

# **ANNUAL** REPORT 2011 **OF BANK ZACHODNI WBK GROUP**

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
Consolidated financial statements					
I	Net interest income	2 068 585	1 822 175	499 646	455 043
II	Net fee and commission income	1 357 672	1 343 228	327 932	335 438
III	Operating profit	1 531 326	1 352 729	369 877	337 811
IV	Profit before tax	1 542 430	1 357 181	372 559	338 922
V	Net profit attributable to owners of BZ WBK S.A.	1 184 347	974 223	286 067	243 288
VI	Total net cash flow	2 954 682	627 707	713 674	156 754
VII	Total assets	59 873 339	53 153 871	13 555 818	13 421 678
VIII	Deposits from banks	2 556 715	2 526 082	578 861	637 851
IX	Deposits from customers	46 829 482	41 970 454	10 602 582	10 597 797
X	Total liabilities	52 390 379	46 380 296	11 861 615	11 711 309
XI	Total equity	7 482 960	6 773 575	1 694 204	1 710 369
XII	Non-controlling interests in equity	127 385	150 519	28 841	38 007
XIII	Profit of the period attributable to non-controlling interests	42 520	66 346	10 270	16 568
XIV	Number of shares	73 076 013	73 076 013		
XV	Net book value per share in PLN/EUR	102,40	92,69	23,18	23,40
XVI	Solvency ratio	15,10%	15,77%		
XVII	Profit per share in PLN/EUR	16,21	13,33	3,92	3,33
XVIII	Diluted earnings per share in PLN/EUR	16,15	13,28	3,90	3,32
XIX	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.

**CONSOLIDATED FINANCIAL STATEMENTS  
OF BANK ZACHODNI WBK GROUP  
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 totaled PLN 1 631 m (i.e. PAT of PLN 1 316 m), which (excluding one-off adjustments) represents a growth by 26.4% as compared to 2010. We also recorded a two-digit increase in our interest income, i.e. by 13.5%. That was a sheer consequence of higher volumes.

The number of active bank accounts exceeded 3.5m 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 21.2%. 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 6.8% to 5.5%.

Business and Corporate Banking are successfully pursuing a business growth strategy – deposits went up by more than 42%, gross loans (including leasing and factoring products) grew by 18.5%. 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 groups 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.

In its operations, Bank Zachodni WBK Group guided itself by corporate social responsibility. 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".

The top priority of Bank Zachodni WBK Group continues to be the growth of profitability and efficiency as well as top-quality customer service. The ongoing integration with business structures of Banco Santander as well as a new manner of managing individual business areas and the branch network will allow to maximize the set targets.

Bank Zachodni WBK has a strong growth potential. Our most important "asset" are employees, whose professionalism and involvement generate such impressive businesses results. I would also like to thank the members of Supervisory and Management Boards of BZ WBK subsidiaries who contributed to informed business decisions made by BZ WBK in the past year. 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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## Consolidated income statement

for reporting period:		01.01.2011- 31.12.2011	01.01.2010- 31.12.2010
Interest income		3 413 733	3 130 301
Interest expense		(1 345 148)	(1 308 126)
<b>Net interest income</b>	Note 6	<b>2 068 585</b>	<b>1 822 175</b>
Fee and commission income		1 558 664	1 555 947
Fee and commission expense		( 200 992)	( 212 719)
<b>Net fee and commission income</b>	Note 7	<b>1 357 672</b>	<b>1 343 228</b>
Dividend income	Note 8	68 025	54 514
Net trading income and revaluation	Note 9	267 151	258 731
Gains (losses) from other financial securities	Note 10	11 713	12 408
Other operating income	Note 11	49 804	45 948
Impairment losses on loans and advances	Note 12	( 366 982)	( 420 754)
Operating expenses incl.:		(1 924 642)	(1 763 521)
<i>Bank's staff, operating expenses and management costs</i>	Notes 13, 14	(1 659 145)	(1 600 592)
<i>Depreciation/amortisation</i>		( 215 875)	( 128 767)
<i>Other operating expenses</i>	Note 15	( 49 622)	( 34 162)
<b>Operating profit</b>		<b>1 531 326</b>	<b>1 352 729</b>
Share in net profits of entities accounted for by the equity method		11 104	4 452
<b>Profit before tax</b>		<b>1 542 430</b>	<b>1 357 181</b>
Corporate income tax	Note 16	( 315 563)	( 316 612)
<b>Profit for the period</b>		<b>1 226 867</b>	<b>1 040 569</b>
of which:			
<i>attributable to owners of BZ WBK S.A.</i>		1 184 347	974 223
<i>attributable to non-controlling interests</i>		42 520	66 346
<b>Net earnings per share (PLN/share)</b>	Note 17		
Basic earnings per share		16,21	13,33
Diluted earnings per share		16,15	13,28

## Consolidated statement of comprehensive income

for reporting period:		01.01.2011- 31.12.2011	01.01.2010- 31.12.2010
<b>Profit for the period</b>		<b>1 226 867</b>	<b>1 040 569</b>
<b>Other comprehensive income:</b>			
Available-for sale financial assets valuation		62 935	11 867
Cash flow hedges valuation		49 922	97
<b>Other comprehensive income for the period, net of income tax</b>		<b>112 857</b>	<b>11 964</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>1 339 724</b>	<b>1 052 533</b>
Attributable to:			
<i>owners of BZ WBK S.A.</i>		1 296 531	985 352
<i>non-controlling interests</i>		43 193	67 181

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

## Consolidated statement of financial position

as at:		31.12.2011	31.12.2010
<b>ASSETS</b>			
Cash and balances with central banks	Note 18	1 425 541	2 534 463
Loans and advances to banks	Note 19	1 244 290	619 655
Financial assets held for trading	Note 20	5 860 309	2 238 966
Hedging derivatives	Note 21	141 636	14 768
Loans and advances to customers	Note 22	38 017 173	32 838 385
Investment securities	Notes 23, 24	11 664 507	13 395 355
Investments in associates and joint ventures	Note 25	104 512	87 360
Intangible assets	Note 26	151 166	172 561
Property, plant and equipment	Note 27	499 793	547 536
Current income tax assets		20 687	-
Net deferred tax assets	Note 28	245 019	309 164
Assets classified as held for sale	Note 29	82 604	2 502
Other assets	Note 30	416 102	393 156
<b>Total assets</b>		<b>59 873 339</b>	<b>53 153 871</b>
<b>LIABILITIES</b>			
Deposits from banks	Note 31	2 556 715	2 526 082
Hedging derivatives	Note 21	523 725	16 441
Financial liabilities held for trading	Note 20	956 768	578 611
Deposits from customers	Note 32	46 829 482	41 970 454
Subordinated liabilities	Note 33	441 234	395 230
Current income tax liabilities		-	82 858
Other liabilities	Note 34	1 082 455	810 620
<b>Total liabilities</b>		<b>52 390 379</b>	<b>46 380 296</b>
<b>Equity</b>			
<b>Equity attributable to owners of BZ WBK S.A.</b>		<b>7 355 575</b>	<b>6 623 056</b>
Share capital	Note 35	730 760	730 760
Other reserve funds	Note 36	4 698 884	4 344 640
Revaluation reserve	Note 37	545 318	433 134
Retained earnings		196 266	140 299
Profit of the current period		1 184 347	974 223
<b>Non-controlling interests in equity</b>		<b>127 385</b>	<b>150 519</b>
<b>Total equity</b>		<b>7 482 960</b>	<b>6 773 575</b>
<b>Total equity and liabilities</b>		<b>59 873 339</b>	<b>53 153 871</b>

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

## Movements on consolidated equity

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	35	36	37			
<b>Opening balance as at 31.12.2010</b>	<b>730 760</b>	<b>4 344 640</b>	<b>433 134</b>	<b>1 114 522</b>	<b>150 519</b>	<b>6 773 575</b>
Total comprehensive income	-	-	112 184	1 184 347	43 193	1 339 724
Transfer to other capital	-	333 648	-	( 333 648)	-	-
Dividend relating to 2010	-	-	-	( 584 608)	( 66 327)	( 650 935)
Share scheme charge	-	20 748	-	-	-	20 748
Other	-	( 152)	-	-	-	( 152)
<b>As at 31.12.2011</b>	<b>730 760</b>	<b>4 698 884</b>	<b>545 318</b>	<b>1 380 613</b>	<b>127 385</b>	<b>7 482 960</b>

As at the end of the period revaluation reserve in the amount of PLN 545 318 k comprises of debt securities and equity shares classified as available for sale of PLN 89 379 k and PLN 404 003 k respectively and additionally cash flow hedge activities of 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 above mentioned 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 Group during the current reporting period.

Movements on consolidated equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	35	36	37			
<b>Opening balance as at 31.12.2009</b>	<b>730 760</b>	<b>3 566 999</b>	<b>422 005</b>	<b>1 208 368</b>	<b>108 338</b>	<b>6 036 470</b>
Total comprehensive income	-	-	11 129	974 223	67 181	1 052 533
Transfer to other capital	-	775 765	-	( 775 765)	-	-
Dividend relating to 2009	-	-	-	( 292 304)	( 25 000)	( 317 304)
Other	-	1 876	-	-	-	1 876
<b>As at 31.12.2010</b>	<b>730 760</b>	<b>4 344 640</b>	<b>433 134</b>	<b>1 114 522</b>	<b>150 519</b>	<b>6 773 575</b>

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

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

## Consolidated statement of cash flows

	for reporting period:	01.01.2011- 31.12.2011	01.01.2010- 31.12.2010
<b>Profit before tax</b>		<b>1 542 430</b>	<b>1 357 181</b>
<b>Total adjustments:</b>		<b>217 035</b>	<b>30 051</b>
Share in net profits (losses) of entities accounted for by the equity method		( 11 104)	( 4 452)
Depreciation/amortisation		215 875	128 767
Impairment losses		2 935	( 186)
Gains (losses) on exchange differences		( 37 510)	( 99 467)
Interests and similar charges		154 394	( 5 739)
Dividend received		( 68 025)	( 54 514)
(Profit) loss from investing activities		( 9 608)	( 11 691)
Change in provisions		5 112	43 834
Change in trading portfolio financial instruments		601 777	( 191 378)
Change in loans and advances to banks		( 9 686)	( 1 115)
Change in loans and advances to customers		(5 178 788)	1 731 407
Change in deposits from banks		293 198	(1 676 441)
Change in deposits from customers		4 431 124	367 259
Change in other assets and liabilities		207 990	28 310
Paid income tax		( 381 302)	( 224 849)
Other adjustments		653	306
<b>Net cash flow from operating activities</b>		<b>1 759 465</b>	<b>1 387 232</b>
<b>Inflows</b>		<b>3 496 584</b>	<b>3 561 459</b>
Sale/maturity of investment securities		3 425 649	3 504 878
Sale of intangible assets and property, plant and equipment		2 899	2 057
Dividend received		68 025	54 514
Proceeds from other investments		11	10
<b>Outflows</b>		<b>(1 746 598)</b>	<b>(3 575 518)</b>
Purchase of subsidiaries, associates and joint ventures		( 5 018)	( 41)
Purchase of investment securities		(1 620 977)	(3 504 194)
Purchase of intangible assets and property, plant and equipment		( 118 615)	( 69 535)
Other investments		( 1 988)	( 1 748)
<b>Net cash flow from investing activities</b>		<b>1 749 986</b>	<b>( 14 059)</b>
<b>Inflows</b>		<b>516 681</b>	<b>806 230</b>
Drawing of long-term loans		516 681	414 160
Increase of subordinated liabilities		-	392 070
<b>Outflows</b>		<b>(1 071 450)</b>	<b>(1 551 696)</b>
Repayment of long-term loans		( 329 725)	(1 163 213)
Dividends and other payments to shareholders		( 650 936)	( 317 304)
Other financing outflows		( 90 789)	( 71 179)
<b>Net cash flow from financing activities</b>		<b>( 554 769)</b>	<b>( 745 466)</b>
<b>Total net cash flow</b>		<b>2 954 682</b>	<b>627 707</b>
<b>Cash at the beginning of the accounting period</b>		<b>4 343 025</b>	<b>3 715 318</b>
<b>Cash at the end of the accounting period*</b>		<b>7 297 707</b>	<b>4 343 025</b>

\*Cash components are presented in Note 44.

Notes presented on pages 13 – 91 constitute an integral part of these Financial Statements.

# Additional notes to consolidated financial statements

## 1. General information about issuer

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

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

The direct parent of Bank Zachodni WBK SA is 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 Group offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, it offers also the following services:

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

Group of Bank Zachodni WBK consists of the following entities:

### Subsidiaries:

Subsidiaries	Registered office	% of votes on AGM 31.12.2011	% of votes on AGM 31.12.2010
1. BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2. BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.
3. BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100
4. Dom Maklerski BZ WBK S.A.	Poznań	99,99	99,99
5. BZ WBK Finanse & Leasing S.A.	Poznań	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.
6. BZ WBK Leasing S.A.	Poznań	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99.99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.
7. BZ WBK Nieruchomości S.A.	Poznań	99,99	99,99
8. BZ WBK Asset Management S.A.*	Poznań	50	50
9. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes is held by BZ WBK Asset Management S.A.	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.

\* In case of BZ WBK Asset Management S.A., the Bank is a co-owner of the company together with Banco Santander, S.A.. Both owners of BZ WBK Asset Management S.A. holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

**Associates:**

Associates	Registered office	% of votes on AGM	
		31.12.2011	31.12.2010
POLFUND - Fundusz Poręczeń			
1. Kredytowych S.A.	Szczecin	50	50
2. Metrohouse & Partnerzy S.A.*	Warszawa	21.23	21.23
3. Krynicki Recykling S.A.*	Warszawa	24.54	24.65
4. Holicon Group S.A.*	Poznań	47.09	-

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

**Joint ventures:**

Joint ventures	Registered office	% of votes on AGM	
		31.12.2011	31.12.2010
BZ WBK-Aviva Towarzystwo Ubezpieczeń			
1. Ogólnych S.A.	Poznań	50	50
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	50	50

## 2. Basis of preparation of financial statements

### Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 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 that apply to the consolidated financial statements, applicable to the BZ WBK Group.

### Changes in accounting policies

**Comparability with results of previous periods**

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

- in consolidated 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";
- in the consolidated 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.

Cash components:	31.12.2010		31.12.2009	
	Before revision	After revision	Before revision	After revision
Cash and current accounts in central bank	2 534 463	2 534 463	2 660 658	2 660 658
Deposits in other banks, current account	609 318	609 261	654 932	654 932
Debt securities held for trading	1 223 028	1 199 301	449 354	399 728
Debt securities available for sale	-	-	1 793 330	-
<b>Total</b>	<b>4 366 809</b>	<b>4 343 025</b>	<b>5 558 274</b>	<b>3 715 318</b>

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 above mentioned 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 Group 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 76 352 k, that is included in the total amount of once-off adjustments of PLN 88 780 k.

### **New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZWBK Group and are not yet effective or have neither been implemented earlier**

IFRS	Description of changes	Effective from	Impact on the Group
IFRS 9 Financial Instruments	Changes in classification and measurement - the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value.	1 January 2015	The Group 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.	1 January 2013	The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group has not completed its analysis of changes
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments	1 January 2014	The Group 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 Group
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 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 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 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 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 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 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 financial statement



## Basis of preparation

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

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

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

The accounting policies have been applied consistently by Group entities.

## Accounting principles

### Use of judgments and estimates

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

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

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

## Main estimates and judgments made by the Group

### Loan impairment

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

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

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

Estimates of loss are driven by the following key factors:

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

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

#### ***Impairment loss on non-financial assets***

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

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

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

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

#### ***Fair value of financial instruments***

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

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

#### ***Other accounting estimates and judgements***

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

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

## **Basis of consolidation**

#### ***Subsidiaries***

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

Control also exists when the parent owns half or less of the voting power of an entity when there is:

- a) power over more than half of the voting rights by virtue of an agreement with other investors;
- b) power to govern the financial and operating policies of the entity under a statute or an agreement;
- c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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

#### ***Purchase (acquisition) method***

BZWBK Group applies the acquisition method to account for acquisition of subsidiaries. Under this method, the acquirer has to:

- recognize and measure all identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree as at the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree);
- recognize and measure goodwill or gain from a bargain purchase.

The acquirer measures:

- identifiable assets acquired and liabilities assumed -at fair value as at the acquisition date;
- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquiree

#### ***Joint ventures***

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

### **Associates**

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

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

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

### **Transactions eliminated on consolidation**

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

## **Foreign currency**

### **Foreign currency transactions**

PLN is the accounting currency in the Group.

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

## **Financial assets and financial liabilities**

### **Classification**

The Group classifies its financial instruments into the following categories:

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

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

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

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

### **Held-to-maturity investments**

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be tainted and reclassified as available for sale and for a two year period the Group would not utilise the held to maturity classification. As at the balance sheet date the Group 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; or
- c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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

**Available-for-sale financial assets**

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

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

**Other financial liabilities**

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

**Recognition**

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

Lease receivables of leasing companies are accounted for as of the date from which the lessee is entitled to exercise its rights to use the leased asset. Other agreements where the leased assets have not yet been made available to the lessee are recognised as contingent liabilities.

A regular way purchase or sale of a financial asset is recognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.

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

**Derecognition**

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

A regular way purchase or sale of a financial asset is derecognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.

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

**Measurement**

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

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

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

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

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

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

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

Lease payment receivables of Leasing Companies are accounted for the statement of financial position at an amount equal to the net investment in the lease. Receivables are measured at amortised cost using the effective interest rate.

A calculation based on the effective interest rate is made monthly on the basis of inflows and expenses arising from the lease agreement.

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

### **Reclassification**

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

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

### **Gains and losses on subsequent measurement**

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

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

### **Offsetting financial instruments**

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

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

## **Repurchase transactions**

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

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

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

## Derivative financial instruments

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the profit and loss account.

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

## Hedge accounting

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

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

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

The Group discontinues hedge accounting when:

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

### **Fair value hedge**

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

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

### **Cash flow hedge**

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

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

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

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

## Impairment of financial assets

### **Assets carried at amortised cost - loans and receivables**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets, or off-balance sheet commitments are impaired. A financial asset or a group of financial assets, or contingent

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

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

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

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

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

The analysis of impairment is carried out:

- with reference to individual credit exposures representing significant reporting items (those covered by commercial, property or local government 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the Group are not included in a collective assessment of impairment.

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

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

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

In the case of credit exposures for which no indications of impairment were identified, the Group carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR – Incurred But Not Reported), which is estimated on the basis of the historical loss experience for loans with a similar risk profile, on the basis of

estimated period between the occurrence of impairment and the identification as well as evidencing loss, and on the basis of historical data adjustments, as described above.

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

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

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

Impairment calculation methods are standardised across the Group.

#### ***Available-for-sale financial assets***

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

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

#### ***Held-to-maturity investments***

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

#### ***Contingent liabilities***

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

## **Property, plant and equipment**

#### ***Owned assets***

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

#### ***Leased assets***

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

#### ***Subsequent expenditure***

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

#### ***Depreciation***

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:



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

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

#### **Fixed assets held for sale**

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

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

## **Intangible assets**

#### **Computer software**

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

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

#### **Other intangible assets**

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

#### **Subsequent expenditure**

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

#### **Amortisation**

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

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

## **Other items of the statement of financial position**

#### **Other trade and other receivables**

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

#### **Other liabilities**

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

#### **Equity**

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

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

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

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

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

The revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax.

Revaluation reserve is not distributable.

Non-controlling interests are also recognised in Group capital.

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

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

## Dividends

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

## Employee benefits

### *Short-term service benefits*

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

### *Long-term service benefits*

The Group's net obligation in respect of long-term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The accrual for disability pension bonus is estimated using actuarial valuation method. The valuation of those accruals is updated at least once a year.

### *Profit Sharing Scheme*

BZWBK Group has recognized in the consolidated statement of financial position a liability resulting from a profit sharing scheme granted to employees of selected subsidiaries in accordance with other long term employee benefits as described in IAS 19. The scheme, formally based on issue of shares that are purchased by entitled employees of subsidiaries, has characteristics of a long term profit sharing scheme (not share based payments), as all shares issued under the scheme are subjected to conditional obligation to dispose shares at a price different from the fair value of shares. Resulting from the classification of the scheme BZWBK Group recognized a liability in its statement of financial position in an amount of estimated present value of expected future pay-outs considering a relevant service period corresponding with employee related expenses.

### *Share based payments*

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

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

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

## Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is

material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

## Net interest income

Interest income on financial assets is recognised provided that it is probable that the economic benefits will flow to the Group 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 value of the financial asset or financial liability.

When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses.

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

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

## Net commission income

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

## Dividend income

Dividends are taken to the profit and loss account at the moment of acquiring rights to them provided that it is probable that the economic benefits will flow to the Group 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 Group. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

## Operating lease payments

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## Finance lease payments

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

## Corporate income tax

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

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

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

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

### 3. Segment reporting

Operational activity of the BZ WBK S.A. Group has been divided into five segments: Retail Banking, Business Banking, Investment Banking, Treasury and Centre. They were identified based on customers and product types.

Income and costs assigned to a given segment are generated on sale and service of products or services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for the Group and may be assigned to a given segment either directly or based on reasonable assumptions.

Settlements among business segments apply to payments for delivered services and include:

- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are regulated by segments on a mutual basis, according to single rates for specific services or agreements concerning the breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes are consistent with the accounting policy applied in Bank Zachodni WBK Group. Thereby there are no discrepancies between the valuation of segments' profit or loss, assets or liabilities, presented to the Management Board and the valuation of these components for the Group, included in the consolidated financial statement.

#### Retail Banking

Retail Banking segment includes products and services targeted at individual customers as well as small and micro companies. In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and micro companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees.

#### Business Banking

Business Banking segment covers products and activities targeted at business entities, local governments and the public sector. In addition to banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees.

#### Investment Banking

Investment Banking segment includes such activities as underwriting financing via issue of securities, financial advisory services, brokerage services provided by Brokerage House and asset management services within investment funds and private portfolios.

#### Treasury

Treasury is responsible for the management of the bank's liquidity, interest rate risk and foreign exchange rate risks. It also provides interest rate and fx risk management products to the bank's customer base. Through its presence in the wholesale markets, it also generates revenues from interest rate and fx risk positioning activity.

#### Centre

The segment covers central operations, financing of other Groups' segments activity as well as other income and/or costs that cannot be reasonably assigned to one of the defined segments.

**Consolidated income statement (by business segments)**

31.12.2011	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
<b>Net interest income</b>	<b>1 415 576</b>	<b>675 470</b>	<b>22 250</b>	<b>( 99 638)</b>	<b>54 927</b>	<b>2 068 585</b>
incl. internal transactions	-	( 108 123)	74 604	-	33 519	-
<b>Other income</b>	<b>920 143</b>	<b>118 385</b>	<b>272 677</b>	<b>317 467</b>	<b>57 668</b>	<b>1 686 340</b>
incl. internal transactions	141 444	50 772	( 90 364)	( 97 366)	( 4 486)	-
<b>Dividend income</b>	-	-	<b>68 025</b>	-	-	<b>68 025</b>
<b>Operating costs</b>	<b>(1 211 421)</b>	<b>( 212 528)</b>	<b>( 145 042)</b>	<b>( 34 944)</b>	<b>( 104 832)</b>	<b>(1 708 767)</b>
incl. internal transactions	( 2 010)	( 33 535)	( 7 193)	25 417	17 321	-
<b>Depreciation/amortisation</b>	<b>( 145 696)</b>	<b>( 20 558)</b>	<b>( 10 784)</b>	<b>( 6 110)</b>	<b>( 32 727)</b>	<b>( 215 875)</b>
<b>Impairment losses on loans and advances</b>	<b>( 213 657)</b>	<b>( 157 498)</b>	-	-	<b>4 173</b>	<b>( 366 982)</b>
<b>Share in net profits of entities accounted for by the equity method</b>	<b>8 166</b>	-	<b>2 938</b>	-	-	<b>11 104</b>
<b>Profit before tax</b>	<b>773 111</b>	<b>403 271</b>	<b>210 064</b>	<b>176 775</b>	<b>( 20 791)</b>	<b>1 542 430</b>
Corporate income tax						( 315 563)
Non-controlling interests						( 42 520)
<b>Profit for the period</b>						<b>1 184 347</b>

**Consolidated statement of financial position (by business segment)**

31.12.2011	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	17 907 539	20 013 974	79 971	8 932	6 757	38 017 173
Investments in associates and joint ventures	42 830	-	61 682	-	-	104 512
Other assets	6 055 815	4 551 929	1 145 105	9 263 858	734 947	21 751 654
<b>Total assets</b>	<b>24 006 184</b>	<b>24 565 903</b>	<b>1 286 758</b>	<b>9 272 790</b>	<b>741 704</b>	<b>59 873 339</b>
Deposits from customers	33 907 984	12 270 078	651 202	218	-	46 829 482
Other liabilities and equity	2 603 458	4 872 842	331 822	3 410 745	1 824 990	13 043 857
<b>Total equity and liabilities</b>	<b>36 511 442</b>	<b>17 142 920</b>	<b>983 024</b>	<b>3 410 963</b>	<b>1 824 990</b>	<b>59 873 339</b>

**Consolidated income statement (by business segments)**

31.12.2010	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
<b>Net interest income</b>	<b>1 203 493</b>	<b>638 803</b>	<b>24 459</b>	<b>( 93 806)</b>	<b>49 226</b>	<b>1 822 175</b>
incl. internal transactions	-	( 65 900)	46 228	-	19 672	-
<b>Other income</b>	<b>849 737</b>	<b>95 385</b>	<b>341 674</b>	<b>326 300</b>	<b>47 219</b>	<b>1 660 315</b>
incl. internal transactions	120 625	41 087	( 86 609)	( 85 699)	10 596	-
<b>Dividend income</b>	-	-	<b>54 514</b>	-	-	<b>54 514</b>
<b>Operating costs</b>	<b>(1 192 024)</b>	<b>( 198 411)</b>	<b>( 149 826)</b>	<b>( 40 830)</b>	<b>( 53 663)</b>	<b>(1 634 754)</b>
incl. internal transactions	5 123	( 42 626)	( 5 563)	22 939	20 127	-
<b>Depreciation/amortisation</b>	<b>( 102 489)</b>	<b>( 12 564)</b>	<b>( 9 275)</b>	<b>( 3 161)</b>	<b>( 1 278)</b>	<b>( 128 767)</b>
<b>Impairment losses on loans and advances</b>	<b>( 373 583)</b>	<b>( 67 181)</b>	-	-	<b>20 010</b>	<b>( 420 754)</b>
<b>Share in net profits of entities accounted for by the equity method</b>	<b>2 555</b>	-	<b>1 897</b>	-	-	<b>4 452</b>
<b>Profit before tax</b>	<b>387 689</b>	<b>456 032</b>	<b>263 443</b>	<b>188 503</b>	<b>61 514</b>	<b>1 357 181</b>
Corporate income tax						( 316 612)
Non-controlling interests						( 66 346)
<b>Profit for the period</b>						<b>974 223</b>

**Consolidated statement of financial position (by business segment)**

31.12.2010	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	15 868 881	16 888 035	61 182	89	20 198	32 838 385
Investments in associates and joint ventures	32 496	-	54 864	-	-	87 360
Other assets	7 116 426	4 430 708	1 160 592	6 347 943	1 172 457	20 228 126
<b>Total assets</b>	<b>23 017 803</b>	<b>21 318 743</b>	<b>1 276 638</b>	<b>6 348 032</b>	<b>1 192 655</b>	<b>53 153 871</b>
Deposits from customers	32 532 318	8 624 360	781 201	32 575	-	41 970 454
Other liabilities and equity	2 312 899	4 640 248	333 969	2 557 595	1 338 706	11 183 417
<b>Total equity and liabilities</b>	<b>34 845 217</b>	<b>13 264 608</b>	<b>1 115 170</b>	<b>2 590 170</b>	<b>1 338 706</b>	<b>53 153 871</b>

## 4. Risk management

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

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

Risk management in BZ WBK Group is governed by the „tone at the top” rule. This means that the Management Board and Supervisory Board set the business direction and actively support the risk management strategies. It is executed by the approval of the key risk management policies, risk committee membership of the Management Board Members, review and acceptance of the risks and reports on the risk level.

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

**Audit 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 Group.

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

The Management Board established the suite of committees directly responsible for the development of the risk management methodology and monitoring of the level of risk exposure.

**Risk Management Committee** sets the direction of the risk management strategy in BZ WBK Group. The Risk Management Committee supervises the committees responsible for management of different risks. The Committee allows for integration of risks present in several areas, which supports a comprehensive and concise view of those risks and systematises the top management reporting on risk management across BZ WBK Group.

**Credit Policy Forum** undertakes key decisions on credit risk, approves credit policies, classification systems, credit risk limits and system of credit discretions.

**Credit Risk Measurement Committee** is responsible for direct oversight of the independent development and validation of credit risk models in BZ WBK Group.

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

**Provisions Committee** decides on the amount of impairment provisions for credit exposures and the legal provisions. The Committee approves the methodology and the parameters used for calculation of impairment charge on a portfolio level for BZ WBK Group.

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

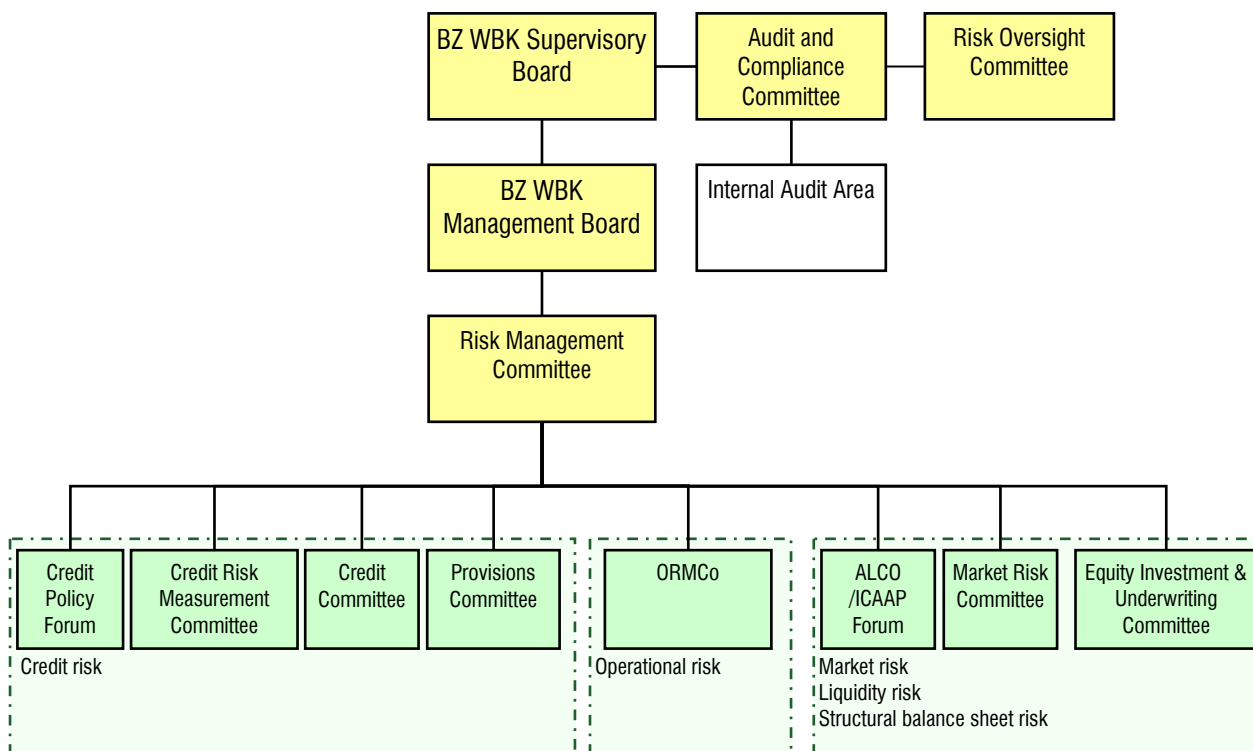


**Market Risk Committee** oversees the risk management and the policies on the market risk in BZ WBK Group, including the strategies on treasury and brokerage activities and monitors relevant parameters on market risk.

**Equity Investment and Underwriting Committee** accepts transactions on commercial equity investments and underwriting transaction and approves the policies on management and oversight of investment risk in BZ WBK Group.

**ALCO/ICAAP Forum** supervises the policies on capital management and liquidity risk. The tasks related to capital strategy are executed by the ALCO sub-committee. When complemented with other representatives, the ALCO plays the role of ICAAP Forum. As ICAAP Forum the Committee is responsible for the internal capital adequacy assessment process (ICAAP) and supervision of the ICAAP process across BZ WBK Group.

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



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

In BZ WBK Group the level of acceptable risk has been defined in the form of quantitative limits constituting the „Risk Appetite Statement”, approved by the Management Board and accepted by the Supervisory Board. Based on the global limits, adequate watch limits are defined as well as the risk management policies.

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

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

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

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

## Credit risk

BZ WBK Group's credit activities focus on growing a high quality loan book with a good yield and customer satisfaction.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

Credit risk in BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

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

Continued pro-active credit risk management is recognised as key to the Group's performance in the volatile markets and deteriorating economic growth conditions. In 2011 the Group continued its risk management policy that focuses both on credit risk and business effectiveness. Under the strategy of pro-active management, the Group 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 Group 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 Group for 2012 as well.

### **Credit Policy Forum**

The credit risk oversight in BZ WBK Group is performed by Credit Policy Forum (CPF). Its key responsibilities comprise development and approval of the best sectoral practice, analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. Based on the current strategic goals of the Bank and the need to enhance the management processes, three sub-committees were established to be responsible for key customer segments: retail segment, Small-and Medium Entities segment and business and corporate segment.

### **Credit Risk Measurement Committee**

The oversight of the credit risk models has been discharged to the newly created Credit Risk Measurement Committee. The Committee is responsible for the approval of the methodology of setting the credit risk limits, development of the rating systems, approval of the methodology and results of the credit risk stress tests and the approval of the EVA (Economic Value Added) methodology.

### **Credit Division**

The main goal of the Credit Division is the effective management of the credit risk, aimed at providing robust and efficient credit process and the highest quality and growth of the loan portfolio. Within the Credit Division there are separate units responsible for creation and implementation of credit risk policies, ongoing monitoring and reporting of the loan portfolio quality, units responsible for credit grading and high-risk loans units.

### **Risk Management Division**

Risk Management Division actively drives the Group's risk management strategy. The main goal of the Risk Management Division in relation to credit risk is to propose optimal solutions supporting realisation of the Group's goals through delivery of improved analyses, internal models and decision tools for the purpose of shaping policy of the Group 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 Group (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates the credit policies on a regular basis, aiming to bring these guidelines up to date with the Group's strategy, current macroeconomic situation, changes in legal framework and regulatory requirements.

### **Credit Decision Making Process**

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

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

### **Credit Grading**

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

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, mortgage loans, property, cash loans, credit cards and retail overdrafts.

The Group runs a systematic verification of credit grading pursuant to the rules described in the Credit Manuals. Additionally, for selected models automated process of credit grade verification is carried out based on the number of overdue days or behavioural features analysis. Credit grade may also be verified at subsequent credit assessments.

### **Credit Reviews**

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

### **Collateral**

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

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

Additionally, the Securities Centre supports the credit units – in terms of collateral management – in the credit decisioning process and creation of the credit policies. The Securities Centre collects data on collateral and provides the relevant management information.

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

#### Individual customers

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

#### Business customers

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

#### Collateral management process

Before credit decision is approved, the Securities Centre is responsible for assessment of the collateral quality:

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Securities Centre actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- registering and verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

In managing its receivables, BZ WBK Group carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle the Group aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Group's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

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 BZ WBK Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

***Calculation of Impairment***

In Bank Zachodni WBK S.A. and its subsidiaries, charges updating impairment are recognised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The charges reflect credit impairment, which is recognised if the Bank presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39), which were described in the section on accounting policies concerning valuation of assets carried at amortised cost.

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

The Group systematically compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to Group's credit policies and recovery process. The process provides assurance that impairments are recognized correctly. The responsibility for adequate level of charges rests with the Provisions Committee.

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

31.12.2011	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
<b>Individually impaired</b>					
	up to 50%	585 928	-	-	-
	50% - 70%	138 015	-	-	-
	70% - 85%	110 916	-	-	-
	over 85%	125 334	-	-	-
<b>Gross amount</b>		<b>960 193</b>	-	-	-
Charge due to impairment losses		( 412 720)	-	-	-
<b>Net amount</b>		<b>547 473</b>	-	-	-
<b>Collectively impaired</b>					
	up to 50%	471 565	-	-	-
	50% - 70%	184 123	-	-	-
	70% - 85%	385 096	-	-	-
	over 85%	177 794	-	-	-
<b>Gross amount</b>		<b>1 218 578</b>	-	-	-
Charge due to impairment losses		( 656 575)	-	-	-
<b>Net amount</b>		<b>562 003</b>	-	-	-
<b>IBNR portfolio</b>					
	up to 0,10%	9 099 273	1 244 290	11 664 507	5 860 309
	0,10% - 0,30%	14 343 794	-	-	-
	0,30% - 0,65%	4 747 809	-	-	-
	over 0,65%	8 984 157	-	-	-
<b>Gross amount</b>		<b>37 175 033</b>	<b>1 244 290</b>	<b>11 664 507</b>	<b>5 860 309</b>
Charge due to impairment losses		( 345 950)	-	-	-
<b>Net amount</b>		<b>36 829 083</b>	<b>1 244 290</b>	<b>11 664 507</b>	<b>5 860 309</b>
<b>Other receivables</b>		<b>78 614</b>	-	-	-
<b>Off-balance sheet exposures</b>					
Financing granted		8 149 493	-	-	-
Guarantees		1 475 440	-	-	-
Nominal value of derivatives - purchased		-	-	-	66 999 516
Allowance for impairment		( 21 224)	-	-	-
<b>Off-balance sheet exposures - total</b>		<b>9 603 709</b>	-	-	<b>66 999 516</b>

\*the value of financial assets held for trading includes adjustment of the fair value as described in Note 20

31.12.2010	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
<b>Individually impaired</b>					
	up to 50%	740 716	-	-	-
	50% - 70%	122 328	-	-	-
	70% - 85%	67 486	-	-	-
	over 85%	111 363	-	-	-
<b>Gross amount</b>		<b>1 041 893</b>	-	-	-
Allowance for impairment		( 393 383)	-	-	-
<b>Net amount</b>		<b>648 510</b>	-	-	-
<b>Collectively impaired</b>					
	up to 50%	566 455	-	-	-
	50% - 70%	243 799	-	-	-
	70% - 85%	413 125	-	-	-
	over 85%	108 458	-	-	-
<b>Gross amount</b>		<b>1 331 837</b>	-	-	-
Allowance for impairment		( 676 262)	-	-	-
<b>Net amount</b>		<b>655 575</b>	-	-	-
<b>IBNR portfolio</b>					
	up to 0,10%	12 519 938	619 655	13 395 355	2 238 966
	0,10% - 0,30%	6 173 343	-	-	-
	0,30% - 0,65%	3 623 313	-	-	-
	over 0,65%	9 472 201	-	-	-
<b>Gross amount</b>		<b>31 788 795</b>	<b>619 655</b>	<b>13 395 355</b>	<b>2 238 966</b>
Allowance for impairment		( 337 976)	-	-	-
<b>Net amount</b>		<b>31 450 819</b>	<b>619 655</b>	<b>13 395 355</b>	<b>2 238 966</b>
<b>Other receivables</b>		<b>83 481</b>	-	-	-
<b>Off-balance sheet exposures</b>					
Financing granted		5 639 854	-	-	-
Guarantees		1 186 607	-	-	-
Nominal value of derivatives - purchased		-	-	-	42 291 542
Allowance for impairment		( 17 217)	-	-	-
<b>Off-balance sheet exposures - total</b>		<b>6 809 244</b>	-	-	<b>42 291 542</b>

\*the value of financial assets held for trading includes adjustment of the fair value as described in Note 20

## IBNR portfolio

	Loans and advances to customers	
	31.12.2011	31.12.2010
<b>Non-past due</b>	<b>35 829 301</b>	<b>30 590 224</b>
<b>Past-due</b>	<b>1 345 732</b>	<b>1 198 571</b>
1-30 days	1 098 866	875 444
31-60 days	166 543	252 541
61-90 days	71 801	65 678
> 90 days	8 522	4 908
<b>Gross amount</b>	<b>37 175 033</b>	<b>31 788 795</b>



## 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
<b>Individual allowance for impairment</b>					
	up to 50%	( 105 510)	( 160 538)	-	-
	50% - 70%	( 94 519)	( 69 707)	-	-
	70% - 85%	( 88 132)	( 52 562)	-	-
	over 85%	( 124 559)	( 110 576)	-	-
<b>Total individual allowance for impairment</b>		<b>( 412 720)</b>	<b>( 393 383)</b>	-	-
<b>Collective allowance for impairment</b>					
	up to 50%	( 76 857)	( 102 986)	-	-
	50% - 70%	( 108 404)	( 147 244)	-	-
	70% - 85%	( 299 928)	( 318 422)	-	-
	over 85%	( 171 386)	( 107 610)	-	-
<b>Total collective allowances for impairment</b>		<b>( 656 575)</b>	<b>( 676 262)</b>	-	-
<b>IBNR</b>					
	up to 0,10%	( 4 119)	( 5 959)	-	-
	0,10%-0,30%	( 22 562)	( 12 084)	-	-
	0,30%-0,65%	( 21 714)	( 16 035)	-	-
	over 0,65%	( 297 555)	( 303 898)	-	-
<b>Total IBNR</b>		<b>( 345 950)</b>	<b>( 337 976)</b>	-	-
<b>Total allowance for impairment</b>		<b>(1 415 245)</b>	<b>(1 407 621)</b>	-	-

## Credit risk concentration

Bank Zachodni WBK Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2011, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 1 395 511 k (20% of Group's own funds) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the Bank,
- PLN 1 744 389 k (25% of Group's own funds) in other cases.

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

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

As at 31 December 2011, the Group had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 2 entities which accounted for 22.2% of own funds.



A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2011 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
68	REAL ESTATE SERVICES	817 422	799 430	17 992
68	REAL ESTATE SERVICES	710 686	643 824	66 862
19	RAFINERY	671 869	499 064	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	377 820	14 148	363 672
68	REAL ESTATE SERVICES	377 147	328 306	48 841
23	CERAMICS PRODUCTION	367 254	356 029	11 225
59	MULTIMEDIA	356 809	170 613	186 196
41	CONSTRUCTION	317 615	177 097	140 518
61	TELECOMMUNICATION	325 000	294 503	30 497
68	REAL ESTATE SERVICES	315 175	314 683	492
35	POWER INDUSTRY	284 676	1 399	283 277
41	CONSTRUCTION	282 473	273 551	8 922
64	FINANCIAL SERVICES	257 575	164 943	92 632
68	REAL ESTATE SERVICES	257 270	140 669	116 601
68	REAL ESTATE SERVICES	248 480	205 501	42 979
68	REAL ESTATE SERVICES	241 747	229 288	12 459
<b>Total gross exposure</b>		<b>8 269 278</b>	<b>6 325 396</b>	<b>1 943 882</b>

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2010 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
68	REAL ESTATE SERVICES	822 567	806 239	16 328
68	REAL ESTATE SERVICES	658 703	592 676	66 027
64	FINANCIAL SERVICES	377 810	316 646	61 164
41	CONSTRUCTION	344 273	300 480	43 793
68	REAL ESTATE SERVICES	297 815	297 815	-
68	REAL ESTATE SERVICES	278 828	228 903	49 925
41	CONSTRUCTION	262 800	250 800	12 000
68	REAL ESTATE SERVICES	248 380	232 880	15 500
41	CONSTRUCTION	241 578	241 578	-
68	REAL ESTATE SERVICES	238 363	238 363	-
68	REAL ESTATE SERVICES	225 097	225 097	-
71	INDUSTRIAL CONSTRUCTION	223 917	47 515	176 402
68	REAL ESTATE SERVICES	222 554	211 445	11 109
68	REAL ESTATE SERVICES	218 393	105 770	112 623
41	CONSTRUCTION	207 487	200 479	7 008
68	REAL ESTATE SERVICES	204 571	204 571	-
68	REAL ESTATE SERVICES	183 197	166 768	16 429
41	CONSTRUCTION	176 885	133 338	43 547
16	MANUFACTURING	174 096	162 215	11 881
68	REAL ESTATE SERVICES	173 462	88 830	84 632
<b>Total gross exposure</b>		<b>5 780 776</b>	<b>5 052 408</b>	<b>728 368</b>



## Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2011, the highest concentration level was recorded in the “property” sector (19% of the BZ WBK Group exposure), “manufacturing” (13%) and “distribution” (12%).

### Groups of PKD by industries:

Industry	Gross exposure		
	31.12.2011	31.12.2010	
Property	7 515 794	7 165 978	
Manufacturing	5 009 463	4 311 220	
Distribution	4 856 776	3 904 839	
Construction	3 571 924	3 278 765	
Financial sector	1 040 992	530 198	
Agriculture	1 006 619	880 718	
Energy	767 532	304 168	
Transportation	698 915	659 358	
Other industries	2 292 017	1 678 263	
<b>A</b>	<b>Total Business Loans</b>	<b>26 760 032</b>	<b>22 713 507</b>
<b>B</b>	<b>Retail (including mortgage loans)</b>	<b>12 593 772</b>	<b>11 449 018</b>
<b>A+B</b>	<b>BZ WBK Group portfolio</b>	<b>39 353 804</b>	<b>34 162 525</b>
<b>C</b>	<b>Other receivables (commercial bonds, reverse repo)</b>	<b>78 614</b>	<b>83 481</b>
<b>A+B+C</b>	<b>Total BZ WBK Group</b>	<b>39 432 418</b>	<b>34 246 006</b>

## Market risk

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

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

The activity and strategies on market risk management are supervised by Market Risk Committee except for structured risk positions managed by ALCO.

### General principles of market risk management

The key objective of the market risk policy pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group.

Interest rate and FX risks incurred in other Divisions of the Bank are transferred to the Global Banking and Markets Division and are managed centrally. Open positions exposed to interest rate risk and foreign exchange risk of BZ WBK Group subsidiaries are closed with the Bank, with the exception of the BZ WBK Brokerage House, which has been granted risk limits due to the scale and character of its activity.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the BZ WBK Group, a special debt securities portfolio was established funded by a pool of net interest rate insensitive liabilities. Any decisions relating to the value or structure of this portfolio are taken by ALCO. 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 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 a consistent risk management across the Group. The Department is located within the Risk Management Division, which allows for an independent risk assessment and monitoring.

Market risk generated by equity instruments, which exists in Brokerage House' portfolio (shares, stock exchange indices) is managed by the BZ WBK Brokerage House and supervised by BZ WBK Market Risk Committee.

#### **Measurement methods**

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

VaR is determined by means of a statistical modelling process. VaR is a difference between the market value of positions calculated using the current market prices/rates and the market values based on the most severe movements in market rates during the historic observation period. VaR is calculated separately for interest rate, FX and price risk of equity instruments portfolio.

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

## **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.

The Bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the repriced assets and liabilities the companies enter into standard placements or derivative transactions with the Bank, which –from the transaction date – manages this risk under a global limit of BZ WBK Group.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of 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 recognized 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
<b>1 month holding period</b>				
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
<b>as at end of the period</b>	<b>31 790</b>	<b>27 777</b>	<b>159 847</b>	<b>144 413</b>

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
<b>Total</b>	<b>4</b>	<b>( 436)</b>	<b>( 432)</b>

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)
<b>Total</b>	<b>( 69)</b>	<b>( 394)</b>	<b>( 463)</b>

#### 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 December 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)
<b>Total</b>	<b>( 1 331)</b>	<b>( 1 788)</b>	<b>( 3 119)</b>

Interest Rate Risk (PLN k)	Sensitivity 31-12-2010		
	Business portfolio	Capital portfolio	Total
<b>parallel increase of yield curves by 1 bp</b>			
0-3m	14	-	14
3m-1Y	( 48)	( 43)	( 91)
1Y-5Y	( 873)	( 821)	( 1 694)
over 5Y	( 120)	( 805)	( 925)
<b>Total</b>	<b>( 1 027)</b>	<b>( 1 669)</b>	<b>( 2 696)</b>

## FX risk

FX risk is the risk that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the Value at Risk based on the total open FX position of the bank. VaR is determined by means of a statistical modelling process. VAR is the potential loss on open FX positions at a 99% confidence level where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3-year history of exchange rates. Stress tests are used to supplement the above measure by estimating possible losses that may occur under extreme market conditions. These are based on current FX exposure and assumed extreme rates movements scenarios over the last 3 years (calculations are provided for 1 day and 10 days holding periods).

A stop-loss limit framework is also used to manage the risk of loss from trading position.

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

Open positions of subsidiaries – excluding BZ WBK Brokerage House – are negligible and are not included in the daily risk assessment. Brokerage House has been granted an FX VaR limit, used for managing the open position linked to the market maker activity.

The table below presents risk 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
<b>1 month holding period</b>				
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
<b>as at end of the period</b>	<b>2 046</b>	<b>1 842</b>	<b>13 042</b>	<b>15 048</b>

The Global Banking and Markets Division operates within the operational limit for two-week (ie 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).

### 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 4.4% 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 Group'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
<b>ASSETS</b>					
Cash and balances with central banks	1 231 364	118 897	6 400	68 880	1 425 541
Loans and advances to banks	197 995	986 550	20 279	39 466	1 244 290
Loans and advances to customers	24 966 467	9 511 582	2 429 259	1 109 865	38 017 173
Investment securities	11 202 264	318 931	-	143 312	11 664 507
<b>Selected assets</b>	<b>37 598 090</b>	<b>10 935 960</b>	<b>2 455 938</b>	<b>1 361 523</b>	<b>52 351 511</b>
<b>LIABILITIES</b>					
Deposits from banks	2 466 517	87 301	42	2 855	2 556 715
Deposits from customers	41 109 677	4 562 262	55 496	1 102 047	46 829 482
Subordinated liabilities	-	441 234	-	-	441 234
<b>Selected liabilities</b>	<b>43 576 194</b>	<b>5 090 797</b>	<b>55 538</b>	<b>1 104 902</b>	<b>49 827 431</b>

31.12.2010	PLN	EUR	CHF	Other	Total
<b>ASSETS</b>					
Cash and balances with central banks	2 383 892	87 140	5 222	58 209	2 534 463
Loans and advances to banks	62 685	471 401	22 125	63 444	619 655
Loans and advances to customers	21 749 561	8 144 237	2 346 853	597 734	32 838 385
Investment securities	12 825 870	417 693	-	151 792	13 395 355
<b>Selected assets</b>	<b>37 022 008</b>	<b>9 120 471</b>	<b>2 374 200</b>	<b>871 179</b>	<b>49 387 858</b>
<b>LIABILITIES</b>					
Deposits from banks	1 989 506	377 202	48 495	110 879	2 526 082
Deposits from customers	37 187 256	3 689 682	30 330	1 063 186	41 970 454
Subordinated liabilities	-	395 230	-	-	395 230
<b>Selected liabilities</b>	<b>39 176 762</b>	<b>4 462 114</b>	<b>78 825</b>	<b>1 174 065</b>	<b>44 891 766</b>

## Equity investment risk

The entity responsible for equity price risk management is BZ WBK Brokerage House (BH). The source of this risk are transactions conducted on BH own account via stock exchanges and MS CTO (shares, futures).

This risk is measured using a Value at Risk model based on the historical method. The method uses a distribution of 250 changes in the current portfolio value. Variability is defined as a respective percentile of the distribution. The historical method is supplemented by the stress tests.

The process of managing the market risk in BH is supervised by the BZ WBK Market Risk Committee. The Committee's responsibilities include allocation of the VaR limit to BH and approval of changes in the risk measurement methodology and in the risk management process.

The table below presents risk levels in year 2011 and comparable periods:

Equity risk	VaR		Stress scenario	
	31.12.2011*	31.12.2010	31.12.2011*	31.12.2010
<b>1 day holding period</b>				
Average	934	508	1 079	794
High	4 336	2 614	4 289	4 459
Low	57	31	121	50
<b>as at end of the period</b>	<b>919</b>	<b>556</b>	<b>742</b>	<b>850</b>

\* During 2011, the methodology of stress testing was revised to reflect the current market situation. Consequently, there are cases where VaR is higher than stressed VaR.

Brokerage House operates within an operational limit PLN 6 000 k. During the reporting period no excesses above the VaR limit were observed.

## Liquidity risk

Liquidity risk is defined as a risk of failure to meet all conditional and unconditional obligations towards customers and counter parties.

### Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

- ensure availability of funds to meet claims arising from asset commitments and liability demands, both current and future, at an economic price;
- manage the structural mismatch on the balance sheet;
- set a scale of liquidity risk appetite in the form of various internal limits;
- ensure proper organization of the liquidity management process across BZ WBK Group;
- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

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

In addition, the Policy's aim is to ensure an adequate structure of funding the growing scale of BZWBK Group business by maintaining the medium-term and long-term liquidity ratios at a pre-defined level. Therefore, apart from the limits defined above, a set of observation ratios is monitored on a daily basis (i.e. loan/deposit ratio, wholesale dependency ratio). As for long-term liquidity, internal controls are supported by a regulatory limit, pursuant to which the capital and stable sources of financing must fully cover the value of the credit portfolio and non-liquid assets (e.g. fixed assets).

### **Management and Reporting**

ALCO has overall responsibility for the supervision of liquidity risk and advises the Management Board on appropriate strategies and policies for strategic liquidity management.

Day-to-day management of current (up to 7 days) and short-term liquidity (up to 30 days) is delegated to the 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 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.

Each subsidiary is fully responsible for the process of maintaining liquidity. However, in order to manage their short and long term liquidity, subsidiaries use current and term accounts (if required) opened at the parent. This means that the companies' entire cash flow is routed through the bank. Short and long-term financing of the companies' operations (particularly in case of leasing companies) is closely supervised by the parent company. BZ WBK supports the subsidiaries in long-term transactions.

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

### **Risk Assessment**

Liquidity is calculated by a modified liquidity gap, which is determined separately for PLN and FX positions. According to the Liquidity Policy, the reported contractual positions are subject to various modifications based on statistical behaviour of deposit and credit base, possibility of selling or establishing pledge over State Treasury securities under repo transactions or NBP Lombard loan, possibility of rolling over transactions on the inter-bank market. The actual liquidity gap is used to determine liquidity ratios, i.e. relationship between the projected consolidated outflows and inflows in a given period. The Liquidity Policy sets minimum values of ratios for periods of up to one week and one month. The ratios are set both for PLN & FX. In case of shortage of PLN or FX, PLN or FX surplus may be converted accordingly to cover the shortages. However, the value of such conversion is limited by the assessed current capacity of the wholesale market.

Independently, parallel to own quantitative methods, liquidity is measured in accordance with Resolution no. 386/2008 of KNF (Polish Financial Supervision Authority) on liquidity standards applying to banks.

Liquidity measurement is supplemented with liquidity stress tests, which are used to assess the exposure to liquidity risk and maximum funding requirement if the assumed scenarios materialise over a medium and longer term.

Contractual gap analysis based on remaining time maturity as at 31.12.2011 and 31.12.2010:

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	1 425 541	-	-	-	-	-	-	1 425 541
Loans and advances to banks	1 244 290	-	-	-	-	-	-	1 244 290
Financial assets held for trading	4 686 095	140 617	304 613	462 572	112 061	101 545	52 806	5 860 309
Loans and advances to customers	3 909 314	2 259 770	7 650 355	10 063 993	6 314 173	9 234 813	(1 415 245)	38 017 173
Investment securities	457 087	139 372	2 101 636	3 510 893	1 725 321	3 049 565	680 633	11 664 507
Other items	-	-	-	-	-	-	1 661 519	1 661 519
<b>Long position</b>	<b>11 722 327</b>	<b>2 539 759</b>	<b>10 056 604</b>	<b>14 037 458</b>	<b>8 151 555</b>	<b>12 385 923</b>	<b>979 713</b>	<b>59 873 339</b>
Deposits from Central Bank and banks	1 959 377	534 624	47 866	14 848	-	-	-	2 556 715
Financial liabilities held for trading	228 181	124 926	219 964	271 622	70 549	41 526	-	956 768
Deposits from customers	32 366 263	8 350 390	4 362 508	840 078	25 451	884 792	-	46 829 482
Subordinated liabilities	3 971	-	-	-	-	437 263	-	441 234
Other items	-	-	-	-	-	-	9 089 140	9 089 140
<b>Short position</b>	<b>34 557 792</b>	<b>9 009 940</b>	<b>4 630 338</b>	<b>1 126 548</b>	<b>96 000</b>	<b>1 363 581</b>	<b>9 089 140</b>	<b>59 873 339</b>
<b>Gap-balance sheet</b>	<b>(22 835 465)</b>	<b>(6 470 181)</b>	<b>5 426 266</b>	<b>12 910 910</b>	<b>8 055 555</b>	<b>11 022 342</b>	<b>(8 109 427)</b>	
<b>Contingent liabilities- sanctioned</b>								
Financing related	240 855	816 218	3 764 863	1 707 233	873 999	746 325	( 19 506)	8 129 987
Guarantees	21 837	125 522	365 540	854 757	83 807	23 977	( 1 718)	1 473 722
<b>Derivatives settled in gross terms</b>								
Inflows	4 831 340	4 596 635	4 957 739	1 894 827	1 443 679	1 489 611	-	19 213 831
Outflows	4 950 048	4 572 971	4 989 123	2 045 457	1 693 035	1 676 614	-	19 927 248
<b>Gap – off-balance sheet</b>	<b>( 381 400)</b>	<b>( 918 076)</b>	<b>(4 161 787)</b>	<b>(2 712 620)</b>	<b>(1 207 162)</b>	<b>( 957 305)</b>	<b>21 224</b>	



31.12.2010	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	2 534 463	-	-	-	-	-	-	2 534 463
Loans and advances to banks	609 318	-	1 557	8 780	-	-	-	619 655
Financial assets held for trading	1 237 429	65 950	422 283	294 879	82 013	88 176	48 236	2 238 966
Loans and advances to customers	3 015 981	2 512 312	6 987 588	7 922 135	5 392 082	8 415 908	(1 407 621)	32 838 385
Investment securities	-	-	2 663 934	5 040 334	2 506 002	2 505 004	680 081	13 395 355
Other items	-	-	-	-	-	-	1 527 047	1 527 047
<b>Long position</b>	<b>7 397 191</b>	<b>2 578 262</b>	<b>10 075 362</b>	<b>13 266 128</b>	<b>7 980 097</b>	<b>11 009 088</b>	<b>847 743</b>	<b>53 153 871</b>
Deposits from Central Bank and banks	2 167 937	49 366	213 001	95 778	-	-	-	2 526 082
Financial liabilities held for trading	35 197	64 532	95 007	188 412	92 036	103 427	-	578 611
Deposits from customers	28 498 162	5 399 918	6 719 536	907 123	49 667	396 048	-	41 970 454
Subordinated liabilities	3 160	-	-	-	-	392 070	-	395 230
Other items	-	-	-	-	-	-	7 683 494	7 683 494
<b>Short position</b>	<b>30 704 456</b>	<b>5 513 816</b>	<b>7 027 544</b>	<b>1 191 313</b>	<b>141 703</b>	<b>891 545</b>	<b>7 683 494</b>	<b>53 153 871</b>
<b>Gap-balance sheet</b>	<b>(23 307 265)</b>	<b>(2 935 554)</b>	<b>3 047 818</b>	<b>12 074 815</b>	<b>7 838 394</b>	<b>10 117 543</b>	<b>(6 835 751)</b>	
<b>Contingent liabilities- sanctioned</b>								
Financing related	196 052	576 473	3 271 659	784 196	234 340	577 134	(16 151)	5 623 703
Guarantees	17 900	110 042	227 385	710 670	81 650	38 960	(1 066)	1 185 541
<b>Derivatives settled in gross terms</b>								
Inflows	2 371 246	3 876 195	2 965 534	1 297 145	1 549 361	1 287 992	-	13 347 473
Outflows	2 382 221	3 861 964	2 953 582	1 311 178	1 573 684	1 379 910	-	13 462 539
<b>Gap – off-balance sheet</b>	<b>( 224 927)</b>	<b>( 672 284)</b>	<b>(3 487 092)</b>	<b>(1 508 899)</b>	<b>( 340 313)</b>	<b>( 708 012)</b>	<b>17 217</b>	

## Liquidity Policy Report - Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
<b>31.12.2011</b>			
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)
<b>GAP</b>	<b>8 703 627</b>	<b>( 444 828)</b>	<b>(8 258 799)</b>
<b>Cumulative GAP</b>	<b>8 703 627</b>	<b>8 258 799</b>	<b>-</b>
<b>31.12.2010</b>			
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)
<b>GAP</b>	<b>10 622 381</b>	<b>43 199</b>	<b>(10 665 580)</b>
<b>Cumulative GAP</b>	<b>10 622 381</b>	<b>10 665 580</b>	<b>-</b>

At the end 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.

## Operational Risk

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

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

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

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

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

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

- Identification and estimation of operational risk

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

- Reporting on operational incidents and lessons learned

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

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

- Analysis of risk indicators

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

- Business continuity management

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

- Regular reporting to the Risk Management Committee and Supervisory Board

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

- Insurance

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

## Legal & compliance risk

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

### ***Risk Identification and Assessment***

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

The scope of the 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 Group is exposed to,
- providing advice and reporting to the Risk Management Committee, Bank's Management Board and Audit Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope,

- providing advice and guidance to management and staff on compliance risks and on appropriate policies and procedures to mitigate this risk.

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

#### ***Risk monitoring & reporting***

The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures, regulatory obligations and best practices. Monitoring can be undertaken by dedicated Risk and Compliance Monitoring Office, 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.

## **5. Capital management**

#### ***Introduction***

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

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

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

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

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

#### ***Capital Policy***

The solvency ratio which shows the relation between capital requirement for particular risks to the bank's total capital, after mandatory deductions, recognised in keeping with the Banking Law and the requirements of the Polish Financial Supervision Authority, is one of the basic measures used for capital management in Bank Zachodni WBK. Under the Banking Law, solvency ratio may not be lower than 8%, both at the Bank and the Group level.

The Group's capital management policy envisages the target solvency ratio at 10% both for the Bank and the Group.

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 8% both for the Bank and the Group.

**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. The Group uses following methods with regard to particular risks:

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

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

The tables below show capital requirement for the Group as of 31 December 2011 and 2010:

	31.12.2011	31.12.2010
<b>I Total Capital requirement</b>	<b>3 696 882</b>	<b>3 169 381</b>
<b>II Own funds after reductions</b>	<b>6 977 554</b>	<b>6 248 086</b>
<b>CAD [II/(I*12.5)]</b>	<b>15,10%</b>	<b>15,77%</b>

**Internal Capital**

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

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

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

The 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 Group is or may be exposed to. Quantitative risk measurement methods are applied where feasible and practicable. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

**Subordinated liabilities**

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

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group's supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 000 k have been included in the calculation of the Group's adequacy ratio.

Detailed information on subordinated liabilities is presented in Note 33.

## 6. Net interest income

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Interest income</b>		
Loans and advances to enterprises	1 307 357	1 173 137
Loans and advances to individuals, of which:	1 042 925	961 258
<i>Home mortgage loans</i>	362 108	299 295
Debt securities incl.:	754 311	750 253
<i>Investment portfolio held to maturity</i>	287 123	362 229
<i>Investment portfolio available for sale</i>	342 168	302 158
<i>Trading portfolio</i>	125 020	85 866
Leasing agreements	177 026	172 702
Loans and advances to banks	78 264	60 383
Public sector	22 232	17 129
Reverse repo transactions	6 283	7 373
Interest recorded on hedging IRS	25 335	( 11 934)
<b>Total</b>	<b>3 413 733</b>	<b>3 130 301</b>
<b>Interest expense</b>		
Deposits from individuals	( 719 500)	( 779 571)
Deposits from enterprises	( 387 122)	( 321 955)
Repo transactions	( 131 700)	( 95 976)
Public sector	( 61 504)	( 56 836)
Deposits from banks	( 23 401)	( 45 608)
Subordinated liabilities	( 21 921)	( 8 180)
<b>Total</b>	<b>(1 345 148)</b>	<b>(1 308 126)</b>
<b>Net interest income</b>	<b>2 068 585</b>	<b>1 822 175</b>

As at 31.12.2011 net interest income includes interest on impaired loans of PLN 114 153 k (as at 31.12.2010 - PLN 110 944 k).

## 7. Net fee and commission income

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Fee and commission income</b>		
eBusiness & payments	391 533	357 483
Asset management fees	273 520	336 064
Current accounts and money transfer	243 932	251 214
Foreign exchange commissions	224 263	201 745
Brokerage commissions	128 670	126 682
Credit commissions	115 509	104 764
Insurance commissions	68 758	70 339
Credit cards	63 040	63 626
Distribution fees	12 971	14 463
Off-balance sheet guarantee commissions	12 875	11 258
Issue arrangement	15 321	11 220
Finance lease commissions	4 069	3 841
Other commissions	4 203	3 248
<b>Total</b>	<b>1 558 664</b>	<b>1 555 947</b>
<b>Fee and commission expense</b>		
eBusiness & payments	( 77 907)	( 77 197)
Distribution fees	( 36 260)	( 42 939)
Brokerage commissions	( 28 371)	( 26 484)
Commissions paid to credit agents	( 12 174)	( 23 217)
Asset management fees and other costs	( 8 369)	( 10 447)
Credit cards	( 7 168)	( 7 597)
Finance lease commissions	( 7 268)	( 6 848)
Other	( 23 475)	( 17 990)
<b>Total</b>	<b>( 200 992)</b>	<b>( 212 719)</b>
<b>Net fee and commission income</b>	<b>1 357 672</b>	<b>1 343 228</b>

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 195 493 k (31.12.2010: PLN 183 489 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (26 610) k (31.12.2010: PLN (37 662) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

## 8. Dividend income

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Dividend income</b>		
Dividends from investment portfolio entities	66 702	53 293
Dividends from trading portfolio entities	1 323	1 221
<b>Total</b>	<b>68 025</b>	<b>54 514</b>

## 9. Net trading income and revaluation

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Net trading income and revaluation</b>		
Profit/(loss) on derivative instruments	133 446	109 221
Profit on interbank FX transactions	96 773	111 398
Other FX related income	25 965	27 275
Profit on market maker activity	8 455	9 736
Profit on debt instruments	2 512	1 101
<b>Total</b>	<b>267 151</b>	<b>258 731</b>

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 (PLN 5 994 k for 2010).



WBK

Bank Zachodni WBK S.A.

## 10. Gains (losses) from other financial securities

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Gains (losses) from other financial securities</b>		
Profit on sale of equity shares	6 138	6 516
Profit on sale of debt securities	6 761	5 657
Charge due to impairment losses	( 2 321)	( 48)
<b>Total profit (losses) on financial instruments</b>	<b>10 578</b>	<b>12 125</b>
Change in fair value of hedging instruments	3 205	( 192)
Change in fair value of underlying hedged positions	( 2 070)	475
<b>Total profit (losses) on hedging and hedged instruments</b>	<b>1 135</b>	<b>283</b>
<b>Total</b>	<b>11 713</b>	<b>12 408</b>

## 11. Other operating income

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Other operating income</b>		
Income on sale of services	12 611	12 072
Reimbursements of BGF charges	10 649	5 678
Release of provision for legal cases and other assets	6 974	4 051
Recovery of other receivables	3 320	1 149
Settlements of leasing agreements	2 474	1 340
Insurance indemnity received	1 753	8 499
Received compensations, penalties and fines	1 644	294
Financing premium from EBRD	102	387
Other	10 277	12 478
<b>Total</b>	<b>49 804</b>	<b>45 948</b>

## 12. Impairment losses on loans and advances

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Impairment losses on loans and advances</b>		
Collective and individual impairment charge	( 371 079)	( 474 770)
Incurred but not reported losses charge	( 4 713)	35 317
Recoveries of loans previously written off	12 765	20 370
Off balance sheet credit related items	( 3 955)	( 1 671)
<b>Total</b>	<b>( 366 982)</b>	<b>( 420 754)</b>

## 13. Employee costs

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Employee costs</b>		
Salaries and bonuses	( 816 189)	( 801 719)
Salary related costs	( 117 235)	( 117 524)
Staff benefits costs	( 22 214)	( 20 620)
Professional trainings	( 17 526)	( 14 176)
Retirement fund, holiday provisions and other employee-related costs	( 3 645)	( 4 955)
<b>Total</b>	<b>( 976 809)</b>	<b>( 958 994)</b>



## 14. General and administrative expenses

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>General and administrative expenses</b>		
Maintenance and rentals of premises	( 216 709)	( 212 295)
IT systems costs	( 90 032)	( 87 113)
Marketing and representation	( 83 646)	( 79 083)
Postal and telecommunication costs	( 46 313)	( 47 104)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	( 42 660)	( 24 548)
Other external services	( 36 428)	( 36 433)
Car, transport expenses, carriage of cash	( 35 044)	( 31 712)
Consulting fees	( 27 459)	( 27 949)
Stationery, cards, cheques	( 25 974)	( 18 842)
Sundry taxes	( 19 525)	( 17 138)
Data transmission	( 15 744)	( 15 288)
Security costs	( 12 481)	( 13 677)
KIR, SWIFT settlements	( 11 307)	( 12 187)
Costs of other repairs	( 5 264)	( 6 011)
Other	( 13 750)	( 12 218)
<b>Total</b>	<b>( 682 336)</b>	<b>( 641 598)</b>

## 15. Other operating expenses

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Other operating expenses</b>		
Charge of provisions for legal cases and other assets	( 13 394)	( 19 049)
Debt recovery costs	( 7 427)	( 3 024)
Liquidation of fixed assets, intangible assets and assets for disposal	( 6 527)	( 441)
Costs of purchased services	( 2 289)	( 1 567)
Paid compensations, penalties and fines	( 2 012)	( 358)
Donation paid	( 1 988)	( 1 748)
Other membership fees	( 849)	( 837)
Other	( 15 136)	( 7 138)
<b>Total</b>	<b>( 49 622)</b>	<b>( 34 162)</b>

## 16. Corporate income tax

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Corporate income tax</b>		
Current tax charge	( 277 757)	( 350 356)
Deferred tax	( 37 806)	33 744
<b>Total</b>	<b>( 315 563)</b>	<b>( 316 612)</b>

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Corporate total tax charge information</b>		
Profit before tax	1 542 430	1 357 181
Tax rate	19%	19%
Tax calculated at the tax rate	( 293 062)	( 257 864)
Non-deductible expenses	( 11 144)	( 6 382)
Sale of receivables	( 13 968)	( 31 294)
Non-taxable income (dividends)	12 584	10 090
Non-tax deductible bad debt provisions	( 10 067)	( 13 849)
Adjustment of deferred tax asset on interest on debt securities	-	( 16 897)
Other	94	( 416)
<b>Total income tax expense</b>	<b>( 315 563)</b>	<b>( 316 612)</b>

	31.12.2011	31.12.2010
<b>Deferred tax recognised directly in equity</b>		
The amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	( 94 743)	( 96 292)
Relating to debt securities available-for-sale	( 20 965)	( 4 653)
Relating to cash flow hedging activity	( 12 183)	( 473)
<b>Total</b>	<b>( 127 891)</b>	<b>( 101 418)</b>

## 17. Earnings per share

	01.01.2011 -31.12.2011	01.01.2010 -31.12.2010
<b>Net earnings per share (PLN/share)</b>		
Profit attributable to ordinary shares	1 184 347	974 223
Weighted average number of ordinary shares	73 076 013	73 076 013
<b>Net earnings per share (PLN)</b>	<b>16,21</b>	<b>13,33</b>
Profit attributable to ordinary shares	1 184 347	974 223
Weighted average number of ordinary shares	73 076 013	73 076 013
Weighted average number of potential ordinary shares	274 273	272 003
<b>Diluted earnings per share (PLN)</b>	<b>16,15</b>	<b>13,28</b>

## 18. Cash and balances with central banks

	31.12.2011	31.12.2010
<b>Cash and balances with central banks</b>		
Cash	932 600	821 556
Current accounts in central banks	290 908	1 712 907
Term deposits	202 033	-
<b>Total</b>	<b>1 425 541</b>	<b>2 534 463</b>

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%, 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.

## 19. Loans and advances to banks

	31.12.2011	31.12.2010
<b>Loans and advances to banks</b>		
Loans and advances	428 823	304 313
Current accounts, other	815 467	315 342
<b>Total</b>	<b>1 244 290</b>	<b>619 655</b>

Fair value of loans and advances to banks is presented in note 40.

## 20. 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
<b>Trading derivatives</b>	<b>700 252</b>	<b>872 544</b>	<b>464 442</b>	<b>568 153</b>
<b>Interest rate operations</b>	<b>314 053</b>	<b>308 585</b>	<b>238 659</b>	<b>236 968</b>
Options	132	132	68	68
IRS	304 421	300 206	236 209	235 422
FRA	9 500	8 247	2 382	1 478
<b>FX operations</b>	<b>386 199</b>	<b>563 959</b>	<b>225 242</b>	<b>331 185</b>
CIRS	42 149	120 636	65 543	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
<b>Other</b>	<b>-</b>	<b>-</b>	<b>541</b>	<b>-</b>
Stock options	-	-	541	-
<b>Debt and equity securities</b>	<b>5 160 057</b>	<b>-</b>	<b>1 774 524</b>	<b>-</b>
<b>Debt securities</b>	<b>5 107 251</b>	<b>-</b>	<b>1 726 289</b>	<b>-</b>
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	-
Other securities:	3 945	-	-	-
- bonds	3 945	-	-	-
<b>Equity securities:</b>	<b>52 806</b>	<b>-</b>	<b>48 235</b>	<b>-</b>
- listed	52 806	-	48 235	-
<b>Short sale</b>	<b>-</b>	<b>84 224</b>	<b>-</b>	<b>10 458</b>
<b>Total financial assets/liabilities</b>	<b>5 860 309</b>	<b>956 768</b>	<b>2 238 966</b>	<b>578 611</b>

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.

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

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

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. As at 31.12.2011 and in the comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

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

Derivatives' nominal values		31.12.2011	31.12.2010
<b>1. Term derivatives (hedging)</b>		<b>6 380 238</b>	<b>1 669 876</b>
a) Single-currency interest rate swaps		341 696	975 320
b) Macro cash flow hedge		6 038 542	694 556
<b>2. Term derivatives (trading)</b>		<b>82 393 349</b>	<b>55 583 100</b>
a) Interest rate operations		49 413 206	28 179 598
Single-currency interest rate swaps		31 449 423	22 753 982
FRA - purchased amounts		17 900 000	5 400 000
Options		63 783	25 616
b) FX operations		32 980 143	27 403 502
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		1 194 669	4 030 917
Cross-currency interest rate swaps – sold amounts		1 273 094	4 161 578
FX options -purchased		2 123 914	764 470
FX options -sold		2 123 914	764 470
<b>3. Currency transactions- spot</b>		<b>2 343 838</b>	<b>935 449</b>
spot-purchased		1 172 159	467 710
spot-sold		1 171 679	467 739
<b>4. Transactions on equity instruments</b>		<b>47 369</b>	<b>993</b>
Futures		47 369	993
<b>Total</b>		<b>91 164 794</b>	<b>58 189 418</b>

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

## 21. Hedging derivatives

Hedging derivatives	31.12.2011		31.12.2010	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	5 110	3 723	579	12 848
IRS hedging cash flow	136 526	520 002	14 189	3 593
<b>Total hedging derivatives</b>	<b>141 636</b>	<b>523 725</b>	<b>14 768</b>	<b>16 441</b>

## 22. Loans and advances to customers

Loans and advances to customers	31.12.2011	31.12.2010
Loans and advances to enterprises	24 262 182	20 251 489
Loans and advances to individuals, of which:	12 572 576	11 437 508
Home mortgage loans	7 605 063	6 926 647
Finance lease receivables	2 335 543	2 435 755
Loans and advances to public sector	259 057	101 089
Buy-sell-back transaction	100	10 118
Other	2 960	10 047
<b>Gross receivables</b>	<b>39 432 418</b>	<b>34 246 006</b>
Impairment write down	(1 415 245)	(1 407 621)
<b>Total</b>	<b>38 017 173</b>	<b>32 838 385</b>

As at 31.12.2011 the fair value adjustment due to hedged risk on corporate loans was nil (as at 31.12.2010: PLN 887 k).

Finance lease receivables are presented in additional note 43. Fair value of loans and advances to customers is presented in note 40.

<b>Movements on impairment losses on loans and advances to customers</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
<b>Individual and collective impairment</b>		
As at the beginning of the period	(1 069 646)	( 766 110)
Charge/write back of current period	( 371 079)	( 474 770)
Write off/Sale of receivables	352 347	206 912
Transfer	24 829	( 38 958)
F/X differences	( 5 747)	3 280
<b>Balance at the end of the period</b>	<b>(1 069 296)</b>	<b>(1 069 646)</b>
<b>IBNR</b>		
As at the beginning of the period	( 337 975)	( 373 566)
Charge/write back of current period	( 4 713)	35 317
Transfer	27	10
F/X differences	( 3 288)	264
<b>Balance at the end of the period</b>	<b>( 345 949)</b>	<b>( 337 975)</b>
<b>Impairment write down</b>	<b>(1 415 245)</b>	<b>(1 407 621)</b>

### 23. Investment securities available for sale

<b>Investment securities available for sale</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
<b>Available for sale investments - measured at fair value</b>		
<b>Debt securities</b>	<b>10 983 874</b>	<b>6 965 866</b>
Government securities:	10 906 085	6 885 095
- bills	-	-
- bonds	10 906 085	6 885 095
Central Bank securities:	-	-
- bonds	-	-
Commercial securities:	77 789	80 771
- bonds	77 789	80 771
<b>Equity securities</b>	<b>629 194</b>	<b>623 456</b>
- listed	19 475	20 688
- unlisted	609 719	602 768
<b>Investment certificates</b>	<b>51 439</b>	<b>56 625</b>
<b>Total</b>	<b>11 664 507</b>	<b>7 645 947</b>

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 5 540 017 k, variable interest rate securities amount to PLN 1 425 849 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 40.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
<b>As at 1 January 2011</b>	<b>6 965 866</b>	<b>680 081</b>	<b>7 645 947</b>
Additions	1 590 087	31 621	1 621 708
Transfers	-	( 754)	( 754)
Disposals (sale and maturity)	(2 306 084)	( 19 840)	(2 325 924)
Fair value adjustment (AFS)	6 459	( 7 753)	( 1 294)
Movements on interest accrued	( 16 253)	-	( 16 253)
Provision for impairment	-	( 2 321)	( 2 321)
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
<b>As at 31 December 2011</b>	<b>10 983 873</b>	<b>680 634</b>	<b>11 664 507</b>

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
<b>As at 1 January 2010</b>	<b>5 957 601</b>	<b>665 416</b>	<b>6 623 017</b>
Additions	3 477 634	26 560	3 504 194
Disposals (sale and maturity)	(2 527 512)	( 9 814)	(2 537 326)
Fair value adjustment (AFS)	8 876	( 1 558)	7 318
Movements on interest accrued	58 777	-	58 777
Provision for impairment	-	( 48)	( 48)
F/X differences	( 9 510)	( 475)	( 9 985)
<b>As at 31 December 2010</b>	<b>6 965 866</b>	<b>680 081</b>	<b>7 645 947</b>

\*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 above mentioned 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 Group during the current reporting period.

## 24. Financial assets held to maturity

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

Fair value of „Financial assets held to maturity” is presented in note 40.

Movements on financial assets held to maturity	31.12.2011	31.12.2010
<b>Balance as at 1 January</b>	<b>5 749 408</b>	<b>6 669 555</b>
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
<b>As at end of reporting period</b>	<b>-</b>	<b>5 749 408</b>

\*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 above mentioned

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 Group during the current reporting period.

## 25. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2011	31.12.2010
Associates	61 682	54 864
Joint ventures	42 830	32 496
<b>Total</b>	<b>104 512</b>	<b>87 360</b>

Movements on investments in associates and joint ventures	31.12.2011	31.12.2010
<b>Balance as at 1 January</b>	<b>87 360</b>	<b>81 887</b>
Share of profits/(losses)	11 104	4 452
Transfer	4 050	-
Sale/acquisition	5 018	41
Other/dividend	(3 020)	980
<b>Balance at the end of the period</b>	<b>104 512</b>	<b>87 360</b>

Fair value of "Investment in associates and joint ventures" is presented in note 40.

Details of acquisition of associates and joint ventures are disclosed in note 47.

**Investments in associates and joint ventures as at 31.12.2011**

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Metrohouse & Partnerzy S.A.*	Krynicki Recykling S.A.**	Holicon Group S.A.	Total
<b>Registered office</b>	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	Poznań	
<b>Type of connection</b>	Associate	Joint venture	Joint venture	Associate	Associate	Associate	
<b>% of holding***</b>	50,00	50,00	50,00	21,23	24,54	47,09	
<b>Balance sheet value</b>	38 464	20 102	22 728	4 297	14 356	4 565	<b>104 512</b>
<b>Total assets</b>	83 982	688 412	210 051	6 401	70 276	16 365	<b>1 075 487</b>
<b>Own funds of entity, of which:</b>	76 929	40 204	45 455	3 358	40 031	9 736	<b>215 713</b>
<b>Share capital</b>	16 000	24 250	27 000	1 083	1 488	8 600	<b>78 421</b>
<b>Other own funds, of which:</b>	60 929	15 954	18 455	2 275	38 543	1 136	<b>137 292</b>
<i>from previous years</i>	2 616	( 4 222)	-	( 1 006)	6 551	793	<b>4 732</b>
<i>net profit (loss)</i>	2 980	5 028	11 125	431	856	343	<b>20 763</b>
<b>Liabilities of entity</b>	7 053	648 208	164 596	3 043	30 245	6 629	<b>859 774</b>
<b>Revenue</b>	8 096	497 348	94 075	21 248	19 609	34 963	<b>675 339</b>
<b>Costs</b>	4 081	491 464	80 229	488	18 691	34 113	<b>629 066</b>

\*selected financial information as at end of November 2011

\*\*selected financial information as at end of September 2011

\*\*\*states percentage share of associates or joint venture profits

Name of entity	Business
<b>POLFUND - Fundusz Poręczeń Kredytowych S.A.</b>	providing lending guarantees, investing and managing funds invested in companies, management
<b>BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.</b>	life insurance
<b>BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.</b>	property and personal insurance
<b>Metrohouse &amp; Partnerzy S.A.</b>	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
<b>Krynicki Recykling S.A.</b>	waste management
<b>Holicon Group S.A.</b>	business outsourcing services incl.: call and contact centre, HR management



**Investments in associates and joint ventures as at 31.12.2010**

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A. *	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Metrohouse & Partnerzy S.A. **	Krynicki Recykling S.A. ***	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding****	50,00	50,00	50,00	21,23	24,65	
Balance sheet value	36 786	12 395	20 101	4 305	13 773	<b>87 360</b>
Total assets	82 255	434 886	163 610	3 632	50 274	<b>734 657</b>
Own funds of entity, of which:	73 573	24 791	40 201	2 016	22 628	<b>163 209</b>
Share capital	16 000	21 750	27 000	650	1 013	<b>66 413</b>
Other own funds, of which:	57 573	3 041	13 201	1 366	21 615	<b>96 796</b>
<i>from previous years</i>	603	( 2 656)	-	( 587)	5 479	<b>2 839</b>
<i>net profit (loss)</i>	1 636	( 1 951)	6 364	374	869	<b>7 292</b>
Liabilities of entity	8 682	410 095	123 409	1 616	27 646	<b>571 448</b>
Revenue	6 922	231 605	82 248	8 682	15 043	<b>344 500</b>
Costs	4 415	233 871	74 135	8 199	14 020	<b>334 640</b>

\*selected financial information as at end of November 2010

\*\*selected financial information as at end of October 2010

\*\*\*selected financial information as at end of September 2010

\*\*\*\* states percentage share of associates or joint venture profits

Name of entity	Business
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Metrohouse & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

## 26. Intangible assets

Intangible assets Year 2011	Licences, patents etc.	Other (incl. know-how)	Capital expenditures	Total
<b>Gross value - beginning of the period</b>	<b>667 481</b>	<b>6 045</b>	<b>44 594</b>	<b>718 120</b>
<b>Additions from:</b>				
- purchases	-	-	76 855	76 855
- intangible assets taken for use	41 470	-	-	41 470
- transfers	29	-	52	81
<b>Disposals from:</b>				
- liquidation	( 6 649)	-	( 1 360)	( 8 009)
- intangible assets taken for use	-	-	( 41 470)	( 41 470)
- transfers	( 3)	( 26)	( 582)	( 611)
<b>Gross value - end of the period</b>	<b>702 328</b>	<b>6 019</b>	<b>78 089</b>	<b>786 436</b>
<b>Accumulated depreciation - beginning of the period</b>	<b>( 539 527)</b>	<b>( 6 032)</b>	<b>-</b>	<b>( 545 559)</b>
<b>Additions/disposals from:</b>				
- current year	( 94 740)	( 12)	-	( 94 752)
- liquidation	5 640	-	-	5 640
- transfers	( 23)	25	-	2
Write down/Reversal of impairment write down	( 601)	-	-	( 601)
<b>Accumulated depreciation- end of the period</b>	<b>( 629 251)</b>	<b>( 6 019)</b>	<b>-</b>	<b>( 635 270)</b>
<b>Balance sheet value</b>				
Purchase value	702 328	6 019	78 089	786 436
Accumulated depreciation	( 629 251)	( 6 019)	-	( 635 270)
<b>As at 31 December 2011</b>	<b>73 077</b>	<b>-</b>	<b>78 089</b>	<b>151 166</b>

Intangible assets Year 2010	Licences, patents etc.	Other (incl. know-how)	Capital expenditures	Total
<b>Gross value - beginning of the period</b>	<b>607 301</b>	<b>8 032</b>	<b>73 758</b>	<b>689 091</b>
<b>Additions from:</b>				
- purchases	-	-	32 488	<b>32 488</b>
- intangible assets taken for use	61 256	15	-	<b>61 271</b>
- transfers	11	-	-	<b>11</b>
<b>Disposals from:</b>				
- liquidation	( 1 087)	( 2 002)	( 194)	<b>( 3 283)</b>
- intangible assets taken for use	-	-	( 61 271)	<b>( 61 271)</b>
- transfers	-	-	( 187)	<b>( 187)</b>
<b>Gross value - end of the period</b>	<b>667 481</b>	<b>6 045</b>	<b>44 594</b>	<b>718 120</b>
<b>Accumulated depreciation - beginning of the period</b>	<b>( 499 488)</b>	<b>( 7 983)</b>	<b>-</b>	<b>( 507 471)</b>
<b>Additions/disposals from:</b>				
- current year	( 40 999)	( 51)	-	<b>( 41 050)</b>
- liquidation	971	2 002	-	<b>2 973</b>
- transfers	( 11)	-	-	<b>( 11)</b>
<b>Accumulated depreciation- end of the period</b>	<b>( 539 527)</b>	<b>( 6 032)</b>	<b>-</b>	<b>( 545 559)</b>
<b>Balance sheet value</b>				
Purchase value	667 481	6 045	44 594	<b>718 120</b>
Accumulated depreciation	( 539 527)	( 6 032)	-	<b>( 545 559)</b>
<b>As at 31 December 2010</b>	<b>127 954</b>	<b>13</b>	<b>44 594</b>	<b>172 561</b>

## 27. Property, plant and equipment

Property, plant & equipment Year 2011	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
<b>Gross value - beginning of the period</b>	<b>657 934</b>	<b>312 229</b>	<b>44 786</b>	<b>327 140</b>	<b>23 921</b>	<b>1 366 010</b>
<b>Additions from:</b>						
- purchases	-	-	-	-	41 760	41 760
- leasing	-	-	16 704	-	-	16 704
- fixed assets taken for use	4 876	23 842	1 362	13 553	-	43 633
- transfers	-	49	19 444	19 288	416	39 197
<b>Disposals from:</b>						
- sale, liquidation, donation	(9 879)	(46 225)	(1 943)	(24 246)	(151)	(82 444)
- fixed assets taken for use	-	-	-	-	(43 634)	(43 634)
- transfers	-	(19 287)	(13 296)	(13)	-	(32 596)
<b>Gross value - end of the period</b>	<b>652 931</b>	<b>270 608</b>	<b>67 057</b>	<b>335 722</b>	<b>22 312</b>	<b>1 348 630</b>
<b>Accumulated depreciation - beginning of the period</b>	<b>(296 795)</b>	<b>(256 466)</b>	<b>(30 652)</b>	<b>(234 561)</b>	<b>-</b>	<b>(818 474)</b>
<b>Additions/disposals from:</b>						
- current year	(56 433)	(31 409)	(10 054)	(23 227)	-	(121 123)
- sale, liquidation, donation	8 230	45 883	1 693	22 818	-	78 624
- transfers	21	19 391	11 994	(19 270)	-	12 136
<b>Accumulated depreciation - end of the period</b>	<b>(344 977)</b>	<b>(222 601)</b>	<b>(27 019)</b>	<b>(254 240)</b>	<b>-</b>	<b>(848 837)</b>
<b>Balance sheet value</b>						
Purchase value	652 931	270 608	67 057	335 722	22 312	1 348 630
Accumulated depreciation	(344 977)	(222 601)	(27 019)	(254 240)	-	(848 837)
<b>As at 31 December 2011</b>	<b>307 954</b>	<b>48 007</b>	<b>40 038</b>	<b>81 482</b>	<b>22 312</b>	<b>499 793</b>

Property, plant & equipment Year 2010	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
<b>Gross value - beginning of the period</b>	<b>652 548</b>	<b>325 273</b>	<b>43 563</b>	<b>312 419</b>	<b>28 566</b>	<b>1 362 369</b>
<b>Additions from:</b>						
- purchases	-	-	-	-	37 047	37 047
- leasing	-	-	4 121	-	-	4 121
- fixed assets taken for use	7 155	15 432	9	19 011	-	41 607
- transfers	-	130	( 200)	-	59	( 11)
<b>Disposals from:</b>						
- sale, liquidation, donation	( 1 769)	( 28 585)	( 2 912)	( 4 264)	( 144)	( 37 674)
- fixed assets taken for use	-	-	-	-	( 41 607)	( 41 607)
- transfers	-	( 21)	205	( 26)	-	158
<b>Gross value - end of the period</b>	<b>657 934</b>	<b>312 229</b>	<b>44 786</b>	<b>327 140</b>	<b>23 921</b>	<b>1 366 010</b>
<b>Accumulated depreciation - beginning of the period</b>	<b>( 269 972)</b>	<b>( 260 304)</b>	<b>( 22 822)</b>	<b>( 213 117)</b>	<b>-</b>	<b>( 766 215)</b>
<b>Additions/disposals from:</b>						
- current year	( 27 597)	( 24 554)	( 10 184)	( 25 382)	-	( 87 717)
- sale, liquidation, donation	780	28 388	2 339	3 936	-	35 443
- transfers	( 6)	4	15	2	-	15
<b>Accumulated depreciation - end of the period</b>	<b>( 296 795)</b>	<b>( 256 466)</b>	<b>( 30 652)</b>	<b>( 234 561)</b>	<b>-</b>	<b>( 818 474)</b>
<b>Balance sheet value</b>						
Purchase value	657 934	312 229	44 786	327 140	23 921	1 366 010
Accumulated depreciation	( 296 795)	( 256 466)	( 30 652)	( 234 561)	-	( 818 474)
<b>As at 31 December 2010</b>	<b>361 139</b>	<b>55 763</b>	<b>14 134</b>	<b>92 579</b>	<b>23 921</b>	<b>547 536</b>

## 28. Net deferred tax assets

<b>Deferred tax asset</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Provisions for loans	200 098	225 470
Unrealized liabilities due to derivatives	89 177	80 231
Other provisions which are not yet taxable costs	64 496	64 766
Deferred income	88 562	72 894
Difference between balance sheet and taxable value of leasing portfolio	63 624	52 092
Unrealized interest on credits, loans and securities	42 063	48 803
Depreciation, amortisation - effects of a change in estimate	14 560	-
Unrealised FX translation differences from b/s valuation of receivables and liabilities	441	-
Other	588	807
<b>Total</b>	<b>563 609</b>	<b>545 063</b>
<b>Deferred tax liability</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Revaluation of financial instruments available for sale*	( 116 092)	( 100 946)
Unrealised receivables on derivatives	( 99 118)	( 60 750)
Unrealised interests from loans, securities and interbank deposits	( 70 225)	( 53 261)
Provision due to application of investment relief	( 3 269)	( 2 647)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	( 5 687)	( 6 862)
Cash flow hedges valuation*	( 12 183)	( 473)
Other	( 12 016)	( 10 960)
<b>Total</b>	<b>( 318 590)</b>	<b>( 235 899)</b>
<b>Net deferred tax assets</b>	<b>245 019</b>	<b>309 164</b>

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



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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.

<b>Movements on net deferred tax</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
As at the beginning of the period	309 164	278 227
Changes recognised in income statement	( 37 806)	33 744
Changes recognised in other net comprehensive income	( 26 473)	( 2 807)
Transfer	134	-
<b>Balance at the end of the period</b>	<b>245 019</b>	<b>309 164</b>

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.

## 29. Assets classified as held for sale

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

## 30. Other assets

<b>Other assets</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Sundry debtors	237 764	236 133
Settlements of stock exchange transactions	47 983	73 797
Interbank and interbranch settlements	85 414	42 844
Prepayments	43 930	39 929
Other	1 011	453
<b>Total</b>	<b>416 102</b>	<b>393 156</b>

## 31. Deposits from banks

<b>Deposits from banks</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Loans from other banks	143 572	380 791
Repo transactions	2 240 824	1 927 368
Term deposits	12 495	119 663
Current accounts	159 824	98 260
<b>Total</b>	<b>2 556 715</b>	<b>2 526 082</b>

As at 31.12.2011 fair value adjustment for hedged deposit totaled nil (as at 31.12.2010 – PLN nil).

Fair value of "Deposits from banks" is presented in note 40.

## 32. Deposits from customers

Deposits from customers	31.12.2011	31.12.2010
<b>Deposits from individuals</b>	<b>27 111 339</b>	<b>25 230 799</b>
Term deposits	14 822 913	12 745 658
Current accounts	12 254 430	12 449 476
Other	33 996	35 665
<b>Deposits from enterprises</b>	<b>17 881 182</b>	<b>14 605 812</b>
Term deposits	11 786 350	8 757 801
Current accounts	4 702 194	4 958 514
Loans	1 047 963	600 805
Other	344 675	288 692
<b>Deposits from public sector</b>	<b>1 836 961</b>	<b>2 133 843</b>
Term deposits	806 083	1 015 651
Current accounts	1 028 988	1 117 309
Other	1 890	883
<b>Total</b>	<b>46 829 482</b>	<b>41 970 454</b>

As at 31.12.2011 deposits held as collateral totaled PLN 190 840 k (as at 31.12.2010 - PLN 205 954 k).

Fair value of "Deposits from customers" is presented in note 40.

## 33. 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
<b>As at 31 December 2011</b>				<b>441 234</b>

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

BZ WBK Group issued subordinated debt to mitigate FX rate sensitivity and increase efficiency of own funding. In line with the KNF decision subordinated liabilities have been recognised as the supplementary capital and since Q4 2010 are included in the solvency ratio calculations. Other details on these liabilities are disclosed in Note 5.



### 34. Other liabilities

Other liabilities	31.12.2011	31.12.2010
Provisions:	252 387	247 275
<i>Employee provisions</i>	206 274	212 540
<i>Provisions for legal claims</i>	17 590	17 518
<i>Provisions for off balance sheet credit facilities</i>	21 223	17 217
<i>Other</i>	7 300	-
Interbank and interbranch settlements	369 125	165 690
Other deferred and suspended income	119 791	95 104
Accrued liabilities	56 244	57 621
Sundry creditors	182 849	125 019
Settlements of stock exchange transactions	39 760	67 936
Public and law settlements	36 769	35 270
Finance lease related settlements	25 267	16 571
Other	263	134
<b>Total</b>	<b>1 082 455</b>	<b>810 620</b>

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

Employee related provisions and accruals consists of items outlined in note 50.

Change in provisions	31.12.2011	31.12.2010
<b>As at the beginning of the period</b>	<b>247 275</b>	<b>203 440</b>
Employee provisions	212 540	170 163
Provisions for legal claims	17 518	17 725
Provisions for off balance sheet credit facilities	17 217	15 552
Other	-	-
<b>Provision charge</b>	<b>236 446</b>	<b>250 851</b>
Employee provisions	192 818	204 527
Provisions for legal claims	1 836	2 457
Provisions for off balance sheet credit facilities	34 492	43 867
Other	7 300	-
<b>Utilization</b>	<b>( 188 610)</b>	<b>( 149 217)</b>
Employee provisions	( 187 496)	( 146 945)
Provisions for legal claims	( 1 165)	( 2 266)
Provisions for off balance sheet credit facilities	51	( 6)
Other	-	-
<b>Write back</b>	<b>( 42 724)</b>	<b>( 57 799)</b>
Employee provisions	( 11 588)	( 15 205)
Provisions for legal claims	( 599)	( 398)
Provisions for off balance sheet credit facilities	( 30 537)	( 42 196)
Other	-	-
<b>Balance at the end of the period</b>	<b>252 387</b>	<b>247 275</b>
<b>Employee provisions</b>	<b>206 274</b>	<b>212 540</b>
<b>Provisions for legal claims</b>	<b>17 590</b>	<b>17 518</b>
<b>Provisions for off balance sheet credit facilities</b>	<b>21 223</b>	<b>17 217</b>
<b>Other</b>	<b>7 300</b>	<b>-</b>



## 35. 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
				<b>73 076 013</b>	<b>730 760</b>

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 BZW BK 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
				<b>73 076 013</b>	<b>730 760</b>

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 BZW BK 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.

### 36. 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:	3 787 375	3 433 131
<i>Reserve capital</i>	3 559 505	3 215 915
<i>Supplementary capital</i>	227 870	217 216
<b>Total</b>	<b>4 698 884</b>	<b>4 344 640</b>

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 including share scheme charge of PLN 38 177 k and 31.12.2010 reserve capital including share scheme charge 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.

### 37. Revaluation reserve

Revaluation reserve	31.12.2011	31.12.2010
As at 31 December	433 134	422 005
Net change in available for sale investments, of which:	18 902	24 272
Increase:	20 475	33 744
- related to debt investments purchased before current reporting period	15 218	32 331
- related to equity investments purchased before current reporting period	128	-
- net change in available for sale investments matured in the period	5 129	1 413
Decrease:	( 1 573)	( 9 472)
- related to debt investments purchased/assigned in the period	-	( 4 101)
- related to equity investments purchased before current reporting period	-	( 1 165)
- 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	61 632	119
Decrease in revaluation reserve related to sale of investments	( 11 009)	( 10 455)
Deferred tax adjustment	( 26 473)	( 2 807)
<b>Total</b>	<b>545 318</b>	<b>433 134</b>

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

As at 31.12.2010 the revaluation reserve includes the amortization of the fair value of financial assets reclassified in prior period from 'Available for sale' category to 'Held to maturity' (see note 24) of PLN (10 206) k.

\* 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 above mentioned 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 Group during the current reporting period.

## 38. Hedge accounting

The Group applies hedge accounting in line with the risk management assumptions described in note 4 of the annual consolidated financial statements.

### Fair value hedge

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

- Fixed rate loans denominated in foreign currency recognised as a financial asset
- Fixed rate debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge
- Fixed rate debt securities denominated in American dollars, forming a group of assets covered with an interest rate hedge
- 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 2010:

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	Exchange rate risk and interest rate risk	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2018

In addition, BZ WBK subsidiaries - BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. - concluded IRS transactions with the bank with a view to hedging the fair value of their selected items of the statement of financial position. Details about these transactions are presented in the tables below.

31.12.2011	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedging position in PLN k	66 252	66 252
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(418)	(418)
Hedged risk	Movements in the fair value resulting from currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014



31.12.2010	BZ WBK Leasing S.A.	BZ WBK Finance&Leasing S.A.
Nominal value of hedged position in PLN k	79 206	79 206
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(942)	(942)
Hedged risk	Movements in the fair value resulting from currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

## 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 6 592 672 k (31 December 2010 – PLN 694 556 k). Adjustment to fair value of the hedging instrument is PLN 64 120 k (31 December 2010 – PLN 2 487 k); the same amount, less deferred tax, is recognised in the Group'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.

## 39. Sell-buy-back and buy-sell-back transactions

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at a predetermined price.

As at 31 December 2011, the consolidated 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 consolidated 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 consolidated statement of financial position, buy-sell-back transactions amount to PLN 100 k (31.12.2010 - PLN 10 118 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

## 40. 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	1 425 541	1 425 541	2 534 463	2 534 463
Loans and advances to banks	1 244 290	1 244 275	619 655	619 659
Financial assets held for trading	5 860 309	5 860 309	2 238 966	2 238 966
Hedging derivatives	141 636	141 636	14 768	14 768
Loans and advances to customers	38 017 173	38 349 947	32 838 385	33 342 218
Investment securities	11 664 507	11 664 507	13 395 355	13 494 939
Investments in associates and joint ventures	104 512	104 512	87 360	87 360
<b>Liabilities</b>				
Deposits from banks	2 556 715	2 556 715	2 526 082	2 526 082
Hedging derivatives	523 725	523 725	16 441	16 441
Financial liabilities held for trading	956 768	956 768	578 611	578 611
Subordinated liabilities	441 234	441 234	395 230	395 230
Deposits from customers	46 829 482	46 829 452	41 970 454	41 970 949

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

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

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

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

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

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

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

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

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

**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 Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

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

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

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

As at 31.12.2011 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2011	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	483 088	5 200 351	176 870	5 860 309
Hedging derivatives	-	141 636	-	141 636
Financial investment assets - debt securities	9 921 220	984 866	77 789	10 983 875
Financial investment assets - equity securities	19 475	-	661 157	680 632
<b>Total</b>	<b>10 423 783</b>	<b>6 326 853</b>	<b>915 816</b>	<b>17 666 452</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	909 862	46 906	956 768
Hedging derivatives	-	523 725	-	523 725
<b>Total</b>		<b>1 433 587</b>	<b>46 906</b>	<b>1 480 493</b>

31.12.2010	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	509 958	1 538 049	190 959	2 238 966
Hedging derivatives	-	14 768	-	14 768
Financial investment assets - debt securities	5 459 246	1 425 849	80 771	6 965 866
Financial investment assets - equity securities	20 688	-	659 393	680 081
<b>Total</b>	<b>5 989 892</b>	<b>2 978 666</b>	<b>931 123</b>	<b>9 899 681</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	10 458	518 352	49 801	578 611
Hedging derivatives	-	16 441	-	16 441
<b>Total</b>	<b>10 458</b>	<b>534 793</b>	<b>49 801</b>	<b>595 052</b>

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
<b>31.12.2011</b>				
<b>Beginning of the period</b>	190 959	80 771	659 393	( 49 801)
Profits or losses	17 007	314	8 985	1 980
<i>recognised in income statement</i>	17 007	314	-	1 980
<i>recognised in equity</i>	-	-	8 985	-
Purchase	-	-	6 644	-
Sale	-	( 3 296)	( 8 990)	-
Matured	( 31 096)	-	-	915
Impairment	-	-	( 2 321)	-
Transfer	-	-	( 2 554)	-
<b>At the period end</b>	<b>176 870</b>	<b>77 789</b>	<b>661 157</b>	<b>( 46 906)</b>

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
<b>31.12.2010</b>				
<b>Beginning of the period</b>	385 626	83 971	642 764	( 124 476)
Profits or losses	30 110	1 486	1 883	15 291
<i>recognised in income statement</i>	30 110	1 486	119	15 291
<i>recognised in equity</i>	-	-	1 764	-
Purchase	-	3 296	18 865	-
Sale	-	( 7 982)	( 4 119)	-
Matured	( 181 915)	-	-	59 384
Impairment	( 42 862)	-	-	-
<b>At the period end</b>	<b>190 959</b>	<b>80 771</b>	<b>659 393</b>	<b>( 49 801)</b>

## 41. Contingent liabilities

### Significant court proceedings

As at 31.12.2011 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 243 274 k, which is ca 3.25 % of the Group's equity. This amount includes PLN 100 957 k claimed by the Group, PLN 132 138 k in claims against the Group and PLN 10 179 k of the Group's receivables due to bankruptcy or arrangement cases.

In 2011 the amount of significant court proceedings which had been completed amounted to PLN 48 323 k.

As at 31.12.2010 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 238 580 k, which is ca 3.52 % of the Group's equity. This amount includes PLN 103 404 k claimed by the Group, PLN 130 897 k in claims against the Group and PLN 4 279 k of the Group's receivables due to bankruptcy or arrangement cases.

In 2010 the amount of significant court proceedings which had been completed amounted to PLN 192 622 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 34.



WBK

Bank Zachodni WBK S.A.

## 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
<b>Liabilities sanctioned</b>		
<b>- financial</b>	<b>8 129 987</b>	<b>5 623 703</b>
- credit lines	7 006 625	4 745 222
- credit cards debits	970 702	818 961
- import letters of credit	152 165	55 105
- term deposits with future commencement term	495	4 415
<b>- guarantees</b>	<b>1 473 722</b>	<b>1 185 541</b>
<b>Total</b>	<b>9 603 709</b>	<b>6 809 244</b>

## 42. 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 32 and 39.

## 43. Finance and operating leases

### Finance leases

#### *Lease agreements where the Group acts as a lessor*

Bank Zachodni WBK Group operates on the leasing market through two leasing companies who specialise in funding two different asset categories. BZ WBK Finance & Leasing focuses on lease of machines and equipment as well as computers and office equipment for businesses, while BZ WBK Leasing specialises in financing vehicles for businesses and personal customers.

The item "receivables from customers" contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables - maturity	31.12.2011	31.12.2010
less than 1 year	1 028 782	1 115 366
between 1 and 5 years	1 466 300	1 534 347
over 5 years	293 044	265 292
<b>Total</b>	<b>2 788 126</b>	<b>2 915 005</b>



Present value of minimum lease payments - maturity	31.12.2011	31.12.2010
less than 1 year	970 297	1 040 850
between 1 and 5 years	1 209 309	1 264 270
over 5 years	155 937	130 635
<b>Total</b>	<b>2 335 543</b>	<b>2 435 755</b>

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2011	31.12.2010
Finance lease gross receivables	2 788 126	2 915 005
Unearned finance income	( 452 583)	( 479 250)
Impairment of finance lease receivables	( 96 362)	( 95 214)
<b>Total</b>	<b>2 239 181</b>	<b>2 340 541</b>

#### Lease agreements where the Group acts as a lessee

The BZ WBK Group companies also avail of lease arrangements as lessees, however as the leases are between related entities they were eliminated from the consolidated statement of financial position and profit and loss account.

## Operating leases

The BZWBK Group leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Group. In 2011 and 2010 rentals totalled PLN 151 116 k and PLN 144 336 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
<b>Total</b>	<b>883 544</b>	<b>898 903</b>

## 44. Consolidated statement of cash flow- additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2011	31.12.2010
Cash and balances with central banks	1 425 541	2 534 463
Deposits in other banks, current account	1 224 210	609 261
Debt securities held for trading	4 647 956	1 199 301
<b>Total</b>	<b>7 297 707</b>	<b>4 343 025</b>

Bank Zachodni WBK S.A. holds restricted cash.

## 45. Related party disclosures

The tables below present intercompany transactions. They are effected between subsidiaries, associates, joint ventures and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process.



Transactions with associates and joint ventures	31.12.2011	31.12.2010
<b>ASSETS</b>	<b>742</b>	<b>514</b>
Loans and advances to customers	259	492
Other assets	483	22
<b>LIABILITIES</b>	<b>392 882</b>	<b>361 038</b>
Deposits from customers	392 418	360 985
Other liabilities	464	53
<b>INCOME</b>	<b>65 405</b>	<b>61 013</b>
Interest income	8 421	1 037
Fee and commission income	55 662	59 714
Gains (losses) from other financial securities	( 21)	-
Other operating income	1 343	262
<b>EXPENSES</b>	<b>20 236</b>	<b>24 235</b>
Interest expense	17 881	21 921
Fee and commission expense	711	604
Operating expenses incl.:	1 644	1 710
<i>General and administrative expenses</i>	<i>1 644</i>	<i>1 710</i>

Transactions with:	Santander Group 31.12.2011	AIB Group 31.12.2010
<b>ASSETS</b>	<b>117 976</b>	<b>130 969</b>
Loans and advances to banks, incl:	81 701	93 399
<i>deposits</i>	<i>70 557</i>	<i>-</i>
<i>current accounts</i>	<i>11 144</i>	<i>93 399</i>
Financial assets held for trading	35 230	36 968
Hedging derivatives	1 045	-
Other assets	-	602
<b>LIABILITIES</b>	<b>46 625</b>	<b>463 030</b>
Deposits from banks incl.:	178	326 117
<i>repo transactions</i>	<i>-</i>	<i>289 270</i>
<i>deposits</i>	<i>178</i>	<i>36 847</i>
Hedging derivatives	-	887
Financial liabilities held for trading	46 446	124 466
Other liabilities	1	11 560
<b>INCOME</b>	<b>( 22 327)</b>	<b>( 41 125)</b>
Interest income	1 010	1 957
Fee and commission income	301	2 183
Other operating income	230	1 917
Net trading income and revaluation	( 23 868)	( 46 009)
Gains (losses) from other financial securities	-	( 1 173)
<b>EXPENSES</b>	<b>946</b>	<b>42 897</b>
Interest expense	946	16 528
Operating expenses incl.:	-	26 369
<i>Bank's staff, operating expenses and management costs</i>	<i>-</i>	<i>26 369</i>
<b>CONTINGENT LIABILITIES</b>	<b>63 648</b>	<b>-</b>
Sanctioned:	49 999	-
- <i>guarantees</i>	<i>49 999</i>	<i>-</i>
Received:	13 649	-
- <i>guarantees</i>	<i>13 649</i>	<i>-</i>
<b>DERIVATIVES' NOMINAL VALUES</b>	<b>3 415 369</b>	<b>4 611 239</b>
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 paid to the members of Bank Zachodni WBK Supervisory and Management Boards

31.12.2011

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

First and last name	Position	Period	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	01.01.2011-20.04.2011	88,8
Gerald Byrne	Chairman of the Supervisory Board	20.04.2011-31.12.2011	16,7
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2011-20.04.2011	64,1
Aleksander Galos	Member of the Supervisory Board	01.01.2011-20.04.2011	57,1
Jacek 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 Szyszkowski	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, 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 Szwarc	Chairman of the Supervisory Board	01.01.2010-31.12.2010	221,6
Gerald Byrne	Vice-Chairman of the Supervisory Board	01.01.2010-30.11.2010	141,4
Waldemar Frąckowiak	Member of the Supervisory Board	01.01.2010-31.12.2010	167,3
Aleksander Galos	Member of the Supervisory Board	01.01.2010-31.12.2010	167,3
Jacek Ślotala	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
Miroslaw 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 50 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.

## Profit sharing scheme

In 2006 selected subsidiaries of BZWBK Group introduced a motivation scheme for their key management in a form of a long term profit sharing scheme classified as other long-term benefits in accordance with IAS 19. The formal framework of the scheme is based on an issue of shares that are purchased by entitled individuals. Considering underlying characteristics of the scheme it has been classified as a long term profit sharing scheme and recognized as a liability in the consolidated financial statements.

Shares issued under the scheme are deprived of voting rights, have significant limitations on disposal and are subject to conditional obligation to dispose shares at a price different from the fair value of shares.

Considering the above, BZWBK Group has estimated a present value of the future obligations to pay-outs resulting from rights granted under the scheme respectively to the service period of the entitled individuals participating in the scheme.

The value of the liability resulting from the scheme as at 31 December 2011 amounted to PLN 0 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 0 k.

The value of the liability resulting from the scheme as at 31 December 2010 amounted to PLN 5 309 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 5 312 k.

## 46. 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.

## 47. Acquisitions of investments in subsidiaries and associates

### Acquisitions of subsidiaries and associates in 2011

***Krynicki Recycling S.A.***

On 17 March 2011, Krynicki Recykling S.A. announced disposal of ordinary bearer shares in Krynicki Recykling S.A. by Adam Krynicki, the President of the Management Board, and Anna Barska, the Chairman of the Supervisory Board. The shares were disposed of via an OTC transaction - so called package deals dd. 15 March 2011 for 87 898 shares at the price corresponding to the nominal value of the shares - each. The agreement for sale of the abovementioned package of the Issuer's shares was entered into on behalf of BZ WBK Inwestycje sp. z o. o. via Dom Maklerski BZ WBK S.A.

As of 31 December 2011, BZ WBK Inwestycje Sp. z o.o. held 3 652 648 shares, which represented 24.54% of the share capital of Krynicki Recykling S.A. and entitled to 3 652 648 voting rights, i.e. 24.54% of the total voting rights, at the company's AGM.

Krynicki Recykling S.A., with its registered office in Olsztyn, is a company in the environmental protection industry, listed on NewConnect.



**Holicon Group S.A.**

On 16 April 2010, BZ WBK Inwestycje bought 753 853 shares of Holicon Group S.A. at PLN 1 per share. At the same time, an investment agreement was signed, whereby BZ WBK Inwestycje acquired 3 296 147 convertible bonds at PLN 1. Following the conversion of bonds into shares in April 2011, BZ WBK holds 4 050 000 shares at the nominal price of PLN 1, i.e. 47.09% of the total voting rights at AGM.

**Acquisitions of subsidiaries and associates in 2010*****Change in the total number of votes held in Krynicki Recykling S.A. by BZ WBK Inwestycje Sp. z o.o.***

Krynicki Recykling S.A. announced that on 13 October 2010 it had learned about a change in the number of votes held in the company by its shareholder BZ WBK Inwestycje Sp. z o.o. As a result of the share capital increase through the issue of series E shares, the shareholder's previous voting power in the company had decreased by 8.56% from 30.37% to 21.81% of the total number of votes at the General Meeting of the company.

In December 2010, BZ WBK Inwestycje Sp. z o.o. acquired 400,000 shares in Krynicki Recykling S.A. (200,000 shares acquired on 29 December and 200,000 on 30 December in transactions on the OTC market).

As at 31 December 2010, BZ WBK Inwestycje Sp. z o.o. has 3,476,852 shares, representing 24.65% of the share capital of Krynicki Recykling S.A., carrying 3,476,852 votes at the company's General Meeting, i.e. 24.65% of the total voting power.

Krynicki Recykling S.A., seated in Olsztyn, is quoted on the NewConnect market. It operates in the environmental protection industry sector.

***Increase in the share capital of BZ WBK Inwestycje Sp. z o.o.***

On 13 October 2010 General Meeting of BZ WBK Inwestycje Sp. z o.o. (subsidiary of Bank Zachodni WBK) adopted the resolution which increased the share capital from PLN 50,000 to PLN 100,000 as a result issuing additional 100 new shares of PLN 500 each. Total nominal value of a new issue amounted to PLN 50,000. Bank Zachodni WBK S.A. has taken up all new shares and covered them by cash.

***Merger of Metrohouse S.A.***

On 29 October 2010 a formal merger took place between METROHOUSE S.A. of Warsaw and Partnerzy Nieruchomości Sp. z o.o. of Gdańsk. The merged entity has begun trading as Metrohouse & Partnerzy S.A. The company is a leader of the Polish real estate market. BZ WBK Inwestycje Sp. z o.o. has a 21.23% stake in the share capital of the company.

**48. 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%.

In the consolidated financial statements the investment is accounted for using the equity method.

## 49. Events which occurred subsequently to the end of the period

### **Authorization for issue of Consolidated Financial Statements of Bank Zachodni WBK Group**

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

### **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](http://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](http://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.

## 50. 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 companies of the BZ WBK Group create the following types of provisions:

### **Provisions for accrued holiday pay**

Liabilities related to accrued holiday pay are stated in the expected amount (based on current salaries) without discounting.

### **Provisions for employee bonuses**

Liabilities related to bonuses are stated in the amount of the probable payment without discounting.

### **Provisions for retirement allowances**

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



**WBK**

**Bank Zachodni WBK S.A.**

**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
Provision for accrued holiday pay	21 289	20 403
Provisions for employee bonuses	139 978	149 940
Provisions for retirement allowances	42 044	39 396
Other staff-related provisions	2 963	2 801
<b>Total</b>	<b>206 274</b>	<b>212 540</b>

Detailed information about movements on staff-related provisions is available in additional note 34.

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



## 51. 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 (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	PLN 195,08
Dividend yield	3,51%

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
<b>Exercisable at 31 December</b>	-	-

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

For the share based payments outstanding as at 31 December 2011 and as at 31 December 2010 the average remaining contractual life is approximately 2 years and 0,3 year.

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2011 and 2010 amounts to PLN 20 747 k , and 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
<b>Exercisable at 31 December</b>		-

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
<b>Total</b>	<b>31 093</b>	<b>( 31 093)</b>	<b>44 852</b>	<b>44 852</b>

No. of awards		2010
Outstanding at 1 January		51 682
Expired		(16 147)
Outstanding at 31 December		35 535
<b>Exercisable at 31 December</b>		-

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
<b>Total</b>	<b>51 682</b>	<b>( 16 147)</b>	<b>35 535</b>

**52. Staff level**

As at 31 December 2011 the Bank employed 8 802 persons, i.e. 8 726 FTE's.

As at this date, in subsidiaries there were 687 persons employed (incl. 76 persons in the Bank), i.e. 657 FTE's.

In 2011, the average staffing level in Bank Zachodni WBK S.A. was 8 992 FTE's whereas the average staffing level in subsidiaries was 678 FTE's.

As at 31 December 2010 the Bank employed 9 250 persons, i.e. 9 163 FTE's.

As at this date, in subsidiaries there were 691 persons employed (incl. 53 persons in the Bank), i.e. 677 FTE's.

In 2010, the average staffing level in Bank Zachodni WBK S.A. was 8 974 FTE's whereas the average staffing level in subsidiaries was 658 FTE's.

## 53. 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.

## 54. 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	Miroslaw 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
23.02.2012	Wojciech Skalski	Financial Accounting Area Director	

