

ANNUAL REPORT 2011
OF BANK ZACHODNI WBK S.A.

2011



WBK

| Bank Zachodni WBK S.A.

FINANCIAL HIGHLIGHTS for reporting period ended:	PLN k		EUR k	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Stand alone financial statements				
I Net interest income	1 923 748	1 668 277	464 659	416 615
II Net fee and commission income	1 090 749	1 021 867	263 458	255 189
III Operating profit	1 427 118	1 182 309	344 704	295 256
IV Profit before tax	1 427 118	1 182 309	344 704	295 256
V Profit for the period	1 158 502	916 855	279 823	228 964
VI Total net cash flow	2 956 376	626 276	714 079	156 399
VII Total assets	59 093 543	52 034 756	13 379 266	13 139 095
VIII Deposits from banks	2 413 078	2 144 007	546 341	541 375
IX Deposits from customers	46 992 079	42 099 210	10 639 395	10 630 308
X Total liabilities	52 269 487	45 926 983	11 834 244	11 596 844
XI Total equity	6 824 056	6 107 773	1 545 023	1 542 250
XII Number of shares	73 076 013	73 076 013		
XIII Net book value per share in PLN/EUR	93,38	83,58	21,14	21,10
XIV Solvency ratio	14,60%	15,29%		
XV Profit per share in PLN/EUR	15,85	12,55	3,83	3,13
XVI Diluted earnings per share in PLN/EUR	15,79	12,50	3,81	3,12
XVII Declared or paid dividend per share in PLN/EUR	8,00	8,00	1,81	2,02

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

- for balance sheet items – 4.4168 PLN rate to EUR as at 30.12.2011 stated by National Bank of Poland (NBP), 3.9603 PLN rate to EUR as at 31.12.2010
- for profit and loss items – as at 31.12.2011: 4.1401 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2011), as at 31.12.2010: 4.0044 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2010)

As at 31.12.2011, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 252/A/NBP 2011 dd. 30.12.2011.

**FINANCIAL STATEMENTS
OF BANK ZACHODNI WBK S.A.
FOR 2011**

2011

Dear All,

Year 2011 was the year of duality. On the one hand, we witnessed the weakening Eurozone zone and on the other, sound performance of the Polish economy, including the banking sector. Bank Zachodni WBK emerged from the global crisis as a key player on the banking market in Poland, supported by the new strategic investor: the Santander Group.

Last year, the Polish economy expanded at a relatively high pace. The GDP growth totaled 4.3%. Growing consumption and investment expenditure were the main drivers of the economic upsurge. Not only a high pace of investment growth seen in the public sector (infrastructural projects financed from EU funds), but also a clear revival of private investments and savings should be mentioned. The external macroeconomic environment changed significantly throughout the last year. The overall global economic climate deteriorated substantially and, additionally, the sovereign debt crisis affecting some of the Euro zone countries became more severe.

In such economic environment, on 1 April 2011, Bank Zachodni WBK became part of the Santander Group - a strong financial group, the largest one in the Euro zone. The key integration platforms included the implementation of Group-wide solutions, exchange of best practice, enhanced cross-sell potential as well as new business lines and product proposition for customers. Cooperation and cross-selling opportunities are available in such areas, as treasury services, bancassurance, cards or asset management. Internally, the integration process embraces the management of risk and control environment as well as solutions aimed at improving effectiveness and cost management.

In 2011, Bank Zachodni WBK witnessed record high business performance. The 2011 PBT totalled PLN 1 515 m (i.e. PAT of PLN 1 246 m), which (excluding one-off adjustments) represents a growth by 28.1% as compared to 2010. We also recorded a two-digit increase in our interest income, i.e. by 15.3%. That was a sheer consequence of higher volumes.

The number of active bank accounts exceeded 3.5 m and was above 17% up on a corresponding figure for the last year. Monthly sales of cash loans reached their all times record for the Bank. From December 2010 to December 2011, the sale of cash loans went up by 15.2%. It should be stressed we were much ahead of the rather stagnant market in terms of the growth in cash loan volumes. The ROE generated by Bank Zachodni WBK was amongst the highest ones seen on the market, at 22.6%. In addition, year 2011 witnessed a strong, almost 10%, increase in mortgage loans. Moreover, the dynamic growth of business loans should be highlighted. Business customers have also substantially increased their share in deposits. The total value of deposits in Bank Zachodni WBK went up by 11.6% on a y-o-y basis. It should be also highlighted that last year the NPL ratio fell from 6.7% to 5.3%

Business and Corporate Banking are successfully pursuing a business growth strategy – deposits went up by more than 37%, gross loans grew by 19.2%. The Global Banking & Markets Division (GBM), established to manage relations with the bank's largest corporate customers, became fully operative at the end of 2011.

We have proved that we are one of the most innovative financial companies in Poland. We prepared a special mobile banking offer (Avocado package) and its distribution via a new external channel - the sale network of the telecommunication company Polkomtel S.A. We keep on developing our services in the form of a virtual pre-paid card, stadium card for sports fans and a school card used already in over 25 schools. The Wrocław city card (Urbancard) issued by Bank Zachodni WBK has been expanded by payment card functions with the use of paypass technology. In February 2011, Bank Zachodni WBK was awarded a tender by the city of Poznań and signed an agreement on issuing electronic cards under Poznańska Elektroniczna Karta Aglomeracyjna (PEKA) project.

2011 saw a premiere of the newest film production by Jerzy Hoffman "1920: the Battle of Warsaw", under the patronage of Bank Zachodni WBK. In addition, the Bank was involved in educational initiatives addressed to schools aimed at attracting attention to events in 1920 which were so important for Poland. Last year, we continued to deliver the program "Barrier-free service" - 2011 saw the increase of the number of ATMs adjusted to vision impaired customers (up to 105) and the number of outlets that meet the requirements of the disabled (up to 100). Through the agency of Bank Zachodni WBK Foundation, a variety of actions are taken for the benefit of children and young people. Amongst others, the Foundation runs two large grant-based programs – "The Bank of Children's Smiles" and "The Bank of Ambitious Youth".

Bank Zachodni WBK has a strong growth potential. Our most important "asset" are employees, whose professionalism and involvement generate such impressive businesses results. In particular, I wish to express my appreciation to the Members of the Management Board and Supervisory Board of Bank Zachodni WBK. Our excellent cooperation yields a measurable business success.

We enter 2012 not only in good moods but also with hope that we will further strengthen the market position of our Group. The historical event for Poland in 2012 will be organization of the European Championships in football. Wishing success to the Polish national team, I strongly believe that Euro 2012 will also become the success of the Polish economy.

Kind regards
Mateusz Morawiecki

Management Board President
of Bank Zachodni WBK

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Income statement of Bank Zachodni WBK S.A.

	for reporting period:	01.01.2011- 31.12.2011	01.01.2010- 31.12.2010
Interest income		3 291 718	2 971 648
Interest expense		(1 367 970)	(1 303 371)
Net interest income	note 5	1 923 748	1 668 277
Fee and commission income		1 208 919	1 144 246
Fee and commission expense		(118 170)	(122 379)
Net fee and commission income	note 6	1 090 749	1 021 867
Dividend income	note 7	182 552	131 375
Net trading income and revaluation	note 8	261 618	263 972
Gains (losses) from other financial securities	note 9	12 552	8 798
Other operating income	note 10	50 194	46 238
Impairment losses on loans and advances	note 11	(341 936)	(363 988)
Operating expenses incl.:		(1 752 359)	(1 594 230)
<i>Bank's staff, operating expenses and management costs</i>	note 12,13	<i>(1 513 763)</i>	<i>(1 447 095)</i>
<i>Depreciation/amortisation</i>		<i>(202 765)</i>	<i>(117 072)</i>
<i>Other operating expenses</i>	note 14	<i>(35 831)</i>	<i>(30 063)</i>
Operating profit		1 427 118	1 182 309
Profit before tax		1 427 118	1 182 309
Corporate income tax	note 15	(268 616)	(265 454)
Profit for the period		1 158 502	916 855
Net earnings per share (PLN/share)	note 16		
Basic earnings per share		15,85	12,55
Diluted earnings per share		15,79	12,50

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

	for reporting period:	01.01.2011- 31.12.2011	01.01.2010- 31.12.2010
Profit for the period		1 158 502	916 855
Other comprehensive income:			
Available-for sale financial assets valuation		71 719	8 669
Cash flow hedges valuation		49 922	97
Other comprehensive income for the period, net of income tax		121 641	8 766
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1 280 143	925 621

Notes presented on pages 13 – 84 constitute an integral part of these Financial Statements.

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

	as at:	31.12.2011	31.12.2010
ASSETS			
Cash and balances with central banks	Note 17	1 425 537	2 534 458
Loans and advances to banks	Note 18	1 238 467	601 637
Financial assets held for trading	Note 19	5 803 575	2 200 930
Hedging derivatives	Note 20	141 578	14 768
Loans and advances to customers	Note 21	37 422 196	31 952 688
Investment securities	Note 22, 23	11 637 455	13 355 858
Investments in subsidiaries, associates and joint ventures	Note 24	264 599	248 999
Intangible assets	Note 25	134 581	155 055
Property, plant and equipment	Note 26	486 312	533 443
Current income tax assets		24 455	-
Net deferred tax assets	Note 27	165 775	242 949
Assets classified as held for sale	Note 28	82 604	2 502
Other assets	Note 29	266 409	191 469
Total assets		59 093 543	52 034 756
LIABILITIES			
Deposits from banks	Note 30	2 413 078	2 144 007
Hedging derivatives	Note 20	523 725	16 441
Financial liabilities held for trading	Note 19	963 033	578 611
Deposits from customers	Note 31	46 992 079	42 099 210
Subordinated liabilities	Note 32	441 234	395 230
Current income tax liabilities		-	74 197
Other liabilities	Note 33	936 338	619 287
Total liabilities		52 269 487	45 926 983
Equity			
Share capital	Note 34	730 760	730 760
Other reserve funds	Note 35	4 382 125	4 048 213
Revaluation reserve	Note 36	552 669	431 028
Retained earnings		-	(19 083)
Profit of the current period		1 158 502	916 855
Total equity		6 824 056	6 107 773
Total equity and liabilities		59 093 543	52 034 756

Notes presented on pages 13 – 84 constitute an integral part of these Financial Statements.

Movements on equity of Bank Zachodni WBK S.A.

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

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

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

Movements on equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Note	34	35	36		
Opening balance as at 31.12.2009	730 760	3 354 289	422 262	967 145	5 474 456
Total comprehensive income	-	-	8 766	916 855	925 621
Transfer to other capital	-	693 924	-	(693 924)	-
Transfer to dividends for 2009	-	-	-	(292 304)	(292 304)
As at 31.12.2010	730 760	4 048 213	431 028	897 772	6 107 773

As at the end of the period revaluation reserve in the amount of PLN 431 028 k comprises of debt securities of PLN 19 843 k and equity shares classified as available for sale of PLN 409 170 k and additionally cash flow hedge activities PLN 2 015 k.

Notes presented on pages 13 – 84 constitute an integral part of these Financial Statements.

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

	for reporting period:	od 01.01.2011 do 31.12.2011	01.01.2010- 31.12.2010
Profit before tax		1 427 118	1 182 309
Total adjustments:		(167 229)	(1 082 392)
Depreciation/amortisation		202 765	117 072
Impairment losses		-	48
Interests and similar charges		135 963	(48 622)
Dividend received		(182 552)	(131 375)
(Profit) loss from investing activities		(9 470)	(8 454)
Change in provisions		17 411	46 517
Change in trading portfolio financial instruments		610 906	(355 329)
Change in loans and advances to banks		(20 187)	-
Change in loans and advances to customers		(5 469 508)	672 583
Change in deposits from banks		269 071	(1 676 693)
Change in deposits from customers		4 405 539	441 006
Change in other assets and liabilities		190 812	12 548
Paid income tax		(318 627)	(151 997)
Other adjustments		648	304
Net cash flow from operating activities		1 259 889	99 917
Inflows		3 585 780	3 627 118
Sale/maturity of investment securities		3 400 783	3 494 173
Sale of intangible assets and property, plant and equipment		2 434	1 560
Dividend received		182 552	131 375
Proceeds from other investments		11	10
Outflows		(1 719 525)	(3 568 424)
Purchase of subsidiaries, associates and joint ventures		(15 600)	(14 650)
Purchase of investment securities		(1 595 921)	(3 490 777)
Purchase of intangible assets and property, plant and equipment		(106 044)	(61 276)
Expenses from other investments		(1 960)	(1 721)
Net cash flow from investing activities		1 866 255	58 694
Inflows		487 330	788 100
Drawing of long-term loans		487 330	396 030
Increase of subordinated liabilities		-	392 070
Outflows		(657 098)	(320 435)
Dividends and other payments to shareholders		(584 608)	(292 304)
Other financing outflows		(72 490)	(28 131)
Net cash flow from financing activities		(169 768)	467 665
Total net cash flow		2 956 376	626 276
Cash at the beginning of the accounting period		4 335 397	3 709 121
Cash at the end of the accounting period*		7 291 773	4 335 397

*Cash components are presented in Note 43.

Notes presented on pages 13 – 84 constitute an integral part of these Financial Statements.

Additional notes to 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 direct parent of Bank Zachodni WBK SA is Banco Santander, S.A. seated in Santander, Spain.

On 10 September 2010, the Board of Allied Irish Banks plc, 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.

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.

On 1 April 2011, Banco Santander finalised the purchase of 95.67% stake in the Bank. Consequently, Bank Zachodni WBK joined Santander Group.

As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK, the non-controlling shareholders became entitled to demand that their shares be acquired by the majority shareholder. Based on the requests from the shareholders, Banco Santander acquired additional 421 859 shares of Bank Zachodni WBK, thus increasing its share in the share capital and voting power at the General Meeting of Shareholders to 96.25%.

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

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

2. Basis of preparation of financial statements

Statement of compliance

The annual unconsolidated financial statements of Bank Zachodni WBK S.A. for the year ended 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations and the provisions of the Bank's Statutes that apply to the Bank's unconsolidated financial statements.

Changes in accounting policies

Comparability with results of previous periods

To ensure comparability, the following substantial change was made to the presentation of financial data:

- a) in statement of financial position: settlements on account of matured and unpaid derivative instruments with bank customers (PLN 89 k as at 31.12.2010) have been moved from "Financial assets held for trading" to "Loans and advances to customers";
- b) in the statement of cash flows: as a result of changes in the interpretation of IAS 7, the definition of cash components was revised and applied. Since 2009 cash components have included other liquid financial assets with original maturity up to 3 months. The details of reclassification are presented in the table below.

	31.12.2010		31.12.2009	
	Before revision	After revision	Before revision	After revision
Cash components:				
Cash and current accounts in central bank	2 534 458	2 534 458	2 660 649	2 660 649
Deposits in other banks, current account	601 637	601 637	648 743	648 744
Debt securities held for trading	-	1 199 302	449 354	399 728
Debt securities available for sale	1 223 028	-	1 793 330	-
Total	4 359 123	4 335 397	5 552 076	3 709 121

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

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

Changes in judgments and estimates

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

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

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

IFRS	Description of changes	Effective from	Impact on the Bank
IFRS 9 Financial Instruments	Changes in classification and measurement - the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value.	1 January 2015	The Bank has not completed its analysis of changes
IFRS 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 "continuous engagement" to ensure compliance with disclosure requirements.	1 January 2012	Amendments will not have material impact over financial statement
IFRS 10 Consolidated Financial Statements	New standard supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements together with the related interpretation SIC 12 Consolidation-Special Purpose Entities. Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.	1 January 2013	The Bank has not completed its analysis of changes
IFRS 11 Joint Arrangements	Supersedes SIC –13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures	1 January 2013	The Bank has not completed its analysis of changes
IFRS 12 Disclosures of Interests in Other Entities	New standard requires the disclosure of information that enables users of financial statements to evaluate: -the nature of, and risks associated with, its interests in other entities; - the effects of those interests on its financial position, financial performance and cash flows.	1 January 2013	The Bank has not completed its analysis of changes
IFRS 13 Fair Value Measurement	IFRS establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs.	1 January 2013	The Bank has not completed its analysis of changes
IAS 27 Separate Financial Statements	IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.	1 January 2013	The Bank has not completed its analysis of changes
IAS 28 Investments in Associates and Joint Ventures	The change prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2013	The Bank has not completed its analysis of changes
IAS 1 Presentation of Financial Statements	The amendments requires preparing presentation of items of other comprehensive income (OCI) in financial statements accordance with IFRSs and those accordance with GAAP.	1 January 2013	The Bank has not completed its analysis of changes
IFRS 7 Financial instruments: disclosures	The amendments introduce the change in the disclosure requirements with regard to the effects of offsetting of financial assets and financial liabilities.	1 January 2013	The Bank has not completed its analysis of changes
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments	1 January 2014	The Bank has not completed its analysis of changes

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2011

IFRS	Description of changes	Effective from	Impact on the Bank
IAS 32 Financial Instruments: Presentation	The amendment pertains to the classification of rights issue.	1 January 2011	The amendments have not had material impact over the 2011 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	The amendments have not had material impact over the 2011 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	The amendments have not had material impact over the 2011 financial statement
IFRS 7 Financial instruments: disclosures "Changes to the International Financial Reporting Standards 2010"	Amended requirements of quantitative credit risk disclosures.	1 January 2011	The amendments have not had material impact over the 2011 financial statement
IAS 1 Presentation of financial reporting "Changes to the International Financial Reporting Standards 2010"	Amended method of presenting components of movements in equity.	1 January 2011	The amendments have not had material impact over the 2011 financial statement
IAS 34 Interim financial statements "Changes to the 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	The amendments have not had material impact over the 2011 financial statement
IFRIC 13 "Changes to the International Financial Reporting Standards 2010"	Fair value of loyalty points.	1 January 2011	The amendments have not had material impact over the 2011 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 the financial statements.

Accounting policies

Use of estimates and judgments

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

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

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

Key estimates made by the bank

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which Bank Zachodni WBK S.A. is exposed and other external factors such as legal and regulatory requirements. A provision is made against 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 in the bank is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. The bank uses a consistent system for grading advances according to agreed credit criteria with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in the bank; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability. As experience shows, such claims exist in every credit portfolio.

IBNR (Incurred But Not Reported) provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio.

Estimates of loss take into account the following key factors:

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

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

Impairment loss on non-financial assets

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

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

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

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

Fair value of financial instruments

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

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

Other accounting estimates and judgements

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

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

Foreign currency**Foreign currency transactions**

PLN is the accounting currency in the Bank.

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

Financial assets and financial liabilities**Classification**

The bank classifies its financial instruments into the following categories:

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

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

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

Other financial liabilities

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

Recognition

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

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

Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

Derecognition

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

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

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

Measurement

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

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

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

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

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

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

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

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

Reclassification

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

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

Gains and losses on subsequent measurement

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

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when there is:

- a) a legally enforceable right to set off the recognised amounts
- b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Subsidiaries, associates and joint ventures

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

Repurchase transactions

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

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

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

Derivative financial instruments

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

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

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

Hedge accounting

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

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

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

The bank discontinues hedge accounting when:

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

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



Impairment of financial assets

Assets carried at amortised cost – loans and receivables

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

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

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced through 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 bank periodically reviews its loan portfolio to check whether there is any objective evidence that a financial asset or group of financial assets are impaired.

The analysis of impairment is carried out:

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

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

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

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

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

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

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

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

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

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

Available-for-sale financial assets

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

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

Held-to-maturity investments

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

Contingent liabilities

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

Property, plant and equipment

Owned assets

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

Leased assets

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

Subsequent expenditure

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

Depreciation

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

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

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

Fixed assets held for sale

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

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

Intangible assets**Computer software**

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

Other items of statement of financial position**Other trade and other receivables**

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

Other liabilities

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

Equity

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

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

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

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

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

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

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

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

Dividends

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

Employee benefits

Short-term service benefits

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

Long-term service benefits

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

Share based payments

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

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

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

Provisions

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

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

Net interest income

Interest income on financial assets is recognised provided that it is probable that the economic benefits will flow to the Bank and the amount of revenue can be measured reliably.

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

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

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

In case 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 are recognised in the income statement at amortised cost using the effective interest rate method described in section "Net interest income".

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

Dividend income

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

Profit on disposal of subsidiaries, associates and joint ventures

Profit on the sale of interests in subsidiaries is the difference between the net asset value and their sale price.

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

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity of the bank. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

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

Finance lease payments

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

Corporate income tax

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

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

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

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

3. Risk management

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

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set appropriate risk limits, which restrict the risk exposure. The Bank 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 Bank Zachodni WBK 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 and Compliance 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 Bank.

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

The Management Board established 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. 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 Bank Zachodni WBK.

Credit Committee approves credit transactions exceeding the credit discretions allocated in BZ WBK.

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.

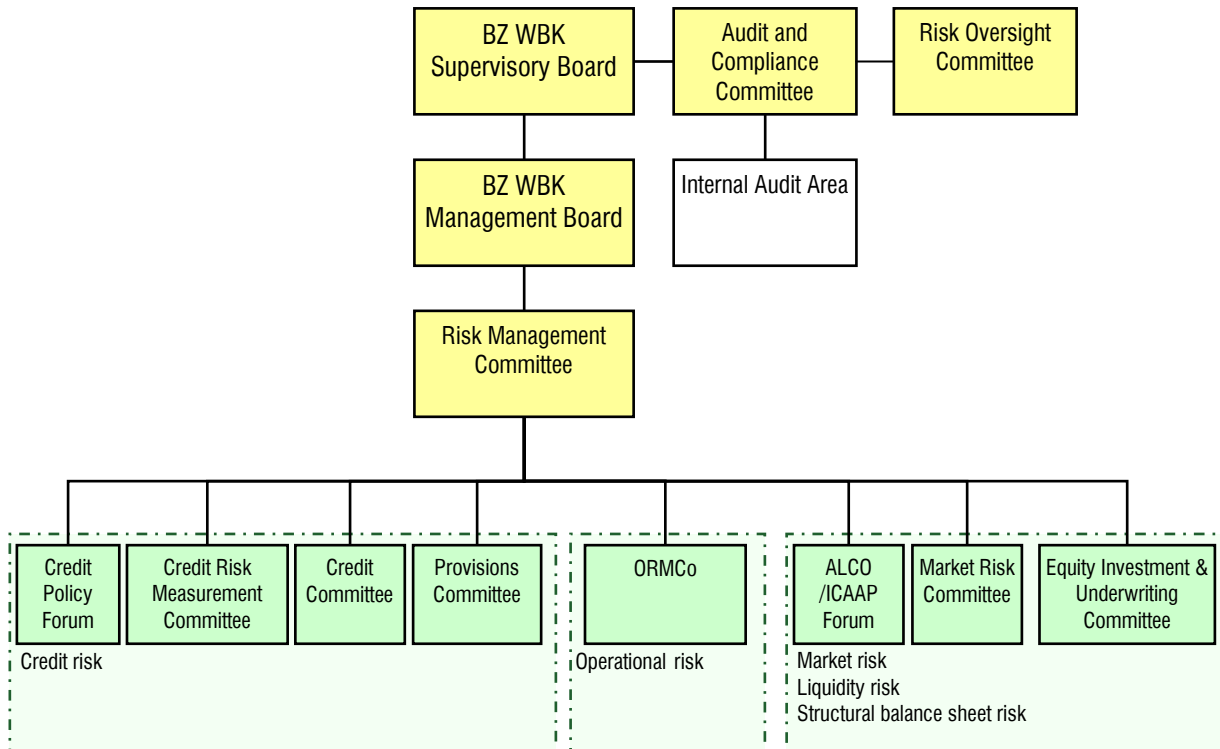
Operational Risk Management Committee (ORMCo) sets the strategic activities within the operational risk management in BZ WBK, including business continuity management, information security and fraud prevention.

Market Risk Committee oversees the risk management and the policies on the market risk in BZ WBK , 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 .

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.

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 Bank Zachodni WBK 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.

Bank Zachodni WBK is exposed to a variety of risks impacting the strategic goals. The Bank continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the Bank are the following:

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

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

Credit risk

Bank Zachodni WBK'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 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 Bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Bank uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

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

Continued pro-active credit risk management is recognised as key to the Group's performance in the volatile markets and deteriorating economic growth conditions. In 2011 the Bank continued its risk management policy that focuses both on credit risk and business effectiveness. Under the strategy of pro-active management, BZ WBK completed the following:

- Changes to credit Policies were implemented to achieve full compliance with S III Recommendation and updated Consumer Loan Act;
- Decisioning systems based on the risk assessment performed by scoring/rating systems and measurement of transaction profitability were maintained and enhanced; In the retail loans area it is worth highlighting that the Bank implemented individual pricing on mortgage loans; In SME area the development of risk assessment models based on wide use of external data, including new source of data on business customers;
- Effectiveness of credit processes in all portfolios was enhanced and increased, increased automation of decisions on retail portfolios is worth highlighting;
- Prudential management of property loans portfolio was continued, orientated at strict monitoring of credit risk limits and appropriate quality of credit portfolio.
- Maintaining compliance with the regulations for the Polish sector, the Bank was adjusting its policies and processes to the standards of Santander Group;

Continued prudential risk management policy with close observation of the changing external conditions and particular care put into assuring compliance with regulatory requirements as well as efforts to optimise credit process in terms of its efficiency and cost to minimize human error, ensure robust customer service and lower operational costs are priorities the Bank for 2012 as well.

Credit Policy Forum

The credit risk oversight in Bank Zachodni WBK 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 Bank'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 Bank's goals through delivery of improved analyses, internal models and decision tools for the purpose of shaping policy of the Bank and measurement of risk.

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 Bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Bank reviews and updates the credit policies on a regular basis, aiming to bring these guidelines up to date with the Bank'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 Bank continually strives to ensure best quality credit service to meet the borrowers' expectations and satisfy relevant risk policy standards. To this end, the credit risk approval function has been separated from the sales function. Credit decision-making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and reporting managers.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the KNF requirements, International Accounting Standards/ International Financial Reporting Standards, and best market practices.

Bank Zachodni WBK 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 Bank 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 Bank 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

Bank Zachodni WBK is operating the collateral process that appoints the Securities Centre as the unit responsible for proper functioning of the collateral management processes.

The Securities Centre is responsible for providing and monitoring of the collateral that are accurate and compliant with the credit policy for each business segment, for assuring that BZ WBK has consistent internal procedures on collateral management and efficient processes on collateral providing, monitoring and release in BZ WBK .

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, Bank Zachodni WBK 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 Bank aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Bank's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

In 2011, as part of forced debt collection, the Bank repossessed properties securing loans (plots of land zoned for residential development and one plot partly developed with residential buildings). Total value of the properties comes in at PLN 80.1 m and the Bank's intention is to dispose them shortly. There were no such transactions in comparable period.

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 the Bank'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 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 Bank systematically compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to Bank'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 the Bank's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2011	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Individually impaired					
	up to 50%	556 485	-	-	-
	50% - 70%	137 931	-	-	-
	70% - 85%	110 916	-	-	-
	over 85%	120 013	-	-	-
Gross amount		925 345	-	-	-
Allowance for impairment		(399 036)	-	-	-
Net amount		526 309	-	-	-
Collectively impaired					
	up to 50%	435 838	-	-	-
	50% - 70%	171 432	-	-	-
	70% - 85%	379 615	-	-	-
	over 85%	124 037	-	-	-
Gross amount		1 110 922	-	-	-
Allowance for impairment		(583 829)	-	-	-
Net amount		527 093	-	-	-
IBNR portfolio					
	up to 0,10%	8 059 301	1 238 467	11 637 455	5 803 575
	0,10% - 0,30%	13 428 985	-	-	-
	0,30% - 0,65%	4 099 393	-	-	-
	over 0,65%	11 033 678	-	-	-
Gross amount		36 621 357	1 238 467	11 637 455	5 803 575
Allowance for impairment		(331 177)	-	-	-
Net amount		36 290 180	1 238 467	11 637 455	5 803 575
Other receivables		78 614	-	-	-
Off-balance sheet exposures					
Financing granted		9 288 686	-	-	-
Guarantees		1 798 569	-	-	-
Nominal value of derivatives - purchased		-	-	-	67 159 401
Allowance for off-balance sheet exposures		(22 224)	-	-	-
Off-balance sheet exposures - total		11 065 031	-	-	67 159 401

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

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%	736 985	-	-	-
	50% - 70%	122 204	-	-	-
	70% - 85%	67 465	-	-	-
	over 85%	104 202	-	-	-
Gross amount		1 030 856	-	-	-
Charge due to impairment losses		(385 778)	-	-	-
Net amount		645 078	-	-	-
Collectively impaired					
	up to 50%	507 363	-	-	-
	50% - 70%	223 697	-	-	-
	70% - 85%	391 800	-	-	-
	over 85%	77 786	-	-	-
Gross amount		1 200 646	-	-	-
Charge due to impairment losses		(601 749)	-	-	-
Net amount		598 897	-	-	-
IBNR portfolio					
	up to 0,10%	13 669 548	601 637	13 355 858	2 200 930
	0,10% - 0,30%	5 201 642	-	-	-
	0,30% - 0,65%	3 060 026	-	-	-
	over 0,65%	9 025 670	-	-	-
Gross amount		30 956 886	601 637	13 355 858	2 200 930
Charge due to impairment losses		(321 683)	-	-	-
Net amount		30 635 203	601 637	13 355 858	2 200 930
Other receivables		73 510	-	-	-
Off-balance sheet exposures					
Financing granted		6 283 758	-	-	-
Guarantees		1 432 825	-	-	-
Nominal value of derivatives - purchased		-	-	-	42 470 461
Allowance for off-balance sheet exposures		(17 217)	-	-	-
Off-balance sheet exposures - total		7 699 366	-	-	42 470 461

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

IBNR portfolio

	Loans and advances to customers	
	31.12.2011	31.12.2010
Non-past due	35 623 958	30 106 934
Past-due	997 399	849 952
1-30 days	811 519	602 352
31-60 days	120 330	187 226
61-90 days	59 249	56 111
> 90 days	6 301	4 263
Gross amount	36 621 357	30 956 886

Allowances for impairment by classes

Provision cover		Loans and advances to customers		Loans and advances to banks	
		31.12.2011	31.12.2010	31.12.2011	31.12.2010
Individual allowance for impairment					
	up to 50%	(97 563)	(159 949)	-	-
	50% - 70%	(94 467)	(69 638)	-	-
	70% - 85%	(88 132)	(52 546)	-	-
	over 85%	(118 874)	(103 645)	-	-
Total individual allowance for impairment		(399 036)	(385 778)	-	-
Collective allowance for impairment					
	up to 50%	(66 493)	(87 174)	-	-
	50% - 70%	(101 035)	(134 781)	-	-
	70% - 85%	(295 681)	(302 218)	-	-
	over 85%	(120 620)	(77 576)	-	-
Total collective allowances for impairment		(583 829)	(601 749)	-	-
IBNR					
	up to 0,10%	(3 659)	(5 522)	-	-
	0,10%-0,30%	(20 951)	(10 278)	-	-
	0,30%-0,65%	(18 869)	(13 581)	-	-
	over 0,65%	(287 698)	(292 302)	-	-
Total IBNR		(331 177)	(321 683)	-	-
Total allowance for impairment		(1 314 042)	(1 309 210)	-	-

Credit risk concentration

Bank Zachodni WBK 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 31.12.2011, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 1 243 612 k (20% of Bank'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 1 554 516 k (25% of Bank's own funds) in other cases.

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

The analysis of the Bank's exposures in terms of sector concentrations, carried out at the end of December 2011, proved that the Bank does not have any exposures in excess of the limits imposed by the regulator.

As at 31 December 2011, the Bank had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 3 entities which accounted for 35.7% of own funds.

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

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	FINANCIAL SERVICES	2 045 507	1 087 774	957 733
64	FINANCIAL SERVICES	1 618 181	989 796	628 384
68	REAL ESTATE SERVICES	817 417	799 424	17 992
64	FINANCIAL SERVICES	806 200	403 820	402 380
68	REAL ESTATE SERVICES	710 568	643 705	66 862
19	RAFINERY	668 029	495 224	172 805
35	POWER INDUSTRY	616 500	289 588	326 912
46	WHOLESALE TRADE	535 000	535 000	-
68	REAL ESTATE SERVICES	510 582	510 582	-
41	CONSTRUCTION	398 178	377 178	21 000
07	MINING	377 198	13 526	363 672
68	REAL ESTATE SERVICES	377 147	328 306	48 841
23	CERAMICS PRODUCTION	367 254	356 029	11 225
59	MULTIMEDIA	356 808	170 613	186 196
41	CONSTRUCTION	317 600	177 081	140 518
61	TELECOMMUNICATION	325 000	294 503	30 497
68	REAL ESTATE SERVICES	315 175	314 683	492
35	POWER INDUSTRY	284 397	1 120	283 277
41	CONSTRUCTION	282 472	273 551	8 922
64	FINANCIAL SERVICES	257 575	164 943	92 632
Total gross exposure		11 986 786	8 226 445	3 760 340

A list of the 20 largest borrowers (or group of capital-related borrowers) of Bank Zachodni WBK SA (performing loans) as at 31.12.2010.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	FINANCIAL SERVICES	1 562 187	942 459	619 728
64	FINANCIAL SERVICES	1 300 862	833 417	467 445
68	REAL ESTATE SERVICES	822 527	806 199	16 328
68	REAL ESTATE SERVICES	658 555	592 528	66 027
64	FINANCIAL SERVICES	412 000	316 776	95 224
41	CONSTRUCTION	377 810	316 646	61 164
68	REAL ESTATE SERVICES	344 273	300 480	43 793
68	REAL ESTATE SERVICES	297 815	297 815	-
41	CONSTRUCTION	296 207	157	296 050
68	REAL ESTATE SERVICES	278 828	228 903	49 925
41	CONSTRUCTION	262 428	250 428	12 000
68	REAL ESTATE SERVICES	241 578	241 578	-
68	REAL ESTATE SERVICES	238 363	238 363	-
68	REAL ESTATE SERVICES	225 097	225 097	-
41	CONSTRUCTION	223 861	47 459	176 402
68	REAL ESTATE SERVICES	223 511	208 011	15 500
68	REAL ESTATE SERVICES	222 554	211 445	11 109
41	CONSTRUCTION	218 393	105 770	112 623
16	PRODUCTION	207 487	200 479	7 008
43	SPECIALISED CONSTRUCTION	204 571	204 571	-
Total gross exposure		8 618 907	6 568 581	2 050 326

Industry concentration

The credit policy of Bank Zachodni WBK assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Bank provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2011, the highest concentration level was recorded in the "property" sector (19% of the BZ WBK exposure), "manufacturing" (11%) and "distribution" (11%).

Groups of PKD by industries:

Industry	Gross exposure		
	31.12.2011	31.12.2010	
Property	7 439 240	7 087 907	
Manufacturing	4 241 664	3 510 580	
Distribution	4 072 327	3 120 222	
Financial sector	3 486 014	2 590 704	
Construction	3 323 768	3 024 163	
Energy	731 191	277 095	
Agriculture	586 012	528 185	
Transportation	372 937	319 845	
Other industries	1 865 850	1 346 463	
A	Total Business Loans	26 119 003	21 805 164
B	Retail (including mortgage loans)	12 538 621	11 383 224
A+B	BZWBK portfolio	38 657 624	33 188 388
C	Other receivables (commercial bonds, reverse repo)	78 614	73 510
A+B+C	Total BZ WBK	38 736 238	33 261 898

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).

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

The activity and strategies on market risk management are 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 Bank is to reduce the impact of interest and FX rate changes on the Bank's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Bank's liquidity.

Bank Zachodni WBK 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 Bank's strategy and the current objectives of the Bank.

Interest rate and FX risks incurred in other Divisions of the Bank are transferred to the Global Banking and Markets Division and are managed centrally.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the Bank, 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. The Global Banking and Markets Division (founded as disclosed in the Management Board Report on BZ WBK Performance in 2011) 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 appointed bank director within the Global Banking and Markets 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.

The Financial Risk Management Department within the Risk Management Division is responsible for assessing current risk, implementing risk control procedures, risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing assessment methodologies, validating the applied models, and for ensuring a consistent risk management across the Bank. The Department is located within the Risk Management Division, which allows for an independent risk assessment and monitoring.

Measurement methods

BZWBK uses several risk measures to assets market risk exposure : Value at Risk (VaR), sensitivity measures and stress testing.

VaR is determined as a difference between the market value of positions calculated using the current market prices/rates and the market values based on "worst case" movements in market rates. VaR is calculated separately for interest rate, FX and price risk of equity instruments portfolio.

The limitations of VaR measurements are well known (among others VaR does not provide prediction of the maximum worst case losses, predicts future based on historical data, assumes static exposure over holding period). They stem from the need to make assumptions about the spread of likely future price and rate movements. BZWBK supplements its VaR methodology with sensitivity measures, which present how much the value of position could change for a given change in rates/prices. The sensitivity is measured at product, currency, desk and economic intent (trading, banking, hedging) levels. These measures can also be used to decide on hedging activities. A decision can be taken to close out positions when the level of sensitivity combined with the likelihood of a rate or price change exposes BZWBK to too high a potential loss in value. VaR and sensitivities measures provide estimates of probable maximum loss in normal market conditions. Stress tests are used to supplement these measures by estimating possible losses that may occur under extreme market conditions.

Interest rate risk

The risk is that changes in interest rate will have adverse effects on earnings and on the value of BZWBK's assets and liabilities. The main source of interest rate risk are transactions entered in the bank's corporate centres or branches and transactions entered in the money market by the Global Banking and Markets 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 Global Banking and Markets 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.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of the Global Banking and Markets Division. 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 the Global Banking and Markets Division. These are revalued daily at market prices and any changes in value are recognised in the profit and loss account. BZWBK's banking book consists of branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

The table below presents risk levels in 2011 and 2010. (both measures assume 1 month holding time horizon):

Interest rate risk	VaR		Stress scenario	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
1 month holding period				
Average	31 120	31 098	148 778	145 635
High	38 690	40 360	182 172	188 689
Low	21 766	23 066	109 431	96 026
as at the end of the period	31 790	27 777	159 847	144 413

The Global Banking and Markets Division operates within an operational VaR risk limit, which amounted to PLN 66 252 k (EUR 15 000 k) at the end of 2011.

The tables below present the sensitivity of trading and banking portfolios at the end of December 2011 and comparable period:

Interest Rate Risk (PLN k)	Sensitivity 31-12-2011		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	(28)	55	27
3m-1Y	87	47	134
1Y-5Y	(58)	(546)	(604)
over 5Y	3	8	11
Total	4	(436)	(432)

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)

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 the Global Banking and Markets Division executes such decisions.

The following tables present interest rate sensitivities of each NIRIL portfolios at the end of 2011 and 2010:

Interest Rate Risk (PLN k)	Sensitivity 31-12-2011		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0-3m	24	(4)	20
3m-1Y	(34)	(27)	(61)
1Y-5Y	(1 186)	(738)	(1 924)
over 5Y	(135)	(1 019)	(1 154)
Total	(1 331)	(1 788)	(3 119)

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)

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 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 (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 the policy, the Bank does not maintain open positions in FX options. Transactions concluded with clients are at the same time closed in the interbank market, thus the Bank is not exposed to market risk on its FX options portfolio.

The table below presents risk metrics as at the end of December 2011 and in a comparable period (both metrics are scaled to a month period of holding a position to ensure comparability of the risks managed by the Global Banking and Markets Division):

FX risk	VaR		Stress scenario	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
1 month holding period				
Average	2 008	1 807	12 684	12 936
High	5 682	5 076	24 783	23 409
Low	220	426	2 406	2 938
as at the end of the period	2 046	1 842	13 042	15 048

The Global Banking and Markets Division operates within the operational limit for two-week (i.e. 10 working days) holding period. At the end of 2011 limit for one-month holding period was at PLN 6 621 k (EUR 1 499 k) At the same time, limit for two-week holding period was at PLN 4 682 k (EUR 1 060 k).

Similarly to the interest rate risk management strategy, the strategy of managing the FX risk did not change in 2011, therefore no significant changes in the exposure were observed year-over-year.

Fx Balance Sheet

In 2011, the FX structure of the credit assets and deposit liabilities remained relatively unchanged. Annual growth of assets is mainly caused by the depreciation of the Polish zloty – an actual change in the original currency up by 5.2% for the Euro and down by 7.2% for the CHF. The FX gap was financed from the FX and cross-currency swaps. In 2011, the Bank obtained funding in EUR to support lending to the SME sector. Therefore, in 2011 the age and FX structure of the Bank's balance sheet improved. ALCO monitors the delivery of the strategy through the set funding limits.

See the Bank's main FX positions in the tables below – as at 31st December 2011 and in comparable period.

31.12.2011	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	1 231 360	118 897	6 400	68 880	1 425 537
Loans and advances to banks	196 884	985 811	20 120	35 652	1 238 467
Loans and advances to customers	24 433 849	9 449 538	2 429 045	1 109 764	37 422 196
Investment securities	11 175 214	318 929	-	143 312	11 637 455
Selected assets	37 037 307	10 873 175	2 455 565	1 357 608	51 723 655
LIABILITIES					
Deposits from banks	2 349 512	60 669	42	2 855	2 413 078
Deposits from customers	41 441 888	4 395 955	55 340	1 098 896	46 992 079
Subordinated liabilities	-	441 234	-	-	441 234
Selected liabilities	43 791 400	4 897 858	55 382	1 101 751	49 846 391

31.12.2010	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	2 383 887	87 140	5 222	58 209	2 534 458
Loans and advances to banks	51 429	469 752	21 985	58 471	601 637
Loans and advances to customers	20 984 934	8 023 487	2 346 606	597 661	31 952 688
Investment securities	12 786 375	417 691	-	151 792	13 355 858
Selected assets	36 206 625	8 998 070	2 373 813	866 133	48 444 641
LIABILITIES					
Deposits from banks	1 682 500	302 134	48 495	110 878	2 144 007
Deposits from customers	37 526 134	3 484 603	30 350	1 058 123	42 099 210
Subordinated liabilities	-	395 230	-	-	395 230
Selected liabilities	39 208 634	4 181 967	78 845	1 169 001	44 638 447

Liquidity risk

Liquidity risk is defined as a risk of failure to meet all conditional and unconditional obligations towards customers and counterparties due to financial cash flows mismatches.

Liquidity Risk Management

The BZ WBK 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;
- 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 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 BZWBK 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.

The Policy also aims at ensuring an adequate funding structure for the growing business scale of BZ WBK through maintaining the liquidity ratios at the set level. The Bank applies a number of additional limits and monitoring ratios (e.g. loans/deposits ratio, wholesale dependency ratio). For long-term liquidity, internal metrics are supported by a regulatory limit under which the capital and stable sources of funding fully covered 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 Global Banking and Markets 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 the Global Banking and Markets Division. The Asset and Liabilities Management Department within the Finance Division is responsible for developing and updating strategies and policies of liquidity management and assessing and reporting the liquidity risk.

The Bank has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

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 interbank 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 and 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.

At the same time, 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 31.12.2011 and in comparable period:

31.12.2011	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	1 425 537	-	-	-	-	-	-	1 425 537
Loans and advances to banks	1 238 467	-	-	-	-	-	-	1 238 467
Financial assets held for trading	4 686 095	140 562	301 759	461 552	112 062	101 545	-	5 803 575
Loans and advances to customers	3 823 141	1 650 089	6 969 700	11 270 020	6 051 042	8 972 246	(1 314 042)	37 422 196
Investment securities	457 087	139 372	2 101 636	3 510 893	1 725 321	3 049 565	653 581	11 637 455
Other items	-	-	-	-	-	-	1 566 313	1 566 313
Long position	11 630 327	1 930 023	9 373 095	15 242 465	7 888 425	12 123 356	905 852	59 093 543
Deposits from Central Bank and banks	1 902 332	510 746	-	-	-	-	-	2 413 078
Financial liabilities held for trading	228 181	124 926	219 964	277 887	70 549	41 526	-	963 033
Deposits from customers	32 562 771	8 457 404	4 332 003	729 658	25 451	884 792	-	46 992 079
Subordinated liabilities	3 971	-	-	-	-	437 263	-	441 234
Other items	-	-	-	-	-	-	8 284 119	8 284 119
Short position	34 697 255	9 093 076	4 551 967	1 007 545	96 000	1 363 581	8 284 119	59 093 543
Gap-balance sheet	(23 066 928)	(7 163 053)	4 821 128	14 234 920	7 792 425	10 759 775	(7 378 267)	
Contingent liabilities- sanctioned								
Financing related	314 800	819 629	3 780 331	3 096 805	850 262	426 859	(20 506)	9 268 180
Guarantees	52 755	125 522	370 584	1 075 597	83 882	90 229	(1 718)	1 796 851
Derivatives settled in gross terms								
Inflows	4 631 340	4 596 635	4 999 539	1 978 427	1 443 679	1 489 611	-	19 339 231
Outflows	4 950 048	4 572 971	5 033 291	2 133 793	1 693 035	1 676 614	-	20 059 752
Gap – off-balance sheet	(486 263)	(921 487)	(4 184 667)	(4 327 768)	(1 183 500)	(704 091)	22 224	

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	2 534 458	-	-	-	-	-	-	2 534 458
Loans and advances to banks	601 637	-	-	-	-	-	-	601 637
Financial assets held for trading	1 237 429	65 409	422 305	294 920	92 691	88 176	-	2 200 930
Loans and advances to customers	2 877 227	1 993 612	6 268 335	6 756 851	7 163 430	8 202 443	(1 309 210)	31 952 688
Investment securities	-	-	2 659 897	5 037 038	2 506 002	2 505 004	648 117	13 355 858
Other items	-	-	-	-	-	-	1 389 185	1 389 185
Long position	7 250 751	2 059 021	9 350 337	12 088 809	9 762 123	10 795 623	728 092	52 034 756
Deposits from Central Bank and banks	2 142 679	1 328	-	-	-	-	-	2 144 007
Financial liabilities held for trading	35 197	64 532	95 007	188 412	92 036	103 427	-	578 611
Deposits from customers	28 008 106	5 963 458	6 923 319	808 115	164	396 048	-	42 099 210
Subordinated liabilities	3 160	-	-	-	-	392 070	-	395 230
Other items	-	-	-	-	-	-	6 817 698	6 817 698
Short position	30 189 142	6 029 318	7 018 326	996 527	92 200	891 545	6 817 698	52 034 756
Gap-balance sheet	(22 938 391)	(3 970 297)	2 332 011	11 092 282	9 669 923	9 904 078	(6 089 606)	
Contingent liabilities- sanctioned								
Financing related	167 154	576 473	3 410 667	891 876	891 572	346 016	(16 151)	6 267 607
Guarantees	17 900	110 042	275 495	710 688	279 665	39 035	(1 066)	1 431 759
Derivatives settled in gross terms								
Inflows	2 371 246	3 876 195	3 007 334	1 380 745	1 591 161	1 287 992	-	13 514 673
Outflows	2 382 221	3 861 964	2 993 185	1 390 384	1 613 287	1 379 910	-	13 620 951
Gap – off-balance sheet	(196 029)	(672 284)	(3 672 013)	(1 612 203)	(1 193 363)	(476 969)	17 217	

Liquidity Policy Report – Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31-12-2011			
Qualifying Liquid Assets	12 401 619	1 040 043	500 000
Treasury inflows	1 510 347	1 996 766	13 323 359
Other inflows	257 777	362 208	39 998 386
Treasury outflows	(1 595 397)	(3 047 512)	(14 480 063)
Other outflows	(3 870 719)	(796 333)	(47 600 481)
GAP	8 703 627	(444 828)	(8 258 799)
Cumulative GAP	8 703 627	8 258 799	-

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	-

In 2011 a change in the deposit base maturity profile was observed. However, according to our observations the deposit base is still a stable source of asset financing. The level of liquid assets did not change significantly year-over-year.

In 2011 and in comparable period all the regulatory measures have been kept at the required levels.

Operating Risk

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

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

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

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

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

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

- Identification and estimation of operational risk

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

- Reporting on operational incidents and lessons learned

Each organizational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are

actioned. The lessons learned process is a tool aimed to reinforce and facilitate operational risk management; it ensures also that decisive steps are taken if operational incidents materialize.

- Analysis of risk indicators

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

- Business continuity management

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

- Regular reporting to the Risk Management Committee and Supervisory Board

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

- Insurance

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

Legal & compliance risk

Legal and regulatory (compliance) risk is defined – in line with the Basel Committee recommendation and the definition adopted by the strategic shareholder – as risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by Bank Zachodni WBK as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk Identification and Assessment

Within Bank Zachodni WBK several bodies have been assigned to manage legal and regulatory (compliance) risk.

The scope of the 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.

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 its 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 Bank is exposed to,
- providing advice and reporting to the Risk Management Committee, Bank's Management Board and Audit Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope,
- providing advice and guidance to management and staff on compliance risks and on appropriate policies and procedures to mitigate this risk.

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

Risk monitoring & reporting

The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures, regulatory obligations and best practices. Monitoring can be undertaken by dedicated Risk and Compliance Monitoring Office, 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 Compliance Division. The implementation of these action plans is monitored by the Compliance Division.

4. Capital Management

Introduction

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

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

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

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

The Management Board delegated on-going capital management to ALCO/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 for the bank. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank in accordance with the applicable law and the bank's Statutes.

Capital Policy

The solvency ratio, which shows the relation between capital requirements 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 Bank'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.

Regulatory Capital

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

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

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

The tables below show capital requirement for the Bank as of 31 December 2011 and 31 December 2010.

	31.12.2011	31.12.2010
I Total Capital requirement	3 406 051	2 880 685
II Own funds after reductions	6 218 062	5 503 939
CAD [II/(I*12.5)]	14,60%	15,29%

Internal Capital

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

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process the bank 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 bank has an appropriate process in place to assess all the key elements of capital planning and management (including aggregation of capital for different risk types). The process ensures that the bank'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 bank's business.

The approach applied in 2011 based on the regulatory capital for Pillar 1 risks and the estimated capital for all the other Pillar 2 risks that the bank is or may be exposed to. Quantitative risk measurement methods are applied where feasible and practicable. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

Subordinated liabilities

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

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Bank'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 Bank's adequacy ratio.

Detailed information on subordinated liabilities is presented in Note 32.

5. Net interest income

	01.01.2011	01.01.2010
	-31.12.2011	-31.12.2010
Interest income		
Loans and advances to enterprises	1 365 023	1 191 526
Loans and advances to individuals, of which:	1 040 869	958 818
<i>Home mortgage loans</i>	362 108	299 295
Debt securities incl.:	754 238	750 059
<i>Investment portfolio held to maturity</i>	287 123	362 229
<i>Investment portfolio available for sale</i>	342 104	301 964
<i>Trading portfolio</i>	125 011	85 866
Loans and advances to banks	78 141	59 104
Other from public sector	22 180	17 072
Reverse repo transactions	5 932	7 003
Interest recorded on hedging IRS	25 335	(11 934)
Total	3 291 718	2 971 648
Interest expense		
Deposits from individuals	(712 560)	(773 118)
Deposits from enterprises	(427 684)	(358 237)
Repo transactions	(131 700)	(95 976)
Public sector	(61 503)	(56 834)
Deposits from banks	(12 602)	(11 026)
Subordinated liabilities	(21 921)	(8 180)
Total	(1 367 970)	(1 303 371)
Net interest income	1 923 748	1 668 277

As at 31.12.2011 net interest income includes interest on impaired loans of PLN 107 233 k (as at 31.12.2010 - PLN 102 588 k).

6. Net fee and commission income

	01.01.2011	01.01.2010
	-31.12.2011	-31.12.2010
Fee and commission income		
eBusiness & payments	391 599	357 535
Current accounts and money transfer	244 505	252 052
Foreign exchange commissions	224 263	201 745
Credit commissions	103 270	94 668
Distribution fees	87 012	83 460
Credit cards	63 040	63 626
Insurance commissions	58 975	59 968
Issue arrangement	15 174	13 211
Off-balance sheet guarantee commissions	14 246	12 405
Other commissions	6 835	5 576
Total	1 208 919	1 144 246
Fee and commission expense		
eBusiness & payments	(77 905)	(77 197)
Commissions paid to credit agents	(12 041)	(23 105)
Credit cards	(7 169)	(7 597)
Other commissions	(21 055)	(14 480)
Total	(118 170)	(122 379)
Net fee and commission income	1 090 749	1 021 867

Included above is fee and commission income on credits, credit cards and off-balance sheet guarantee commissions of PLN 180 556 k (2010: PLN 170 699 k) and fee and commission expenses on credits cards and paid to credit agents of PLN (19 210) k (2010: PLN (30 702) k) other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

7. Dividend income

	01.01.2011	01.01.2010
	-31.12.2011	-31.12.2010
Dividend income		
Dividends from subsidiaries and joint ventures	116 278	78 645
Dividends from investment portfolio entities	66 274	52 730
Total	182 552	131 375

8. Net trading income and revaluation

	01.01.2011	01.01.2010
	-31.12.2011	-31.12.2010
Net trading income and revaluation		
Profit on interbank FX transactions	96 773	111 398
Profit/(loss) on derivative instruments	138 280	126 172
Other FX related income	24 053	25 301
Profit on debt instruments	2 512	1 101
Total	261 618	263 972

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 14 030 k for 2011 (2010: PLN 5 994 k).

9. Gains (losses) from other financial securities

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Gains (losses) from other financial securities		
Profit on equity shares	4 841	3 056
Profit on debt securities	6 713	5 657
Charge due to impairment losses	-	(48)
Total profit (losses) on financial instruments	11 554	8 665
Change in fair value of hedging instruments	2 079	(2 034)
Change in fair value of underlying hedged positions	(1 081)	2 167
Total profit (losses) on hedging and hedged instruments	998	133
Total	12 552	8 798

10. Other operating income

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Other operating income		
Income on sale of services	22 162	19 702
Reimbursements of BGF charges	10 649	5 678
Release of provision for legal cases and other assets	6 025	3 687
Recovery of other receivables	3 320	1 149
Insurance indemnity received	1 753	8 499
Settlements of leasing agreements	1 642	271
Received compensations, penalties and fines	814	211
Other	3 829	7 041
Total	50 194	46 238

11. Impairment losses on loans and advances

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Impairment losses on loans and advances		
Collective and individual impairment charge	(343 071)	(425 614)
Incurred but not reported losses charge	(6 233)	43 045
Recoveries of loans previously written off	12 323	20 252
Off balance sheet credit related items	(4 955)	(1 671)
Total	(341 936)	(363 988)

12. Employee costs

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Employee costs		
Salaries and bonuses	(729 601)	(709 253)
Salary related costs	(106 418)	(107 740)
Staff benefits costs	(20 793)	(19 181)
Professional trainings	(16 465)	(12 710)
Retirement fund, holiday provisions and other employee-related costs	(3 550)	(4 689)
Total	(876 827)	(853 573)

13. General and administrative expenses

	01.01.2011	01.01.2010
	-31.12.2011	-31.12.2010
General and administrative expenses		
Maintenance and rentals of premises	(212 029)	(207 154)
IT systems costs	(79 857)	(77 440)
Marketing and representation	(79 375)	(71 633)
Postal and telecommunication costs	(42 416)	(42 688)
Other external services	(32 419)	(33 298)
Car, transport expenses, carriage of cash	(34 276)	(31 026)
Bank Guarantee Fund, Polish Financial Supervision Authority	(40 835)	(22 681)
Consulting fees	(18 876)	(19 781)
Stationery, cards, cheques etc.	(25 277)	(17 654)
Data transmission	(15 242)	(14 807)
Sundry taxes	(16 764)	(14 552)
Security costs	(12 435)	(13 616)
KIR, SWIFT settlements	(10 880)	(11 662)
Costs of other repairs	(4 814)	(5 743)
Other	(11 441)	(9 787)
Total	(636 936)	(593 522)

14. Other operating expenses

	01.01.2011	01.01.2010
	-31.12.2011	-31.12.2010
Other operating expenses		
Charge of provisions for legal cases and other assets	(12 981)	(18 967)
Debt recovery costs	(5 759)	(2 651)
Liquidation of fixed assets, intangible assets and assets for disposal	(5 323)	(259)
Costs of purchased services	(2 205)	(1 517)
Donation paid	(1 960)	(1 720)
Paid compensations, penalties and fines	(1 819)	(268)
Other membership fees	(634)	(610)
Losses from past-due receivables	(252)	(115)
Other	(4 898)	(3 956)
Total	(35 831)	(30 063)

15. Corporate income tax

	01.01.2011	01.01.2010
	-31.12.2011	-31.12.2010
Corporate income tax		
Current tax charge	(219 976)	(282 302)
Deferred tax	(48 640)	16 848
Total	(268 616)	(265 454)

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Corporate total tax charge information		
Profit before tax	1 427 118	1 182 309
Tax rate	19%	19%
Tax calculated at the tax rate	(271 152)	(224 639)
Non-deductible expenses	(8 199)	(3 311)
Sale of receivables	(13 968)	(31 294)
Non-taxable income (dividends)	34 677	24 952
Non-tax deductible bad debt provisions	(10 067)	(13 849)
Adjustment of deferred tax asset on interest on debt securities	-	(16 897)
Other	93	(416)
Total income tax expense	(268 616)	(265 454)

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Deferred tax recognised directly in equity		
The amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	(96 491)	(95 978)
Relating to debt securities available-for-sale	(20 965)	(4 654)
Relating to cash flow hedging activity	(12 183)	(473)
Total	(129 639)	(101 105)

16. Earning per share

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
Net earnings per share (PLN/share)		
Profit attributable to ordinary shares	1 158 502	916 855
Weighted average number of ordinary shares	73 076 013	73 076 013
Net earnings per share (PLN)	15,85	12,55
Profit attributable to ordinary shares	1 158 502	916 855
Weighted average number of ordinary shares	73 076 013	73 076 013
Weighted average number of potential ordinary shares	274 273	272 003
Diluted earnings per share (PLN)	15,79	12,50

17. Cash and balances with central banks

	31.12.2011	31.12.2010
Cash and balances with central banks		
Cash	932 596	821 551
Current accounts in central banks	290 908	1 712 907
Term deposits	202 033	-
Total	1 425 537	2 534 458

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 31.12.2011 the rate was 3.5% and as at 31.12.2010 - 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

18. Loans and advances to banks

	31.12.2011	31.12.2010
Loans and advances to banks		
Loans and advances	428 727	293 919
Current accounts, other	809 740	307 718
Total	1 238 467	601 637

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

19. Financial assets and liabilities held for trading

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

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

Financial assets and liabilities held for trading	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	700 269	878 809	474 641	568 153
Interest rate operations	314 070	308 634	238 727	236 968
Options	132	132	68	68
IRS	304 438	300 255	236 277	235 422
FRA	9 500	8 247	2 382	1 478
FX operations	386 199	570 175	235 914	331 185
CIRS	42 149	126 852	76 215	171 730
Forward	97 509	32 182	25 765	9 937
FX Swap	150 924	316 003	90 104	105 658
Spot	2 015	1 536	1 363	1 393
Options	93 602	93 602	42 467	42 467
Debt and equity securities	5 103 306	-	1 726 289	-
Debt securities	5 103 306	-	1 726 289	-
Government securities:	455 350	-	526 989	-
- bills	-	-	206 799	-
- bonds	455 350	-	320 190	-
Central Bank securities:	4 647 956	-	1 199 300	-
- bills	4 647 956	-	1 199 300	-
Short sale	-	84 224	-	10 458
Total financial assets/liabilities	5 803 575	963 033	2 200 930	578 611

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. At 31.12.2011 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

Financial assets and liabilities held for trading – trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (396) k as at 31.12.2011, PLN (1 944) k as at 31.12.2010.

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

Derivatives' nominal values		31.12.2011	31.12.2010
1.	Term derivatives (hedging)	6 380 238	1 669 876
a)	Single-currency interest rate swaps	341 696	975 320
b)	Macro cash flow hedge	6 038 542	694 556
2.	Term derivatives (trading)	82 685 738	55 920 431
a)	Interest rate operations	49 447 691	28 191 317
	Single-currency interest rate swaps	31 483 908	22 765 701
	FRA - purchased amounts	17 900 000	5 400 000
	Options	63 783	25 616
b)	FX operations	33 238 047	27 729 114
	FX swap – purchased amounts	11 006 569	7 840 597
	FX swap – sold amounts	11 127 200	7 839 580
	Forward- purchased amounts	2 088 999	1 008 250
	Forward- sold amounts	2 041 784	993 640
	Cross-currency interest rate swaps – purchased amounts	1 320 069	4 198 117
	Cross-currency interest rate swaps – sold amounts	1 405 598	4 319 990
	FX options -purchased	2 123 914	764 470
	FX options -sold	2 123 914	764 470
3.	Currency transactions- spot	2 343 838	935 449
	spot-purchased	1 172 159	467 710
	spot-sold	1 171 679	467 739
	Total	91 409 814	58 525 756

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

20. Hedging derivatives

Hedging derivatives	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	5 052	3 723	579	12 848
IRS hedging cash flow	136 526	520 002	14 189	3 593
Total hedging derivatives	141 578	523 725	14 768	16 441

21. Loans and advances to customers

Loans and advances to customers	31.12.2011	31.12.2010
Loans and advances to enterprises	25 920 807	21 740 817
Loans and advances to individuals, of which:	12 553 314	11 409 798
<i>Home mortgage loans</i>	7 605 063	6 926 647
Loans and advances to public sector	259 057	101 082
Buy-sell-back transaction	100	147
Other	2 960	10 054
Gross receivables	38 736 238	33 261 898
Impairment write down	(1 314 042)	(1 309 210)
Total	37 422 196	31 952 688

As at 31.12.2011 the fair value adjustment due to hedged risk on corporate loans was PLN nil k (as at 31.12.2010 – PLN 887 k). Fair value of "loans and advances to customers" is disclosed in note 39.

Movements on impairment losses on loans and advances to customers	31.12.2011	31.12.2010
Individual and collective impairment		
As at the beginning of the period	(987 527)	(710 450)
Charge/write back of current period	(343 071)	(425 614)
Write off/Sale of receivables	328 571	184 215
Transfer	24 829	(38 958)
F/X differences	(5 667)	3 280
Balance at the end of the period	(982 865)	(987 527)
IBNR		
As at the beginning of the period	(321 683)	(365 002)
Charge/write back of current period	(6 233)	43 045
Transfer	27	10
F/X differences	(3 288)	264
Balance at the end of the period	(331 177)	(321 683)
Impairment write down	(1 314 042)	(1 309 210)

22. Investment securities available for sale

Investment securities available for sale	31.12.2011	31.12.2010
Available for sale investments - measured at fair value		
Debt securities	10 983 874	6 958 333
Government securities:	10 906 085	6 880 858
- bonds	10 906 085	6 880 858
Commercial securities:	77 789	77 475
- bonds	77 789	77 475
Equity securities	608 719	605 732
- listed	2 568	7 372
- unlisted	606 151	598 360
Investment certificates	44 862	42 385
Total	11 637 455	7 606 450

As at 31.12.2011 fixed interest rate debt securities measured at fair value amount to PLN 9 999 009 k, variable interest rate securities amount to PLN 984 866 k.

As at 31.12.2010 fixed interest rate debt securities measured at fair value amount to PLN 5 536 721 k, variable interest rate securities amount to PLN 1 421 612 k.

As at 31.12.2011 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 1 233 k (as at 31.12.2010 PLN 1 336 k).

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

Fair value of „Investment securities available for sale” is presented in note 39.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2011	6 958 333	648 117	7 606 450
Additions	1 590 087	6 565	1 596 652
Disposals (sale and maturity)	(2 298 604)	(3 798)	(2 302 402)
Fair value adjustment (AFS)	6 407	3 096	9 503
Movements on interest accrued	(16 146)	-	(16 146)
F/X differences	47 256	(400)	46 856
Reclassification*	4 627 410	-	4 627 410
Measurement at fair value of reclassified bonds	69 132	-	69 132
As at 31 December 2011	10 983 875	653 580	11 637 455

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2010	5 953 370	642 880	6 596 250
Additions	3 474 338	16 439	3 490 777
Disposals (sale and maturity)	(2 527 317)	(2 765)	(2 530 082)
Fair value adjustment (AFS)	8 869	(7 914)	955
Movements on interest accrued	58 583	-	58 583
Provision for Impairment	-	(48)	(48)
F/X differences	(9 510)	(475)	(9 985)
As at 31 December 2010	6 958 333	648 117	7 606 450

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

23. Financial assets held to maturity

Financial assets held to maturity	31.12.2011	31.12.2010
Government securities:	-	5 749 408
- bonds	-	5 749 408
Total	-	5 749 408

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

Movements on financial assets held to maturity	31.12.2011	31.12.2010
Balance at 1 January	5 749 408	6 669 555
Reclassification*	(4 627 410)	-
Maturity	(1 086 827)	(955 378)
Fair value amortisation	10 206	12 190
Movements on interest accrued	(45 377)	23 041
As at end of reporting period	-	5 749 408

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

24. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures	31.12.2011	31.12.2010
Subsidiaries	218 068	207 468
Associates	8 000	8 000
Joint ventures	38 531	33 531
Total	264 599	248 999

Fair value of "Investment in associates and joint ventures" is presented in note 39.

Investments in subsidiaries, associates and joint ventures as at 31.12.2011

Name of entity	POLFUND -										Total
	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finance Sp. z o.o.	BZ WBK o.o.	Maklerski BZ WBK S.A.	Dom WBK S.A.	BZ WBK Nieruchomości S.A.	BZ WBK Asset Management S.A.	PORĘCZENIA KREDYTOWYCH S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	
Registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Joint venture	Joint venture	
% of holding**	100,00	100,00	100,00	99,99	99,99	99,99	50,00	50,00	50,00	50,00	
Balance sheet value	46 600	118 094	118 094	45 925	694	694	8 000	8 000	20 015	18 516	
Total assets	51 707	118 073	118 073	914 177	865	865	204 035	83 982	688 412	210 051	
Own funds of entity, of which:											
Share capital	100	1 050	1 050	44 974	750	750	196 550	76 929	40 204	45 455	
Other own funds, of which:											
from previous years	-	-	-	4 971	(30)	(30)	-	2 616	(4 222)	-	
net profit (loss)	2 520	15	15	49 532	67	67	125 667	2 980	5 028	11 125	
Liabilities of entity	140	10	10	754 001	23	23	7 485	7 053	648 208	164 596	
Revenue	27 209	302	302	193 298	541	541	152 205	8 096	497 348	94 075	
*selected financial information as at end of November 2011											
** states percentage share of associates or joint ventures profits											

Name of entity**Business**

BZ WBK Inwestycje Sp. z o.o.

trading in shares of commercial companies as well as other securities; seeking investors for companies

BZ WBK Finance Sp. z o.o.

centralised management of the banks subsidiaries: BZ WBK Finance & Leasing S.A, BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o.

Dom Maklerski BZ WBK S.A.

offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market

BZ WBK Nieruchomości S.A.

organisation of various events, catering and hotel services, agency services

BZ WBK Asset Management S.A.

brokerage activities: managing customer's share portfolios (listed and not listed)

POLFUND - Fundusz Poręczeń Kredytowych S.A.

providing lending guarantees, investing and managing funds invested in companies, management

BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.

life insurance

BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.

property and personal insurance

Investments in subsidiaries, associates and joint ventures as at 31.12.2010

Name of entity	POLFUND -										Total
	BZ WBK z o.o.	BZ WBK Inwestycje Sp. z o.o.	BZ WBK o.o.	Finanse Sp. z o.o.	BZ WBK Maklerski Nieruchomości S.A.	BZ WBK Asset Management S.A.	BZ WBK AIB	Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	
Registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Joint venture	Joint venture	
% of holding **	100,00	100,00	99,99	99,99	99,99	99,99	50,00	50,00	50,00	50,00	
Balance sheet value	36 000	118 094	45 925	45 925	694	6 755	8 000	15 015	434 886	18 516	
Total assets	48 735	118 067	1 065 020	1 065 020	792	220 440	82 255	434 886	163 610	2 133 805	
Own funds of entity, of which:	48 497	118 048	157 996	157 996	775	203 516	73 573	24 791	40 201	667 397	
Share capital	100	1 050	44 974	44 974	750	13 500	16 000	21 750	27 000	125 124	
Other own funds, of which:	48 397	116 998	113 022	113 022	25	190 016	57 573	3 041	13 201	542 273	
from previous years	-	-	5 304	5 304	-	-	603	(2 656)	-	3 251	
net profit (loss)	6 310	16	46 787	46 787	68	132 633	1 636	(1 951)	6 364	191 863	
Liabilities of entity	238	19	907 024	907 024	17	16 924	8 682	410 095	123 409	1 466 408	
Revenue	6 694	289	191 229	191 229	559	165 731	6 922	231 605	82 248	685 277	

*selected financial information as at end of November 2010

** states percentage share of associates or joint ventures profits

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

25. Intangible assets

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

Intangible assets Year 2010	Licences, patents etc.	Other (know- how)	Capital expenditures	Total
Gross value - beginning of the period	571 539	6 019	70 565	648 123
Additions from:				
- purchases	-	-	27 268	27 268
- intangible assets taken for use	57 640	-	-	57 640
Disposals from:				
- liquidation	(1 087)	-	(194)	(1 281)
- intangible assets taken for use	-	-	(57 640)	(57 640)
- transfers	-	-	(58)	(58)
Gross value - end of the period	628 092	6 019	39 941	674 052
Accumulated depreciation - beginning of the period	(479 459)	(5 971)	-	(485 430)
Additions/disposals from:				
- current year	(34 490)	(48)	-	(34 538)
- liquidation	971	-	-	971
Accumulated depreciation- end of the period	(512 978)	(6 019)	-	(518 997)
Balance sheet value				
Purchase value	628 092	6 019	39 941	674 052
Accumulated depreciation	(512 978)	(6 019)	-	(518 997)
As at 31 December 2010	115 114	-	39 941	155 055

26. Property, plant and equipment

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

Property, plant & equipment Year 2010	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	647 478	309 644	35 322	304 876	27 910	1 325 230
Additions from:						
- purchases	-	-	-	-	34 008	34 008
- leasing	-	-	2 571	-	-	2 571
- fixed assets taken for use	7 029	13 310	-	18 471	-	38 810
- transfers	-	-	-	-	58	58
Disposals from:						
- sale, liquidation, donation	(1 769)	(27 886)	(1 533)	(3 837)	(140)	(35 165)
- fixed assets taken for use	-	-	-	-	(38 809)	(38 809)
Gross value - end of the period	652 738	295 068	36 360	319 510	23 027	1 326 703
Accumulated depreciation - beginning of the period	(268 637)	(248 372)	(18 949)	(208 140)	-	(744 098)
Additions/disposals from:						
- current year	(27 108)	(22 296)	(8 476)	(24 654)	-	(82 534)
- sale, liquidation, donation	780	27 720	1 533	3 623	-	33 656
- transfers	(6)	-	(277)	(1)	-	(284)
Accumulated depreciation - end of the period	(294 971)	(242 948)	(26 169)	(229 172)	-	(793 260)
Balance sheet value						
Purchase value	652 738	295 068	36 360	319 510	23 027	1 326 703
Accumulated depreciation	(294 971)	(242 948)	(26 169)	(229 172)	-	(793 260)
As at 31 December 2010	357 767	52 120	10 191	90 338	23 027	533 443

27. Net deferred tax assets

Deferred tax asset	31.12.2011	31.12.2010
Provisions for loans	177 780	205 300
Unrealized liabilities due to derivatives	88 612	78 191
Other provisions which are not yet taxable costs	57 905	56 624
Deferred income	83 990	69 246
Unrealized interest on deposit and securities	41 891	48 617
Depreciation, amortisation - effects of a change in estimate	14 560	-
Other	422	794
Total	465 160	458 772
Deferred tax liability	31.12.2011	31.12.2010
Revaluation of financial instruments available for sale*	(117 456)	(100 633)
Unrealised receivables on derivatives	(97 920)	(60 750)
Unrealised interests from loans, securities and interbank deposits	(67 113)	(49 038)
Provision due to application of investment relief	(3 269)	(2 647)
Cash flow hedges valuation*	(12 183)	(473)
Other	(1 444)	(2 282)
Total	(299 385)	(215 823)
Net deferred tax assets	165 775	242 949

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



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

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.

Movements on net deferred tax	31.12.2011	31.12.2010
As at the beginning of the period	242 949	228 156
Changes recognised in income statement	(48 640)	16 848
Changes recognised in other net comprehensive income	(28 534)	(2 055)
As at end of the period	165 775	242 949

Temporary differences recognised in equity comprise deferred tax on available for sale securities and cash flow hedges.

Temporary differences recognised in the income statement comprise provision for impairment of loans and receivables and assets in the course of business.

28. Assets classified as held for sale

Assets classified as held for sale	31.12.2011	31.12.2010
Land and buildings	82 511	2 409
Equipment	93	93
Total	82 604	2 502

29. Other assets

Other assets	31.12.2011	31.12.2010
Sundry debtors	151 263	119 011
Interbank and interbranch settlements	85 414	42 844
Prepayments	29 680	29 562
Other	52	52
Total	266 409	191 469

30. Deposits from banks

Deposits from banks	31.12.2011	31.12.2010
Repo transactions	2 240 824	1 927 368
Term deposits	12 495	119 663
Current accounts	159 759	96 976
Total	2 413 078	2 144 007

Fair value of "Deposits from banks" is presented in note 39.

31. Deposits from customers

Deposits from customers	31.12.2011	31.12.2010
Deposits from individuals	26 590 029	24 617 755
Term deposits	14 815 132	12 731 704
Current accounts	11 740 901	11 850 386
Other	33 996	35 665
Deposits from enterprises	18 565 366	15 347 635
Term deposits	12 041 716	9 552 614
Current accounts	5 295 101	5 109 883
Loans and advances	883 781	396 284
Other	344 768	288 854
Deposits from public sector	1 836 684	2 133 820
Term deposits	806 083	1 015 651
Current accounts	1 028 711	1 117 286
Other	1 890	883
Total	46 992 079	42 099 210

As at 31.12.2011 deposits held as collateral totalled PLN 190 932 k (as at 31.12.2010 – PLN 206 115 k).
Fair value of “Deposits from customers” is presented in note 39.

32. Subordinated liabilities

Subordinated liabilities	Nominal value	Currency	Redemption date	As at the end of the period
Subordinated liabilities	100 000	EUR	05.08.2020	441 234
As at 31 December 2011				441 234

Movements in Subordinated Liabilities	31.12.2011	31.12.2010
As at the beginning of the period	395 230	-
Increase (due to):	69 003	404 210
- subordinated loan raised	-	396 030
- interest on subordinated loan	21 921	8 180
- foreign exchange differences	47 082	-
Decrease (due to):	(22 999)	(8 980)
- capital repayment	-	-
- interest repayment	(22 999)	(4 756)
- foreign exchange differences	-	(264)
- subscription price	-	(3 960)
Subordinated liabilities as at the end of the period	441 234	395 230
Short-term	3 971	3 160
Long-term (over 1 year)	437 263	392 070

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

33. Other liabilities

Other liabilities	31.12.2011	31.12.2010
Provisions:	226 501	209 090
Employee provisions	179 494	174 515
Provisions for legal claims	17 484	17 358
Provisions for off balance sheet credit facilities	22 223	17 217
Other	7 300	-
Interbank and interbranch settlements	369 125	165 690
Other deferred and suspended income	112 911	88 446
Sundry creditors	153 342	74 532
Accrued liabilities	41 298	49 049
Public and law settlements	33 161	32 480
Total	936 338	619 287

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

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

Change in provisions	31.12.2011	31.12.2010
As at the beginning of the period	209 090	162 573
Employee provisions	174 515	130 021
Provisions for legal claims	17 358	17 000
Provisions for off balance sheet credit facilities	17 217	15 552
Other	-	-
Provision charge	215 796	220 068
Employee provisions	171 218	173 800
Provisions for legal claims	1 786	2 401
Provisions for off balance sheet credit facilities	35 492	43 867
Other	7 300	-
Utilization	(160 670)	(127 239)
Employee provisions	(159 556)	(125 491)
Provisions for legal claims	(1 165)	(1 742)
Provisions for off balance sheet credit facilities	51	(6)
Other	-	-
Write back	(37 715)	(46 312)
Employee provisions	(6 683)	(3 815)
Provisions for legal claims	(495)	(301)
Provisions for off balance sheet credit facilities	(30 537)	(42 196)
Other	-	-
Balance at the end of the period	226 501	209 090
Employee provisions	179 494	174 515
Provisions for legal claims	17 484	17 358
Provisions for off balance sheet credit facilities	22 223	17 217
Other	7 300	-

34. Share capital

31.12.2011

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

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

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

31.12.2010

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

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

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., a wholly-owned subsidiary of Allied Irish Banks p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK is 70.4%. The remaining shares are in free float.

35. Other reserve funds

Other reserve funds	31.12.2011	31.12.2010
General banking risk fund	649 810	649 810
Share premium	261 699	261 699
Other reserves of which:	3 470 616	3 136 704
<i>Reserve capital</i>	3 358 944	3 025 032
<i>Supplementary capital</i>	111 672	111 672
Total	4 382 125	4 048 213

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 31.12.2011 reserve capital includes share scheme charge of PLN 38 177 k, as at 31.12.2010 of PLN 17 429 k. Other movements of other reserve funds are presented in "movements on consolidated equity" for 2011 and 2010.

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.

36. Revaluation reserve

Revaluation reserve	31.12.2011	31.12.2010
As at 31 December	431 028	422 262
Net change in available for sale investments, of which:	29 875	18 366
Increase:	31 448	32 326
- related to debt investments purchased before current reporting period	15 217	32 326
- related to equity investments purchased before current reporting period	6 447	-
-net change in available for sale investments matured in the period	9 784	-
Decrease:	(1 573)	(13 960)
- related to equity investments purchased before current reporting period	-	(5 654)
-related to debt investments purchased/assigned in the period	-	(4 100)
-net change in available for sale investments matured in the period	(1 573)	(4 206)
*Measurement at fair value of reclassified bonds	69 132	-
Gross valuation related to cash flow hedge	61 631	119
Decrease in revaluation reserve related to sale of investments	(10 463)	(7 664)
Deferred tax adjustment	(28 534)	(2 055)
Total	552 669	431 028

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

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 fair value of financial assets reclassified in prior period from 'Available for sale' category to 'Held to maturity' (see note 23) of PLN 10 206 k.

37. Hedge accounting

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

Fair value hedge

Hedging transactions are arranged using interest rate swaps. Their purpose is to mitigate the risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. BZWBK 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.
- PLN deposits.

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

The tables below contain details about individual groups of hedge transactions for 2011 and the comparative period:

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

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

Cash flow hedging

Bank Zachodni WBK applies future cash flow hedge accounting. Hedge relationships are created using CIRS. The objective is to hedge against the risk of variability of future cash flow arising from fluctuations in exchange rates and market interest rates. A cash flow hedge is used in respect of foreign currency loans carrying variable interest rate. During the comparable period, it was applied to PLN deposits, taking into account their renewal on the basis of the variable interest rate and to PLN and FX loans with variable interest rate.

In December 2011, as a result of expiration of hedged PLN deposit volumes, the Bank decided to stop applying hedge accounting to the group of such financial instruments.

Hedged items are measured at amortised cost. Hedging items are measured at fair value. Once effectiveness criteria of hedge accounting are met, a change in the fair value of hedging instruments is recognised in equity.

As of 31 December 2011, the nominal value of the hedging item was PLN 6 592 672k (31 December 2010 – PLN 694 556k). Adjustment to fair value of the hedging instrument is PLN 64 120k (31 December 2010 – PLN 2 487k); the same amount, less deferred tax, is recognised in the Bank's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2026.

The non-effective portion of measurement of the cash flow hedge was PLN 2 525k as of 31.12.2011 and 0 as of 31.12.2010. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

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

The Bank 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 2011, the statement of financial position, on liabilities side, contains sell-buy-back transactions amounting of PLN 2 240 824 k (PLN 1 927 368 k as at 31.12.2010).

A related item being the deposit representing obligations in respect the repo transactions (i.e. treasury bills and bonds) is held on the assets side of the statement of financial position and amounts to PLN 2 240 101 k (PLN 1 928 537 k as at 31.12.2010).

As at 31.12.2011, in the statement of financial position, buy-sell-back transactions amount to PLN 100 k (31.12.2010 – PLN 147 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 31.12.2011 and 31.12.2010 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.

39. Fair value

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

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

Assets	31.12.2011		31.12.2010	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	1 425 537	1 425 537	2 534 458	2 534 458
Loans and advances to banks	1 238 467	1 238 452	601 637	601 641
Financial assets held for trading	5 803 575	5 803 575	2 200 930	2 200 930
Hedging derivatives	141 578	141 578	14 768	14 768
Loans and advances to customers	37 422 196	37 754 970	31 952 688	32 456 521
Investment securities	11 637 455	11 637 455	13 355 858	13 455 442
Investments in subsidiaries, associates and joint ventures	264 599	264 599	248 999	248 999
Liabilities				
Deposits from central bank	-	-	-	-
Deposits from banks	2 413 078	2 413 078	2 144 007	2 144 007
Hedging derivatives	523 725	523 725	16 441	16 441
Financial liabilities held for trading	963 033	963 033	578 611	578 611
Subordinated liabilities	441 234	441 234	395 230	395 230
Deposits from customers	46 992 079	46 992 049	42 099 210	42 099 705

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

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

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

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

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

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

In the case of held-to-maturity securities, for the purpose of this disclosure fair value is established on the basis of market quotations.

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

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

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

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

As at 31 December 2011 and in the comparable periods the Bank made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

Level II (the measurement methods based on market-derived parameters): This level includes derivative instruments except IRS, CIRS, FX forward and FX swap and options contracts with non-bank counterparties as well as debt securities measured using discounted cash flow models (except those securities for which the Bank independently estimates the credit spread for the counterparty risk).

Apart from these derivatives, level II also classifies variable-rate State Treasury bonds. These bonds were measured using discounted cash flow models based on the discount curve derived from the market of fixed-rate treasury bonds.

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

As at 31 December 2011 and in the comparable period the Bank classified its financial instruments to the following fair value levels.

31.12.2011	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	430 282	5 196 423	176 870	5 803 575
Hedging derivatives	-	141 578	-	141 578
Financial investment assets - debt securities	9 921 220	984 866	77 789	10 983 875
Financial investment assets - equity securities	2 568	-	651 012	653 580
Total	10 354 070	6 322 867	905 671	17 582 608
Financial liabilities				
Financial liabilities held for trading	-	916 127	46 906	963 033
Hedging derivatives	-	523 725	-	523 725
Total	-	1 439 852	46 906	1 486 758
31.12.2010				
Financial assets				
Financial assets held for trading	461 723	1 538 049	201 158	2 200 930
Hedging derivatives	-	14 768	-	14 768
Financial investment assets - debt securities	5 459 246	1 421 612	77 475	6 958 333
Financial investment assets - equity securities	7 372	-	640 745	648 117
Total	5 928 341	2 974 429	919 378	9 822 148
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

As at 31 December 2011 and in the comparable period there were no transfers between the first and the second fair value level.

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

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

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
31.12.2010				
Beginning of the period	421 494	83 971	629 753	(203 497)
Profit or losses	-	-	-	-
<i>recognised in income statement</i>	34 445	1 486	-	18 547
<i>recognised in equity</i>	-	-	(3 873)	-
Purchase	-	-	14 865	-
Sale	-	(7 982)	-	-
Matured	(211 919)	-	-	135 149
Transfer	(42 862)	-	-	-
At the period end	201 158	77 475	640 745	(49 801)

40. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK S.A

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

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

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

As at 31 December 2010, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 158 768 k, which is ca. 2.6 % of the Bank's equity. This amount includes PLN 29 254 k claimed by the Bank, PLN 129 433 k in claims against the Bank and PLN 81 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2010 the amount of significant court proceedings which had been completed amounted to PLN 155 467 k.

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

Off balance sheet liabilities

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

Contingent liabilities - sanctioned	31.12.2011	31.12.2010
Liabilities sanctioned		
- financial	9 268 180	6 267 607
- credit lines	8 139 811	5 389 126
- credit cards debits	970 702	818 961
- import letters of credit	157 172	55 105
- term deposits with future commencement term	495	4 415
- guarantees	1 796 851	1 431 759
Total	11 065 031	7 699 366

41. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the Bank Zachodni WBK S.A. is collateralized by the debt securities. Under the Bank Guarantee Fund Act, the bank calculated this fund using 0.4% rate of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2011 Bank Zachodni WBK S.A. pledged as collateral PLN 185 039 k of debt securities (PLN 170 698 k as at 31.12.2010).

In 2011 a deposit for PLN 695 237 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2010 it was PLN 267 731 k).

In 2011 BZ WBK hold a deposit for PLN 61 781 k (in 2010 it was PLN 9 667 k) as a collateral for the day-to-day Treasury business.

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

42. Finance and operating leases

Finance leases

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

Finance leases gross liabilities - maturity	31.12.2011	31.12.2010
less than 1 year	13 381	11 908
between 1 and 5 years	18 313	11 307
Total	31 694	23 215

Present value of minimum lease payments - maturity	31.12.2011	31.12.2010
less than 1 year	9 053	6 404
between 1 and 5 years	19 967	14 564
Total	29 020	20 968

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2011	31.12.2010
Finance leases gross liabilities	31 694	23 215
Unrealised financial costs	(2 674)	(2 247)
Present value of minimum lease payments	29 020	20 968

Operating leases

The BZWBK leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Bank. In 2011 and 2010 rentals totalled PLN 148 018 k and PLN 141 301 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	31.12.2011	31.12.2010
less than 1 year	153 865	146 193
between 1 and 5 years	518 363	446 363
over 5 years	211 316	306 347
Total	883 544	898 903

43. Statement of cash flow- additional information

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

Cash components	31.12.2011	31.12.2010
Debt investment financial instruments	1 425 537	2 534 458
Deposits in other banks, current account	1 218 280	601 638
Debt securities held for trading	4 647 956	1 199 301
Total	7 291 773	4 335 397

Bank Zachodni WBK S.A. holds restricted cash.

44. Related party disclosures

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

Transactions with subsidiaries	31.12.2011	31.12.2010
ASSETS	2 489 802	2 110 548
Financial assets held for trading	19	10 741
Loans and advances to customers	2 482 165	2 093 090
Other assets	7 618	6 717
LIABILITIES	1 009 466	1 125 137
Financial liabilities held for trading	6 265	-
Deposits from customers	974 177	1 114 294
Other liabilities	29 024	10 843
INCOME	213 058	167 703
Interest income	106 390	49 479
Fee and commission income	91 692	90 458
Other operating income	10 710	9 681
Net trading income and revaluation	4 266	18 085
EXPENSES	51 294	49 931
Interest expense	50 295	46 449
Fee and commission expense	277	880
Operating expenses incl.:	722	2 602
Bank's staff, operating expenses and management costs	603	2 583
Other	119	19
CONTINGENT LIABILITIES	1 874 462	1 177 664
Sanctioned:	1 874 462	1 177 664
- financing-related	1 551 333	931 446
- guarantees	323 129	246 218
DERIVATIVES' NOMINAL VALUES	584 777	337 331
Cross-currency interest rate swaps – purchased amounts	250 800	167 200
Cross-currency interest rate swaps – sold amounts	265 008	158 412
Single-currency interest rate swaps	68 969	11 719



Transactions with associates and joint ventures	31.12.2011	31.12.2010
ASSETS	454	-
Other assets	454	-
LIABILITIES	392 664	357 222
Deposits from customers	392 251	357 222
Other liabilities	413	-
INCOME	64 536	60 776
Interest income	8 396	1 000
Fee and commission income	55 396	59 516
Gains (losses) from other financial securities	(21)	-
Other operating income	765	260
EXPENSES	19 473	23 796
Interest expense	17 765	21 908
Fee and commission expense	64	183
Operating expenses incl.:	1 644	1 705
<i>General and administrative expenses</i>	1 644	1 705

Transactions with:	Santander Group 31.12.2011	AIB Group 31.12.2010
ASSETS	116 931	130 968
Loans and advances to banks, incl:	81 701	93 399
<i>deposits</i>	70 557	-
<i>current accounts</i>	11 144	93 399
Financial assets held for trading	35 230	36 968
Hedging derivatives	1 045	-
Other assets	-	601
LIABILITIES	46 625	462 481
Deposits from banks incl.:	178	325 764
<i>repo transactions</i>	-	289 270
<i>deposits</i>	178	36 494
Hedging derivatives	-	887
Financial liabilities held for trading	46 446	124 466
Other liabilities	1	11 364
INCOME	(22 470)	(41 430)
Interest income	1 010	1 957
Fee and commission income	158	28
Other operating income	230	1 917
Net trading income and revaluation	(23 868)	(46 009)
Gains (losses) from other financial securities	-	677
EXPENSES	946	27 048
Interest expense	946	1 818
Operating expenses incl.:	-	25 230
<i>Bank's staff, operating expenses and management costs</i>	-	25 230
CONTINGENT LIABILITIES	63 648	-
Sanctioned:	49 999	-
- <i>guarantees</i>	49 999	-
Received:	13 649	-
- <i>guarantees</i>	13 649	-
DERIVATIVES' NOMINAL VALUES	3 415 369	4 611 239
Cross-currency interest rate swaps – purchased amounts	-	372 205
Cross-currency interest rate swaps – sold amounts	-	362 070
Single-currency interest rate swaps	656 927	3 092 517
Options	45 542	25 616
FX swap – purchased amounts	564 471	186 807
FX swap – sold amounts	572 762	205 653
FX options -purchased	694 939	122 520
FX options -sold	877 099	127 976
spot-purchased	1 813	58 387
spot-sold	1 816	57 488

Transactions with Members of Management and Supervisory Boards

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

31.12.2011

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

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

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

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

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

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

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

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

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

31.12.2010

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

First and last name	Position	Period	PLN k
Aleksander Szwarz	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 Ślotąta	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.

Base 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 Management Board	01.01.2010-31.12.2010	682,37	764,84
Andrzej Burliga	Member of the Management Board	01.01.2010-31.12.2010	859,84	77,61
Declan Flynn	Member of the Management Board	01.01.2010-31.12.2010	940,48	457,82
Justyn Konieczny	Member of the Management Board	01.01.2010-31.12.2010	1 057,82	70,92
Janusz Krawczyk	Member of the Management Board	01.01.2010-31.12.2010	898,24	59,75
Jacek Marcinowski	Member of the Management Board	01.01.2010-31.12.2010	842,18	54,90
Michael McCarthy	Member of the Management Board	01.01.2010-31.12.2010	1 020,60	665,70
Marcin Prell	Member of the Management Board	01.01.2010-31.12.2010	842,87	69,28
Mirosław Skiba	Member of the Management Board	01.01.2010-31.12.2010	860,05	76,05
Feliks Szyszkowiak	Member of the Management Board	01.01.2010-31.12.2010	895,61	67,18

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

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.

31.12.2011

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 10 322 k. These facilities have been sanctioned on regular terms and conditions.

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

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

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.

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

31.12.2011

Provision for retirement benefits in the amount of PLN 761 k, provision for unused holiday in the amount of PLN 812 k.

31.12.2010

Provision for retirement benefits in the amount of PLN 751 k, Provision for unused holiday in the amount of PLN 852 k.

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

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

In 2010 Bank issued 42 479 banking writs of execution with total amount of PLN 728 905 k.

46. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions of subsidiaries and associates in 2010

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.

47. Investment in joint ventures

BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A

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

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

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

The financial statements of Bank Zachodni WBK S.A. were authorized for issue on the 23rd of February 2012 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be presented for approve by the shareholders at their Annual General Meeting.

Bank Zachodni WBK S.A. rating changed following a rating action taken for Banco Santander.

Fitch Ratings has downgraded Banco Santander's (Santander) Long-term Issuer Default Ratings (IDR) to 'A' from 'AA-' and Viability Rating (VR) to 'a' from 'aa-'. Fitch has removed the ratings from Rating Watch Negative (RWN).

The rating actions on Santander largely reflect Fitch's downgrade of the Spanish sovereign to 'A'/Negative from 'AA-' (see "Fitch Takes Rating Actions on Six Eurozone Sovereigns" and "Fitch Comments Further on Downgrade of Spain to 'A'; Outlook Negative", both dated 27 January 2012 at www.fitchratings.com). The Negative Outlook on Santander mirrors that on the sovereign rating.



As a result the following rating actions were taken for Bank Zachodni WBK S.A.:
 Long-term IDR: downgraded to 'A-' from 'A+'; Outlook Negative; removed from RWN
 Short-term IDR: downgraded to 'F2' from 'F1'; removed from RWN
 VR: unaffected at 'bbb'
 Support Rating: affirmed at '1'

Applicable criteria: 'Global Financial Institutions Rating Criteria', dated 16 August 2011; 'Rating Bank Regulatory Capital and Similar Securities', dated 15 December 2011; and 'Treatment of Hybrids in Bank Capital Analysis', dated 11 July 2011, are all available at www.fitchratings.com.

The agreement on the merger of Bank Zachodni WBK and Kredyt Bank

Banco Santander, S.A. and KBC Bank NV announced on 27.02.2012 that they have entered into an investment agreement to combine their Polish banking subsidiaries, Bank Zachodni WBK S.A. and Kredyt Bank S.A.
 Bank Zachodni WBK and Kredyt Bank, with the support of their parent companies, Santander and KBC, have also reached an agreement regarding cooperation with respect to the proposed merger.

Under the agreements, and subject to independent evaluation and final agreement by Bank Zachodni WBK and Kredyt Bank, as well as to obtaining regulatory approval from the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) and relevant competition clearance, Bank Zachodni WBK will merge with Kredyt Bank at the ratio of 6.96 Bank Zachodni WBK shares for every 100 Kredyt Bank shares. At current market prices, the transaction values are for Kredyt Bank at PLN 15.75 a share and BZ WBK at PLN 226.4 a share. The combined bank's total pro forma value will be PLN 20.8 billion (EUR 5 billion).

Both Bank Zachodni WBK and Kredyt Bank are listed on the Warsaw Stock Exchange. The merged bank will continue to be listed on the Warsaw Stock Exchange.

Following the proposed merger, Santander will hold approximately 76.5% of the merged bank and KBC around 16.4%. The rest of shares will be held by other minority shareholders.

49. Staff benefits

Staff benefits include the following categories:

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

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

Provisions for 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 system are stated in the amount of the probable payment without discounting.

Provisions for retirement allowances

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

Other staff-related provisions

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

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

Provisions	31.12.2011	31.12.2010
Provisions for accrued holiday pay	19 194	18 231
Provisions for employee bonuses	116 459	114 921
Provisions for retirement allowances	41 367	38 780
Other staff-related provisions	2 474	2 583
Total	179 494	174 515

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

Awards for the year 2010 paid in 2011 to the Members of the Management Board of Bank Zachodni WBK S.A.

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

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

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

Awards for the year 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
Miroslaw 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

50. Share based incentive scheme

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

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

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

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

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

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

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

Share based payments granted:

	2011
Number of share based payments	319 067
Share price in PLN	227,90
Exercise price (PLN)	10
Vesting period	2,75 years
Expected volatility	9,98%
Award life	3 years
Risk free rate	5,19%
Fair value per award	195,08 PLN
Dividend yield	3,51%

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

The following table summarizes the share based payments activity:

	12 months of 2011	12 months of 2010
	Number of share based payments	Number of share based payments
Outstanding at 1 January	268 020	341 701
Granted	319 067	-
Exercised	-	-
Forfeited	(4 713)	(8 190)
Expired	(264 403)	(65 491)
Outstanding at 31 December	317 971	268 020
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 2011, 2010 the average remaining contractual life is approximately 2 years, 0,3. years respectively.

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2011, 2010 increase of equity amounted to PLN 19 785 k, PLN 0 k respectively.

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

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

The tables below show details of conditional share rights granted to the Members of the Management Board of BZ WBK.

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

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

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

51. Staff level

31.12.2011

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

31.12.2010

As at 31 December 2010 the Bank employed 9 250 persons, i.e. 9 163 FTE's.
In 2010, the average staffing level in Bank Zachodni WBK was 8 974 FTE's.

52. Dividend per share

The Management Board of the Bank will propose a dividend payment to the Shareholders in the amount of PLN 8.00 per share from the profit for 2011.

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

On 20 April 2011, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 584 608 k to dividend for shareholders, from the profit for 2010, which meant that the proposed dividend was PLN 8 per share.

53. Change of majority shareholder

Sale of shares in Bank Zachodni WBK

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for the bank's shares. As a result, Banco Santander acquired a 95.67% stake in the bank. Consequently, Bank Zachodni WBK joined Santander Group. The acquisition price totalled EUR 3,989 m.

AIB European Investments Limited sold 51,413,790 shares of Bank Zachodni WBK representing 70.36% of share capital and voting power in the tender. The transaction was settled on 1 April 2011. As a result, AIB European Investments Limited does not hold any shares of Bank Zachodni WBK or any voting rights attached to such shares.

As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK on 1 April 2011, the non-controlling shareholders became entitled to demand for a further three months that their shares be acquired by the majority shareholder. Based on the requests from shareholders, Banco Santander acquired an additional 421 859 shares of Bank Zachodni WBK, thus increasing its share in the share capital and voting power at the General Meeting of Shareholders to 96.25%.

Signatures of Members of the Management Board			
Date	Name	Function	Signature
23.02.2012	Mateusz Morawiecki	President	
23.02.2012	Andrzej Burliga	Member	
23.02.2012	Eamonn Crowley	Member	
23.02.2012	Justyn Konieczny	Member	
23.02.2012	Janusz Krawczyk	Member	
23.02.2012	Michael McCarthy	Member	
23.02.2012	Juan de Porras Aguirre	Member	
23.02.2012	Marcin Prell	Member	
23.02.2012	Mirosław Skiba	Member	
23.02.2012	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	Name	Function	Signature
23.02.2011	Wojciech Skalski	Financial Accounting Area Director	