 476)
Provisions for legal claims	(2 266)	(469)	(547)
Provisions for off balance sheet credit facilities	(6)	79	238
Write back	**(57 799)**	**(68 364)**	**(30 651)**
Employee provisions	(15 205)	(6 661)	(4 315)
Provisions for legal claims	(398)	(10 518)	(3 806)
Provisions for off balance sheet credit facilities	(42 196)	(51 185)	(22 530)
Transfer	**—**	**—**	**4 203**
Employee provisions	—	—	—
Provisions for legal claims	—	—	—
Provisions for off balance sheet credit facilities	—	—	4 203
Balance at the end of the period	**247 275**	**203 440**	**179 363**
Employee provisions	**212 540**	**170 163**	**140 745**
Provisions for legal claims	**17 518**	**17 725**	**26 642**
Provisions for off balance sheet credit facilities	**17 217**	**15 552**	**11 976**

In thousands of PLN

37. Share capital

31.12.2010

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

Nominal value of one share is 10 PLN. All shares in issue are fully paid. The shareholder having a minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin–based AIB European Investments Ltd., a wholly–owned subsidiary of Allied Irish Banks p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK is 70.4%. The remaining shares are in free float.

31.12.2009

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

Nominal value of one share is 10 PLN. All shares in issue are fully paid. The shareholder having a minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin–based AIB European Investments Ltd., a wholly–owned subsidiary of Allied Irish Banks p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK is 70.4%. The remaining shares are in free float. Increase of the bank's share capital by PLN 1 157 k results from vesting of the first edition of BZ WBK Incentive Scheme introduced in 2006. Details are presented in note 53.

of Bank Zachodni WBK Group for 2010 In thousands of PLN

31.12.2008

Series/ issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
				72 960 284	**729 603**

Nominal value of one share is 10 PLN. All shares in issue are fully paid. The shareholder having a minimum 5% of the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Dublin–based AIB European Investments Ltd., a wholly–owned subsidiary of Allied Irish Bank p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK was 70.5%. The remaining shares are in free float.

38. Other reserve funds

Other reserve funds	31.12.2010	31.12.2009	31.12.2008
General banking risk fund	649 810	649 810	529 810
Share premium	261 699	261 699	261 699
Other reserves of which:	3 433 131	2 655 490	1 925 178
Reserve capital	*3 215 915*	*2 447 519*	*1 725 080*
Supplementary capital	*217 216*	*207 971*	*200 098*
Total	**4 344 640**	**3 566 999**	**2 716 687**

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the bank's supplementary capital. As at 31.12.2010 and 31.12.2009 reserve capital including share scheme charge of PLN_17_429_k, as at 31.12.2008 of PLN 15_882 k. Other movements of other reserve funds are presented in "movements on consolidated equity" for 2010, 2009 and 2008. Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the bank's statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit of the current year to reserve capital should amount to at least 8 % of profit after tax and are made until supplementary capital equals at least one third of the bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The_decision on reserve capital use is taken by the General Meeting of Shareholders.

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39. Revaluation reserve

Revaluation reserve	31.12.2010	31.12.2009	31.12.2008
As at 31 December	422 005	335 507	362 963
Net change in available for sale investments, of which:	24 272	69 813	24 964
Increase:	33 744	80 773	35 609
– related to debt investments purchased before current reporting period	32 331	50 903	32 435
– related to equity investments purchased before current reporting period	—	6 801	—
–net change in available for sale investments matured in the period	1 413	23 069	3 031
– transferred from associates	—	—	143
Decrease:	(9 472)	(10 960)	(10 645)
– related to debt investments purchased/assigned in the period	(4 101)	—	(9 162)
– related to equity investments purchased before current reporting period	(1 165)	—	(1 483)
–net change in available for sale investments matured in the period	(4 206)	(10 960)	(28)
Gross valuation related to cash flow hedge	119	32 827	(30 460)
Decrease in revaluation reserve related to sale of investments	(10 455)	4 562	(29 203)
Deferred tax adjustment	(2 807)	(20 704)	7 271
Total	**433 134**	**422 005**	**335 507**

The revaluation reserve is comprised of adjustments relating to the valuation of available–for–sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and is not distributable. As at 31.12.2010 the revaluation reserve includes the amortization of the fair value of financial assets reclassified in prior period from 'Available for sale' category to 'Held to maturity' (see note 24) of PLN (10 206) k and as at 31.12.2009 of PLN (22 396) k and as at 31.12.2008 of PLN (35 893) k.

40. Hedge accounting

The Group applies hedge accounting in line with the risk management assumptions described in note 4 of the annual consolidated financial statements.

Fair value hedge

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

- Fixed rate loans denominated in foreign currency recognised as a financial asset
- Fixed rate debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge
- Fixed rate debt securities denominated in American dollars, forming a group of assets covered with an interest rate hedge.

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

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The tables below contain details about individual groups of hedge transactions for 2010, 2009 and 2008:

31.12. 2010	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position in PLN k	36 757	938 564
Fair value adjustment of hedging instrument asset/(liability) in PLN k	(884)	(1 207)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	887	1 336
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2018

31.12.2009	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position in PLN k	39 670	534 012
Fair value adjustment of hedging instrument asset/(liability) in PLN k	(1 561)	1 587
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	1 565	(1 510)
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2018

31.12.2008	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position in PLNk	287 674	1 567 000
Fair value adjustment of hedging instrument asset/(liability) in PLN k	(1 545)	(24 979)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	1 607	27 300
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2017

In addition, BZ WBK subsidiaries – BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. – concluded IRS transactions with the bank with a view to hedging the fair value of their selected items of the statement of financial position. Details about these transactions are presented in the tables below.

31.12.2010	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedged position in PLN k	79 206	79 206
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(942)	(942)
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

31.12.2009	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedged position in PLN k	499 146	308 115
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	2 302	1 415
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

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31.12.2008	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of the hedged position in PLNk	469 919	298 244
Fair value adjustment of hedging instrument asset/(liability) in PLN k	2 922	2 323
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk	
Period over which the instruments have an impact on companies' results	up to 2009	up to 2009

Cash flow hedging

In 2008, Bank Zachodni WBK started to apply cash flow hedging. Hedging relationships are constructed using interest rate swaps. Their purpose is to mitigate the risk of cash flow volatility in hedged instruments stemming from changes in market interest rates. Cash flow hedges are used in relation to PLN deposits, taking into account their roll–over at variable rates, and to PLN and FX loans with variable interest rates.

Hedged items are measured at amortised cost. The hedging items are measured at fair value. When hedge effectiveness conditions are met, change in fair value adjustment of hedging instruments is recognised in equity.

As in 2010 financial markets regained stability, the bank decided to reduce its pricing of term deposits. In effect, interest expense fell below the rates offered in the interbank market. For this reason, in November 2010, the bank decided to dispense with application of hedge accounting for selected hedging relationships and to retain PLN 780 k in the revaluation reserve. This amount will be amortised over consecutive periods.

As at 31 December 2010 the nominal value of hedging instruments amounted to PLN 694 556 k (PLN 1 200 000 k as at 31.12.2009, and PLN 850 000 k as at 31.12.2008). Fair value adjustment of hedging instrument amounts to PLN 2 487 k (PLN 2 367 k as at 31.12.2009, and PLN (30 460) k as at 31.12.2008). The same amount, net of deferred tax, is reflected in revaluation reserve. Hedging instruments are contracted to the year 2016.

41. Sell–buy–back and buy–sell–back transactions

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at a predetermined price.

As at 31 December 2010, the consolidated statement of financial position, on liabilities side, contains treasury bills and bonds traded under sell–buy–back transactions amounting of PLN 1 927 368 k (PLN 3 051 003 k as at 31.12.2009; PLN 2 604 412 k as at 31.12.2008).

A related item being the deposit representing obligations in respect the repo transactions is held on the assets side of the consolidated statement of financial position and amounts to PLN 1 928 537 k (PLN 3 218 246 k as at 31.12.2009; PLN 2 655 853 k as at 31.12.2008).

As at 31.12.2010, in the consolidated statement of financial position, buy–sell–back transactions amount to PLN 10 118 k (31.12.2009 – PLN 10 083 k; 31.12.2008 – PLN 960 609 k).

All risks and rewards related to the holding of the underlying debt securities in the sell–buy–back transactions remains with the bank, as well as power to dispose them.

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

As at 31.12.2010 and 31.12.2009 there were no financial instruments that would be treated as security for the repo transactions whose maturity date is earlier or equal to the maturity date of the underlying transaction. Such instruments were recognised in 2008 in the amount of PLN 10 000 k.

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42. Fair value

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

Assets	31.12.2010		31.12.2009		31.12.2008	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	2 534 463	2 534 463	2 660 658	2 660 658	3 178 107	3 178 107
Loans and advances to banks	619 655	619 659	664 211	663 040	1 365 132	1 364 704
Financial assets held for trading	2 239 055	2 239 055	1 344 809	1 344 809	3 224 867	3 224 867
Hedging derivatives	14 768	14 768	10 801	10 801	347	347
Loans and advances to customers	32 838 296	33 342 218	34 569 513	34 194 648	35 136 613	34 400 683
Investment securities	13 395 355	13 494 939	13 292 572	13 373 812	12 916 041	12 974 506
Investments in associates and joint ventures	87 360	87 360	81 887	81 887	72 221	72 221
Liabilities						
Deposits from central bank	—	—	1 519 208	1 519 208	1 242 574	1 242 574
Deposits from banks	2 526 082	2 526 082	3 830 776	3 830 769	4 095 477	4 095 029
Hedging derivatives	16 441	16 441	32 933	32 933	68 562	68 562
Financial liabilities held for trading	578 611	578 611	736 050	736 050	3 153 932	3 153 932
Subordinated liabilities	395 230	395 230	—	—	—	—
Debt securities in issue	—	—	—	—	153 918	153 918
Deposits from customers	**41 970 454**	**41 970 949**	**41 222 871**	**41 225 768**	**42 810 727**	**42 808 299**

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

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

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

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

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

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

Investments in associates and joint ventures: The financial assets representing investments in associates and joint ventures are measured using the equity method. The Management

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Board of the parent company believes that this is the most accurate estimation of fair value of these instruments.

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

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

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

As at 31 December 2010 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

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

Level III (measurement methods using material non–market parameters): This level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund; debt securities (commercial and municipal bonds) and derivative instruments excluded from level I and II (i.e. IRS, CIRS, FX forward, Fx swap and FX options contracts concluded with non–bank counterparties for which the Group independently estimates the credit spread for counterparty risk).
In 2009, the Group transferred IRS, CIRS and fx swap transactions with non–bank clients from II to III fair value Level due to the fact that the counter–party risk has been included in fair value measurement.

As at 31.12.2010 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2010	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	509 958	1 538 049	191 048	2 239 055
Hedging derivatives	—	14 768	—	14 768
Financial investment assets – debt securities	5 459 246	1 425 849	80 771	6 965 866
Financial investment assets – equity securities	20 688	—	659 393	680 081
Total	**5 989 892**	**2 978 666**	**931 212**	**9 899 770**
Financial liabilities				
Financial liabilities held for trading	10 458	518 352	49 801	578 611
Hedging derivatives	—	16 441	—	16 441
Total	**10 458**	**534 793**	**49 801**	**595 052**

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31.12.2009	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	181 120	778 063	385 626	1 344 809
Hedging derivatives	—	10 801	—	10 801
Financial investment assets – debt securities	5 208 456	665 174	83 971	5 957 601
Financial investment assets – equity securities	22 652	—	642 764	665 416
Total	**5 412 228**	**1 454 038**	**1 112 361**	**7 978 627**
Financial liabilities				
Financial liabilities held for trading	—	611 574	124 476	736 050
Hedging derivatives	—	32 933	—	32 933
Total	**—**	**644 507**	**124 476**	**768 983**

31.12.2008	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	816 970	1 711 779	696 118	3 224 867
Hedging derivatives	—	347	—	347
Financial investment assets – debt securities	4 244 739	1 447 870	179 564	5 872 173
Financial investment assets – equity securities	22 014	—	633 577	655 591
Total	**5 083 723**	**3 159 996**	**1 509 259**	**9 752 978**
Financial liabilities				
Financial liabilities held for trading	—	2 558 456	595 476	3 153 932
Hedging derivatives	—	68 562	—	68 562
Total	**—**	**2 627 018**	**595 476**	**3 222 494**

As at 31 December 2010 and in the comparable period there were no transfers between the first and the second fair value level.

In 2008 the Group reclassified T–bonds to held–to–maturity portfolio. As at 31 December 2008 fair value of those instruments amounted to PLN 6 482 636 k and the carrying value amounted to PLN 6 388 277 k.

As at 31 December 2009 fair value of those instruments amounted to PLN 6 750 795 k and the carrying value amounted to PLN 6 669 555 k.

The fair value gain that would be recognised in total comprehensive income if the financial asset had not been reclassified, amounts to PLN 89 378 k as at 31.12. 2010, PLN 58 465 k as at 31.12. 2008 and PLN 58 844 k as at 31.12.2009.
As at 31 December 2008 interest income on financial assets classified as held–to–maturity recognised in profit or loss amounted to PLN 90 252 k, whereas at 31 December 2009 amounted to PLN 376 940 k.

Gain on derivative financial instruments classified by the Group to the III Level and still kept in the portfolio as at the end of the reporting period amounted to PLN 141 247 k.

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

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Level III	Financial assets		Financial liabilities	
31.12.2010	**Financial assets held for trading**	**Financial investment assets – debt securities**	**Financial investment assets – equity securities**	**Financial liabilities held for trading**
Beginning of the period	**385 626**	**83 971**	**642 764**	**(124 476)**
Profits or losses	30 110	1 486	1 881	15 291
recognised in income statement	*30 110*	*1 486*	*119*	*15 291*
recognised in equity	—	—	*1 762*	—
Purchase	—	3 296	18 865	—
Sale	—	(7 982)	(4 119)	—
Matured	(181 915)	—	—	59 384
Impairment	(42 773)	—	—	—
At the period end	**191 048**	**80 771**	**659 391**	**(49 801)**

Level III	Financial assets		Financial liabilities	
31.12.2009	**Financial assets held for trading**	**Financial investment assets – debt securities**	**Financial investment assets – equity securities**	**Financial liabilities held for trading**
Beginning of the period	696 118	179 564	633 577	(595 476)
Profits or losses	(6 895)	1 872	3 243	(3 712)
recognised in income statement	*(6 895)*	—	*337*	*(3 712)*
recognised in equity	—	*1 872*	*2 906*	—
Purchase	—	87 774	6 457	—
Sale	—	(56 075)	(513)	—
Matured	(566 182)	(129 164)	—	506 758
Transfer	262 585	—	—	(32 046)
At the period end	**385 626**	**83 971**	**642 764**	**(124 476)**

Level III	Financial assets		Financial liabilities	
31.12.2008	**Financial assets held for trading**	**Financial investment assets – debt securities**	**Financial investment assets – equity securities**	**Financial liabilities held for trading**
Beginning of the period	73 850	252 935	685 436	(120 173)
Profits or losses	634 113	(866)	(13 491)	(673 830)
recognised in income statement	*634 113*	—	—	*(673 830)*
recognised in equity	—	*(866)*	*(13 491)*	—
Purchase	—	6 906	24 750	—
Sale	—	—	(62 993)	—
Impairment	—	—	(125)	—
Matured	(11 845)	(79 411)	—	198 527
At the period end	**696 118**	**179 564**	**633 577**	**(595 476)**

In thousands of PLN

43. Contingent liabilities

Significant court proceedings

As at 31.12.2010 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 238 580 k, which is ca 3.52 % of the Group's equity. This amount includes PLN 103 404 k claimed by the Group, PLN 130 897 k in claims against the Group and PLN 4 279 k are the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2009 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 247 865 k, which is ca 4.11 % of Group's equity. This amount includes PLN 47 990 k claimed by the Group, PLN 71 911 k in claims against the Group and PLN 127 964 k are Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2008 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 251 642 k, which is ca 4.83 % of Group's equity. This amount includes PLN 58 249 k claimed by the Group, PLN 55 596 k in claims against the Group and PLN 137 797 k are Group's receivables due to bankruptcy or arrangement cases.

The bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 36.

Off-balance sheet liabilities

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

Contingent liabilities – sanctioned	31.12.2010	31.12.2009	31.12.2008
Liabilities sanctioned			
– financial	**5 623 703**	**6 345 103**	**9 528 754**
– credit lines	4 745 222	5 442 474	8 406 859
– credit cards debits	818 961	845 493	879 874
– import letters of credit	55 105	29 203	60 021
– term deposits with future commencement term	4 415	27 933	182 000
– guarantees	**1 185 541**	**876 197**	**901 717**
Total	**6 809 244**	**7 221 300**	**10 430 471**

44. Contingent liabilities

A guaranteed protection fund established by the Bank Zachodni WBK S.A. is collateralized by the debt securities.
Under the Bank Guarantee Fund Act, the bank calculated this fund using 0.4% rate of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2010 Bank Zachodni WBK S.A. pledged as collateral PLN 170 698 k of debt securities (PLN 167 100 k as at 31.12.2009 , PLN 150 561 k as at 31.12.2008).

In 2010 a deposit for PLN 267 731 k was placed with another bank as a collateral for the day–to–day Treasury business (in 2009 it was PLN 239 958 k, in 2008 it was PLN 182 306 k).

In 2010 BZ WBK hold a deposit for PLN 9 667 k (in 2009 it was PLN 4 724 k) as a collateral for the day–to–day Treasury business.

Other assets pledged as collateral are disclosed in notes 33 and 41.

In thousands of PLN

45. Finance and operating leasing

Financial leases

Lease agreements where the Group acts as a leasor

Bank Zachodni WBK Group operates on the leasing market through two leasing companies who specialise in funding two different asset categories. BZ WBK Finance & Leasing focuses on lease of machines and equipment as well as computers and office equipment for businesses, while BZ WBK Leasing specialises in financing vehicles for businesses and personal customers.

The item "receivables from customers" contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables – maturity	31.12.2010	31.12.2009	31.12.2008
less than 1 year	1 115 366	1 194 202	1 185 293
between 1 and 5 years	1 534 347	1 777 014	2 126 247
over 5 years	265 292	203 702	137 902
Total	**2 915 005**	**3 174 918**	**3 449 442**

Present value of minimum lease payments – maturity	31.12.2010	31.12.2009	31.12.2008
less than 1 year	1 040 850	1 127 262	1 133 217
between 1 and 5 years	1 264 270	1 477 389	1 760 913
over 5 years	130 635	101 865	64 907
Total	**2 435 755**	**2 706 516**	**2 959 037**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2010	31.12.2009	31.12.2008
Finance lease gross receivables	2 915 005	3 174 918	3 449 442
Unearned finance income	(479 250)	(468 402)	(490 405)
Impairment of finance lease receivables	(95 214)	(61 307)	(37 887)
Total	**2 340 541**	**2 645 209**	**2 921 150**

Lease agreements where the Group acts as a lessee

The BZ WBK Group companies also avail of lease arrangements as lessees, however as the leases are between related entities they were eliminated from the consolidated statement of financial position and profit and loss account.

Operating leases

The BZ WBK Group leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5–10 years. A small part of the offices is subleased outside the Group. In 2010, 2009 and 2008 rentals totalled PLN 144 336 k, PLN 139 483 k and PLN 100 273 k respectively. These payments are presented in the profit and loss account under "operating expenses".

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

Payments – maturity	31.12.2010	31.12.2009	31.12.2008
less than 1 year	146 193	142 291	119 302
between 1 and 5 years	446 363	456 484	374 372
over 5 years	306 347	325 885	311 110
Total	**898 903**	**924 660**	**804 784**

of Bank Zachodni WBK Group for 2010 In thousands of PLN

46. Consolidated statement of cash flow – additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2010	31.12.2009	31.12.2008
Cash and balances with central banks	2 534 463	2 660 658	3 178 107
Debt investment financial instruments	—	1 793 330	615 802
Deposits in other banks, current account	609 318	654 932	1 356 406
Debt secutities held for trading	1 223 028	449 354	168 618
Total	**4 366 809**	**5 558 274**	**5 318 933**

Bank Zachodni WBK S.A. holds restricted cash. The balance of secured credit receivables is presented in Note 33.

47. Related party disclosures

The tables below present intercompany transactions. They are effected between subsidiaries, associates, joint ventures and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process.

Transactions with associates and joint ventures	31.12.2010	31.12.2009	31.12.2008
Assets	**514**	**842**	**1 014**
Loans and advances to customers	514	842	1 014
Liabilities	**361 038**	**95 442**	**124 712**
Deposits from customers	361 038	95 442	124 712
Income	**61 013**	**67 564**	**15 852**
Interest income	1 037	62	41
Fee and commission income	59 714	67 345	15 753
Other operating income	262	157	58
Expenses	**24 235**	**8 340**	**6 620**
Interest expense	21 921	6 199	5 073
Fee and commission expense	604	—	—
Operating expenses incl.:	1 710	2 141	1 547
General and administrative expenses	*1 710*	*2 141*	*1 547*

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Transactions with AIB Group	31.12.2010	31.12.2009	31.12.2008
ASSETS	**130 969**	**495 282**	**445 981**
Loans and advances to banks, incl:	93 399	376 170	254 035
deposits	—	*376 075*	*253 549*
current accounts	*93 399*	*95*	*486*
Financial assets held for trading	36 968	117 274	187 878
Investment securities	—	—	129 164
Other assets	602	1 838	4 068
LIABILITIES	**463 030**	**1 918 015**	**2 572 892**
Deposits from banks incl.:	326 117	1 631 612	1 885 144
loans granted to BZ WBK subsidiaries	—	819 759	834 572
repo transactions	289 270	305 653	588 159
deposits	36 847	506 200	462 413
Hedging derivatives	887	1 564	1 489
Financial liabilities held for trading	124 466	272 417	671 136
Other liabilities	11 560	12 422	15 123
INCOME	**(41 125)**	**76 120**	**(312 479)**
Interest income	1 957	4 375	19 057
Fee and commission income	2 183	1 042	33
Other operating income	1 917	2 951	17 206
Net trading income and revaluation	(46 009)	60 686	(340 410)
Gains (losses) from other financial securities	(1 173)	7 066	(8 365)
EXPENSES	**42 897**	**62 822**	**98 464**
Interest expense	16 528	30 405	67 912
Fee and commission expense	—	—	288
Operating expenses incl.:	26 369	32 417	30 264
Bank's staff, operating expenses and management costs	*26 369*	*32 417*	*30 264*
CONTINGENT LIABILITIES	**—**	**44 319**	**188 563**
Sanctioned:	—	7 419	165 000
– financing–related	—	*7 419*	*165 000*
Received:	—	36 900	23 563
– financing–related	—	*36 900*	*23 563*
DERIVATIVES' NOMINAL VALUES	**4 611 239**	**11 062 622**	**13 161 424**
Cross–currency interest rate swaps – purchased amounts	372 205	1 337 015	480 590
Cross–currency interest rate swaps – sold amounts	362 070	1 402 642	590 082
Single–currency interest rate swaps	3 092 517	3 364 991	3 954 781
FRA – purchased amounts	—	—	150 000
Options	25 616	9 841	10 221
FX swap – purchased amounts	186 807	1 961 714	2 441 470
FX swap – sold amounts	205 653	1 927 627	2 465 307
FX options –purchased	122 520	507 319	1 226 585
FX options –sold	127 976	547 364	1 761 203
Spot–purchased	58 387	2 055	39 224
Spot–sold	57 488	2 054	41 961

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

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

31.12.2010

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

First and last name	Position	Period	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2010–31.12.2010	221.6
Gerald Byrne	Vice–Chairman of the Supervisory Board	01.01.2010–30.11.2010	141.4
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2010–31.12.2010	167.3
Aleksander Galos	Member of the Supervisory Board	01.01.2010–31.12.2010	167.3
Jacek Ślotała	Member of the Supervisory Board	01.01.2010–31.12.2010	151.3
John Power	Member of the Supervisory Board	01.01.2010–31.12.2010	191.7
Piotr Partyga	Member of the Supervisory Board	21.04.2010–31.12.2010	95.8
Anne Maher	Member of the Supervisory Board	21.04.2010–31.12.2010	68.1

In 2010 Mr Maeliosa OhOgartaigh decided not to receive remuneration for his membership in the Supervisory Board.
Mr John Power received remuneration of PLN 61 k from subsidiaries for his membership in their Supervisory Boards.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2010–31.12.2010	1 459.81	73.84
Paul Barry*	Member of the Managemet Board	01.01.2010–31.12.2010	682.37	764.84
Andrzej Burliga	Member of the Managemet Board	01.01.2010–31.12.2010	859.84	77.61
Declan Flynn*	Member of the Managemet Board	01.01.2010–31.12.2010	940.48	457.82
Justyn Konieczny	Member of the Managemet Board	01.01.2010–31.12.2010	1 057.82	70.92
Janusz Krawczyk	Member of the Managemet Board	01.01.2010–31.12.2010	898.24	59.75
Jacek Marcinowski	Member of the Managemet Board	01.01.2010–31.12.2010	842.18	54.90
Michael McCarthy *	Member of the Managemet Board	01.01.2010–31.12.2010	1 020.60	665.70
Marcin Prell	Member of the Managemet Board	01.01.2010–31.12.2010	842.87	69.28
Mirosław Skiba	Member of the Managemet Board	01.01.2010–31.12.2010	860.05	76.05
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2010–31.12.2010	895.61	67.18

*Messrs Barry's, Flynn's and McCarthy's remunerations (on assignment to BZ WBK from Allied Irish Banks plc, Dublin, Ireland), cover payment of salaries in their home country currency as well as additional benefits i.e. pension contributions, medical insurance cover and other benefits. Costs in respect of accommodation and school fees are also paid by BZ WBK in specific cases. In 2010, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.Members of the Management Board have signed non–competition agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once–off severance pay. The severance pay does not apply if the person accepts another function in the bank.

In thousands of PLN

31.12.2009

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

First and last name	Position	Period	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2009–31.12.2009	203.7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2009–31.12.2009	163.7
Aleksander Galos	Member of the Supervisory Board	01.01.2009–31.12.2009	163.7
Jacek Ślotała	Member of the Supervisory Board	01.01.2009–31.12.2009	139.7
John Power	Member of the Supervisory Board	01.01.2009–31.12.2009	205.6
James O'Leary	Member of the Supervisory Board	01.01.2009–21.04.2009	53.7

Messrs Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated for their membership in the Supervisory Board.Mr John Power received remuneration of PLN 11 k from a subsidiary for his membership in its Supervisory Board.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2009–31.12.2009	1 217.74	324.20
Paul Barry*	Member of the Managemet Board	01.01.2009–31.12.2009	715.89	854.57
Andrzej Burliga	Member of the Managemet Board	01.01.2009–31.12.2009	622.87	73.57
Declan Flynn*	Member of the Managemet Board	01.01.2009–31.12.2009	947.35	642.63
Justyn Konieczny	Member of the Managemet Board	01.01.2009–31.12.2009	859.13	70.83
Janusz Krawczyk	Member of the Managemet Board	01.01.2009–31.12.2009	750.66	103.48
Jacek Marcinowski	Member of the Managemet Board	01.01.2009–31.12.2009	725.31	55.34
Michael McCarthy *	Member of the Managemet Board	01.02.2009–31.12.2009	989.60	782.00
Marcin Prell	Member of the Managemet Board	01.01.2009–31.12.2009	723.36	93.43
Mirosław Skiba	Member of the Managemet Board	01.01.2009–31.12.2009	562.55	132.75
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2009–31.12.2009	739.32	122.22

* Messrs Barry's, Flynn's and McCarthy's remunerations (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), cover payment of salaries in their home country currency as well as additional benefits i.e. pension contributions, medical insurance cover and other benefits. Costs in respect of accommodation and school fees are also paid by BZ WBK in specific cases. In 2009, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities. Members of the Management Board have signed non–competition agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once–off severance pay. The severance pay does not apply if the person accepts another function in the bank.

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31.12.2008

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

First and last name	Position	Period	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2008–31.12.2008	201.7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2008–31.12.2008	177.2
Aleksander Galos	Member of the Supervisory Board	01.01.2008–31.12.2008	163.0
Jacek Ślotała	Member of the Supervisory Board	01.01.2008–31.12.2008	119.0
John Power	Member of the Supervisory Board	01.01.2008–31.12.2008	214.8
James O'Leary	Member of the Supervisory Board	01.01.2008–31.12.2008	93.6

Messrs Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated for their membership in the Supervisory Board.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2008–31.12.2008	1 214.64	638.10
Paul Barry*	Member of the Managemet Board	01.10.2008–31.12.2008	189.37	272.73
Andrzej Burliga	Member of the Managemet Board	01.01.2008–31.12.2008	566.47	59.56
Declan Flynn*	Member of the Managemet Board	01.01.2008–31.12.2008	995.91	792.85
Michał Gajewski	Member of the Managemet Board	01.01.2008–31.05.2008	415.29	29.02
Justyn Konieczny	Member of the Managemet Board	01.01.2008–31.12.2008	854.28	69.99
Janusz Krawczyk	Member of the Managemet Board	01.01.2008–31.12.2008	762.57	45.30
Jacek Marcinowski	Member of the Managemet Board	01.01.2008–31.12.2008	729.29	56.24
James Murphy*	Member of the Managemet Board	01.01.2008–30.09.2008	518.58	439.00
Marcin Prell	Member of the Managemet Board	01.01.2008–31.12.2008	729.02	70.83
Mirosław Skiba	Member of the Managemet Board	22.07.2008–31.12.2008	252.28	17.80
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2008–31.12.2008	732.45	64.20

* Messrs Barry's, Flynn's and Murphy's remunerations (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland) cover payment of salaries in their home country currency as well as additional benefits i.e. pension contributions, medical insurance cover and other benefits. Costs in respect of accommodation and school fees are also paid by BZ WBK in specific cases. In 2008, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities. Members of the Management Board have signed non—competition agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once—off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

31.12.2010

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives totalled PLN 8 798 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2010, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 6 k.
Social Fund loans and advances provided to the Members of the Management Board totalled nil.

31.12.2009

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives totalled PLN 9 193 k. These facilities have been sanctioned on regular terms and conditions.
As at 31.12.2009, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 23 k.

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

31.12.2008

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives totalled PLN 8 769 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2008, the total of finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 30 k. Social Fund loans and advances provided to the Members of the Management Board totalled nil.

Profit sharing scheme

In 2006 selected subsidiaries of BZ WBK Group introduced a motivation scheme for their key management in a form of a long term profit sharing scheme classified as other long–term benefits in accordance with IAS 19. The formal framework of the scheme is based on an issue of shares that are purchased by entitled individuals. Considering underlying characteristics of the scheme it has been classified as a long term profit sharing scheme and recognized as a liability in the consolidated financial statements.

Shares issued under the scheme are deprived of voting rights, have significant limitations on disposal and are subject to conditional obligation to dispose shares at a price different from the fair value of shares.

Considering the above, BZ WBK Group has estimated a present value of the future obligations to pay–outs resulting from rights granted under the scheme respectively to the service period of the entitled individuals participating in the scheme.

The value of the liability resulting from the scheme as at 31 December 2010 amounted to PLN 5 309 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 5 312 k.

The value of the liability resulting from the scheme as at 31 December 2009 amounted to PLN 14 344 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 12 304 k.

The value of the liability resulting from the scheme as at 31 December 2008 amounted to PLN 17 712 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 20 309 k.

Transactions with employees

31.12.2010

As of 31.12.2010, the total of loans and advances drawn by BZ WBK S.A. employees was PLN 599 312 k (including the debt of PLN 39 874 k shown in joint accounts) and PLN 37 220 k in the case of employees of BZ WBK subsidiaries and associates.
In the same period, the total of loans and advances drawn by BZ WBK S.A. employees from the Social Fund was PLN 15 811 k. These facilities have been sanctioned on regular terms and conditions.On current accounts and term deposits employees of the bank held balances of PLN 203 339 k, (of which joined current accounts – PLN 45 172 k). Amount relating to employees of subsidiaries and associates totaled PLN 20 891 k.

31.12.2009

As of 31.12.2009, the total of loans and advances drawn by BZ WBK S.A. employees was PLN 565 923 k (including the debt of PLN 1 406 k shown in joint accounts) and PLN 33 812 k in the case of employees of BZ WBK subsidiaries and associates. In the same period, the total of loans and advances drawn by BZ WBK S.A. employees from the Social Fund was PLN 15 542 k. These facilities have been sanctioned on regular terms and conditions.On current accounts and term deposits employees of the bank held balances of PLN 179 331 k, (of which joined current accounts – PLN 40 116 k). Amount relating to employees of subsidiaries and associates totaled PLN 20 090 k.

31.12.2008

As of 31.12.2008, the total of loans and advances drawn by BZ WBK S.A. employees was PLN 551 617 k (including the debt of PLN 1 154 k shown in joint accounts) and PLN 41 096 k in the case of employees of BZ WBK subsidiaries and associates.In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 151 k. These facilities have been sanctioned on regular terms and conditions.On current accounts and term deposits employees of the bank held balances of PLN 191 443 k, (of which joined current accounts – PLN 37 720 k). Amount relating to employees of subsidiaries and associates totalled PLN 20 242 k

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

In 2010 the bank issued 42 479 banking writs of execution with total amount of PLN 728 905 k, of which:
- corporate loans – 1 696 cases of PLN 397 555 k
- cash loans and overdrafts – 26 798 cases of PLN 248 537 k
- credit cards – 13 885 cases of PLN 54 088 k
- mortgage loans – 100 cases of PLN 28 725 k

In 2009 the bank issued 37 301 banking writs of execution with total amount of PLN 645 942 k, of which:
- corporate loans – 476 cases of PLN 394 049 k
- cash loans and overdrafts – 24 073 cases of PLN 188 907 k
- credit cards – 12 699 cases of PLN 44 703 k
- mortgage loans – 53 cases of PLN 18 283 k

In 2008 the bank issued 17 731 banking writs of execution with total amount of PLN 125 800 k, of which:
- cash loans and overdrafts – 11 975 cases of PLN 81 001 k
- corporate loans – 172 cases of PLN 22 451 k
- credit cards – 5 521 cases of PLN 15 628 k
- mortgage loans – 63 cases of PLN 6 720 k

49. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions of subsidiaries and associates in 2010

Change in the total number of votes held in Krynicki Recykling S.A. by BZ WBK Inwestycje Sp. z o.o.

Krynicki Recykling S.A. announced that on 13 October 2010 it had learned about a change in the number of votes held in the company by its shareholder BZ WBK Inwestycje Sp. z o.o. As a result of the share capital increase through the issue of series E shares, the shareholder's previous voting power in the company had decreased by 8.56 pp from 30.37% to 21.81% of the total number of votes at the General Meeting of the company.

In December 2010, BZ WBK Inwestycje Sp. z o.o. acquired 400 000 shares in Krynicki Recykling S.A. (200 000 shares acquired on 29 December and 200 000 on 30 December in transactions on the OTC market).

As at 31 December 2010, BZ WBK Inwestycje Sp. z o.o. has 3 476 852 shares, representing 24.65% of the share capital of Krynicki Recykling S.A., carrying 3 476 852 votes at the company's General Meeting, i.e. 24.65% of the total voting power.

Krynicki Recykling S.A., seated in Olsztyn, is quoted on the NewConnect market. It operates in the environmental protection industry sector.

Increase in the share capital of BZ WBK Inwestycje Sp. z o.o.

On 13 October 2010 General Meeting of BZ WBK Inwestycje Sp. z o.o. (subsidiary of Bank Zachodni WBK) adopted the resolution which increased the share capital from PLN 50 000 to PLN 100 000 as a result issuing additional 100 new shares of PLN 500 each. Total nominal value of a new issue amounted to PLN 50 000. Bank Zachodni WBK S.A. has taken up all new shares and covered them by cash.

Merger of Metrohouse S.A.

On 29 October 2010 a formal merger took place between METROHOUSE S.A. of Warsaw and Partnerzy Nieruchomości Sp. z o.o. of Gdańsk. The merged entity has begun trading as Metrohouse & Partnerzy S.A. The company is a leader of the Polish real estate market. BZ WBK Inwestycje Sp. z o.o. has a 21.23% stake in the share capital of the company.

Acquisitions of subsidiaries and associates in 2009 and 2008

Purchase of shares and registration of the Bank's new subsidiary

On 14 January 2009 a new company BZ WBK Finanse Sp. z o.o. was registered.

The bank acquired in BZ WBK Finanse Sp. z o.o. 1 000 shares with the nominal value of PLN 50 each which accounts for 100% of the share capital and 100% of votes at the General Meeting. The Bank acquired the shares for the total of PLN 50 k. The core business of the Company will be operating financial holdings.

In thousands of PLN Annual Report 2010 195

The bank's purchase of the shares in BZ WBK Finanse Sp. z o.o. is a long–term investment and has been financed with the Bank's own funds.

Additionally, an agreement was entered into by and between the bank and the registered subsidiary on transferring the ownership title to shares of the bank's selected Pursuant to the Agreement, the Bank transferred onto BZ WBK Finanse the ownership title to:

- 1 216 919 shares of BZ WBK Leasing S.A. with a total nominal value of PLN 121 691 900.00 representing 99.99 % of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the bank's books of PLN 61 257 096.09. The value of shares in the BZ WBK Finanse books will total PLN 61 257 096.09;
- 100 shares of BZ WBK Faktor Sp. z o.o. with a total nominal value of PLN 50 000.00 representing 100% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the bank's books of PLN 6 200 073.20. The value of shares in the BZ WBK Finanse books will total PLN 6 200 073.20.
- 504 999 shares of BZ WBK Finanse i Leasing S.A., with a total nominal value of PLN 50 499 900.00. representing 99.99% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the bank's books of PLN 50 512 484.00. The value of shares in the BZ WBK Finanse books will total PLN 50 512 484.00.

The above shares represent the bank's non–cash contribution to the BZWBK Finanse capital with a total value of PLN 117 969 653.29.

Purchase of shares of a new associate Krynicki Recykling S.A.

BZ WBK Inwestycje Sp. z o.o. (the Bank's subsidiary) acquired in Krynicki Recykling S.A. 3 076 852 shares of its new issue (representing 30.37 % of the share capital) with the nominal value of PLN 3.25 each. The company acquired the shares for the total of PLN 9 999 769 .00. The agreement was signed on 19th of December 2008, the registration of the share capital increase – on 2nd of February 2009. The company was classified as an associate therefore is accounted for using the equity method.

Krynicki Recykling S.A, seated in Olsztyn, is quoted on the NewConnect market. It operates in an environmental protection industry sector.
Purchase of shares was a part of building a portfolio of pre–IPO type own investment.

Purchase of shares of a new associate Metrohouse S.A.

In July 2008, BZ WBK subsidiary – BZ WBK Inwestycje Sp. z o.o. purchased shares of Metrohouse S.A. The purchase price was PLN 4 600 000.00, number of shares – 2 300 000 i.e. 35.38 % of Metrohouse share capital.
The company was classified as an associate therefore is accounted for using the equity method.

Metrohouse S.A has been set up to develop the biggest chain of real estate agents in Poland. The company offers services related to buying, selling and letting properties in Greater Warsaw, Gdańsk and Olsztyn, as well as acts as an credit intermediary. Purchase of shares of Metrohouse SA was a part of building a potfolio of pre–IPO type own investment.

Disposals of investments in subsidiaries and associates

In 2008 Bank Zachodni WBK S.A. made a transaction of partial disposal of NFI Magna Polonia shares. Shares representing 22.47% of votes at the AGM of NFI Magna Polonia were sold, whereas the rest (5.06%), is recognized as investment securities.

Disposals in 2008	Net assets	Revenue	Gains/loss
Brytyjsko–Polskie Towarzystwo Finansowe WBK CU Sp. z o.o.	680	1 200	520
NFI Magna Polonia S.A.	2 537	1 821	(716)
Total	**3 217**	**3 021**	**(196)**

50. Investment in joint ventures

BZ WBK–CU Towarzystwo Ubezpieczeń Ogólnych Spółka Akcyjna and BZ WBK–CU Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna were established on 30 July 2008.
The bank invested in:

- BZ WBK–CU Towarzystwo Ubezpieczeń Ogólnych S.A. – 13 500 ordinary registered shares of A series with nominal value of PLN 1 000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the Bank totaled PLN 17 082 k,
- BZ WBK–CU Towarzystwo Ubezpieczeń na Życie S.A. – 10 875 ordinary registered shares of A series with value of PLN 1 000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the bank totaled PLN 15 031 k.

These represent the long–term investments and have been financed from the bank's own funds.

Both joint ventures are accounted for by using the equity method.
As at 31.12.2010 carring value of these entities totaled PLN 20 101 k and PLN 12 395 k respectively.
As at 31.12.2009 carring value of these entities totaled PLN 18 405 k and PLN 12 872 k respectively.

On 01.06.2009 these entities has changed their names to: BZ WBK–Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK–Aviva Towarzystwo Ubezpieczeń na Życie S.A. respectively.

51. Events after the balance sheet date

Authorization for issue of Consolidated Financial Statements of Bank Zachodni WBK Group

The consolidated financial statements of Bank Zachodni WBK Group were authorised for issue on 23rd of February 2011 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be presented for approval by the shareholders at their Annual General Meeting.

Tender offer for the shares of Bank Zachodni WBK

On 7 February 2011, Banco Santander announced that it had launched a tender offer for 100% of the share capital of Bank Zachodni WBK S.A. offering PLN 226.89 per share. Under the tender offer Santander intends to buy 73 076 013 shares in BZ WBK that will give it 73 076 013 votes at the General Meeting of Shareholders, i.e. 100% of the share capital and votes. The consummation of the tender offer is subject to the acceptance of at least 51 153 210 shares or 70% of the outstanding shares of BZWBK. As required by law, the Management Board of Bank Zachodni WBK and Banco Santander advised their employees and employee associations of the Tender Offer as well as of the text of the announcement.

KNF decision

On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

52. Staff benefits

Staff benefits include the following categories:

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

Within these categories, the companies of the BZ WBK Group create the following types of provisions:

Provisions for accrued holiday pay

Liabilities related to accrued holiday pay are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to bonuses are stated in the amount of the probable payment without discounting.

In thousands of PLN

Provisions for retirement allowances

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

Other staff–related provisions

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

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

Provisions	31.12.2010	31.12.2009	31.12.2008
Provision for accrued holiday pay	20 403	19 636	22 166
Provisions for employee bonuses	149 940	112 554	79 220
Provisions for retirement allowances	39 396	35 208	34 056
Other staff–related provisions	2 801	2 765	5 303
Total	**212 540**	**170 163**	**140 745**

Detailed information about movements on staff–related provisions is available in additional note 36.

Awards for the year 2009 paid in 2010 to the Members of the Management Board of Bank Zachodni WBK S.A.:

First and last name	Position	Period	Awards for 2009
Mateusz Morawiecki	President of the Management Board	01.01.2010–31.12.2010	1 500.00
Paul Barry	Member of the Management Board	01.01.2010–31.12.2010	700.33
Andrzej Burliga	Member of the Management Board	01.01.2010–31.12.2010	741.60
Declan Flynn	Member of the Management Board	01.01.2010–31.12.2010	777.55
Justyn Konieczny	Member of the Management Board	01.01.2010–31.12.2010	882.00
Janusz Krawczyk	Member of the Management Board	01.01.2010–31.12.2010	741.60
Jacek Marcinowski	Member of the Management Board	01.01.2010–31.12.2010	593.28
Michael McCarthy	Member of the Management Board	01.01.2010–31.12.2010	857.45
Marcin Prell	Member of the Management Board	01.01.2010–31.12.2010	593.28
Mirosław Skiba	Member of the Management Board	01.01.2010–31.12.2010	741.60
Feliks Szyszkowiak	Member of the Management Board	01.01.2010–31.12.2010	756.00

In 2009 the Members of the Management Board did not receive any awards for the year 2008.
Awards for the year 2007 paid in 2008 to the Members of the Management Board of Bank Zachodni WBK S.A.:

First and last name	Position	Period	Awards for 2007
Mateusz Morawiecki	President of the Management Board	01.01.2008–31.12.2008	1 440.00
Paul Barry	Member of the Management Board	01.10.2008–31.12.2008	0.00
Andrzej Burliga	Member of the Management Board	01.01.2008–31.12.2008	540.00
Declan Flynn	Member of the Management Board	01.01.2008–31.12.2008	1 015.60
Michał Gajewski	Member of the Management Board	01.01.2008–31.05.2008	840.00
Justyn Konieczny	Member of the Management Board	01.01.2008–31.12.2008	840.00
Janusz Krawczyk	Member of the Management Board	01.01.2008–31.12.2008	684.00
Jacek Marcinowski	Member of the Management Board	01.01.2008–31.12.2008	504.00
James Murphy	Member of the Management Board	01.01.2008–30.09.2008	555.99
Marcin Prell	Member of the Management Board	01.01.2008–31.12.2008	504.00
Mirosław Skiba	Member of the Management Board	22.07.2008–31.12.2008	0.00
Feliks Szyszkowiak	Member of the Management Board	01.01.2008–31.12.2008	648.00

In thousands of PLN

53. Share based incentive scheme

In 2006 BZWBK Group has introduced the Incentive Scheme ("the Scheme") on terms approved by the shareholders. The scheme is designed to provide market–competitive incentives for senior executives and key managers, in the context of the bank's long–term performance against stretch growth targets over the three financial years period 2006 – 2008. Conditional awards of shares are made to employees with vesting to take place on the date of the AGM approving financial statements for the last year of the scheme. Subject to vesting conditions the scheme will be realized by distribution of shares only. Initial vesting was in Q2 2009. All outstanding awards have been subscribed and fully paid in May–June 2009.

Second edition expired as at 31 March 2010. The scheme did not vest as the conditions were not met.

In 2008 third edition has been granted to no more than 600 individuals and is still in operation.

Shares will vest on a linear pattern between 25% and 100% contingent on EPS growth adjusted by Consumer Price Index (CPI). The range of the scale requires EPS growth adjusted for CPI between 8% and 16% for 2008 edition.

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

Share based payments granted:

	2008
Number of share based payments	288 112
Share price (PLN)	149.00
Excercise price (PLN)	10
Vesting period	3 years
Expected volatility	40.82%
Award life	3 years
Risk free rate	6.87%
Fair value per award	PLN 133.01
Dividend yield	2.01%

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

The following table summarizes the share based payments activity:

	12 months of 2010	12 months of 2009	12 months of 2008
	Number of share based payments	Number of share based payments	Number of share based payments
Outstanding at 1 January	341 701	476 929	200 722
Granted	—	—	288 112
Exercised	—	(115 729)	—
Forfeited	(8 190)	(19 499)	(11 905)
Expired	(65 491)	—	—
Outstanding at 31 December	268 020	341 701	476 929
Exercisable at 31 December	—	—	—

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

For the share based payments outstanding as at 31 December 2010, 31 December 2009 and as at 31 December 2008 the average remaining contractual life is approximately 0.3 year, 1.1 year and 1.6 year respectively.

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2010 and 2009 and 2008 amounts to PLN 0 k , and PLN 1 547 k, and PLN 1 734 k respectively.

Taking up the bank's shares by the Management Board Members under the 2006 Incentive Scheme

On 21.04.2009, the Supervisory Board of Bank Zachodni WBK passed a resolution stipulating that conditions for the first Incentive Scheme of 2006 were met. In May 2009, subscription of H series shares issued by the bank under resolution made by General Meeting of Shareholders of 4 April 2006 on the conditional increase of share capital was completed.

In thousands of PLN

In total, 115 729 shares were allocated to 86 employees, of which 23 084 shares to members of the Management Board. On 10 July 2009, the H series shares were registered with the National Depository of Securities.

Details of number of conditional awards (bonds with pre–emptive rights) for the Members of the Management Board are given below.

No. of awards	2010
Outstanding at 1 January	51 682
Expired	(16 147)
Outstanding at 31 December	35 535
Exercisable at 31 December	—

First and last name	Total as at 01.01.2010	Expired during 2010	Total as at 31.12.2010
Mateusz Morawiecki	9 961	(2 558)	7 403
Andrzej Burliga	4 417	(1 085)	3 332
Justyn Konieczny	7 847	(2 665)	5 182
Janusz Krawczyk	6 661	(2 219)	4 442
Jacek Marcinowski	6 661	(2 219)	4 442
Marcin Prell	6 661	(2 219)	4 442
Mirosław Skiba	2 813	(963)	1 850
Feliks Szyszkowiak	6 661	(2 219)	4 442
Total	**51 682**	**(16 147)**	**35 535**

No. of awards	2009
Outstanding at 1 January	74 766
Exercised	(23 084)
Outstanding at 31 December	51 682
Exercisable at 31 December	—

First and last name	Total as at 01.01.2009	Granted during 2009	Total as at 31.12.2009
Mateusz Morawiecki	13 522	(3 591)	9 961
Andrzej Burliga	6 023	(1 606)	4 417
Justyn Konieczny	11 438	(3 591)	7 847
Janusz Krawczyk	10 058	(3 397)	6 661
Jacek Marcinowski	10 058	(3 397)	6 661
Marcin Prell	9 191	(2 530)	6 661
Mirosław Skiba	4 388	(1 575)	2 813
Feliks Szyszkowiak	10 058	(3 397)	6 661
Total	**74 766**	**(23 084)**	**51 682**

No. of awards	2008
Outstanding at 1 January	42 949
Granted	35 535
Granted before MB nomination	2 538
Forfeited	(6 256)
Outstanding at 31 December	74 766
Exercisable at 31 December	—

In thousands of PLN

First and last name	Total as at 01.01.2008	Forfeited	Granted before MB nomination	Granted during 2008	Total as at 31.12.2008
Mateusz Morawiecki	6 149	—	—	7 403	13 552
Paul Barry*	—	—	—	—	—
Andrzej Burliga	2 691	—	—	3 332	6 023
Declan Flynn*	—	—	—	—	—
Michał Gajewski	6 256	(6 256)	—	—	—
Justyn Konieczny	6 256	—	—	5 182	11 438
Janusz Krawczyk	5 616	—	—	4 442	10 058
Jacek Marcinowski	5 616	—	—	4 442	10 058
Marcin Prell	4 749	—	—	4 442	9 191
Mirosław Skiba	—	—	2 538	1 850	4 388
Feliks Szyszkowiak	5 616	—	—	4 442	10 058
Total	**42 949**	**(6 256)**	**2 538**	**35 535**	**74 766**

*Members of Management Board on assignment to BZ WBK from Allied Irish Banks plc do not participate in BZWBK Incentive Scheme.

54. Average staff level

As at 31 December 2010 the Bank employed 9 250 persons, i.e. 9 163 FTE's.
As at this date, in subsidiaries there were 691 persons employed (incl. 53 persons in the bank), i.e. 677 FTE's.
In 2010, the average staffing level in Bank Zachodni WBK S.A. was 8 974 FTE's whereas the average staffing level in subsidiaries was 658 FTE's.

As at 31 December 2009 the bank employed 8 937 persons, i.e. 8 809 FTE's.
As at this date, in subsidiaries there were 661 persons employed (incl. 43 persons in the bank), i.e. 644 FTE's.
In 2009, the average staffing level in Bank Zachodni WBK S.A. was 8 977 FTE's whereas the average staffing level in subsidiaries was 660 FTE's.

As at 31 December 2008 the bank employed 9 590 persons, i.e. 9 515 FTE's.
As at this date, in subsidiaries there were 718 persons employed (incl. 54 persons in the bank), i.e. 706 FTE's.
In 2008, the average staffing level in Bank Zachodni WBK S.A. was 9 073 FTE's whereas the average staffing level in subsidiaries was 686 FTE's.

55. Dividend per share

Bank Zachodni WBK S.A. will propose an allocation to dividends of 63.76 % of the profit for the current reporting period of PLN 584 608 104 i.e. PLN 8.00 per one share. Outstanding profit of PLN 332 247 331.98 will be allocated to other reserve capital.

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

On 21 April 2010, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 292 304 k to dividend for shareholders, from the profit for 2009, which meant that the proposed dividend was PLN 4 per share.

On 21 April 2009 the Annual General Meeting of BZ WBK Shareholders allocated the net profit of 2008 to the reserve capital and to the general risk fund. Therefore, Bank Zachodni WBK S.A. didn't pay a dividend out of its income generated in 2008.

56. Change of majority shareholder

On 10 September 2010, the Board of Allied Irish Banks decided to sell the Polish assets of AIB to Banco Santander for a total amount of approx. EUR 3.1 billion. The transaction included the sale of AIB's entire shareholding in Bank Zachodni WBK S.A., i.e. 51 413 790 shares representing 70.4% of the bank's share capital (for a price of ca. EUR 2 938 m) and 50% shareholding in BZ WBK AIB Asset Management S.A. (for a price of ca. EUR 150 m). Banco Santander will acquire the shares in Bank Zachodni WBK S.A. through a public tender offer for 100% of the capital of the bank, addressed to all shareholders, in which AIB will tender all of its shares. The proposed disposal is part of AIB's capital raising initiatives as announced on 30 March 2010.

Tender offer for the shares of Bank Zachodni WBK S.A.

On 7 February 2011, Banco Santander announced that it had launched a tender offer for 100% of the share capital of Bank Zachodni WBK S.A. offering PLN 226.89 per share. Under the tender offer Santander intends to buy 73 076 013 shares in BZ WBK that will give it 73 076 013 votes at the General Meeting of Shareholders, i.e. 100% of the share capital and votes. The consummation of the tender offer is subject to the acceptance of at least 51 153 210 shares or 70% of the outstanding shares of BZWBK. As required by law, the Management Board of Bank Zachodni WBK S.A. and Banco Santander advised their employees and employee associations of the Tender Offer as well as of the text of the announcement.

KNF decision

On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

In thousands of PLN

Signatures of Members of the Management Board

Date	Name	Function	Signature
23.02.2011	Mateusz Morawiecki	President	
23.02.2011	Paul Barry	Member	
23.02.2011	Andrzej Burliga	Member	
23.02.2011	Declan Flynn	Member	
23.02.2011	Justyn Konieczny	Member	
23.02.2011	Janusz Krawczyk	Member	
23.02.2011	Michael McCarthy	Member	
23.02.2011	Marcin Prell	Member	
23.02.2011	Mirosław Skiba	Member	
23.02.2011	Feliks Szyszkowiak	Member	

Signature of the person responsible for maintaining the books of accounts

Date	Name	Function	Signature
23.02.2011	Wojciech Skalski	Financial Accounting Area Director	

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